Eagle Bulk Shipping Inc.
Form SC 13D/A
August 17, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 13D
(Amendment No. 2)
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT
TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO
RULE 13d-2(a)

Eagle Bulk Shipping Inc.
(Name of Issuer)

Common Stock
(Title of Class of Securities)

Y2187A127
(CUSIP Number)

Todd E. Molz
Managing Director and General Counsel
Oaktree Capital Group Holdings GP, LLC
333 South Grand Avenue, 28th Floor
Los Angeles, California 90071
(213) 830-6300
(Name, Address and Telephone Number of Person Authorized
to Receive Notices and Communications)

March 30, 2016
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-l(f) or 240.13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7(b) for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

OCM Opps EB Holdings, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292[1,2]
	8	SHARED VOTING POWER None
	9	SOLE DISPOSITIVE POWER 15,418,292[1,2]
	10	SHARED DISPOSITIVE POWER None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

15,418,292[1,2]

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03% [3]

14 TYPE OF REPORTING PERSON

OO

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1 Consists of (i) 15,417,928 shares of Common Stock, par value $0.01 ("Common Stock"), of Eagle Bulk Shipping Inc. (the "Issuer") and (ii) 364 shares of Common Stock issuable upon exercise of the warrants (the "Warrants") issued and distributed by the Issuer to the Reporting Persons in connection with the Restructuring (as defined below).

2 All Common Stock share numbers reported in this Amendment reflect the 1-for-20 reverse stock split of the Common Stock that was effective as of 5:00 p.m., Eastern Time, on August 4, 2016.

3 The percentages are calculated based upon (i) the 18,804,203 shares of Common Stock reported to be outstanding as of August 9, 2016 by the Company in its Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission (the "SEC") on August 9, 2016, (ii) the 29,333,318 shares of Common Stock issued by the Company upon the closing under the Stock Purchase Agreement (the "Stock Purchase Closing"), as reported in Exhibit 99.1 to its Form 8-K filed with the SEC on August 10, 2016, (iii) 364 shares of Common Stock issuable upon exercise of the Warrants but excluding (x) shares of Common Stock issuable upon exercise of the Warrants issued and distributed by the Issuer in connection with the Restructuring (other than Warrants held by the Reporting Persons), and (y) any shares issued pursuant to a management incentive plan.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Management, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292*
	8	SHARED VOTING POWER None
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32.03%

14 TYPE OF REPORTING PERSON

PN

* Solely in its capacity as the sole director of OCM Opps EB Holdings, Ltd.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Holdings, Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

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6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

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32.03%

14 TYPE OF REPORTING PERSON

CO

* Solely in its capacity as general partner of Oaktree Capital Management, L.P.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Group, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

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32.03%

14 TYPE OF REPORTING PERSON

OO

* Solely in its capacity as the sole shareholder of Oaktree Holdings, Inc.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Group Holdings GP, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

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13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03%

14 TYPE OF REPORTING PERSON

OO

* Solely in its capacity as the duly elected manager of Oaktree Capital Group, LLC.

Item 1. Security and Issuer

This Amendment No. 2 (this "Amendment No. 2") is being filed by the undersigned to amend the Schedule 13D filed with the SEC on October 24, 2014, as amended by Amendment No. 1 thereto, filed with the SEC on January 1, 2015 (as so amended, the "Schedule 13D") with respect to shares of Common Stock, par value $0.01 ("Common Stock"), of Eagle Bulk Shipping Inc. (the "Issuer"). The address of the principal executive office of the Issuer is 300 First Stamford Place 5th Floor Stamford, CT 06902.

As of August 16, 2016, as reflected in this Schedule 13D, the Reporting Persons (as hereinafter defined) beneficially owned that number of Common Shares (the "Subject Shares"), set forth on the cover pages hereto, which information is hereby incorporated by reference into this Item 1.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 is amended and supplemented by adding thereto the following:

"On March 30, 2016, certain affiliates of the Reporting Persons participated as lenders in a $60 million secured term loan (the "Second Lien Loan") to the Issuer pursuant to the Second Lien Loan Agreement, dated as of March 30, 2016, among the Issuer, as borrower certain subsidiaries of the Issuer, as guarantors, certain lenders thereunder, including such affiliates of the Reporting Persons (the "Second Lien Lenders"), and Wilmington Savings Fund Society, FSB, as agent for the Second Lien Lenders (the "Second Lien Loan Agreement"), which provided for two issuances of shares of Common Stock to the Second Lien Lenders, the second of which was subject to shareholder approval.

Pursuant to the Second Lien Loan Agreement and, in the case of the second issuance, following shareholder approval, the Issuer delivered to EB Holdings in two separate issuances an aggregate of 7,068,274 shares of Common Stock for no additional consideration.

On July 1, 2016, the Issuer, EB Holdings and certain other investors named therein entered into a Stock Purchase Agreement dated July 1, 2016 (the "Stock Purchase Agreement"), pursuant to which EB Holdings agreed to purchase an aggregate of 7,564,290 shares of Common Stock for an aggregate purchase price of $22,692,870. Pursuant to the Stock Purchase Agreement and following shareholder approval of such issuance, the Issuer delivered to EB Holdings 7,564,290 shares in connection with the Stock Purchase Agreement for an aggregate purchase price of $22,692,870.

All Common Stock share numbers reported in this Amendment reflect the 1-for-20 reverse stock split of the Common Stock that was effective as of 5:00 p.m., Eastern Time, on August 4, 2016.

The foregoing description of the Second Lien Loan Agreement and the Stock Purchase Agreement does not purport to be a complete description of the terms thereof and is qualified in its entirety by reference to the full text of such agreements, which are referenced in Exhibit 1 and Exhibit 2, respectively, to this Schedule 13D, and which are hereby incorporated by reference into this Item 3."

Item 4. Purpose of Transaction

Item 4 is amended and supplemented by adding thereto the following:

In connection with the Second Lien Loan Agreement, the Stock Purchase Agreement and the Preferred Stock Purchase Agreement (as defined below) and the transactions thereunder, the board of directors of the Issuer and the shareholders of the Issuer approved an amendment to the articles of incorporation of the Issuer, and such articles were so amended, (i) to increase the number of authorized shares of Common Stock, from 150,000,000 to 700,000,000, (ii) to effect a reverse stock split of the Issuer's issued and outstanding shares of Common Stock and (iii) to authorize 25,000,000 shares of preferred stock, par value US$0.01 per share.

The information contained in Item 6 of this Schedule 13D is incorporated herein by reference.

Item 5. Interest in Securities of the Issuer

Item 5 is hereby amended and restated as follows.

"(a) and (b)

The information contained on the cover pages and Item 1 of this Schedule 13D is incorporated herein by reference.

Ownership percentages set forth in this Schedule 13D are based on a total of (i) the 18,804,203 shares of Common Stock reported to be outstanding as of August 9, 2016 by the Company in its Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission (the "SEC") on August 9, 2016, (ii) the 29,333,318 shares of Common Stock issued by the Company upon the closing under the Stock Purchase Agreement, as reported in Exhibit 99.1 to its Form 8-K filed with the SEC on August 10, 2016, (iii) 364 shares of Common Stock issuable upon exercise of the Warrants but excluding (x) shares of Common Stock issuable upon exercise of the Warrants issued and distributed by the Issuer in connection with the Restructuring (other than Warrants held by the Reporting Persons), and (y) any shares issued pursuant to a management incentive plan.

EB Holdings directly holds (i) 15,417,928 shares of Common Stock and has the sole power to vote and dispose of such Common Stock and (ii) 364 Warrants. Each Warrant is exercisable by EB Holdings for one share of Common Stock at an exercise price of $556.40 per share (subject to certain antidilutive adjustments). The Warrants will expire pursuant to their terms on October 15, 2021.

Management, in its capacity as the sole director of EB Holdings has the ability to direct the management of the business of EB Holdings, including the power to vote and dispose of securities held by EB Holdings therefore, Management may be deemed to beneficially own the Subject Shares.

Holdings, Inc., in its capacity as the general partner of Management, has the ability to direct the management of Management's business, including the power to direct the decisions of Management regarding the voting and disposition of securities held by EB Holdings therefore, Holdings, Inc. may be deemed to have indirect beneficial ownership of the Subject Shares.

OCG, in its capacity as the sole shareholder of Holdings, Inc., has the ability to appoint and remove directors of Holdings, Inc. and, as such, may indirectly control the decisions of Holdings, Inc. regarding the voting and disposition of securities held by EB Holdings. Therefore, OCG may be deemed to have indirect beneficial ownership of the Subject Shares.

OCGH GP, in its capacity as the duly appointed manager of OCG, has the ability appoint and remove directors of OCG and, as such, may indirectly control the decisions of OCG regarding the voting and disposition of securities held by EB Holdings therefore, OCGH GP may be deemed to have indirect beneficial ownership of the Subject Shares.

(c)

Except for the transaction described herein, there have been no other transactions in the securities of the Issuer effected by any Reporting Person within the last 60 days.

Item 6 is incorporated by reference into this Item 5(c).

(d) and (e)

Not applicable."

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Item 6 is amended and restated below:

"On May 13, 2016, EB Holdings and certain of its affiliates entered into an Amended and Restated Registration Rights Agreement, (the "A&R Registration Rights Agreement") with the Issuer with respect to the Common Stock. Pursuant to the Registration Rights Agreement, the Holders (as defined in the Registration Rights Agreement and which include EB Holdings and such affiliates) have, among other things and subject to the terms and conditions set forth therein, certain demand, shelf and "piggy back" registration rights with respect to shares of Common Stock held by the

Holders, including the right to demand an initial public offering and listing on the New York Stock Exchange or the Nasdaq Stock Market to be commenced at a time when the Issuer otherwise does not have a class of securities registered pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") or a reporting obligation under the Exchange Act. Demand rights include that upon the written request of EB Holdings or one of such other Holders, the Issuer will file with the SEC a registration statement covering the resale of Common Shares beneficially owned by the requesting parties, subject to the limitations that the Issuer will not be required to file such a registration statement (a) more than once in any 90-day period or (b) if the shares to be covered by such registration statement have a market price of less than $50 million.

The Registration Rights Agreement will terminate with respect to holder of registrable securities if (a) such holder, together with its affiliates, beneficially owns less than 1% of the Common Stock, (b) if all of the registrable securities owned by such Holder and its affiliates could be sold in any ninety-day period pursuant to Rule 144 without volume or manner-of-sale restrictions or (c) if all of the Common Stock held by such holder and its affiliates has been sold.

On May 26, 2016, the Issuer, certain affiliates of the Reporting Persons and certain other investors named therein entered into a Preferred Stock Purchase Agreement, dated as of May 26, 2016 (the "Preferred Stock Purchase Agreement"), pursuant to which such affiliates agreed to purchase an aggregate of 3,951 shares of Cumulative Redeemable Series A Preferred Stock, par value $0.01 per share, of the Issuer (the "Preferred Stock") for an aggregate purchase price of $3,911,490.

The foregoing description of the Registration Rights Agreement and the Preferred Stock Purchase Agreement does not purport to be a complete description of the terms thereof and is qualified in its entirety by reference to the full text of such agreements, which are referenced in Exhibit 3 and Exhibit 4, respectively, to this Schedule 13D, and which are hereby incorporated by reference into this Item 6."

Item 7. Material to be filed as Exhibits

The following are filed herewith or incorporated by reference as Exhibits to this Schedule 13D:

Exhibit 1	Second Lien Loan Agreement, dated March 30, 2016, by and among Eagle Bulk Shipping Inc., as borrower, the subsidiary guarantors party thereto, the certain lenders party thereto and Wilmington Savings Fund Society, FSB, as agent (incorporated by reference to Exhibit 10.2 of the Issuer's Current Report on Form 8-K filed with the SEC March 30, 2016).
Exhibit 2	Stock Purchase Agreement, dated July 1, 2016, by and among the Eagle Bulk Shipping Inc. and the Investors party thereto (incorporated by reference to Exhibit 10.1 of the Issuer's Current Report on Form 8-K filed with the SEC July 5, 2016).
Exhibit 3	Amended and Restated Registration Rights Agreement, dated as of May 13, 2016, by and among Eagle Bulk Shipping Inc. and the Holders party thereto (incorporated by reference to Exhibit 10.1 of the Issuer's Current Report on Form 8-K filed with the SEC by the Issuer on May 17, 2016).
Exhibit 4	Preferred Stock Purchase Agreement, dated May 26, 2016, by and among Eagle Bulk Shipping Inc. and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 of the Issuer's Current Report on Form 8-K filed with the SEC May 27, 2016).

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this Schedule 13D is true, complete and correct.

Dated as of August 17, 2016.

OCM OPPS EB HOLDINGS, LTD.

By: Oaktree Capital Management, L.P.
Its: Director

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE CAPITAL MANAGEMENT, L.P.

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE HOLDINGS, INC.

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

CUSIP No. Y2187A127 SCHEDULE 13D Page 11 of 11

OAKTREE CAPITAL
GROUP, LLC

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE CAPITAL
GROUP HOLDINGS
GP, LLC

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

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Income before income taxes	296,752	174,416	657,140	541,308
Provision for income taxes	66,687	38,371	151,310	122,757
Net income	$230,065	$136,045	$505,830	$418,551
Basic net income per share	$0.44	$0.26	$0.97	$0.79
Shares used to compute basic net income per share	518,710	525,911	523,039	528,015
Diluted net income per share	$0.44	$0.26	$0.95	$0.79
Shares used to compute diluted net income per share	523,179	531,809	530,356	532,846

See accompanying Notes to Condensed Consolidated Financial Statements.

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ADOBE SYSTEMS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 3, 2010	August 28, 2009
Cash flows from operating activities:		
Net income	$505,830	$418,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	216,641	197,386
Stock-based compensation	174,245	126,231
Deferred income taxes	(176,882)	22,671
Unrealized losses on investments	8,766	13,308
Tax benefit from employee stock option plans	37,987	2,711
Other non-cash items	2,054	8,948
Excess tax benefits from stock-based compensation	(10,172)	(84)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	(74,722)	182,377
Prepaid expenses and other current assets	(11,953)	15,663
Trade payables	(2,439)	(7,424)
Accrued expenses	52,100	(44,351)
Accrued restructuring	(26,294)	(27,527)
Income taxes payable	3,445	12,619
Deferred revenue	103,758	(57,126)
Net cash provided by operating activities	802,364	863,953
Cash flows from investing activities:		
Purchases of short-term investments	(1,999,341)	(1,142,015)
Maturities of short-term investments	512,534	333,219
Proceeds from sales of short-term investments	629,673	504,958
Purchases of property and equipment	(114,215)	(84,659)
Proceeds from sale of property and equipment	32,151	—
Purchases of long-term investments and other assets	(22,876)	(24,891)
Proceeds from sale of long-term investments	3,586	4,909
Other	2,198	3,271
Net cash used for investing activities	(956,290)	(405,208)
Cash flows from financing activities:		
Purchases of treasury stock	(650,020)	(350,013)
Proceeds from issuance of treasury stock	129,640	122,219
Excess tax benefits from stock-based compensation	10,172	84
Proceeds from debt	1,493,439	—
Repayment of debt and captial lease obligations	(1,001,559)	—
Debt issuance costs	(10,662)	—
Net cash used for financing activities	(28,990)	(227,710)

Effect of foreign currency exchange rates on cash and cash equivalents	(2,422)	14,659
Net (decrease) increase in cash and cash equivalents	(185,338)	245,694
Cash and cash equivalents at beginning of period	999,487	886,450
Cash and cash equivalents at end of period	$814,149	$1,132,144
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$286,271	$78,635
Cash paid for interest	$34,135	$1,941
Non-cash investing activities:		
Property and equipment acquired under capital leases	$32,151	$—

See accompanying Notes to Condensed Consolidated Financial Statements.

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In management’s opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended November 27, 2009 on file with the SEC. The nine months ended September 3, 2010 financial results benefitted from an extra week in the first quarter of fiscal 2010 due to our 52/53 week financial calendar whereby fiscal 2010 is a 53-week year compared with fiscal 2009 which was a 52-week year.

Significant Accounting Policies

With the exception of the adoption of an accounting pronouncement related to revenue recognition, discussed below, there have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended November 27, 2009.

In October 2009, the Financial Accounting Standards Board (“FASB”) amended the accounting standards for certain multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

- require an entity to allocate revenue in an arrangement using the best estimated selling price (“BESP”) of deliverables if a vendor does not have vendor-specific objective evidence (“VSOE”) of selling price or third-party evidence (“TPE”) of selling price; and

- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We elected to early adopt this accounting guidance at the beginning of our first quarter of fiscal 2010 on a prospective basis for applicable transactions originating or materially modified after November 27, 2009.

Multiple Element Arrangements

We enter into multiple element revenue arrangements in which a customer may purchase a combination of software, upgrades, hosting services, maintenance and support, and consulting.

For multiple element arrangements that contain non-software related elements, for example our software as a service ("SaaS") offerings, we allocate revenue to each non-software element based upon the relative selling price of each and if software and software-related elements are also included in the arrangement, to those elements as a group based on our BESP for the group. When applying the relative selling price method, we determine the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use our BESP for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria is met for each element. The manner in which we account for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with our methodology under previous accounting guidance, we determine VSOE for each element based on historical stand-alone sales to third-parties or from the stated renewal rate for the elements contained in the initial arrangement.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In certain instances, we were not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to us infrequently selling each element separately, not pricing products or services within a narrow range, or
only having a limited sales history. When VSOE cannot be established, we attempt to establish the selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our offerings contain significant differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, we typically are not able to obtain TPE of selling price.

When we are unable to establish selling prices using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings.

We determine BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The determination of BESP is made through consultation with and formal approval by our management, taking into consideration our go-to-market strategy.

We regularly review VSOE and have established a review process for TPE and BESP and maintain internal controls over the establishment and updates of these estimates. There was no material impact to revenue during the three and nine months ended September 3, 2010 resulting from changes in VSOE, TPE or BESP, nor do we expect a material impact from such changes in the near term.

Given the nature of our transactions, which are primarily software and software-related, our go-to-market strategies and our pricing practices, total net revenue as reported during the three and nine months ended September 3, 2010 is materially consistent with total net revenue that would have been reported if the transactions entered into or materially modified after November 27, 2009 were subject to previous accounting guidance.

The new accounting standards for revenue recognition, if applied in the same manner to the year ended November 27, 2009, would not have had a material impact on total net revenues for that fiscal year. In terms of the timing and pattern of revenue recognition, the new accounting guidance for revenue recognition is not expected to have a significant effect on total net revenues in periods after the initial adoption.

Recent Accounting Pronouncements

There have also been no new accounting pronouncements during the nine months ended September 3, 2010, with the exception of those discussed below, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended November 27, 2009, that are of significance, or potential significance, to us.

Fair Value Measurements

In January 2010, the FASB issued new accounting guidance expanding disclosures about fair value measurements by adding disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements and the transfers between Levels 1, 2 and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure requirements related to the activity in Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We adopted the new disclosures in the second quarter of fiscal 2010, which included changing the description of certain asset classes in the tables in Notes 3 and 4 to conform with the requirements of the new guidance. We will adopt the Level 3 requirements in the first quarter of fiscal 2012. Since the adoption of the new standards only required additional disclosure, the adoption did not have an impact on our consolidated financial position, results of operations and cash flows.

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Variable Interest Entities

In June 2009, the FASB issued amended standards for determining whether to consolidate a variable interest entity. These new standards amend the evaluation criteria to identify the primary beneficiary of a variable interest entity and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the variable interest entity. The provisions of the new standards are effective for annual reporting periods beginning after November 15, 2009 and interim periods within those fiscal years. These standards were effective for us beginning in the first quarter of fiscal 2010. The adoption of the new standards did not have an impact on our consolidated financial position, results of operations and cash flows.

Intangible Assets Useful Lives

In April 2008, the FASB issued new standards which provided guidance on how to determine the useful life of intangible assets by amending the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. These standards are effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and was effective for us beginning in the first quarter of fiscal 2010. There was no impact to our current consolidated financial statements as we did not purchase any intangible assets during the three and nine months ended September 3, 2010.

Business Combinations and Non-Controlling Interests

In December 2007, the FASB revised their guidance for business combinations and non-controlling interests. The new standards change how business acquisitions are accounted for and impact financial statements both on the acquisition date and in subsequent periods. The changes also impact the accounting and reporting for minority interests, which are recharacterized as non-controlling interests and classified as a component of equity. The new standards were effective for us beginning in the first quarter of fiscal 2010. We currently believe that depending on the size and frequency of acquisitions, the adoption of these standards may have a material effect on our future consolidated financial statements. There was no material impact to our current consolidated financial statements as we did not have any business combinations close during the three and nine months ended September 3, 2010.

NOTE 2. ACQUISITIONS

Omniture, Inc.

On October 23, 2009, we completed the acquisition of Omniture, Inc. (“Omniture”), an industry leader in Web analytics and online business optimization based in Orem, Utah, for approximately $1.8 billion. Under the terms of the agreement, we completed our tender offer to acquire all of the outstanding shares of Omniture common stock at a price of $21.50 per share, net to the seller in cash, without interest. Acquiring Omniture accelerates our strategy of delivering more effective solutions for creating, delivering, measuring and optimizing Web content and applications. The transaction was accounted for using the purchase method of accounting. We have included the financial results of

Omniture in our Condensed Consolidated Financial Statements beginning on the acquisition date. Following the closing, we integrated Omniture as a new segment for financial reporting purposes.

The total purchase price for Omniture was approximately $1.8 billion which consisted of $1.7 billion in cash paid for outstanding common stock, $85.0 million for the estimated fair value of earned stock options and restricted stock units assumed and converted and $14.4 million for direct transaction costs. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions. During the first half of fiscal 2010, we finalized our purchase accounting after adjustments were made to the preliminary purchase price allocation to reflect the finalization of the valuation of intangible assets and deferred revenue. Additional adjustments were also made to restructuring liabilities, taxes and residual goodwill. Of the total final purchase price, $1.34 billion has been allocated to goodwill, $436.1 million to identifiable intangible assets, $33.4 million to net tangible assets and $11.3 million to restructuring liabilities. We also expensed $4.6 million for in-process research and development charges.

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The following table presents the results of Adobe and Omniture for the three and nine months ended August 28, 2009, on a pro forma basis, as though the companies had been combined as of the beginning of fiscal 2009. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2009 or of results that may occur in the future.

(in thousands, except per share data)	Three Months Ended August 28, 2009	Nine Months Ended August 28, 2009
Net revenue	$751,602	$2,417,394
Net income	$96,685	$351,213
Basic net income per share	$0.18	$0.67
Shares used to compute basic net income per share	525,911	528,015
Diluted net income per share	$0.18	$0.66
Shares used to compute diluted net income per share	533,284	534,033

Day Software Holding AG

In July 2010, we entered into a definitive agreement with Day Software Holding AG ("Day"). Under the terms of the agreement, we have commenced a public tender offer to acquire all of the publicly held registered shares of Day for 139 Swiss Francs per share in cash in a transaction valued at approximately 254.7 million Swiss Francs on a fully diluted equity-value basis. In order to hedge the economic exposure related to this acquisition, we entered into a forward contract to purchase 254.7 million Swiss Francs for $242.5 million U.S. dollars maturing near the expected closing date of the acquisition. The market value of this forward contract was $8.1 million U.S. dollars as of September 3, 2010 and is included in other assets on our Condensed Consolidated Balance Sheets, with changes in the market value of $8.1 million recorded to interest and other income (expense), net on our Condensed Consolidated Statements of Income. Upon maturity of the forward contract, any remaining changes in the market value will be recorded to interest and other income (expense), net. This forward contract is accounted for as a separate transaction apart from the acquisition.

Day is a provider of web content management solutions that leading global enterprises rely on for Web 2.0 content application and content infrastructure, based in Basel, Switzerland and Boston, Massachusetts. We believe that our acquisition of Day will provide comprehensive solutions to create, manage, deliver and optimize content. The transaction is subject to customary closing conditions and is expected to close in the fourth quarter of our fiscal 2010. Following the closing, we intend to integrate Day as a product line within our Enterprise segment for financial reporting purposes.

NOTE 3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase. We classify all of our cash equivalents and short-term investments as “available-for-sale.” In general, these investments are free of trading restrictions. We carry these investments at fair value, based on quoted market prices or other readily available market information. Unrealized gains and losses, net of taxes, are included in accumulated other comprehensive income, which is reflected as a separate component of stockholders’ equity in our Condensed Consolidated Balance Sheets. Gains and losses are recognized when realized in our Condensed Consolidated Statements of Income. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in earnings. Gains and losses are determined using the specific identification method.

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Cash, cash equivalents and short-term investments consisted of the following as of September 3, 2010 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$93,170	$—	$—	$93,170
Cash equivalents:				
Money market mutual funds	597,801	—	—	597,801
Time deposits	57,238	—	—	57,238
U.S. agency securities	19,599	1	—	19,600
Corporate bonds	46,340	—	—	46,340
Total cash equivalents	720,978	1	—	720,979
Total cash and cash equivalents	814,148	1	—	814,149
Short-term fixed income securities:				
U.S. Treasury securities	401,173	3,155	(8)	404,320
U.S. agency securities	339,476	1,088	(35)	340,529
Municipal securities	120,904	46	(29)	120,921
Corporate bonds	808,745	8,720	(252)	817,213
Foreign government securities	65,475	633	(2)	66,106
Subtotal	1,735,773	13,642	(326)	1,749,089
Marketable equity securities	10,950	4,086	—	15,036
Total short-term investments	1,746,723	17,728	(326)	1,764,125
Total cash, cash equivalents and short-term investments	$2,560,871	$17,729	$(326)	$2,578,274

Cash, cash equivalents and short-term investments consisted of the following as of November 27, 2009 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$75,110	$—	$—	$75,110
Cash equivalents:				
Money market mutual funds	884,240	—	—	884,240
Time deposits	40,137	—	—	40,137
Total cash equivalents	924,377	—	—	924,377
Total cash and cash equivalents	999,487	—	—	999,487
Short-term fixed income securities:				
U.S. Treasury securities	373,180	3,199	(1)	376,378
U.S. agency securities	59,447	273	—	59,720
Corporate bonds	407,465	8,111	(1)	415,575
Foreign government securities	47,620	666	—	48,286
Subtotal	887,712	12,249	(2)	899,959
Marketable equity securities	2,527	2,500	—	5,027

Total short-term investments	890,239	14,749	(2)	904,986
Total cash, cash equivalents and short-term investments	$1,889,726	$14,749	$(2)	$1,904,473

See Note 4 for further information regarding the fair value of our financial instruments.

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The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category that have been in a continuous unrealized loss position for less than twelve months, as of September 3, 2010 and November 27, 2009 (in thousands):

	2010		2009	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury and agency securities	$89,272	$(43)	$11,179	$(1)
Corporate bonds	117,257	(252)	5,041	(1)
Foreign government securities	4,335	(2)	—	—
Municipal securities	31,092	(29)	—	—
Total	$241,956	$(326)	$16,220	$(2)

As of September 3, 2010 and November 27, 2009, there were no securities in a continuous unrealized loss position for more than twelve months. There were 76 securities and 4 securities that were in an unrealized loss position at September 3, 2010 and at November 27, 2009, respectively.

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated maturities as of September 3, 2010 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$854,720	$856,275
Due within two years	472,194	477,545
Due within three years	336,531	340,439
Due after three years	72,328	74,830
Total	$1,735,773	$1,749,089

As of September 3, 2010, we did not consider any of our investments to be other-than-temporarily impaired.

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NOTE 4. FAIR VALUE MEASUREMENTS

We measure certain financial assets and liabilities at fair value on a recurring basis. There have been no transfers between fair value measurement levels during the three months ended September 3, 2010.

The fair value of our financial assets and liabilities at September 3, 2010 was determined using the following inputs (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market mutual funds	$597,801	$ 597,801	$ —	$ —
Time deposits	57,238	57,238	—	—
U.S. agency securities	19,600	—	19,600	—
Corporate bonds	46,340	—	46,340	—
Short-term investments:				
U.S. Treasury securities	404,320	—	404,320	—
U. S. agency securities	340,529	—	340,529	—
Municipal securities	120,921	—	120,921	—
Corporate bonds	817,213	—	817,213	—
Foreign government securities	66,106	—	66,106	—
Marketable equity securities	15,036	15,036	—	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	18,290	—	18,290	—
Other assets:				
Investments of limited partnership	26,793	—	—	26,793
Deferred compensation plan assets	9,873	614	9,259	—
Total assets	$2,540,060	$ 670,689	$ 1,842,578	$ 26,793
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,680	$ —	$ 1,680	$ —
Total liabilities	$1,680	$ —	$ 1,680	$ —

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The fair value of our financial assets and liabilities at November 27, 2009 was determined using the following inputs (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market mutual funds	$884,240	$ 884,240	$ —	$ —
Time deposits	40,137	40,137	—	—
Short-term investments:				
U.S. Treasury securities	376,378	—	376,378	—
U.S. agency securities	59,720	—	59,720	—
Municipal securities	—	—	—	—
Corporate bonds	415,575	—	415,575	—
Foreign government securities	48,286	—	48,286	—
Marketable equity securities	5,027	5,027	—	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	4,307	—	4,307	—
Other assets:				
Investments of limited partnership	37,121	—	—	37,121
Deferred compensation plan assets	9,045	717	8,328	—
Total assets	$1,879,836	$ 930,121	$ 912,594	$ 37,121
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,589	$ —	$ 1,589	$ —
Total liabilities	$1,589	$ —	$ 1,589	$ —

See Note 3 for further information regarding the fair value of our financial instruments.

Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers with a minimum credit rating of A- and a weighted average credit rating of AA+. We value these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. However, we classify all of our fixed income available-for-sale securities as having Level 2 inputs. The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques. Our procedures include controls to ensure that appropriate fair values are recorded such as comparing prices obtained from multiple independent sources.

The investments of limited partnership relate to our interest in Adobe Ventures IV L.P. (“Adobe Ventures”), which are consolidated in our Condensed Consolidated Financial Statements. The Level 3 investments consist of investments in privately-held companies. These investments are remeasured at fair value each period with any gains or losses recognized in investment gains (losses), net in our Condensed Consolidated Statements of Income. There was no impact to other comprehensive income (“OCI”) related to our Level 3 investments. We estimated fair value of the Level 3 investments by considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data.

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A reconciliation of the beginning and ending balances for investments of limited partnership using significant unobservable inputs (Level 3) as of September 3, 2010 and November 27, 2009 was as follows (in thousands):

Balance as of November 28, 2008	$38,753
Purchases and sales of investments, net	1,921
Unrealized net investment losses included in earnings	(3,553)
Balance as of November 27, 2009	37,121
Purchases and sales of investments, net	(2,599)
Unrealized net investment losses included in earnings	(7,729)
Balance as of September 3, 2010	$26,793

We also have direct investments in privately-held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. If we determine that an other-than-temporary impairment has occurred, we write-down the investment to its fair value. We estimate fair value of our cost method investments considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. During the three and nine months ended September 3, 2010, we determined that certain of our direct cost method investments were other-than-temporarily impaired which resulted in charges of $1.9 million and $2.3 million, respectively, which were included in investment gains (losses), net in our Condensed Consolidated Statements of Income.

See Note 7 for further information regarding our limited partnership interest in Adobe Ventures and our cost method investments.

NOTE 5. DERIVATIVES AND HEDGING ACTIVITIES

In countries outside the U.S., we transact business in U.S. dollars and in various other currencies. Therefore, we are subject to exposure from movements in foreign currency rates. We may use foreign exchange option contracts or forward contracts to hedge certain operational (“cash flow”) exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, may have maturities between one and twelve months. The maximum original duration of any contract is twelve months. We enter into these foreign exchange contracts to hedge a portion of our forecasted foreign currency denominated revenue in the normal course of business and accordingly, they are not speculative in nature.

We recognize derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We record changes in the intrinsic value of these cash flow hedges in accumulated other comprehensive income on our Condensed Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to revenue. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to interest and other income (expense), net on our Condensed Consolidated Statements of Income at that time.

We also hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in exchange rates. These derivative instruments hedge assets and liabilities that are denominated in foreign currencies and are carried at fair value with changes in the fair value recorded to interest and other income (expense), net on our Condensed Consolidated Statements of Income. These derivative instruments do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the assets and liabilities being hedged.

We mitigate concentration of risk related to foreign currency hedges as well as interest rate hedges through a policy that establishes counterparty limits. The bank counterparties to these contracts expose us to credit-related losses in the event of their nonperformance. However, to mitigate that risk, we only contract with counterparties who meet our minimum

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requirements under our counterparty risk assessment process. In addition, our hedging policy establishes maximum limits for each counterparty. We monitor ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on our on-going assessment of counterparty risk, we will adjust our exposure to various counterparties.

The aggregate fair value of derivative instruments in net asset positions as of September 3, 2010 and November 27, 2009 was $18.3 million and $4.3 million, respectively. These amounts represent the maximum exposure to loss at the reporting date as a result of all of the counterparties failing to perform as contracted. This exposure could be reduced by up to $1.7 million and $1.6 million, respectively, of liabilities included in master netting arrangements with those same counterparties.

The fair value of derivative instruments on our Condensed Consolidated Balance Sheets as of September 3, 2010 and November 27, 2009 were as follows (in thousands):

	2010		2009	
	Fair Value Asset Derivatives(1)	Fair Value Liability Derivatives(2)	Fair Value Asset Derivatives(1)	Fair Value Liability Derivatives(2)
Derivatives designated as hedging instruments:				
Foreign exchange option contracts(3)	$9,439	$—	$4,175	$—
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	8,851	1,680	132	1,589
Total derivatives	$18,290	$1,680	$4,307	$1,589

(1) Included in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

(2) Included in accrued expenses on our Condensed Consolidated Balance Sheets.

(3) Hedging effectiveness expected to be recognized to income within the next twelve months.

The effect of derivative instruments designated as cash flow hedges and of derivative instruments not designated as hedges in our Condensed Consolidated Statements of Income for three and nine months ended September 3, 2010 was as follows (in thousands):

	Three Months		Nine Months	
	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts
Derivatives in cash flow hedging relationships:				
Net gain (loss) recognized in OCI, net of tax(1)	$15,208	$—	$23,580	$—

Net gain (loss) reclassified from accumulated OCI into income, net of tax(2)	$13,223	$—	$19,428	$—
Net gain (loss) recognized in income(3)	$(8,383)	$—	$(18,149)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(5,627)	$—	$16,174

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The effect of derivative instruments designated as cash flow hedges and of derivative instruments not designated as hedges in our Condensed Consolidated Statements of Income for three and nine months ended August 28, 2009 was as follows (in thousands):

	Three Months		Nine Months	
	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts
Derivatives in cash flow hedging relationships:				
Net gain (loss) recognized in OCI, net of tax(1)	$(329)	$—	$(14,516)	$—
Net gain (loss) reclassified from accumulated OCI into income, net of tax(2)	$749	$—	$27,138	$—
Net gain (loss) recognized in income(3)	$(3,734)	$—	$(12,782)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(1,650)	$—	$(10,200)

(1) Net change in the fair value of the effective portion classified in OCI.

(2) Effective portion classified as revenue.

(3) Ineffective portion and amount excluded from effectiveness testing classified in interest and other income (expense), net.

(4) Classified in interest and other income (expense), net.

NOTE 6. GOODWILL AND PURCHASED AND OTHER INTANGIBLES

Goodwill as of September 3, 2010 and November 27, 2009 was $3.490 billion and $3.495 billion, respectively. The change includes adjustments to our Omniture purchase price allocation through the second quarter of fiscal 2010 and foreign currency translation adjustments. We also recorded adjustments for restructuring and tax deductions from acquired stock options associated with our Omniture and Macromedia acquisitions.

Purchased and other intangible assets subject to amortization as of September 3, 2010 and November 27, 2009 were as follows (in thousands):

	2010			2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Purchased technology	$219,843	$ (51,709)	$ 168,134	$586,952	$ (387,731)	$ 199,221
Localization	$16,090	$ (10,343)	$ 5,747	$20,284	$ (15,222)	$ 5,062

Trademarks	172,015	(128,599)	43,416	172,030	(104,953)	67,077
Customer contracts and relationships	364,231	(187,457)	176,774	363,922	(159,450)	204,472
Other intangibles	46,421	(27,401)	19,020	54,535	(2,979)	51,556
Total other intangible assets	$598,757	$ (353,800)	$ 244,957	$610,771	$ (282,604)	$ 328,167
Purchased and other intangible assets	$818,600	$ (405,509)	$ 413,091	$1,197,723	$ (670,335)	$ 527,388

During the first half of fiscal 2010, purchased and other intangible assets from prior acquisitions, primarily Macromedia, became fully amortized and were removed from the balance sheet. Amortization expense related to purchased and other intangible assets was $38.5 million and $117.6 million for the three and nine months ended September 3, 2010, respectively. Comparatively, amortization expense was $34.4 million and $109.7 million for the three and nine months ended August 28, 2009, respectively. Of these amounts, $21.0 million and $63.6 million were included in cost of sales for the three and nine months ended September 3, 2010, respectively, and $19.4 million and $64.1 million were included in cost of sales for the three and nine months ended August 28, 2009, respectively.

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As of September 3, 2010, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal Year	Purchased Technology	Other Intangible Assets
Remainder of 2010	$8,813	$24,624
2011	31,870	50,740
2012	30,263	22,385
2013	26,403	21,686
2014	24,983	21,286
Thereafter	45,802	104,236
Total expected amortization expense	$168,134	$244,957

NOTE 7. OTHER ASSETS

Other assets as of September 3, 2010 and November 27, 2009 consisted of the following (in thousands):

	2010	2009
Acquired rights to use technology	$74,719	$84,313
Investments	42,831	63,526
Security and other deposits	10,760	11,692
Prepaid royalties	9,359	12,059
Debt issuance costs	9,901	—
Deferred compensation plan assets	9,873	9,045
Restricted cash	2,452	4,650
Prepaid land lease	13,254	3,209
Prepaid rent	934	1,377
Other	3,343	1,394
Other assets	$177,426	$191,265

Included in investments are our indirect investments through our limited partnership interest in Adobe Ventures of approximately $26.8 million and $37.1 million as of September 3, 2010 and November 27, 2009, respectively. We consolidate Adobe Ventures in accordance with the provisions for consolidating variable interest entities as we have determined we have the power to direct the activities that most significantly impact the entity's economic performance and we have the obligation to absorb losses or the right to receive benefits through our limited partnership interest in Adobe Ventures. The partnership is controlled by Granite Ventures, an independent venture capital firm and sole general partner of Adobe Ventures. We are the primary beneficiary of Adobe Ventures and bear virtually all of the risks and rewards related to our ownership. Our investment in Adobe Ventures does not have a significant impact on our consolidated financial position, results of operations or cash flows.

The primary purpose of our limited partnership interest in Adobe Ventures is to invest in securities of private companies which either operate in, or are expected to operate in, industries where technology and business model trends are expected to have an impact on our core business. Our limited partnership interest in Adobe Ventures terminated on September 30, 2010 and no additional investments will be made. Our maximum capital commitment to Adobe Ventures was $104.6 million, of which approximately $95.7 million was invested.

Adobe Ventures carries its investments in equity securities at estimated fair value and investment gains and losses are included in our Condensed Consolidated Statements of Income. Substantially all of the investments held by Adobe Ventures at September 3, 2010 and November 27, 2009 are not publicly traded and, therefore, there is no established market for these securities. In order to determine the fair value of these investments, we use the most recent round of financing involving new non-strategic investors or estimates of fair value made by Granite Ventures. We evaluate the fair value of these investments held by Adobe Ventures on a regular basis. This evaluation includes, but is not limited to, reviewing each company's cash position, financing needs, earnings and revenue outlook, operational performance, management and ownership changes and competition. In the case of privately-held companies, this evaluation is based on information that we request from these companies. This information is not subject to the same disclosure regulations as U.S. publicly traded companies and as such, the basis for these evaluations is subject to the timing and the accuracy of the data received from these companies.

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Also included in investments are our direct investments in privately-held companies of approximately $16.0 million and $26.4 million as of September 3, 2010 and November 27, 2009, respectively, which are accounted for based on the cost method. We assess these investments for impairment in value as circumstances dictate.

NOTE 8. ACCRUED EXPENSES

Accrued expenses as of September 3, 2010 and November 27, 2009 consisted of the following (in thousands):

	2010	2009
Accrued compensation and benefits	$213,630	$164,352
Sales and marketing allowances	29,587	32,774
Accrued marketing	31,130	28,233
Taxes payable	17,664	11,879
Accrued interest expense	5,642	1,355
Other	170,824	181,053
Accrued expenses	$468,477	$419,646

Other primarily includes general corporate accruals for local and regional expenses and technical support. Other is also comprised of deferred rent related to office locations with rent escalations, accrued royalties and foreign currency derivatives.

NOTE 9. INCOME TAXES

The gross liability for unrecognized tax benefits at September 3, 2010 was $212.7 million, exclusive of interest and penalties. If the total unrecognized tax benefits at September 3, 2010 were recognized in the future, $195.2 million of unrecognized tax benefits would decrease the effective tax rate, which is net of an estimated $17.4 million federal benefit related to deducting certain payments on future state tax returns.

As of September 3, 2010, the combined amount of accrued interest and penalties related to tax positions taken on our tax returns was approximately $18.5 million. This amount is included in non-current income taxes payable.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Given the uncertainties described, we can only determine a range of estimated potential decreases in underlying unrecognized tax benefits ranging from $0 to approximately $100 million. These amounts could decrease income tax expense.

In December 2009, we repatriated $700 million of undistributed foreign earnings for which a deferred tax liability had been previously accrued. As such, a long-term deferred tax liability of approximately $200 million was reclassified from deferred income taxes to income taxes payable. During the second and third quarters of fiscal 2010, $150 million of these liabilities in income taxes payable were paid.

NOTE 10. STOCK-BASED COMPENSATION

The assumptions used to value option grants during the three and nine months ended September 3, 2010 and August 28, 2009 were as follows:

	Three Months		Nine Months	
	2010	2009	2010	2009
Expected life (in years)	3.8 – 4.1	3.7 – 3.8	3.8 – 5.1	3.0 – 3.8
Volatility	35%	37 – 43%	29 – 36%	37 – 57%
Risk free interest rate	1.04 – 1.30%	1.93 – 2.24%	1.04 – 2.66%	1.16 – 2.24%

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The expected term of employee stock purchase plan ("ESPP") shares is the average of the remaining purchase periods under each offering period. The assumptions used to value employee stock purchase rights during the three and nine months ended September 3, 2010 and August 28, 2009 were as follows:

	Three Months		Nine Months	
	2010	2009	2010	2009
Expected life (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility	37 – 40%	40%	32 – 40%	40 – 57%
Risk free interest rate	0.22 – 0.63%	0.33 – 1.05%	0.18 – 1.09%	0.27 – 1.05%

Summary of Stock Options

Option activity for the nine months ended September 3, 2010 and the fiscal year ended November 27, 2009 was as follows (in thousands):

	2010	2009
Beginning outstanding balance	41,251	40,704
Granted	3,135	5,758
Exercised	(4,503)	(7,560)
Cancelled	(2,397)	(3,160)
Increase due to acquisition	—	5,509
Ending outstanding balance	37,486	41,251

Information regarding stock options outstanding at September 3, 2010 and August 28, 2009 is summarized below:

	Number of Shares (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2010				
Options outstanding	37,486	$30.63	3.83	$112.5
Options vested and expected to vest	36,184	$30.69	3.77	$107.4
Options exercisable	27,280	$31.06	3.21	$74.7
2009				
Options outstanding	38,549	$29.75	3.92	$176.9
Options vested and expected to vest	36,986	$29.78	3.84	$168.5
Options exercisable	26,573	$29.21	3.23	$127.8

(*) The intrinsic value is calculated as the difference between the market value as of the end of the fiscal period and the exercise price of the shares. As reported by the NASDAQ Global Select Market, the market values as of

September 3, 2010 and August 28, 2009 were $29.49 and $31.73, respectively.

Summary of Employee Stock Purchase Plan Shares

Employees purchased 3.3 million shares at an average price of $20.19 and 3.2 million shares at an average price of $19.04 for the nine months ended September 3, 2010 and August 28, 2009, respectively. The intrinsic value of shares purchased during the nine months ended September 3, 2010 and August 28, 2009 was $33.9 million and $21.7 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

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Summary of Restricted Stock Units

Restricted stock unit activity for the nine months ended September 3, 2010 and the fiscal year ended November 27, 2009 was as follows (in thousands):

	2010	2009
Beginning outstanding balance	10,433	4,261
Awarded	6,814	6,176
Released	(2,170)	(1,162)
Forfeited	(1,112)	(401)
Increase due to acquisition	—	1,559
Ending outstanding balance	13,965	10,433

Information regarding restricted stock units outstanding at September 3, 2010 and August 28, 2009 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2010			
Restricted stock units outstanding	13,965	1.72	$411.8
Restricted stock units vested and expected to vest	10,959	1.55	$322.9
2009			
Restricted stock units outstanding	6,319	1.70	$200.5
Restricted stock units vested and expected to vest	4,978	1.52	$157.8

(*) The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market values as of September 3, 2010 and August 28, 2009 were $29.49 and $31.73, respectively.

Summary of Performance Shares

Effective January 25, 2010, the Executive Compensation Committee adopted the 2010 Performance Share Program (the "2010 Program"). The purpose of the 2010 Program is to align key management and senior leadership with stockholders' interests and to retain key employees. The measurement period for the 2010 Program is our fiscal 2010 year. All members of our executive management and other key senior leaders are participating in the 2010 Program. Awards granted under the 2010 Program were granted in the form of performance shares pursuant to the terms of our 2003 Equity Incentive Plan. If pre-determined performance goals are met, shares of stock will be granted to the recipient, with one third vesting on the later of the date of certification of achievement or the first anniversary date of the grant, and the remaining two thirds vesting evenly on the following two annual anniversary dates of the grant, contingent upon the recipient's continued service to Adobe. Participants in the 2010 Program have the ability to receive up to 150% of the target number of shares originally granted.

The following table sets forth the summary of performance share activity under our 2010 Program for the nine months ended September 3, 2010 (in thousands):

	Shares Granted	Maximum Shares Eligible to Receive
Beginning outstanding balance	—	—
Awarded	263	394
Forfeited	(13)	(19)
Ending outstanding balance	250	375

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The performance metrics under the 2009 Performance Share Program were not achieved and therefore no shares were awarded. The following table sets forth the summary of performance share activity under our 2007 and 2008 programs, based upon share awards actually achieved, for the nine months ended September 3, 2010 and the fiscal year ended November 27, 2009 (in thousands):

	2010	2009
Beginning outstanding balance	950	383
Achieved	—	1,022
Released	(350)	(382)
Forfeited	(28)	(73)
Ending outstanding balance	572	950

Information regarding performance shares outstanding at September 3, 2010 and August 28, 2009 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2010			
Performance shares outstanding	572	0.84	$16.9
Performance shares vested and expected to vest	508	0.79	$14.8
2009			
Performance shares units outstanding	964	1.30	$30.6
Performance shares vested and expected to vest	801	1.21	$25.3

(*) The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market values as of September 3, 2010 and August 28, 2009 were $29.49 and $31.73, respectively.

Compensation Costs

As of September 3, 2010, there was $365.0 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards which will be recognized over a weighted average period of 2.6 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Total stock-based compensation costs that have been included in our Condensed Consolidated Statements of Income for the three months ended September 3, 2010 and August 28, 2009 were as follows (in thousands):

	2010	2009

Income Statement Classifications	Option Grants and Stock Purchase Rights	Restricted Stock and Performance Share Awards	Option Grants and Stock Purchase Rights	Restricted Stock and Performance Share Awards
Cost of revenue— subscription	$264	$ 384	$—	$ —
Cost of revenue—services and support	147	278	437	190
Research and development	6,792	11,224	11,922	6,338
Sales and marketing	7,820	13,189	9,100	4,730
General and administrative	4,134	5,436	4,938	2,087
Total	$19,157	$ 30,511	$26,397	$ 13,345

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Total stock-based compensation costs that have been included in our Condensed Consolidated Statements of Income for the nine months ended September 3, 2010 and August 28, 2009 were as follows (in thousands):

Income Statement Classifications	2010 Option Grants and Stock Purchase Rights	2010 Restricted Stock and Performance Share Awards	2009 Option Grants and Stock Purchase Rights	2009 Restricted Stock and Performance Share Awards
Cost of revenue—subscription	$944	$ 988	$—	$ —
Cost of revenue—services and support	832	876	1,595	527
Research and development	29,717	38,574	35,317	21,271
Sales and marketing	31,340	38,346	27,681	14,565
General and administrative	15,380	17,248	19,220	6,962
Total	$78,213	$ 96,032	$83,813	$ 43,325

NOTE 11. RESTRUCTURING CHARGES

Fiscal 2009 Restructuring Plan

On November 10, 2009, in order to appropriately align our costs in connection with our fiscal 2010 operating plan, we initiated a restructuring plan consisting of reductions of up to approximately 630 full-time positions worldwide and the consolidation of facilities. In connection with this restructuring plan, in the fourth quarter of fiscal 2009, we recorded restructuring charges of approximately $25.5 million related to ongoing termination benefits for the elimination of approximately 340 of these full-time positions worldwide. As of November 27, 2009, approximately $2.5 million was paid. The restructuring activities related to this program affected only those employees that were associated with Adobe prior to the acquisition of Omniture on October 23, 2009.

In the first half of fiscal 2010, we continued to implement restructuring activities under this program. We vacated approximately 48,000 square feet of sales and or research and development facilities in Australia, Canada, Denmark and the U.S. We accrued $6.5 million for the fair value of our future contractual obligations under these operating leases using our credit-adjusted risk-free interest rate, estimated at approximately 7% as of the date we ceased to use the leased properties. This amount is net of the fair value of future estimated sublease income of approximately $10.8 million. We also recorded charges of $17.6 million in termination benefits for the elimination of approximately 245 full-time positions which represents substantially all of the remaining full-time positions expected to be terminated worldwide.

In the third quarter of fiscal 2010, we recorded net adjustments of approximately $2.1 million to reflect net decreases in previously recorded estimates for termination benefits and facilities-related liabilities. Total costs incurred to date and expected to be incurred for closing redundant facilities are $6.7 million and $13.3 million, respectively.

Omniture Restructuring Plan

We completed our acquisition of Omniture on October 23, 2009. In the fourth quarter of fiscal 2009, we initiated a plan to restructure the pre-merger operations of Omniture to eliminate certain duplicative activities, focus our resources on future growth opportunities and reduce our cost structure. In connection with this restructuring plan, we accrued a total of approximately $10.6 million in costs related to termination benefits for the elimination of approximately 100 regular positions and for the closure of duplicative facilities. We also accrued approximately $0.2 million in costs related to the cancellation of certain contracts associated with the wind-down of subsidiaries and other service contracts held by Omniture. These costs were recorded as a part of the purchase price allocation, as discussed in Note 2.

Fiscal 2008 Restructuring Plan

In the fourth quarter of fiscal 2008, we initiated a restructuring program, consisting of reductions in workforce of approximately 560 full-time positions globally and the consolidation of facilities, in order to reduce our operating costs and focus our resources on key strategic priorities. In connection with this restructuring program, we recorded restructuring

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charges in the fourth quarter of fiscal 2008 totaling $29.2 million related to ongoing termination benefits for the elimination of approximately 460 of the 560 full-time positions globally.

During fiscal 2009, we continued to implement restructuring activities under this program. We vacated approximately 89,000 square feet of research and development and sales facilities in the U.S., the United Kingdom and Canada. We accrued $8.5 million for the fair value of our future contractual obligations under these operating leases using our credit-adjusted risk-free interest rate, estimated at approximately 6% as of the date we ceased to use the leased properties. This amount is net of the fair value of future estimated sublease income of approximately $4.4 million. Total costs incurred to date and expected to be incurred for closing redundant facilities are $8.7 million and $8.9 million, respectively. We also recorded additional charges of $6.7 million in termination benefits for the elimination of substantially all of the remaining 100 full-time positions expected to be terminated.

Macromedia Restructuring Plan

We completed our acquisition of Macromedia on December 3, 2005. In connection with this acquisition, we initiated plans to restructure both the pre-merger operations of Adobe and Macromedia to eliminate certain duplicative activities, focus our resources on future growth opportunities and reduce our cost structure. In connection with the worldwide restructuring plan, we recognized costs related to termination benefits for employee positions that were eliminated and for the closure of duplicative facilities. We also recognized costs related to the cancellation of certain contracts associated with the wind-down of subsidiaries and other service contracts held by Macromedia. Total costs incurred for termination benefits and contract terminations were $27.0 million and $3.2 million, respectively, and all actions were completed during fiscal 2007.

Summary of Restructuring Plans

The following table sets forth a summary of restructuring activities related to all of our restructuring plans described above during the nine months ended September 3, 2010 (in thousands):

	November 27, 2009	Costs Incurred	Cash Payments	Other Adjustments	September 3, 2010
Fiscal 2009 Plan:					
Termination benefits	$22,984	$17,683	$(35,416)	$(3,813)	$1,438
Cost of closing redundant facilities	—	6,586	(446)	145	6,285
Omniture Plan:					
Termination benefits	6,712	—	(5,654)	(609)	449
Cost of closing redundant facilities	5,324	—	(1,863)	187	3,648
Contract termination	242	—	(184)	102	160
Fiscal 2008 Plan:					
Termination benefits	1,057	—	(212)	(279)	566
	3,382	—	(836)	(72)	2,474

Cost of closing redundant facilities					
Macromedia Plan:					
Cost of closing redundant facilities	5,006	—	(2,569)	(410)	2,027
Other	8	—	(2)	—	6
Total restructuring plans	$44,715	$24,269	$(47,182)	$(4,749)	$17,053

Accrued restructuring charges of approximately $17.0 million at September 3, 2010 includes $9.2 million recorded in accrued restructuring, current and $7.8 million related to long-term facilities obligations recorded in accrued restructuring, non-current on our Condensed Consolidated Balance Sheets. We expect to pay accrued termination benefits through fiscal 2010 and facilities-related liabilities per contract through fiscal 2021 of which over 80% will be paid through 2013.

Included in the other adjustments column are $(3.2) million related to changes in previous estimates, $(1.1) million related to foreign currency translation adjustments and $(0.4) million in adjustments to goodwill associated with our acquisitions.

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NOTE 12. STOCKHOLDERS' EQUITY

Retained Earnings

The changes in retained earnings for the nine months ended September 3, 2010 were as follows (in thousands):

Balance as of November 27, 2009	$5,299,914
Net income	505,830
Re-issuance of treasury stock	(66,880)
Balance as of September 3, 2010	$5,738,864

We account for treasury stock under the cost method. When treasury stock is re-issued at a price higher than its cost, the difference is recorded as a component of additional paid-in-capital in our Condensed Consolidated Balance Sheets. When treasury stock is re-issued at a price lower than its cost, the difference is recorded as a component of additional paid-in-capital to the extent that there are gains to offset the losses. If there are no treasury stock gains in additional paid-in-capital, the losses upon re-issuance of treasury stock are recorded as a component of retained earnings in our Condensed Consolidated Balance Sheets.

Comprehensive Income (Loss)

The following table sets forth the activity for each component of comprehensive income, net of related taxes, for the three and nine months ended September 3, 2010 and August 28, 2009 (in thousands):

	Three Months		Nine Months	
	2010	2009	2010	2009
Net income	$230,065	$136,045	$505,830	$418,551
Other comprehensive income (loss):				
Available-for-sale securities:				
Unrealized gains on available-for-sale securities	3,263	278	2,717	1,856
Reclassification adjustment for gains on available-for-sale securities recognized during the period	(605)	(2,449)	(1,308)	(5,026)
Subtotal available-for-sale securities	2,658	(2,171)	1,409	(3,170)
Derivatives designated as hedging instruments:				
Unrealized (losses) gains on derivative instruments	(15,208)	(329)	23,580	(14,516)
Reclassification adjustment for gains on derivative instruments recognized during the period	(13,223)	(749)	(19,428)	(27,138)
Subtotal derivatives designated as hedging instruments	(28,431)	(1,078)	4,152	(41,654)
Foreign currency translation adjustments	7,349	(2,333)	(8,436)	9,330
Other comprehensive income (loss)	(18,424)	(5,582)	(2,875)	(35,494)
Total comprehensive income, net of taxes	$211,641	$130,463	$502,955	$383,057

The following table sets forth the components of accumulated other comprehensive income, net of related taxes, as of September 3, 2010 and November 27, 2009 (in thousands):

	2010	2009
Net unrealized gains on available-for-sale securities:		
Unrealized gains on available-for-sale securities	$15,551	$13,818
Unrealized losses on available-for-sale securities	(326)	(2)
Total net unrealized gains on available-for-sale securities	15,225	13,816
Net unrealized gains (losses) on derivative instruments	4,146	(5)
Cumulative foreign currency translation adjustments	2,200	10,635
Total accumulated other comprehensive income, net of taxes	$21,571	$24,446

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Stock Repurchase Program

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we repurchase shares in the open market and also enter into structured repurchases with third-parties.

During the third quarter of fiscal 2010, our Board of Directors approved an amendment to our stock repurchase program authorized in April 2007 from a non-expiring share-based authority to a time-constrained dollar-based authority. As part of this amendment, the Board of Directors granted authority to repurchase up to $1.6 billion in common stock through the end of fiscal 2012. This amended program did not affect the $250.0 million structured stock repurchase agreement entered into during March 2010. As of September 3, 2010, no prepayments remain under that agreement.

During the nine months ended September 3, 2010 and August 28, 2009, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided the financial institutions with prepayments of $650.0 million and $350.0 million, respectively. Of the $650.0 million of prepayments in the nine months ended September 3, 2010, $250.0 million was under the stock repurchase program prior to the program amendment and the remaining $400.0 million was under the amended $1.6 billion time-constrained dollar-based authority. We entered into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price ("VWAP") of our common stock over a specified period of time. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. During the nine months ended September 3, 2010, we repurchased approximately 19.0 million shares at an average price of $30.32 through structured repurchase agreements entered into during fiscal 2009 and fiscal 2010. During the nine months ended August 28, 2009, we repurchased approximately 9.9 million shares at an average price of $25.31 through structured repurchase agreements, which included prepayments from fiscal 2008 and fiscal 2009.

As of September 3, 2010 and November 27, 2009, the prepayments were classified as treasury stock on our Condensed Consolidated Balance Sheets at the payment date, though only shares physically delivered to us by the financial statement date are excluded from the shares used to compute basic and diluted net income per share. As of September 3, 2010 and August 28, 2009, approximately $132.9 million and $233.9 million, respectively, of up-front payments remained under these agreements.

Subsequent to September 3, 2010, as part of our $1.6 billion stock repurchase program, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $200.0 million. This amount will be classified as treasury stock on our Condensed Consolidated Balance Sheets. Upon completion of the $200.0 million stock repurchase agreement, $1.0 billion now remains under our time-constrained dollar-based authority. See Note 18 for further discussion of our stock repurchase program.

NOTE 13. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three and nine months ended September 3, 2010 and August 28, 2009 (in thousands, except per share data):

	Three Months		Nine Months	
	2010	2009	2010	2009
Net income	$230,065	$136,045	$505,830	$418,551
Shares used to compute basic net income per share	518,710	525,911	523,039	528,015
Dilutive potential common shares:				
Unvested restricted stock and performance share awards	2,022	1,940	3,037	1,696
Stock options	2,447	3,958	4,280	3,135
Shares used to compute diluted net income per share	523,179	531,809	530,356	532,846
Basic net income per share	$0.44	$0.26	$0.97	$0.79
Diluted net income per share	$0.44	$0.26	$0.95	$0.79

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For the three and nine months ended September 3, 2010, options to purchase approximately 28.1 million and 18.8 million shares, respectively, of common stock with exercise prices greater than the average fair market value of our stock of $28.97 and $32.82, respectively, were not included in the calculation because the effect would have been anti-dilutive. Comparatively, for the three and nine months ended August 28, 2009, options to purchase approximately 24.5 million and 30.6 million shares, respectively, of common stock with exercise prices greater than the average fair market value of our stock of $30.40 and $24.99, respectively, were not included in the calculation because the effect would have been anti-dilutive.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We occupy three office buildings in San Jose, California where our corporate headquarters are located. We reference these office buildings as the Almaden Tower and the East and West Towers.

In August 2004, we extended the lease agreement for our East and West Towers for an additional five years with an option to extend for an additional five years solely at our election. In June 2009, we submitted notice to the lessor that we intended to exercise our option to renew this agreement for an additional five years effective August 2009. As stated in the original lease agreement, in conjunction with the lease renewal, we were required to obtain a standby letter of credit for approximately $16.5 million which enabled us to secure a lower interest rate and reduce the number of covenants. As defined in the lease agreement, the standby letter of credit primarily represents the lease investment equity balance which is callable in the event of default. In March 2007, the Almaden Tower lease was extended for five years, with a renewal option for an additional five years solely at our election. As part of the lease extensions, we purchased the lease receivable from the lessor of the East and West Towers for $126.8 million and a portion of the lease receivable from the lessor of the Almaden Tower for $80.4 million, both of which are recorded as investments in lease receivables on our Condensed Consolidated Balance Sheets. This purchase may be credited against the residual value guarantee if we purchase the properties or will be repaid from the sale proceeds if the properties are sold to third-parties. Under the agreement for the East and West Towers and the agreement for the Almaden Tower, we have the option to purchase the buildings at anytime during the lease term for approximately $143.2 million and $103.6 million, respectively. The residual value guarantees under the East and West Towers and the Almaden Tower obligations are $126.8 million and $89.4 million, respectively.

These two leases are both subject to standard covenants including certain financial ratios that are reported to the lessors quarterly. As of September 3, 2010, we were in compliance with all of the covenants. In the case of a default, the lessor may demand we purchase the buildings for an amount equal to the lease balance, or require that we remarket or relinquish the buildings. Both leases qualify for operating lease accounting treatment and, as such, the buildings and the related obligations are not included on our Condensed Consolidated Balance Sheets. We utilized this type of financing in order to access bank-provided funding at the most favorable rates and to provide the lowest total cost of occupancy for the headquarter buildings. At the end of the lease term, we can extend the lease for an additional five year term, purchase the buildings for the lease balance, remarket or relinquish the buildings. If we choose to remarket or are required to do so upon relinquishing the buildings, we are bound to arrange the sale of the buildings to an unrelated party and will be required to pay the lessor any shortfall between the net remarketing proceeds and the lease balance, up to the residual value guarantee amount.

In June 2010, we entered into a sale-leaseback agreement to sell equipment totaling $32.2 million and leaseback the same equipment over a period of 43 months. This transaction was classified as a capital lease obligation and recorded at fair value. See Note 15 for further discussion of our capital lease obligation.

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The following are our future minimum lease payments under our non-cancellable capital leases for each of the next five years and thereafter as of September 3, 2010 (in thousands):

Fiscal Year	Capital Lease Obligation
Remainder of 2010	$1,666
2011	9,936
2012	9,925
2013	9,925
2014	1,654
Gross lease commitment	$33,106
Less: interest	(2,466)
Net lease commitment	$30,640

Guarantees

The lease agreements for our corporate headquarters provide for residual value guarantees as noted above. The fair value of a residual value guarantee in lease agreements entered into after December 31, 2002, must be recognized as a liability on our Condensed Consolidated Balance Sheets. As such, we recognized $5.2 million and $3.0 million in liabilities, related to the extended East and West Towers and Almaden Tower leases, respectively. These liabilities are recorded in other long-term liabilities with the offsetting entry recorded as prepaid rent in other assets. The balance will be amortized to the income statement over the life of the leases. As of September 3, 2010 and November 27, 2009, the unamortized portion of the fair value of the residual value guarantees, for both leases, remaining in other long-term liabilities and prepaid rent was $0.9 million and $1.3 million, respectively.

Royalties

We have royalty commitments associated with the shipment and licensing of certain products. Royalty expense is generally based on a dollar amount per unit shipped or a percentage of the underlying revenue.

Indemnifications

In the ordinary course of business, we provide indemnifications of varying scope to customers against claims of intellectual property infringement made by third-parties arising from the use of our products. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer’s or director’s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that reduces our exposure and enables us to recover a portion of any future amounts paid. We believe the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

As part of our limited partnership interest in Adobe Ventures, we have provided a general indemnification to Granite Ventures, an independent venture capital firm and sole general partner of Adobe Ventures, for certain events or occurrences while Granite Ventures is, or was serving, at our request in such capacity provided that Granite Ventures acts in good faith on behalf of the partnership. We are unable to develop an estimate of the maximum potential amount of future payments that could potentially result from any hypothetical future claim, but believe the risk of having to make any payments under this general indemnification to be remote.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Legal Proceedings

Between September 23, 2009 and September 25, 2009, three putative class action lawsuits were filed in the Fourth Judicial District Court for Utah County, Provo Department, State of Utah, seeking to enjoin Adobe's acquisition of Omniture, Inc. and to recover damages in the event the transaction were to close. The cases were captioned Miner v. Omniture, Inc., et. al., (the "Miner"), Barrell v. Omniture, Inc. et. al., (the "Barrell"), and Lodhia v. Omniture, Inc. et al., (the "Lodhia"). At a hearing on October 20, 2009, the court consolidated the Miner, Barrell, and Lodhia cases into a single case under the Lodhia caption and denied the plaintiffs' motion to preliminarily enjoin the closing of the transaction. On December 30, 2009, the plaintiffs served the defendants with a consolidated amended complaint for damages arising out of the closing of the transaction. In the consolidated amended complaint, plaintiffs allege that the members of Omniture's board of directors breached their fiduciary duties to Omniture's stockholders by failing to seek the highest possible price for Omniture and that both Adobe and Omniture induced or aided and abetted in the alleged breach. The plaintiffs also allege that the Schedule 14D-9 Solicitation/Recommendation Statement filed by Omniture on September 24, 2009 in connection with the transaction contained inadequate disclosures and was materially misleading. Plaintiffs seek unspecified damages on behalf of the former public stockholders of Omniture. On March 8, 2010, Adobe and the other defendants moved to dismiss the complaint for failure to state a claim. A hearing on this motion has been scheduled for November 2010. Adobe intends to defend the lawsuits vigorously. As of September 3, 2010, no amounts have been accrued as a loss is not probable or estimable.

In October 2009, Eolas Technologies Incorporated filed a complaint against us and 22 other companies for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that a number of our Web pages and products infringe two patents owned by plaintiff purporting to cover "Distributed Hypermedia Method for Automatically Invoking External Application Providing Interaction and Display of Embedded Objects within a Hypermedia Document" (U.S. Patent No. 5,838,906) and "Distributed Hypermedia Method and System for Automatically Invoking External Application Providing Interaction and Display of Embedded Objects within a Hypermedia Document" (U.S. Patent No. 7,599,985) and seeks injunctive relief, monetary damages, costs and attorneys fees. We dispute these claims and intend to vigorously defend ourselves in this matter. As of September 3, 2010, no amounts have been accrued as a loss is not probable or estimable.

In connection with our anti-piracy efforts, conducted both internally and through organizations such as the Business Software Alliance, from time to time we undertake litigation against alleged copyright infringers. Such lawsuits may lead to counter-claims alleging improper use of litigation or violation of other local laws. We believe we have valid defenses with respect to such counter-claims; however, it is possible that our consolidated financial position, cash flows or results of operations could be affected in any particular period by the resolution of one or more of these counter-claims.

From time to time, Adobe is subject to legal proceedings, claims and investigations in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment and other matters. Adobe makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against Adobe. It is possible, nevertheless, that our consolidated financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution of one or more of such proceedings, claims or investigations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 15. DEBT

Our debt as of September 3, 2010 and November 27, 2009 consisted of the following (in thousands):

	2010	2009
Notes	$1,493,810	$—
Credit facility	—	1,000,000
Captial lease obligations	30,640	—
Total debt and captial lease obligations	1,524,450	1,000,000
Less: current portion	8,698	—
Total debt and captial lease obligations, non-current	$1,515,752	$1,000,000

Notes

In February 2010, we issued $600.0 million of 3.25% senior notes due February 1, 2015 (the "2015 Notes") and $900.0 million of 4.75% senior notes due February 1, 2020 (the "2020 Notes" and, together with the 2015 Notes, the "Notes"). Our proceeds were approximately $1.5 billion which is net of an issuance discount of $6.6 million. The Notes rank equally with our other unsecured and unsubordinated indebtedness. In addition, we incurred issuance costs of approximately $10.7 million. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the Notes using the effective interest method. Interest is payable semi-annually, in arrears, on February 1 and August 1, commencing on August 1, 2010. In August 2010, we made our first semi-annual payment of $31.1 million. The proceeds from the Notes are available for general corporate purposes, including repayment of any balance outstanding on our credit facility. Based on quoted market prices, the fair value of the Notes was approximately $1.6 billion as of September 3, 2010.

We may redeem the Notes at any time, subject to a make whole premium. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The Notes also include covenants that limit our ability to grant liens on assets and to enter into sale and leaseback transactions, subject to significant allowances. As of September 3, 2010, we were in compliance with all of the covenants.

Credit Agreement

In August 2007, we entered into an Amendment to our Credit Agreement dated February 2007 (the "Amendment"), which increased the total senior unsecured revolving facility from $500.0 million to $1.0 billion. The Amendment also permits us to request one-year extensions effective on each anniversary of the closing date of the original agreement, subject to the majority consent of the lenders. We also retain an option to request an additional $500.0 million in commitments, for a maximum aggregate facility of $1.5 billion.

In February 2008, we entered into a Second Amendment to the Credit Agreement dated February 26, 2008, which extended the maturity date of the facility by one year to February 16, 2013. The facility would terminate at this date if no additional extensions have been requested and granted. All other terms and conditions remain the same.

The facility contains a financial covenant requiring us not to exceed a certain maximum leverage ratio. At our option, borrowings under the facility accrue interest based on either the London interbank offered rate ("LIBOR") for one, two, three or six months, or longer periods with bank consent, plus a margin according to a pricing grid tied to this financial covenant, or a base rate. The margin is set at rates between 0.20% and 0.475%. Commitment fees are payable on the facility at rates between 0.05% and 0.15% per year based on the same pricing grid. The facility is available to provide loans to us and certain of our subsidiaries for general corporate purposes. At November 27, 2009, the amount outstanding under the credit facility was $1.0 billion, which approximated fair value. On February 1, 2010, we paid the outstanding balance on our credit facility and the entire $1.0 billion credit line under this facility remains available for borrowing.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Capital Lease Obligation

In June 2010, weentered into a sale-leaseback agreement to sell equipment totaling $32.2 million and leaseback the same equipment over a period of 43 months. This transaction was classified as a capital lease obligation and recorded at fair value. As of September 3, 2010, our captial lease obligations of $30.6 million includes $8.7 million of current debt.

NOTE 16. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) for the three and nine months ended September 3, 2010 and August 28, 2009 included the following (in thousands):

	Three Months		Nine Months	
	2010	2009	2010	2009
Interest and other income (expense), net:				
Interest income	$5,883	$7,616	$15,975	$28,655
Foreign exchange gains (losses)	865	(3,545)	(16,409)	(9,621)
Realized gains on fixed income investment	604	2,449	1,302	5,027
Realized losses on fixed income investment	—	—	—	(1)
Other, net	255	147	1,037	693
Interest and other income (expense), net	$7,607	$6,667	$1,905	$24,753
Interest expense	$(16,395)	$(460)	$(40,166)	$(1,872)
Investment gains (losses), net:				
Realized investment gains	$257	$—	$444	$52
Unrealized investment gains(1)	11,526	2,019	11,526	3,396
Realized investment losses	(6,145)	(1,362)	(6,909)	(3,347)
Unrealized investment losses	(2,111)	(50)	(15,791)	(18,545)
Investment gains (losses), net	$3,527	$607	$(10,730)	$(18,444)
Non-operating income (expense), net	$(5,261)	$6,814	$(48,991)	$4,437

(1) During the three and nine months ended September 3, 2010 and August 28, 2009, we recorded $0.4 million and $0.2 million and $1.8 million and $2.7 million, respectively, in unrealized holding gains and losses associated with our deferred compensation plan assets (classified as trading securities).

NOTE 17. SEGMENTS

We have the following reportable segments:

- Creative Solutions- Our Creative Solutions segment focuses on delivering a complete professional line of integrated tools for a full range of creative and developer tasks to an extended set of customers.

· Knowledge Worker- Our Knowledge Worker segment focuses on the needs of knowledge worker customers, providing essential applications and services to help them share information and collaborate. This segment contains our Acrobat family of products.

· Enterprise- Our Enterprise segment provides server-based Customer Experience Management Solutions to enterprise and government customers to optimize their information intensive customer-facing processes and improve the overall customer experience of their constituents. This segment contains our LiveCycle and Adobe Connect lines of products.

· Omniture- Our Omniture segment provides web analytics and online business optimization products and services to manage and enhance online, offline and multi-channel business initiatives.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

- Platform- Our Platform segment includes client and developer technologies, such as Adobe Flash Player, Adobe Flash Lite, Adobe AIR, Adobe Flex, Adobe Flash Builder, ColdFusion, and also encompasses products and technologies created and managed in other Adobe segments.

- Print and Publishing- Our Print and Publishing segment addresses market opportunities ranging from the diverse publishing needs of technical and business publishing to our legacy type and OEM printing businesses.

Effective in the first quarter of fiscal 2010, to better align our marketing efforts and go-to-market strategies, we moved management responsibility for the Connect Solutions product line from our Knowledge Worker segment to our Enterprise segment. Prior year information in the table below has been reclassified to reflect this change.

We report segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments.

Our chief operating decision maker reviews revenue and gross margin information for each of our reportable segments. Operating expenses are not reviewed on a segment by segment basis. In addition, with the exception of goodwill and intangible assets, we do not identify or allocate our assets by the reportable segments.

(in thousands)	Creative Solutions	Knowledge Worker	Enterprise	Omniture(*)	Platform	Print and Publishing	Total
Three months ended September 3, 2010							
Revenue	$549,707	$162,576	$94,231	$91,035	$40,746	$52,024	$990,319
Cost of revenue	28,428	4,934	13,533	46,702	2,245	3,242	99,084
Gross profit	$521,279	$157,642	$80,698	$44,333	$38,501	$48,782	$891,235
Gross profit as a percentage of revenue	95 %	97 %	86 %	49 %	94 %	94 %	90 %
Three months ended August 28, 2009							
Revenue	$400,360	$138,102	$71,903	$—	$44,935	$42,207	$697,507
	34,903	7,043	13,784	—	4,946	4,371	65,047

Cost of revenue							
Gross profit	$365,457	$131,059	$58,119	$—	$39,989	$37,836	$632,460
Gross profit as a percentage of revenue	91 %	95 %	81 %	—	89 %	90 %	91 %

(*) The three months ended September 3, 2010 includes Omniture as a new reportable segment following our acquisition of Omniture on October 23, 2009. The three months ended August 28, 2009 does not include the impact of our acquisition of Omniture. Of the $91.0 million in revenue from our Omniture segment, approximately $74.9 million represents subscription revenue and the remaining amount represents professional services and support.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(in thousands)	Creative Solutions	Knowledge Worker	Enterprise	Omniture(*)	Platform	Print and Publishing	Total
Nine months ended September 3, 2010							
Revenue	$1,514,427	$484,450	$250,816	$262,195	$132,798	$147,368	$2,792,054
Cost of revenue	88,172	14,669	42,903	134,828	7,385	8,328	296,285
Gross profit	$1,426,255	$469,781	$207,913	$127,367	$125,413	$139,040	$2,495,769
Gross profit as a percentage of revenue	94 %	97 %	83 %	49 %	94 %	94 %	89 %
Nine months ended August 28, 2009							
Revenue	$1,272,837	$425,867	$220,842	$—	$134,053	$134,971	$2,188,570
Cost of revenue	117,225	22,595	43,668	—	16,420	14,500	214,408
Gross profit	$1,155,612	$403,272	$177,174	$—	$117,633	$120,471	$1,974,162
Gross profit as a percentage of revenue	91 %	95 %	80 %	—	88 %	89 %	90 %

(*) The nine months ended September 3, 2010 includes Omniture as a new reportable segment following our acquisition of Omniture on October 23, 2009. The nine months ended August 28, 2009 does not include the impact of our acquisition of Omniture. Of the $262.2 million in revenue from our Omniture segment, approximately $225.7 million represents subscription revenue and the remaining amount represents professional services and support.

NOTE 18. SUBSEQUENT EVENTS

Subsequent to September 3, 2010, as part of our $1.6 billion stock repurchase program, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $200.0 million. This amount will be classified as treasury stock on our Condensed Consolidated Balance Sheets. Upon completion of the $200.0 million stock repurchase agreement, $1.0 billion now remains under our time-constrained dollar-based authority. See Note 12 for further discussion of our stock repurchase program.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto.

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements, including statements regarding product plans, future growth and market opportunities, which involve risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" in Part II, Item 1A of this report. You should carefully review the risks described herein and in other documents we file from time to time with the Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for fiscal 2009. When used in this report, the words "expects," "could," "would," "may," "anticipate "intends," "plans," "believes," "seeks," "targets," "estimates," "looks for," "looks to" and similar expressions, as well as st regarding our focus for the future, are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

BUSINESS OVERVIEW

Founded in 1982, Adobe Systems Incorporated is one of the largest and most diversified software companies in the world. We offer a line of creative, business, Web and mobile software and services used by creative professionals, knowledge workers, consumers, original equipment manufacturers ("OEMs"), developers and enterprises for creating, managing, delivering, optimizing and engaging with compelling content and experiences across multiple operating systems, devices and media. We distribute our products through a network of distributors, value-added resellers ("VARs"), systems integrators, independent software vendors ("ISVs") and OEMs, direct to end users and through our own Website at www.adobe.com. We also license our technology to hardware manufacturers, software developers and service providers, and we offer integrated software solutions to businesses of all sizes. We have operations in the Americas, Europe, Middle East and Africa ("EMEA") and Asia. Our software runs on personal computers with Microsoft Windows, Apple Mac OS, Linux, UNIX and various non-PC platforms, depending on the product.

We maintain executive offices and principal facilities at 345 Park Avenue, San Jose, California 95110-2704. Our telephone number is 408-536-6000. We maintain a Website at www.adobe.com. Investors can obtain copies of our SEC filings from this site free of charge, as well as from the SEC Website at www.sec.gov.

ACQUISITION OF OMNITURE

On October 23, 2009, we completed the acquisition of Omniture, Inc. ("Omniture"), an industry leader in Web analytics and online business optimization based in Orem, Utah, for approximately $1.8 billion. We expect the acquisition to have a significant impact on our consolidated financial position, results of operations and cash flows. We expect our revenues, cost of revenues and operating expenses to increase in the future, but we also anticipate revenue and cost saving synergies. Coinciding with the integration of Omniture, we created a new reportable segment for financial reporting purposes. The discussions in this section of the Quarterly Report on Form 10-Q, as well as the financial statements contained herein, reflect the impact of the acquisition. See Note 2 of our Notes to Condensed Consolidated Financial Statements for further information regarding this acquisition.

OPERATIONS OVERVIEW

For our third quarter of fiscal 2010, we reported record revenue with strong financial results. Our performance was driven by continued adoption of Adobe Creative Suite 5 (“CS5”), which is our flagship product family that began shipping in the second quarter of fiscal 2010. Our third quarter performance also benefitted from strength in other key business segments including our Omniture, Knowledge Worker, Enterprise and Print and Publishing segments. The nine months ended September 3, 2010 financial results also benefitted from an extra week in the first quarter of fiscal 2010 due to our 52/53 week financial calendar whereby fiscal 2010 is a 53-week year compared with fiscal 2009 which was a 52-week year.

In our Creative Solutions segment, broad adoption of CS5 continued to drive the overall performance of our creative business. Since its release, CS5 revenue has grown approximately 15% when compared to a comparable period of time for the Adobe Creative Suite 4 (“CS4”) products. The successful launch of Adobe Lightroom version 3 also contributed to our success in our creative business. Combined, these factors contributed to strong year-over-year growth of 37% in this segment.

Our Knowledge Worker segment achieved 18% year-over-year growth due to continued solid demand for our Acrobat product family. We attribute this performance to strength in enterprise licensing of Acrobat as well as the improved economic conditions in certain markets and geographies where we focus on Acrobat adoption.

We achieved strong growth in the third quarter with our Enterprise segment, which grew 31% on a year-over-year basis. We believe our increased investment in this business over the past several years is beginning to result in improved financial performance in the segment. Further, we believe the value proposition of our enterprise products is resonating with industry analysts and customers, including Adobe Connect for efficient web-conferencing, and Adobe LiveCycle which makes it easier for people to interact with information through intuitive user experiences, improve efficiencies through business process automation, and enhance customer service through personalized communications management.

In our Omniture business, we maintained strong momentum in the third quarter of fiscal 2010. Driving this success was increased awareness of our Online Marketing Suite value proposition in the marketplace as well as strong bookings performance. The number of Omniture user transactions in the quarter was 1.26 trillion, an increase of 10% year-over-year versus the comparable period of time a year ago.

Our Platform business declined sequentially and year-over-year due to lower revenue from OEM relationships.

Our Print and Publishing business segment grew year-over-year, primarily due to a non-recurring revenue deal as well as the launch of new products, including Adobe eLearning Suite version 2 and Adobe Captivate version 5.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the SEC, we make assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, stock-based compensation, goodwill impairment and income taxes have the greatest potential impact on our Condensed Consolidated Financial Statements. These areas are key components of our results of operations and are based on complex rules which require us to make judgments and estimates, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

With the exception of the discussion below, there have been no significant changes in our critical accounting policies and estimates during the nine months ended September 3, 2010, as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 27, 2009.

Revenue Recognition

We recognize revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collection is probable. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements, we must: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine the fair value of each element using the selling price hierarchy of vendor-specific objective evidence ("VSOE"), third-party evidence ("TPE") or estimated selling price ("ESP"), as applicable; and (4) allocate the total price among the various elements based on the relative selling price method. Changes in assumptions or judgments or changes to the elements in a software arrangement could cause a material increase or decrease in the amount of revenue that we report in a particular period.

In October 2009, the Financial Accounting Standards Board ("FASB") amended the accounting standards for certain multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
  - require an entity to allocate revenue in an arrangement using the best estimated selling price ("BESP") of deliverables if a vendor does not have VSOE of selling price or TPE of selling price; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We elected to early adopt this accounting guidance at the beginning of our fiscal quarter of fiscal 2010 on a prospective basis for applicable transactions originating or materially modified after November 27, 2009.

For multiple element arrangements that contain non-software related elements, for example our software as a service ("SaaS") offerings, we allocate revenue to each non-software element based upon the relative selling price of each and if software and software-related elements are also included in the arrangement, to those elements as a group based on our BESP for the group. When applying the relative selling price method, we determine the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use our BESP for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria is met for each element. The manner in which we account for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with our methodology under previous accounting guidance, we determine VSOE for each element based on historical stand-alone sales to third-parties or from the stated renewal rate for the elements contained in the initial arrangement.

In certain instances, we were not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to us infrequently selling each element separately, not pricing products or services within a narrow range, or only having a limited sales history. When VSOE cannot be established, we attempt to establish the selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our offerings contain significant differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, we typically are not able to obtain TPE of selling price.

When we are unable to establish selling prices using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings.

We determine BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The determination of BESP is made through consultation with and formal approval by our management, taking into consideration our go-to-market strategy.

We regularly review VSOE and have established a review process for TPE and BESP and maintain internal controls over the establishment and updates of these estimates. There was no material impact to revenue during the three and nine months ended September 3, 2010 resulting from changes in VSOE, TPE or BESP, nor do we expect a material impact from such changes in the near term.

Given the nature of our transactions, which are primarily software and software-related, our go-to-market strategies and our pricing practices, total net revenue as reported during the three and nine months ended September 3, 2010 is materially consistent with total net revenue that would have been reported if the transactions entered into or materially modified after November 27, 2009 were subject to previous accounting guidance.

The new accounting standards for revenue recognition, if applied in the same manner to the year ended November 27, 2009, would not have had a material impact on total net revenues for that fiscal year. In terms of the timing and pattern of revenue recognition, the new accounting guidance for revenue recognition is not expected to have a significant effect on total net revenues in periods after the initial adoption. However, we expect that this new accounting guidance will facilitate our efforts to optimize our offerings due to better alignment between the economics of an arrangement and the accounting. This may lead to us to engage in new go-to-market practices in the future. In particular, we expect that the new accounting standards will enable us to better integrate products and services without VSOE into existing offerings and solutions. As these go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and BESP. As a result, our future revenue recognition for multiple element arrangements could differ materially from the results in the current period. Changes in the allocation of the sales price between elements may impact the timing of revenue recognition, but will not change the total revenue recognized on the contract. We are currently unable to determine the impact that the newly adopted accounting principles could have on our revenue as these go-to-market strategies evolve.

In addition to multiple element arrangements, we must estimate certain royalty revenue amounts due to the timing of securing information from our customers. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, our assumptions and judgments regarding future products and services as well as our estimates of royalty revenue could differ from actual events, thus materially impacting our financial position and results of operations.

Product revenue is recognized when the above criteria are met. We reduce the revenue recognized for estimated future returns, price protection and rebates at the time the related revenue is recorded. In determining our estimate for returns and in accordance with our internal policy regarding global channel inventory which is used to determine the level of product held by our distributors on which we have recognized revenue, we rely upon historical data, the estimated amount of product inventory in our distribution channel, the rate at which our product sells through to the end user, product plans and other factors. Our estimated provisions for returns can vary from what actually occurs. Product returns may be more or less than what was estimated. The amount of inventory in the channel could be different than what is estimated. Our estimate of the rate of sell through for product in the channel could be different than what actually occurs. There could be a delay in the release of our products. These factors and unanticipated changes in the economic and industry environment could make our return estimates differ from actual returns, thus materially impacting our financial position and results of operations.

We offer price protection to our distributors that allows for the right to a credit if we permanently reduce the price of a software product. When evaluating the adequacy of the price protection allowance, we analyze historical returns, current sell-through of distributor and retailer inventory of our products, changes in customer demand and acceptance of our products and other related factors. In addition, we monitor the volume of sales to our channel partners and their inventories. Changes to these assumptions or in the economic environment could result in higher returns or higher price protection costs in subsequent periods.

In the future, actual returns and price protection may materially exceed our estimates as unsold products in the distribution channels are exposed to rapid changes in consumer preferences, market conditions or technological obsolescence due to new platforms, product updates or competing products. While we believe we can make reliable estimates regarding these matters, these estimates are inherently subjective. Accordingly, if our estimates change, our returns and price protection reserves would change, which would impact the total net revenue we report.

We recognize revenues for hosting services that are based on a committed number of transactions, including implementation and set-up fees, ratably beginning on the date the customer commences use of our services and continuing through the end of the customer term. Over-usage fees, and fees billed based on the actual number of transactions from which we capture data, are billed in accordance with contract terms as these fees are incurred. We record amounts that have been invoiced in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Our consulting revenue is recognized using the proportionate performance method and a time and materials basis and is measured monthly based on input measures, such as on hours incurred to date compared to total estimated hours to complete, with consideration given to output measures, such as contract milestones, when applicable. Accordingly, our estimates of consulting revenue could differ from actual events and may materially impact our financial position and results of operations.

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RESULTS OF OPERATIONS

Revenue for the Three and Nine Months Ended September 3, 2010 and August 28, 2009 (dollars in millions)

	Three Months 2010		2009		Percent Change		Nine Months 2010		2009		Percent Change	
Product	$829.1		$636.6		30	%	$2,328.3		$2,014.4		16	%
Percentage of total revenue	84	%	91	%			84	%	92	%		
Subscription	98.6		13.3		*		286.4		37.7		*	
Percentage of total revenue	10	%	2	%			10	%	2	%		
Services and support	62.6		47.6		32	%	177.3		136.5		30	%
Percentage of total revenue	6	%	7	%			6	%	6	%		
Total revenue	$990.3		$697.5		42	%	$2,792.0		$2,188.6		28	%

* Percentage is greater than 100%.

As described in Note 17 of our Notes to Condensed Consolidated Financial Statements, we have the following segments: Creative Solutions, Knowledge Worker, Enterprise, Omniture, Platform, and Print and Publishing.

Our subscription revenue is comprised primarily of fees we charge for our hosted service offerings including our hosted online business optimization services. We recognize subscription revenues ratably over the term of agreements with our customers, beginning on the commencement of the service. Of the $98.6 million and $286.4 million in subscription revenue for the three and nine months ended September 3, 2010, respectively, approximately $74.9 million and $225.7 million, respectively, is from our Omniture segment with the remaining amounts representing our other business offerings.

Our services and support revenue is comprised of consulting, training and maintenance and support, primarily related to the licensing of our enterprise, developer and platform products and the sale of our hosted online business optimization services. Our support revenue also includes technical support and developer support to partners and developer organizations related to our desktop products. Our maintenance and support offerings which entitle customers to receive product upgrades and enhancements or technical support, depending on the offering, are recognized ratably over the term of the arrangement.

Segment Information (dollars in millions)

	Three Months 2010		2009		Percent Change		Nine Months 2010		2009		Percent Change	
Creative Solutions	$549.7		$ 400.4		37	%	$1,514.4		$ 1,272.8		19	%
Percentage of total revenue	56	%	57	%			54	%	58	%		
Knowledge Worker	162.6		138.1		18	%	484.5		425.9		14	%
Percentage of total revenue	16	%	20	%			17	%	20	%		
Enterprise	94.2		71.9		31	%	250.8		220.8		14	%
Percentage of total revenue	10	%	10	%			9	%	10	%		
Omniture	91.0		—		*		262.2		—		*	
Percentage of total revenue	9	%	—	%			9	%	—	%		

Platform	40.7	44.9	(9)%	132.7	134.1	(1)%
Percentage of total revenue	4%	7%		5%	6%	
Print and Publishing	52.1	42.2	23%	147.4	135.0	9%
Percentage of total revenue	5%	6%		6%	6%	
Total revenue	$990.3	$ 697.5	42%	$2,792.0	$ 2,188.6	28%

* Percentage is not meaningful.

Revenue from Creative Solutions increased $149.3 million and $241.6 million during the three and nine months ended September 3, 2010, respectively, as compared to the three and nine months ended August 28, 2009. This year-over-year increase was driven by strong licensing of CS4 in the first two quarters of fiscal 2010, as well as strong adoption of CS5 beginning in the second quarter of the fiscal year. For the three and nine months ended September 3, 2010, our Creative Suites related revenue increased 39% and 21%, respectively, and our Photoshop point product revenue increased 37% and 22%, respectively, as compared to the same periods in the prior year. The overall number of units licensed for Creative Solutions increased when compared to the three and nine months ended August 28, 2009. Unit average selling prices decreased during the three months ended September 3, 2010 as compared to the same period in the prior year. Unit average selling prices, excluding large enterprise license agreement ("ELA") deals, remained relatively stable during the nine months ended as compared to the same period in the prior year. Although our overall Creative business was strong during the third quarter of fiscal 2010, we experienced weakness relative to our expectations in Japan as well as our education business in the U.S.

Revenue from Knowledge Worker increased $24.5 million and $58.6 million during the three and nine months ended September 3, 2010, respectively, as compared to the three and nine months ended August 28, 2009. We attribute this success to strength in enterprise licensing of Acrobat and improved economic conditions in certain markets and geographies where we focus on Acrobat adoption. An increase in the number of units licensed, excluding large ELA deals during the three and nine months ended September 3, 2010 also contributed to the increase in revenue. Unit average selling prices, excluding ELA deals, have remained relatively stable for the three and nine months ended September 3 2010, as compared to the three and nine months ended August 28, 2009.

Revenue from Enterprise increased $22.3 million and $30.0 million during the three and nine months ended September 3, 2010, respectively, as compared to the three and nine months ended August 28, 2009. The increase was due to increased adoption of our Connect and LiveCycle products.

We acquired Omniture in the fourth quarter of fiscal 2009, and as such, there is no three and nine months ended August 28, 2009 periods with which to compare Omniture's revenue for three and nine months ended September 3, 2010.

Revenue from Platform decreased $4.2 million and $1.4 million during the three and nine months ended September 3, 2010, respectively, as compared to the three and nine months ended August 28, 2009. The decrease was due to lower developer tool revenue based on the new inclusion of developer tools within some CS5 suites and lower distribution revenue from OEM relationships with companies such as Google, where we offer their technologies as part of the download of Flash Player, Shockwave Player and Reader and generate revenue through successful installations of these technologies.

Revenue from Print and Publishing increased $9.9 million and $12.4 million during the three and nine months ended September 3, 2010, respectively, as compared to the three and nine months ended August 28, 2009. The increase was primarily due to an improved economic environment in certain markets and geographies, the launch of new products, fees received for engineering service and royalties related to PostScript products.

Geographical Information (dollars in millions)

	Three Months		Percent	Nine Months		Percent
	2010	2009	Change	2010	2009	Change
Americas	$502.5	$354.6	42 %	$1,366.1	$998.5	37 %
Percentage of total revenue	51 %	51 %		49 %	46 %	
EMEA	290.9	196.2	48 %	843.7	688.9	22 %
Percentage of total revenue	29 %	28 %		30 %	31 %	
Asia	196.9	146.7	34 %	582.2	501.2	16 %
Percentage of total revenue	20 %	21 %		21 %	23 %	
Total revenue	$990.3	$697.5	42 %	$2,792.0	$2,188.6	28 %

Overall revenue for the three and nine months ended September 3, 2010 increased when compared to the three and nine months ended August 28, 2009, primarily due to the addition of Omniture revenue based on our acquisition of Omniture in the fourth quarter of fiscal 2009, as well as the launch of CS5 in the second quarter of fiscal 2010. Increased revenue in our Knowledge Worker and Enterprise business segments also contributed to the year-over-year growth.

The increase in revenue during the three and nine months ended September 3, 2010 as compared to the three and nine months ended August 28, 2009 in the Americas, EMEA and Asia was attributable to the factors noted above.

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Included in the overall increase in revenue for the three and nine months ended September 3, 2010 as compared to the three and nine months ended August 28, 2009 were impacts associated with foreign currency as shown below:

(in millions)	Three Months	Nine Months
Revenue impact:		
EMEA:		
Euro	$(16.8)	$(1.9)
British pound	(3.5)	(1.7)
Total EMEA	(20.3)	(3.6)
Japanese Yen	5.4	15.4
Australian dollar	1.9	9.9
Total revenue impact	(13.0)	21.7
Hedging impact:		
EMEA	13.0	18.7
Japanese Yen	0.2	0.6
Total hedging impact	13.2	19.3
Total impact	$0.2	$41.0

During the three and nine months ended September 3, 2010, the U.S. dollar strengthened against both the Euro and British pound causing revenue in EMEA measured in U.S. dollars to decrease compared with the same reporting periods last year. Revenue measured in both the Japanese Yen and Australian dollar were favorably impacted as these currencies strengthened against the U.S. dollar. Both our EMEA and Yen currency hedging programs resulted in hedging gains as noted in the table above.

Product Backlog

The actual amount of product backlog at any particular time may not be a meaningful indicator of future business prospects. Shippable backlog is comprised of unfulfilled orders, excluding those associated with new product releases, those pending credit review and those not shipped due to the application of our global inventory policy. We had minimal shippable backlog for the third quarter of fiscal 2010 as compared to shippable backlog for the second quarter of fiscal 2010 of approximately 7% of second quarter fiscal 2010 revenue.

Cost of Revenue for the Three and Nine Months Ended September 3, 2010 and August 28, 2009 (dollars in millions)

	Three Months		Percent	Nine Months		Percent
	2010	2009	Change	2010	2009	Change
Product	$29.1	$40.7	(29)%	$92.3	$139.8	(34)%
Percentage of total revenue	3%	6%		3%	6%	
Subscription	50.5	8.6	*	146.4	24.2	*
Percentage of total revenue	5%	1%		5%	1%	
Services and support	19.5	15.7	24%	57.6	50.4	14%
Percentage of total revenue	2%	2%		2%	2%	
Total cost of revenue	$99.1	$65.0	52%	$296.3	$214.4	38%

* Percentage is greater than 100%.

Product

Cost of product revenue includes product packaging, third-party royalties, excess and obsolete inventory, amortization related to localization costs, purchased intangibles and acquired rights to use technology and the costs associated with the manufacturing of our products.

Cost of product revenue decreased due to the following:

	Percent Change 2009 to 2010 QTD	Percent Change 2009 to 2010 YTD
Amortization of purchased intangibles	(24)%	(22)%
Royalty cost	(6)	(7)
Localization costs related to our product launches	(5)	(8)
Cost of sales	3	4
Excess and obsolete inventory	5	(1)
Various individually insignificant items	(2)	—
Total change	(29)%	(34)%

Amortization of purchased intangibles decreased during the three and nine months ended September 3, 2010, as compared to the three and nine months ended August 28, 2009, primarily due to amortization of approximately $11.6 million and $34.8 million, respectively, associated with the intangible assets purchased through our Macromedia acquisition which were fully amortized at the end of fiscal 2009.

Royalty costs related to obligations to certain key vendors that were incurred during the three and nine months ended August 28, 2009 did not recur during the three and nine months ended September 3, 2010.

The decrease in localization costs was primarily due to CS4 products becoming fully amortized at the end of fiscal 2009, offset in part by the launch of CS5 products during the nine months ended September 3, 2010.

Cost of sales increased primarily due to the associated increase in shrink-wrap shipments as a result of the launch of our CS5 products in the second quarter of fiscal 2010.

Excess and obsolete inventory increased during the three months ended September 3, 2010 primarily due to disposal of obsolete CS4 products. The decrease in excess and obsolete inventory during the nine months ended September 3, 2010 was primarily related to certain localized languages of our CS3 products, which became obsolete and were disposed of during the first quarter of fiscal 2009.

Subscription

Cost of subscription revenue consists of expenses related to operating our network infrastructure, including depreciation expenses and operating lease payments associated with computer equipment, data center costs, salaries and related expenses of network operations, implementation, account management and technical support personnel, amortization of intangible assets and allocated overhead. We enter into contracts with third-parties for the use of their data center facilities and our data center costs largely consist of the amounts we pay to these third-parties for rack space, power and similar items.

Cost of subscription revenue increased during the three and nine months ended September 3, 2010, as compared to the three and six months ended August 28, 2009 as a result of our acquisition of Omniture in the fourth quarter of fiscal 2009 and the addition of its related data center costs. Also included in cost of subscription revenue for the three and nine months ended September 3, 2010 is $14.4 million and $45.0 million, respectively, of amortization expense related to intangible assets acquired in conjunction with this acquisition.

Services and Support

Cost of services and support revenue is primarily comprised of employee-related costs and associated costs incurred to provide consulting services, training and product support.

Cost of services and support revenue increased during the three and nine months ended September 3, 2010, as compared to the three and nine months ended August 28, 2009, primarily due to increases in compensation and related benefits driven by additional headcount as a result of our acquisition of Omniture.

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Operating Expenses for the Three and Nine Months Ended September 3, 2010 and August 28, 2009 (dollars in millions)

Research and Development, Sales and Marketing, and General and Administrative Expenses

The increase in research and development, sales and marketing and general and administrative expenses during the three and nine months ended September 3, 2010 was primarily driven by increases in compensation expense due to additional headcount as a result of our acquisition of Omniture and to higher employee compensation including bonuses based on company performance to date when compared to the three and nine months ended August 28, 2009.

Research and Development

	Three Months 2010	2009	Percent Change	Nine Months 2010	2009	Percent Change
Expenses	$168.3	$ 138.9	21 %	$510.0	$ 427.3	19 %
Percentage of total revenue	17 %	20 %		18 %	20 %	

Research and development expenses consist primarily of salary and benefit expenses for software developers, contracted development efforts, related facilities costs and expenses associated with computer equipment used in software development.

Research and development expenses increased due to the following:

	Percent Change 2009 to 2010 QTD	Percent Change 2009 to 2010 YTD
Compensation associated with incentive compensation and stock-based compensation	15%	14%
Compensation and related benefits associated with headcount growth	2	3
Various individually insignificant items	4	2
Total change	21%	19%

We believe that investments in research and development, including the recruiting and hiring of software developers, are critical to remain competitive in the marketplace and are directly related to continued timely development of new and enhanced products. We will continue to focus on long-term opportunities available in our end markets and make significant investments in the development of our desktop application and server-based software products.

Sales and Marketing

	Three Months 2010	2009	Percent Change	Nine Months 2010	2009	Percent Change
Expenses	$303.2	$ 231.3	31 %	$921.5	$ 724.0	27 %
Percentage of total revenue	31 %	33 %		33 %	33 %	

Sales and marketing expenses consist primarily of salary and benefit expenses, sales commissions, travel expenses and related facilities costs for our sales, marketing, order management and global supply chain management personnel. Sales and marketing expenses also include the costs of programs aimed at increasing revenue, such as advertising, trade shows, public relations and other market development programs. Given the strength of our business during the first half of fiscal 2010, we made additional investments in sales and marketing during the second quarter which is reflected in the table below under marketing spending related to product launches and marketing efforts.

Sales and marketing expenses increased due to the following:

	Percent Change 2009 to 2010 QTD	Percent Change 2009 to 2010 YTD
Compensation associated with incentive compensation and stock-based compensation	15%	14%
Compensation and related benefits associated with headcount growth	4	4
Marketing spending to support overall marketing efforts	4	3
Marketing spending related to product launches and overall marketing efforts to further increase revenue	3	1
Various individually insignificant items	5	5
Total change	31%	27%

General and Administrative

	Three Months 2010	Three Months 2009	Percent Change	Nine Months 2010	Nine Months 2009	Percent Change
Expenses	$102.2	$79.6	28%	$283.2	$224.5	26%
Percentage of total revenue	10%	11%		10%	10%	

General and administrative expenses consist primarily of compensation and benefit expenses, travel expenses and related facilities costs for our finance, facilities, human resources, legal, information services and executive personnel. General and administrative expenses also include outside legal and accounting fees, provision for bad debts, expenses associated with computer equipment and software used in the administration of the business, charitable contributions and various forms of insurance.

General and administrative expenses increased due to the following:

	Percent Change 2009 to 2010 QTD	Percent Change 2009 to 2010 YTD
Compensation associated with incentive compensation and stock-based compensation	13%	12 %
Compensation and related benefits associated with headcount growth	6	6
Professional and consulting fees	4	4
Depreciation and amortization	3	2
Various individually insignificant items	2	2
Total change	28%	26%

Restructuring Charges

	Three Months	Percent	Nine Months	Percent