



# Adobe Systems Incorporated

March, 2013





## Financial Disclaimer

Some of the information discussed today contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For a discussion of the risks and uncertainties, you should review Adobe's SEC filings, including the annual report on Form 10-K for fiscal year 2012 and the quarterly reports on Form 10-Q filed by the company in 2013. In our presentation, we will discuss non-GAAP financial measures. The GAAP financial measures that correspond to such non-GAAP measures, as well as the reconciliation between the two, are available on our website at <http://www.adobe.com/ADBE>.

Adobe does not undertake an obligation to update forward-looking statements.



### Digital Media Growth Drivers

DIGITAL MEDIA

- Reinventing the creative process with Creative Cloud
- Shift to subscriptions
- New customer acquisition
- Mobile content and mobile app creation
- Digital publishing to tablets via app stores

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### Creative Professional Users

Design      Web

Video      Photography

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### Adobe Creative Cloud

- Inspire & be inspired with community features
- Store, share & collaborate
- Design & publish to the web and mobile app stores
- Stay up to date with frequent product enhancements
- Subscribe with lower entry price
- Get the world's best creative tools & services

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### Creative Cloud Delivers The World's Best Creative Tools

- Latest Adobe "magic"
- Newest tablet and mobile content creation features
- New HTML5 authoring and app building solutions
- Ability to adapt content to screen size and device form factors
- Leading digital publishing and video authoring capabilities
- Additional tools such as Lightroom and Acrobat

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### Creative Cloud Delivers Significant Value Beyond CS Desktop Tools

Get the World's Best Tools	Sync, Store & Share	Publish Websites & Apps	Stay a Step Ahead
Download and install Adobe CS desktop tools	Use cloud sync and storage to access files from anywhere Connect and collaborate with other creatives through the Cloud	Publish content to wherever it needs to go Easily deliver and sell apps on smartphones and tablets	Get access to the most up-to-date releases from Adobe that address the ever-changing technology landscape

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### Creative Cloud Delivers Significant Value Beyond the Desktop Tools

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### Creative Cloud Tests, Goals and Initial Results

#### LEARNINGS FROM CS SUBSCRIPTION TESTS\*

- Attracted new users**  
**38%**  
Of subscribers were new to Adobe professional tools
- Migrated users from older versions**  
**76%**  
Of subscribers would not have upgraded without subscription offer

\* 2010-2011 CreativeSuite(CS)subscription test in Australia  
\*\* As of end of Q1 FY13  
\*\*\* Increase in all CS units FY2012 vs. FY2011

#### CREATIVE CLOUD GOALS

- Lower entry price with greater value
- Target new user adoption
- Target the migration of users on older CS versions
- Grow revenue per user per month from ~\$30 to ~\$40

#### CREATIVE CLOUD LATEST RESULTS

- Achieved 479k Paid Members\*\*
- More than 2 Million Free Members\*\*
- Achieved 13% Unit Growth\*\*\*

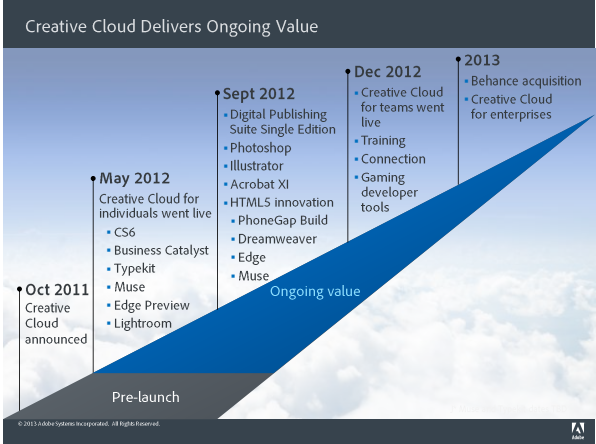
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### Creative Cloud Membership Pricing

	INDIVIDUAL	TEAM
Annual Contract - New Users	\$49.99/month	\$69.99/month
Annual Contract - Upgrade From Perpetual (CS3, CS4, CSS, CSS.5)	\$29.99/month	\$49.99/month
Month to Month	\$74.99/month	N/A

- Creative Cloud for individuals and teams available in 37 countries around the world
- Creative Cloud for education pricing also available
- Creative Cloud for enterprises available in FY2013

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### Measuring Creative Cloud Results with Annualized Recurring Revenue

**Creative Cloud Annualized Recurring Revenue ("ARR")**

$$\begin{aligned}
 & \text{Number of current paid individual and team subscriptions} \times \text{Average monthly revenue per subscription} \times 12 \\
 & + \\
 & \text{Annual contract value of Creative ETLAs} \\
 & = \\
 & \text{Total Creative ARR}
 \end{aligned}$$

### Creative Cloud Momentum

Metric	Q1 FY13	Q4 FY12	Q3 FY12	Q2 FY12
Total paid subscriptions exiting the quarter	479k	326k	194k	100k
Percentage on Annual (vs. month-to-month)	92%	90%	88%	79%
Percentage with full Creative Cloud (vs. point products)	81%	81%	79%	66%
Creative Annualized Recurring Revenue (millions)	\$233	\$153	\$90	\$43

- Added 153 thousand net new subscriptions in Q1 FY2013
- Includes Creative Cloud for individuals and Creative Cloud for teams subscribers
- Excludes enterprise ETLA users

### Publishing Services

#### Adobe Digital Publishing Suite

**PUBLISHING TO TABLETS**

- ~250,000** Digital issues delivered every day to iPads, Kindle Fires and Android tablets
- >77 million** Digital issues delivered since Digital Publishing Suite launched
- ~1750** Digital Publishing Suite Customers

### Media Monetization with End-to-End Video Workflow

#### VIDEO CONTENT CREATION TOOLS

Production Premium

#### DISTRIBUTION & CONTENT PROTECTION

Adobe Media Server

Adobe Access

#### MONETIZATION SERVICES

auditude

Adobe Pass

Adobe Marketing Cloud

### Acrobat Momentum

**5%**  
Y/Y revenue growth in FY2012

**500M**  
PDF files on the Web

**11M**  
Downloads of Reader for Android

Anywhere Access

Document Collaboration

Electronic Signatures

Security & Privacy

## Acrobat XI With Cloud Services

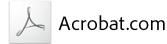


- Completely editable PDF files
- Transform PDFs into reusable Microsoft PowerPoint files
- Simple forms creation and results analysis
- Accelerate document and web contract approvals with electronic signatures
- Touch-enabled on mobile devices
- Improved document security



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## Document Exchange Services



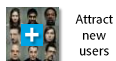
- Cloud-based document productivity services for individuals
- Over 600,000 paid users
- 800 million Adobe Reader installed base opportunity
- Cloud-based web contracting and electronic signature solution for businesses
- 1.4 million contracts processed per month
- Integrated with Adobe Reader and Adobe Acrobat



~\$64 million of ARR exiting Q1 FY13

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## Transforming Our Digital Media Business



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## Digital Marketing Growth Drivers

DIGITAL MARKETING

- Shift of marketing spend to digital
- Re-platforming of the Web
- Demand for Cloud-based solutions
- Multi-channel campaign and social marketing solutions
- International growth

## Key Trends

PERSONALIZED EXPERIENCES

SOCIAL MARKETING

PUBLISHING

ADVERTISING

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## Digital Marketing "Big Data" Powered by Adobe Today

>460 Billion  
Dynamic campaign assets delivered annually

>10 Trillion  
Transactions annually

>27 Petabytes  
Data managed

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### Who We Sell To

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### Adobe Marketing Cloud

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### Adobe Marketing Cloud

- ADOBE ANALYTICS**  
Combines the power of actionable analytics and audience segmentation with value reporting and analysis, and connects it for data driven marketing
- ADOBE EXPERIENCE MANAGER**  
Enables marketers to create, manage, and optimize customized online customer experiences to build brand, drive demand and extend reach in the digital world
- ADOBE TARGET**  
Helps organizations dynamically test and present highly customized experiences to a digital property in order to drive higher conversion rates
- ADOBE SOCIAL**  
Helps organizations measure and manage marketing activities across owned, earned and paid media—ensuring the impact of social is properly attributed
- ADOBE MEDIA OPTIMIZER**  
Combines portfolio and rules based ad management with intelligent campaign forecasting and targeted ad delivery for data optimized advertising

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### Digital Marketing Summary

STRATEGY	MARKET OPPORTUNITY	
Drive Adobe Marketing Cloud bookings growth through solution selling focus		2015 TAM
<b>KEY INITIATIVES</b>		
• Product innovation and integration	Analytics	\$2.0B
• Solution selling	Experience Manager	\$4.5B
• Integration with Creative Cloud	Target	\$1.8B
• International acceleration	Social	\$1.3B
	Media Optimizer	\$2.6B
	<b>~\$12B Addressable Market for Adobe</b>	

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### Digital Media Summary

STRATEGY	MARKET OPPORTUNITY	
Drive Creative Cloud subscriptions and new user acquisition to increase revenue growth and recurring revenue		2015 TAM
<b>KEY INITIATIVES</b>		
• Content creation innovation	Creative Tools	\$4.4B
• Mobile development	Creative Cloud Services	\$2.0B
• Digital publishing	Acrobat/Document Services	\$2.1B
• Creative community		
• Integration with Marketing Cloud		
• Document exchange services		
	<b>~\$8B Addressable Market for Adobe</b>	

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### Progress Against 2011 Financial Analyst Meeting Goals

December 13, 2013

- Over-achieved with adoption of Creative Cloud in FY12
  - Grew total Creative units by 13%, versus a target of 10%
  - Exited the year with 326,000 paid subscriptions and over one million free members
- Anticipate we will complete the bulk of the transition to a Creative subscription model sooner than the previously stated time frame of four years
  - Expect to grow individual and team Creative Cloud paid subscriptions by the end of 2015 to approximately 4 million subscribers
- After FY13, we believe reported revenue from our Creative Cloud and CS product family will achieve a CAGR of over 15% from FY14 through FY16
- On pace to achieve a billion dollar run rate with Adobe Marketing Cloud by the end of 2013, growing 25% in bookings and 20% in reported revenue
- On track to drive 40% of Adobe's overall revenue to be recurring by the end of 2013, one year ahead of our target

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## Q1 FY2013 Highlights March 19, 2013

- Achieved quarterly revenue of \$1.008 billion
- Exited Q1 with 479k paid Creative Cloud subscriptions and \$233 million of Creative Annualized Recurring Revenue ("ARR")
- Grew Adobe Marketing Cloud revenue 20% year-over-year
- Cash flow from operations was \$322 million
- Grew deferred revenue to a record \$700 million
- Exited Q1 with 31% of Q1 revenue as recurring, up from 26% in Q4 FY12

## The New Adobe



### The New Adobe

<b>DIGITAL MEDIA</b> Creative process revolutionized	<b>DIGITAL MARKETING</b> Mission-critical to the marketer
	
<ul style="list-style-type: none"><li>• Create and monetize the world's content</li><li>• Reimagine the creative process through Creative Cloud to drive seat growth</li><li>• Increase % of recurring revenue</li><li>• Expand into publishing and media monetization</li><li>• Transform the impact of digital marketing and build \$1B SaaS business</li></ul>	

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# Adobe Systems Investor Relations Data Sheet

Last Updated: March 19, 2013

	Description	Q1 '11	Q2 '11	Q3 '11	Q4 '11	FY2011	Q1 '12	Q2 '12	Q3 '12	Q4 '12	FY2012	Q1 '13
<b>Revenue</b> (\$Millions)	Total Revenue	1,027.7	1,023.2	1,013.2	1,152.2	4,216.3	1,045.2	1,124.4	1,080.6	1,153.4	4,403.6	1,007.9
<b>Revenue by Segment</b> ((\$Millions)	Digital Media	757.2	749.2	741.8	822.0	3,070.2	724.4	812.5	762.5	802.3	3,101.7	688.4
	Digital Marketing	216.8	220.0	215.8	275.1	927.7	265.8	256.8	263.7	298.8	1,085.1	267.7
	Print & Publishing	53.7	54.0	55.6	55.1	218.4	55.0	55.1	54.4	52.3	216.8	51.8
<b>Revenue by Segment</b> (as % of total revenue)	Digital Media	74%	73%	74%	71%	73%	70%	72%	71%	69%	70%	68%
	Digital Marketing	21%	22%	21%	24%	22%	25%	23%	24%	26%	25%	27%
	Print & Publishing	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
<b>Supplementary Business Unit Data</b> ((\$Millions)	Digital Media											
	Creative ARR*	-	-	-	-	-	-	43	90	153	153	233
	* Creative Annualized Recurring Revenue ("ARR") = [(# of Total Active Creative Cloud Subscriptions) x (Average Revenue Per User Per Month) x 12] + [Annual Creative ETLA Contract Value]											
	Document Services Revenue	184.6	184.3	176.9	203.7	749.5	183.3	206.7	185.5	210.2	785.7	188.2
	Document Services ARR**	-	-	-	-	-	-	-	-	50	50	64
	** Document Services Annualized Recurring Revenue ("ARR") = Annual Acrobat ETLA Contract Value + Document Services Cloud-Based Services ARR											
	Total Digital Media ARR (Creative ARR + Document Services ARR)	-	-	-	-	-	-	-	-	203	203	297
	Digital Marketing											
	Adobe Marketing Cloud Revenue	134.7	145.6	142.0	172.4	594.7	180.2	195.8	199.0	228.8	803.8	215.4
	LiveCycle and Web Conferencing Revenue	82.1	74.4	73.8	102.7	333.0	85.6	61.0	64.7	70.0	281.3	52.3
<b>Revenue by Geography</b> ((\$Millions)	Americas	489.6	492.5	507.6	554.9	2,044.6	503.1	551.3	558.3	583.6	2,196.3	500.3
	EMEA	331.6	311.7	293.1	381.0	1,317.4	330.7	325.0	290.0	348.9	1,294.6	297.5
	Asia	206.5	219.0	212.5	216.3	854.3	211.4	248.1	232.3	220.9	912.7	210.1
<b>Revenue by Geography</b> (as % of total revenue)	Americas	48%	48%	50%	48%	48%	48%	49%	52%	51%	50%	50%
	EMEA	32%	30%	29%	33%	31%	32%	29%	27%	30%	29%	30%
	Asia	20%	22%	21%	19%	21%	20%	22%	21%	19%	21%	20%
<b>Supplementary Cost of Revenue Data</b> ((\$Millions)	Digital Media	29.9	35.6	25.4	34.8	125.7	25.7	41.9	29.7	32.9	130.2	53.7
	Digital Marketing	75.0	73.4	76.6	79.5	304.5	79.5	86.9	86.5	89.8	342.7	98.3
	Print & Publishing	2.7	0.2	2.7	2.1	7.7	3.1	2.1	3.4	2.3	10.9	4.7
	Total	107.6	109.2	104.7	116.4	437.9	108.3	130.9	119.6	125.0	483.8	156.7
<b>Stock-Based and Deferred Compensation Expenses</b> ((\$Millions)	Direct Costs	3.7	4.2	3.9	4.0	15.8	4.5	4.5	4.9	5.6	19.5	5.0
	Research & Development	27.7	26.5	23.4	30.0	107.6	25.8	24.1	30.4	28.7	109.0	32.0
	Sales & Marketing	24.2	29.0	24.2	22.9	100.3	26.0	25.6	29.2	27.6	108.4	30.7
	General & Administrative	16.0	15.2	12.6	18.6	62.4	16.3	16.5	16.2	14.3	63.3	17.4
	Total	71.6	74.9	64.1	75.5	286.1	72.6	70.7	80.7	76.2	300.2	85.1
<b>Other Data</b>	Worldwide Employees	9,503	9,770	10,041	9,925	-	9,963	10,474	10,811	11,144	-	11,196
	Days Sales Outstanding - Trade Receivables	47	51	50	50	-	45	43	48	49	-	44
	Diluted Shares Outstanding	511.3	506.3	498.7	496.3	503.9	500.4	501.4	499.8	502.2	502.7	507.8

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.





## Adobe Systems Investor Relations Data Sheet

Income Statement - Reconciliation of Non-GAAP to GAAP

Last Updated: March 19, 2013

	Description	Q1'11	Q2'11	Q3'11	Q4'11	FY2011	Q1'12	Q2'12	Q3'12	Q4'12	FY2012	Q1'13
<b>GAAP</b> (\$Millions, except EPS)	Revenue	1,027.7	1,023.2	1,013.2	1,152.2	4,216.3	1,045.2	1,124.4	1,080.6	1,153.4	4,403.6	1,007.9
	Cost of revenue	107.6	109.2	104.7	116.4	437.9	108.2	130.9	119.6	125.0	483.7	156.7
	Gross profit	920.1	914.0	908.5	1,035.8	3,778.4	937.0	993.5	961.0	1,028.4	3,919.9	851.2
	Operating expenses	617.7	637.3	634.4	789.7	2,679.1	648.0	688.4	682.7	720.7	2,739.8	753.0
	Operating income	302.4	276.7	274.1	246.1	1,099.3	289.0	305.1	278.3	307.7	1,180.1	98.2
	Non-operating income (expense)	(16.2)	(17.5)	(17.4)	(13.0)	(64.1)	(18.6)	(10.6)	(15.1)	(17.1)	(61.4)	(14.7)
	Income before income taxes	286.2	259.2	256.7	233.1	1,035.2	270.4	294.5	263.2	290.6	1,118.7	83.5
	Provision for income taxes	51.5	29.8	61.6	59.5	202.4	85.2	70.7	61.8	68.3	286.0	18.4
	Net income	234.7	229.4	195.1	173.6	832.8	185.2	223.8	201.4	222.3	832.7	65.1
	Diluted earnings per share	\$ 0.46	\$ 0.45	\$ 0.39	\$ 0.35	\$ 1.65	\$ 0.37	\$ 0.45	\$ 0.40	\$ 0.44	\$ 1.66	\$ 0.13
<b>Adjustments to Reconcile to Non-GAAP</b> (\$Millions)	Cost of revenue											
	Stock-based and deferred compensation	(3.7)	(4.2)	(3.9)	(4.0)	(15.8)	(4.5)	(4.5)	(4.9)	(5.6)	(19.5)	(5.0)
	Amortization of purchased intangibles and technology license arrangements	(15.9)	(15.0)	(13.7)	(16.6)	(61.2)	(16.4)	(18.1)	(18.1)	(18.6)	(71.2)	(44.9)
	Total adjustments to cost of revenue	(19.6)	(19.2)	(17.6)	(20.6)	(77.0)	(20.9)	(22.6)	(23.0)	(24.2)	(90.7)	(49.9)
	Operating expenses											
	Stock-based and deferred compensation	(67.9)	(70.7)	(60.2)	(71.4)	(270.2)	(68.1)	(66.2)	(75.8)	(70.7)	(280.8)	(80.1)
	Restructuring and other related charges	-	0.6	(3.8)	(94.5)	(97.7)	2.8	2.2	(2.4)	0.3	2.9	-
	Amortization of purchased intangibles and technology license arrangements	(10.2)	(10.4)	(10.4)	(11.8)	(42.8)	(11.4)	(12.6)	(12.3)	(12.3)	(48.6)	(12.5)
	Total adjustments to operating expenses	(78.1)	(80.5)	(74.4)	(177.7)	(410.7)	(76.7)	(76.6)	(90.5)	(82.7)	(326.5)	(92.6)
	Non-operating income	(1.6)	(0.1)	1.0	(5.2)	(5.9)	(1.0)	(7.2)	(0.9)	(0.4)	(9.5)	(0.8)
Taxes	32.6	49.1	15.3	34.3	131.3	(2.6)	16.3	22.7	21.0	57.4	28.8	
<b>Non-GAAP</b> (\$Millions, except EPS)	Revenue	1,027.7	1,023.2	1,013.2	1,152.2	4,216.3	1,045.2	1,124.4	1,080.6	1,153.4	4,403.6	1,007.9
	Cost of revenue	88.1	90.1	87.0	95.8	361.0	87.3	108.3	96.6	100.7	392.9	106.7
	Gross profit	939.6	933.1	926.2	1,056.4	3,855.3	957.9	1,016.1	984.0	1,052.7	4,010.7	901.2
	Operating expenses	539.5	556.7	560.1	611.9	2,268.2	571.3	611.7	592.2	638.0	2,413.2	660.5
	Operating income	400.1	376.4	366.1	444.5	1,587.1	386.6	404.4	391.8	414.7	1,597.5	240.7
	Non-operating income (expense)	(17.8)	(17.6)	(16.4)	(18.1)	(69.9)	(19.6)	(17.8)	(16.0)	(17.5)	(70.9)	(15.6)
	Income before income taxes	382.3	358.8	349.7	426.4	1,517.2	367.0	386.6	375.8	397.2	1,526.6	225.1
	Provision for income taxes	84.1	78.9	76.9	93.8	333.7	82.5	87.0	84.6	89.3	343.4	47.2
	Net income	298.2	279.9	272.8	332.6	1,183.5	284.5	299.6	291.2	307.9	1,183.2	177.9
	Diluted earnings per share	\$ 0.58	\$ 0.55	\$ 0.55	\$ 0.67	\$ 2.35	\$ 0.57	\$ 0.60	\$ 0.58	\$ 0.61	\$ 2.35	\$ 0.35
<b>Shares</b>	Diluted shares outstanding	511.3	506.3	498.7	496.3	503.9	500.4	501.4	499.8	502.2	502.7	507.8
<b>Reconciliation of Diluted Earnings Per Share (\$)</b>	GAAP diluted earnings per share	0.46	0.45	0.39	0.35	1.65	0.37	0.45	0.40	0.44	1.66	0.13
	Stock-based and deferred compensation	0.14	0.15	0.13	0.15	0.57	0.15	0.14	0.16	0.15	0.60	0.17
	Restructuring and other charges	-	-	0.01	0.19	0.19	(0.01)	-	-	-	(0.01)	-
	Amortization of purchased intangibles and technology license arrangements	0.05	0.05	0.05	0.06	0.21	0.06	0.06	0.06	0.06	0.24	0.11
	Resolution of an income tax audit	-	-	-	-	-	-	-	-	-	-	-
	Non-operating income (expense)	-	-	-	(0.01)	(0.01)	-	(0.01)	-	-	(0.02)	-
	Income tax adjustments	(0.07)	(0.10)	(0.03)	(0.07)	(0.26)	-	(0.04)	(0.04)	(0.04)	(0.12)	(0.06)
Non-GAAP diluted earnings per share	\$ 0.58	\$ 0.55	\$ 0.55	\$ 0.67	\$ 2.35	\$ 0.57	\$ 0.60	\$ 0.58	\$ 0.61	\$ 2.35	\$ 0.35	
<b>Reconciliation of GAAP to Non-GAAP Operating Margin</b>	GAAP operating margin	29.4%	27.0%	27.1%	21.4%	26.1%	27.6%	27.1%	25.8%	26.7%	26.8%	9.7%
	Stock-based and deferred compensation	7.0%	7.3%	6.3%	6.5%	6.8%	6.9%	6.3%	7.5%	6.6%	6.8%	8.4%
	Restructuring and other charges	-	(0.1%)	0.4%	8.2%	2.3%	(0.3%)	(0.2%)	0.2%	-	(0.1%)	-
	Amortization of purchased intangibles and technology license arrangements	2.5%	2.6%	2.3%	2.5%	2.4%	2.8%	2.8%	2.8%	2.6%	2.8%	5.8%
	Non-GAAP operating margin	38.9%	36.8%	36.1%	38.6%	37.6%	37.0%	36.0%	36.3%	35.9%	36.3%	23.9%

The above results are supplied to provide meaningful supplemental information regarding Adobe's core operating results because such information excludes amounts that are not necessarily related to its core operating results. Adobe uses this non-GAAP financial information in assessing the performance of the Company's ongoing operations, and for planning and forecasting in future periods. This non-GAAP information should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.



## FY2013 Business Segment Classifications

Last Updated: January 25, 2013

	Products		
Digital Media	<b>Creative Cloud</b>	<b>Creative Products</b>	<b>Developer Tools &amp; Services</b>
		After Effects	AIR
	<b>Creative Suites</b>	Audition	Flash Player
	Creative Suite Design Premium/Standard	Dreamweaver	Flex
	Creative Suite Master Collection	Edge	Flash Builder
	Creative Suite Production Premium	Fireworks	Flash Platform Services
	Creative Suite Web Premium	Flash Professional	PhoneGap Build
		Illustrator	Shadow
	<b>Services</b>	InCopy	
	Business Catalyst	InDesign	<b>Tablet Apps</b>
	Digital Publishing	Muse	Ideas
	Typekit	Photoshop / Photoshop Extended	Kuler
		Premiere Pro	Photoshop Touch
	<b>Imaging &amp; Hobbyist Products</b>	Soundbooth	Proto
	Photoshop Elements	Story	Revel
Premiere Elements	Visual Communicator		
Photoshop Express			
Photoshop Lightroom			
<b>Document Services</b>			
Acrobat Suite	Acrobat Standard	Document Exchange Services	
Acrobat.com	Acrobat Pro	EchoSign	
Digital Marketing	<b>Adobe Marketing Cloud</b>		
	<b>Adobe Analytics</b>	<b>Adobe Experience Manager</b>	<b>Adobe Video Solutions</b>
	DataWarehouse	CQ	Access
	Discover	CQ Social Communities	Auditude
	Genesis	CRX	Media Encoder
	Insight	Digital Asset Management	Media Server
	ReportBuilder	LandingPages	Pass for TV Everywhere
	Site Catalyst	Scene7	Video Streaming Service
	<b>Adobe Target</b>	<b>Adobe Media Optimizer</b>	<b>Adobe Social</b>
	Recommendations	AdLens	Social
	Search&Promote	AudienceManager	
	Test&Target	AudienceResearch	
	Test&Target 1:1		
	<b>LiveCycle</b>		
	<b>Document Services</b>	<b>Business Process Management</b>	<b>Other</b>
<i>Forms Automation</i>	LiveCycle Business Activity Monitoring	Central Pro Output Server	
LiveCycle Barcoded Forms	LiveCycle Content Services	Output Pak for mySAP.com	
LiveCycle Forms	LiveCycle Connectors for ECM	Web Output Pak	
LiveCycle Reader Extensions	LiveCycle Process Management		
<i>Document and Information Security</i>			
LiveCycle Digital Signatures	<b>Rich Internet Application Services</b>		
LiveCycle Rights Management	LiveCycle Mosaic		
<i>Communication Management</i>	LiveCycle Data Services		
LiveCycle PDF Generator	LiveCycle Collaboration Services		
LiveCycle Production Print			
LiveCycle Output			
<b>Web Conferencing</b>			
Connect			
Print & Publishing	Authorware	Font Folio	PostScript
	Captivate	FrameMaker	Robohelp
	ColdFusion	Freehand	Shockwave Player
	Contribute	JRun	Technical Communication Suite
	Director	PageMaker	Type
	eLearning Suite	PDF Print Engine	

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.

**Investor Relations Contact**

Mike Saviage  
Adobe Systems Incorporated  
408-536-4416  
[ir@adobe.com](mailto:ir@adobe.com)

**Public Relations Contact**

Jodi Sorensen  
Adobe Systems Incorporated  
408-536-2084  
[jsorensen@adobe.com](mailto:jsorensen@adobe.com)

FOR IMMEDIATE RELEASE

# Adobe Reports Strong Q1 Results

## Adobe Creative Cloud Adoption Accelerates and Adobe Marketing Cloud Achieves 20 Percent Annual Revenue Growth

**SAN JOSE, Calif. — March 19, 2013** — Adobe Systems Incorporated (Nasdaq:ADBE) today reported financial results for its first quarter of fiscal year 2013 ended March 1, 2013.

Adobe® achieved revenue of \$1.008 billion, exceeding its targeted range of \$950 million to \$1 billion. During the quarter, the Company continued to accelerate adoption of Adobe Creative Cloud™ as it migrates to a subscription model in its Digital Media business. Adobe also achieved strong revenue growth with Adobe Marketing Cloud solutions in its Digital Marketing business.

**First Quarter Financial Highlights**

- Diluted earnings per share were \$0.13 on a GAAP-basis, and \$0.35 on a non-GAAP basis.
- Operating income was \$98.2 million and net income was \$65.1 million on a GAAP basis. Operating income was \$240.7 million and net income was \$177.9 million on a non-GAAP basis.
- Cash flow from operations was \$322.0 million.
- Deferred revenue grew by \$80.5 million to a record \$700.0 million.
- Adobe ended Q1 with 479 thousand paid Creative Cloud members, an increase of 153 thousand when compared to the number of members as of the end of Q4 fiscal year 2012.
- Adobe Marketing Cloud achieved quarterly revenue of \$215.4 million, which represents 20 percent year-over-year growth.

A reconciliation between GAAP and non-GAAP results is provided at the end of this press release.

**Executive Quotes**

"Creative Cloud is quickly becoming mainstream, with the overwhelming majority of Creative purchases on Adobe.com now being Creative Cloud subscriptions," said Shantanu Narayan, president and chief executive officer, Adobe. "With Adobe Marketing Cloud, we are the partner of choice for Chief Marketing Officers as we help our customers migrate their businesses online."

"Adoption of Creative Cloud accelerated and we achieved strong Digital Marketing revenue and bookings growth in Q1," said Mark Garrett, executive vice president and chief financial officer, Adobe. "We're building a stronger, more predictable recurring revenue model which will drive higher long-term growth."

**Adobe to Webcast Earnings Conference Call**

Adobe will webcast its first quarter fiscal year 2013 earnings conference call today at 2:00 p.m. Pacific Time from its investor relations website: [www.adobe.com/ADBE](http://www.adobe.com/ADBE). A copy of Adobe management's prepared remarks, including financial targets and conference call slides, has been posted to Adobe's investor relations website in advance of the conference call for reference.

A reconciliation between GAAP and non-GAAP financial targets is also provided on the website.

**Forward-Looking Statements Disclosure**

This press release contains forward-looking statements, including those related to the transition of our business as we migrate to a subscription model, adoption of Creative Cloud, increases in recurring revenue and long-term revenue growth, which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: failure to develop, market and distribute products and services that meet customer requirements, introduction of new products and business models by competitors, failure to successfully manage transitions to new business models and markets, including our increased emphasis on a cloud and subscription strategy, fluctuations in subscription renewal or upgrade rates, continued uncertainty in economic conditions and the financial markets, difficulty in predicting revenue from new businesses and the potential impact on our financial results from changes in our business models, and failure to realize the anticipated benefits of past or future acquisitions.

For a discussion of these and other risks and uncertainties, please refer to Adobe's Annual Report on Form 10-K for the fiscal year ended Nov. 30, 2012.

The financial information set forth in this press release reflects estimates based on information available at this time. These amounts could differ from actual reported amounts stated in Adobe's Quarterly Report on Form 10-Q for our quarter ended March 1, 2013, which Adobe expects to file in March 2013.

Adobe assumes no obligation to, and does not currently intend to, update these forward-looking statements.

**About Adobe Systems Incorporated**

Adobe is changing the world through digital experiences. For more information, visit [www.adobe.com](http://www.adobe.com).

###

**Condensed Consolidated Statements of Income**

(In thousands, except per share data; unaudited)

	Three Months Ended	
	March 1, 2013	March 2, 2012
Revenue:		
Products .....	\$ 675,789	\$ 808,521
Subscription .....	224,266	146,230
Services and support .....	107,818	90,469
Total revenue .....	<u>1,007,873</u>	<u>1,045,220</u>
Cost of revenue:		
Products .....	51,982	25,668
Subscription .....	62,580	48,780
Services and support .....	42,122	33,817
Total cost of revenue .....	<u>156,684</u>	<u>108,265</u>
Gross profit .....	851,189	936,955
Operating expenses:		
Research and development .....	209,638	177,728
Sales and marketing .....	398,033	358,963
General and administrative .....	132,853	102,681
Restructuring charges .....	2	(2,825)
Amortization of purchased intangibles .....	12,439	11,429
Total operating expenses .....	<u>752,965</u>	<u>647,976</u>
Operating income .....	98,224	288,979
Non-operating income (expense):		
Interest and other income (expense), net .....	1,246	(2,785)
Interest expense .....	(16,834)	(16,838)
Investment gains (losses), net .....	848	1,021
Total non-operating income (expense), net .....	<u>(14,740)</u>	<u>(18,602)</u>
Income before income taxes .....	83,484	270,377
Provision for income taxes .....	18,367	85,168
Net income .....	<u>\$ 65,117</u>	<u>\$ 185,209</u>
Basic net income per share .....	<u>\$ 0.13</u>	<u>\$ 0.37</u>
Shares used to compute basic net income per share .....	<u>498,607</u>	<u>494,016</u>
Diluted net income per share .....	<u>\$ 0.13</u>	<u>\$ 0.37</u>
Shares used to compute diluted net income per share .....	<u>507,840</u>	<u>500,378</u>

**Condensed Consolidated Balance Sheets**

(In thousands, except par value; unaudited)

	March 1, 2013	November 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 1,306,382	\$ 1,425,052
Short-term investments .....	2,354,307	2,113,301
Trade receivables, net of allowances for doubtful accounts of \$12,715 and \$12,643, respectively .....	485,801	617,233
Deferred income taxes .....	64,930	59,537
Prepaid expenses and other current assets .....	161,663	116,237
Total current assets .....	4,373,083	4,331,360
Property and equipment, net .....	686,014	664,302
Goodwill .....	4,221,487	4,133,259
Purchased and other intangibles, net .....	580,568	545,036
Investment in lease receivable .....	207,239	207,239
Other assets .....	97,320	93,327
Total assets .....	\$ 10,165,711	\$ 9,974,523
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables .....	\$ 72,725	\$ 49,759
Accrued expenses .....	505,465	590,140
Capital lease obligations .....	22,406	11,217
Accrued restructuring .....	6,767	9,287
Income taxes payable .....	11,126	49,886
Deferred revenue .....	645,834	561,463
Total current liabilities .....	1,264,323	1,271,752
Long-term liabilities:		
Debt and capital lease obligations .....	1,509,003	1,496,938
Deferred revenue .....	54,197	58,102
Accrued restructuring .....	10,053	12,263
Income taxes payable .....	159,859	155,096
Deferred income taxes .....	292,770	265,106
Other liabilities .....	70,168	50,084
Total liabilities .....	3,360,373	3,309,341
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 2,000 shares authorized .....	—	—
Common stock, \$0.0001 par value .....	61	61
Additional paid-in-capital .....	3,116,471	3,038,665
Retained earnings .....	6,808,489	7,003,003
Accumulated other comprehensive income .....	40,110	30,712
Treasury stock, at cost (99,789 and 106,702 shares, respectively), net of re-issuances .....	(3,159,793)	(3,407,259)
Total stockholders' equity .....	6,805,338	6,665,182
Total liabilities and stockholders' equity .....	\$ 10,165,711	\$ 9,974,523

**Condensed Consolidated Statements of Cash Flows**  
(In thousands; unaudited)

	Three Months Ended	
	March 1, 2013	March 2, 2012
Cash flows from operating activities:		
Net income .....	\$ 65,117	\$ 185,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion .....	76,752	69,861
Stock-based compensation expense .....	77,282	61,151
Unrealized investment (gains) losses.....	(418)	(3,168)
Changes in deferred revenue .....	79,514	16,739
Changes in other operating assets and liabilities .....	23,784	(15,429)
Net cash provided by operating activities.....	<u>322,031</u>	<u>314,363</u>
Cash flows from investing activities:		
Purchases, sales and maturities of short-term investments, net .....	(245,775)	(32,418)
Purchases of property and equipment.....	(60,190)	(51,088)
Purchases of long-term investments, intangibles and other assets, net of sales.....	(43,793)	(1,017)
Acquisitions, net of cash .....	(96,356)	(353,184)
Net cash used for investing activities .....	<u>(446,114)</u>	<u>(437,707)</u>
Cash flows from financing activities:		
Purchases of treasury stock .....	(100,000)	(80,000)
Re-issuance of treasury stock.....	88,566	13,366
Proceeds from debt and capital lease obligations.....	25,703	—
Repayment of debt and capital lease obligations.....	(2,507)	(2,264)
Debt issuance costs .....	(357)	(2,297)
Excess tax benefits from stock-based compensation .....	—	2,670
Net cash provided by (used for) financing activities .....	<u>11,405</u>	<u>(68,525)</u>
Effect of exchange rate changes on cash and cash equivalents .....	<u>(5,992)</u>	<u>3,632</u>
Net decrease in cash and cash equivalents .....	(118,670)	(188,237)
Cash and cash equivalents at beginning of period.....	1,425,052	989,500
Cash and cash equivalents at end of period.....	<u>\$ 1,306,382</u>	<u>\$ 801,263</u>

**Non-GAAP Results**

(In thousands, except per share data)

The following tables show Adobe's GAAP results reconciled to non-GAAP results included in this release.

	Three Months Ended		
	March 1, 2013	March 2, 2012	November 30, 2012
Operating income:			
GAAP operating income .....	\$ 98,224	\$ 288,979	\$ 307,765
Stock-based and deferred compensation expense .....	85,086	72,633	76,248
Restructuring charges.....	2	(2,825)	(275)
Amortization of purchased intangibles & technology license arrangements.....	57,377	27,864	30,912
Non-GAAP operating income.....	<u>\$ 240,689</u>	<u>\$ 386,651</u>	<u>\$ 414,650</u>
Net income:			
GAAP net income.....	\$ 65,117	\$ 185,209	\$ 222,333
Stock-based and deferred compensation expense .....	85,086	72,633	76,248
Restructuring charges.....	2	(2,825)	(275)
Amortization of purchased intangibles & technology license arrangements.....	57,377	27,864	30,912
Investment (gains) losses.....	(848)	(1,021)	(351)
Income tax adjustments.....	(28,840)	2,647	(20,962)
Non-GAAP net income.....	<u>\$ 177,894</u>	<u>\$ 284,507</u>	<u>\$ 307,905</u>
Diluted net income per share:			
GAAP diluted net income per share.....	\$ 0.13	\$ 0.37	\$ 0.44
Stock-based and deferred compensation expense .....	0.17	0.15	0.15
Restructuring charges.....	—	(0.01)	—
Amortization of purchased intangibles & technology license arrangements.....	0.11	0.06	0.06
Income tax adjustments.....	(0.06)	—	(0.04)
Non-GAAP diluted net income per share .....	<u>\$ 0.35</u>	<u>\$ 0.57</u>	<u>\$ 0.61</u>
Shares used in computing diluted net income per share.....	507,840	500,378	502,154



## Non-GAAP Results (continued)

	Three Months Ended
	March 1, 2013
Effective income tax rate:	
GAAP effective income tax rate .....	22.0%
Stock-based and deferred compensation expense.....	(0.6)
Amortization of purchased intangibles & technology license arrangements.....	(0.4)
R&D tax benefit for carryover of 2012 tax benefit.....	0.5
One-time charge related to acquisition.....	(0.5)
Non-GAAP effective income tax rate.....	<u>21.0%</u>

Adobe continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Accordingly, Adobe uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. Adobe's management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Adobe's operating results in a manner that focuses on what Adobe believes to be its ongoing business operations. Adobe's management believes it is useful for itself and investors to review, as applicable, both GAAP information that includes the stock-based and deferred compensation expenses, restructuring charges, amortization of purchased intangibles and prior activity in connection with technology license agreements, investment gains and losses and the related tax impact of all of these items, income tax adjustments, the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes, and the non-GAAP measures that exclude such information in order to assess the performance of Adobe's business and for planning and forecasting in subsequent periods. Whenever Adobe uses such a non-GAAP financial measure, it provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.

# Adobe Q2 FY2013 and Fiscal Year 2013 Financial Targets and GAAP to Non-GAAP Reconciliation of Financial Targets

March 19, 2013

This document summarizes the Q2 FY2013 and Fiscal Year 2013 financial targets provided by Adobe on March 19, 2013, and reconciles GAAP to non-GAAP targets.

Q2 FY2013 Targets		
Revenue	\$975 million to \$1.025 billion	
Creative ARR*	~\$340 million	
Document Services ARR	~\$80 million	
Total Digital Media ARR	~\$420 million	
Earnings Per Share	GAAP: \$0.08 to \$0.14	Non-GAAP: \$0.29 to \$0.35

- Targeting Creative ARR of ~\$340 million exiting Q2, based on adding slightly more Creative Cloud paid subscriptions than what was achieved in Q1, with a sequential quarterly increase in the net new number of subscriptions through the year to achieve our 1.25 million subscription target by the end of the fiscal year
- Targeting Document Services ARR of ~\$80 million exiting Q2, up from \$64 million exiting Q1
- Adding Creative ARR plus Document Services ARR yields a total Digital Media ARR exiting Q2 of ~\$420 million

Fiscal Year 2013 Targets		
Revenue	Approximately \$4.1 billion	
Creative ARR	~\$685 million	
Document Services ARR	~\$115 million	
Total Digital Media ARR	~\$800 million	
Earnings Per Share	GAAP: ~\$0.62	Non-GAAP: ~\$1.45

- Expect to exit FY13 with ~1.25 million Creative Cloud subscribers
- Targeting Adobe Marketing Cloud annual revenue growth of over 20%, based on driving over 25% bookings growth

## Calculating Creative Annualized Recurring Revenue ("ARR")\*

<u>Creative Cloud ARR</u>			
Number of current paid individual and team subscriptions	X	Average monthly revenue per subscription	X 12
+			
<u>Annual contract value of Creative ETLAs</u>			
=			
<u>Total Creative Annualized Recurring Revenue ("ARR")</u>			

# Adobe Q2 FY2013 and Fiscal Year 2013 Financial Targets and GAAP to Non-GAAP Reconciliation of Financial Targets

March 19, 2013

## Non-GAAP Financial Targets

(In millions, except per share data)

The following tables show Adobe's second quarter and fiscal year 2013 financial targets reconciled to non-GAAP financial targets included in this document.

	<b>Second Quarter Fiscal 2013</b>	
	<b>Low</b>	<b>High</b>
Diluted net income per share:		
GAAP diluted net income per share .....	\$ 0.08	\$ 0.14
Stock-based and deferred compensation expense.....	0.20	0.20
Amortization of purchased intangibles.....	0.06	0.06
Income tax adjustments .....	<u>(0.05)</u>	<u>(0.05)</u>
Non-GAAP diluted net income per share .....	<u>\$ 0.29</u>	<u>\$ 0.35</u>
Shares used to compute diluted net income per share .....	<u>509.0</u>	<u>507.0</u>

	<b>Three Months Ended May 31, 2013</b>
Effective income tax rate:	
GAAP effective income tax rate .....	22.5%
Stock-based and deferred compensation expense .....	(1.2)
Amortization of purchased intangibles .....	<u>(0.3)</u>
Non-GAAP effective income tax rate .....	<u>21.0%</u>

	<b>Fiscal 2013</b>
Diluted net income per share:	
GAAP diluted net income per share.....	\$ 0.62
Stock-based and deferred compensation expense .....	0.79
Restructuring charges.....	0.01
Amortization of purchased intangibles & technology license arrangements .....	0.24
Income tax adjustments.....	<u>(0.21)</u>
Non-GAAP diluted net income per share.....	<u>\$ 1.45</u>
Shares used to compute diluted net income per share.....	<u>507.0</u>

# Adobe Q2 FY2013 and Fiscal Year 2013 Financial Targets and GAAP to Non-GAAP Reconciliation of Financial Targets

March 19, 2013

## Use of Non-GAAP Financial Information

Adobe continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Accordingly, Adobe uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. Adobe's management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Adobe's operating results in a manner that focuses on what Adobe believes to be its ongoing business operations. Adobe's management believes it is useful for itself and investors to review, as applicable, both GAAP information that includes the stock-based and deferred compensation expenses, restructuring charges, amortization of purchased intangibles and prior activity in connection with technology license arrangements, investment gains and losses and the related tax impact of all of these items, income tax adjustments, the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes, and the non-GAAP measures that exclude such information in order to assess the performance of Adobe's business and for planning and forecasting in subsequent periods. Whenever Adobe uses such a non-GAAP financial measure, it provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.

## Forward-Looking Statements Disclosure

This document contains forward-looking statements, including those related to financial and subscription targets, which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: failure to develop, market and distribute products and services that meet customer requirements, introduction of new products and business models by competitors, failure to successfully manage transitions to new business models and markets, including our increased emphasis on a cloud and subscription strategy, fluctuations in subscription renewal or upgrade rates, continued uncertainty in economic conditions and the financial markets, difficulty in predicting revenue from new businesses and the potential impact on our financial results from changes in our business models, and failure to realize the anticipated benefits of past or future acquisitions.

For a discussion of these and other risks and uncertainties, please refer to Adobe's Annual Report on Form 10-K for the fiscal year ended Nov. 30, 2012.

The financial information set forth in this press release reflects estimates based on information available at this time. These amounts could differ from actual reported amounts stated in Adobe's Quarterly Report on Form 10-Q for our quarter ended March 1, 2013, which Adobe expects to file in March 2013.

Adobe assumes no obligation to, and does not currently intend to, update this forward-looking information.



Adobe Systems Earnings Call  
Q1 FY2013 Results



**MIKE SAVIAGE**



Introduction  
Mike Savage, Vice President of Investor Relations



Good afternoon and thank you for joining us today. Joining me on the call are Adobe’s President and CEO, Shantanu Narayen, as well as Mark Garrett, Executive Vice President and CFO.

In the call today, we will discuss Adobe’s first quarter fiscal year 2013 financial results. By now, you should have a copy of our earnings press release which crossed the wire approximately one hour ago. We’ve also published our earnings call prepared remarks and slides, and a document containing our financial targets on Adobe.com. If you would like a copy of these documents, you can go to the Investor Relations page and find them listed under Quick Links.

Financial Disclaimer

Some of the information discussed in this presentation, particularly our revenue, subscription and operating model targets, and our forward-looking product plans, is based on information as of today, March 19, 2013, and contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements.

For a discussion of these risks and uncertainties, you should review the Forward-Looking Statements Disclosure in our press release issued today, and Adobe's SEC filings, including our annual report on Form 10-K for fiscal 2012, and our quarterly reports filed on Form 10-Q in fiscal 2013.

During this presentation, we will discuss non-GAAP financial measures. The GAAP financial measures that correspond to non-GAAP financial measures, as well as the reconciliation between the two, are available on our [Website](#).



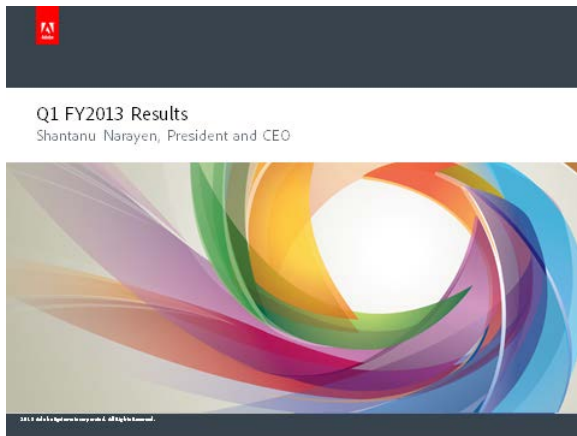
Before we get started, I want to emphasize that some of the information discussed in this call, particularly our revenue, subscription and operating model targets, and our forward-looking product plans, is based on information as of today, March 19<sup>th</sup>, 2013, and contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For a discussion of these risks and uncertainties, you should review the Forward-Looking Statements Disclosure in the earnings press release we issued today, as well as Adobe's SEC filings.

During this call, we will discuss GAAP and non-GAAP financial measures. A reconciliation between the two is available in today's earnings release and on our Investor Relations website in the Investor Datasheet.

Call participants are advised that the audio of this conference call is being broadcast live over the Internet in Adobe Connect, and is also being recorded for playback purposes. An archive of the call will be made available on Adobe's Investor Relations website for approximately 45 days, and is the property of Adobe. The audio and archive may not be re-recorded, or otherwise reproduced or distributed without prior written permission from Adobe.

I will now turn the call over to Shantanu.

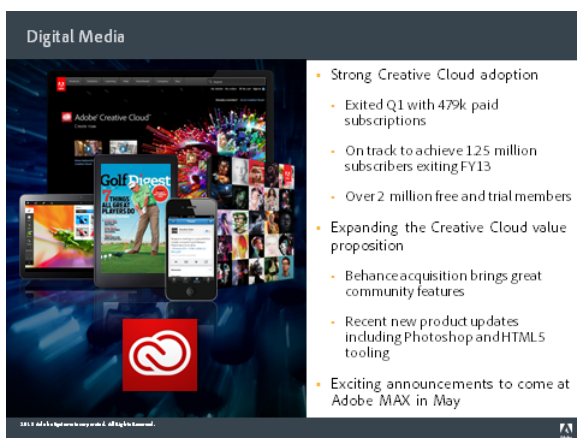
SHANTANU NARAYEN



Thanks Mike and good afternoon.

I am happy to report we delivered revenue of \$1 billion 8 million dollars in Q1, with non-GAAP earnings per share of 35 cents. Both results were above our targeted ranges for the quarter.

Our Q1 results demonstrate we are executing well on our strategy, delivering strong product innovation across our Digital Media and Digital Marketing businesses, and becoming more mission-critical to both our creative and marketing customers.



In Digital Media, we are redefining the creative process with Creative Cloud. We drove strong Creative Cloud adoption in Q1.

We exited the quarter with 479 thousand paid subscriptions, and recently we crossed the half-million mark. With this momentum, we are on track to reach our goal of 1.25 million paid subscriptions by the end of this fiscal year.

Creative Cloud is becoming the go-to destination for creative professionals, satisfying their need to access all their creative tools and services, as well as sync and store their work, and collaborate with their colleagues. Creative Cloud subscription growth is being driven by its attractive pricing as well as frequent product, feature and service enhancements we are providing. The value and rich features of Creative Cloud is also helping us achieve our goal of bringing in new customers.

The buzz about Creative Cloud is increasing and we are seeing significant growth in the number of free Creative Cloud users. We currently have more than 2 million free and trial members, all of whom become a funnel of prospects that we target for conversion to paid subscriptions.

Our Creative Cloud for teams offering was introduced at the end of last year and we are starting to see good traction with it on Adobe.com. We expect to see the same momentum in the channel as we continue to educate our customers and partners on its value proposition.

Larger enterprise customers continue to adopt Enterprise Term License Agreements, or ETLAs. Desktop ETLAs are the first phase of the Creative Cloud for enterprise offering, which will integrate with Digital Publishing Suite and Adobe Marketing Cloud capabilities.

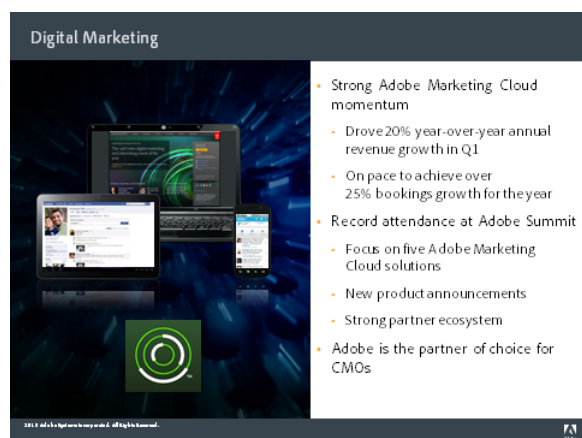
During Q1, we continued to expand the value of our Creative Cloud offering. In December, we announced the acquisition of Behance, the leading online social media platform for creative professionals. Behance is the location of choice for creatives to showcase and share their work. All Creative Cloud members will soon gain access to the basic Behance capabilities, while paid Creative Cloud subscribers will also have access to premium Behance features. The acquisition of Behance accelerates our strategy to bring great community features to Creative Cloud, making it the ultimate destination for creatives worldwide.



Product updates for Creative Cloud members during Q1 included:

- A new Photoshop release, which includes enhancements such as smart object support, new 3D features, improved CSS support, workflow improvements and support for the Apple Retina Display;
- And innovations in our HTML tooling, which include updates to our Edge products and services, and updates to Muse that allow its users to create websites tailored for mobile and tablet experiences.

We have much more innovation coming to Creative Cloud, and we will make some exciting announcements at our MAX conference in May.



The slide is titled "Digital Marketing" and features a dark background with a glowing green circular graphic and several computer monitors displaying various digital marketing tools. To the right of the graphic is a list of key performance indicators and strategic focus areas.

- Strong Adobe Marketing Cloud momentum
- Drove 20% year-over-year annual revenue growth in Q1
- On pace to achieve over 25% bookings growth for the year
- Record attendance at Adobe Summit
- Focus on five Adobe Marketing Cloud solutions
- New product announcements
- Strong partner ecosystem
- Adobe is the partner of choice for CMOs

In Digital Marketing, we continue to be the leader in this exploding category targeting chief marketing officers, chief revenue officers, advertising agencies and publishing executives who are looking to accelerate their shift to digital. We drove strong Q1 performance with 20% year-over-year Adobe Marketing Cloud revenue growth, and are building a healthy pipeline. We are on pace to achieve over 25% Adobe Marketing Cloud bookings growth for the year.

With Adobe Marketing Cloud, we have consolidated our 30 distinct product offerings into five solutions: Analytics, Experience Manager, Target, Media Optimizer and Social.

At Adobe Summit two weeks ago, the largest digital marketing conference in the world, we announced a number of new Adobe Marketing Cloud capabilities, including:

- A new social-enabled touch user interface that surfaces data and insights to marketers and business leaders so they can easily gauge the impact of their marketing dollars, as well as linking with the Creative Cloud and the agency creatives who build and deliver campaigns;
- New mobile phone and tablet capabilities in Adobe Social;
- A Digital Asset Management offering, along with other key upgrades, in Adobe Experience Manager which is enabling customers to re-architect their websites;
- New predictive marketing workflow capabilities in Adobe Analytics, which lets marketers quickly identify and target high value audiences in minutes;
- And a new offering of Adobe Media Optimizer designed for media buying agencies, search engine marketing agencies and direct marketers.

In addition to Summit, where we had record attendance of more than 5,000 people, we held an invitation-only event for CMOs in New York City. This outreach to customers, combined with our ongoing marketing campaigns and the increased focus on our CMO.com web property, is broadly extending Adobe's thought leadership in the Digital Marketing space.

At Summit, our growing ecosystem of partners was evident. We announced a global strategic partnership with Razorfish to jointly create and deliver solutions based on Adobe Marketing Cloud, including integration with their Fluent software. Other key partners showcasing integration with Adobe Marketing Cloud at Summit included Deloitte Digital, ExactTarget, hybris, SapientNitro and Silverpop.

We believe Digital Marketing is a multi-billion dollar category, and as the leader in this space we are on a run-rate to achieve one billion dollars in annual revenue. No other company has the relationships with marketers and the end-to-end value proposition that we do, and we are seeing tremendous interest in our solutions from the marketing community.

We announced that we are integrating the Adobe Marketing Cloud with the Adobe Creative Cloud, a significant move that will enable marketers and agency creatives to easily collaborate on their marketing campaigns.

Overall, Q1 was another quarter of strong execution by our employees, and we enter Q2 with great momentum.

Now, I'll turn the call over to Mark.

**MARK GARRETT**



Thanks Shantanu.

**Q1 FY2013 Results**

Q1 FY2013		
Revenue	\$1.008 billion	
EPS	GAAP: \$0.13	Non-GAAP: \$0.35

**Quarter Highlights**

- Exited Q1 with 479k paid Creative Cloud subscriptions and \$233 million of Creative Annualized Recurring Revenue ("ARR")
- Grew Adobe Marketing Cloud revenue 20% year-over-year
- Grew deferred revenue to a record \$700 million
- Exited Q1 with 31% of Q1 revenue as recurring, up from 26% in Q4 FY12

In the first quarter of fiscal 2013, Adobe achieved revenue of 1 billion 8 million dollars – exceeding our targeted range of 950 million to 1 billion dollars. GAAP diluted earnings per share in Q1 were 13 cents. Non-GAAP diluted earnings per share were 35 cents.

Key business highlights in the quarter included exiting Q1 with 479 thousand paid Creative Cloud subscriptions. This helped drive Creative Annualized Recurring Revenue to a total of \$233 million exiting Q1, an increase of \$80 million versus Q4’s exit of \$153 million.

We grew Adobe Marketing Cloud revenue by 20% year-over-year, and achieved strong bookings growth. Our total deferred revenue grew sequentially by \$80 million to a record \$700 million. We exited the quarter with 31% of our Q1 revenue as recurring, up from 26% in Q4.



The slide is titled "Digital Media Results" and features a central graphic of the Adobe Creative Cloud logo surrounded by a globe of colorful dots. Below the graphic, there is a list of four bullet points. At the bottom left, there is a small copyright notice, and at the bottom right, there is the Adobe logo.

Digital Media Results

Adobe Creative Cloud

- Achieved Q1 Digital Media revenue of \$688 million
- Adoption of Creative Cloud accelerated, with the addition of 153 thousand net new paid subscriptions
- Larger enterprise customers migrating to Enterprise Term License Agreements ("ETLAs")
- ETLAs represent first phase of engaging enterprise customers with Creative Cloud

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Looking at our business segment results, in our Digital Media segment, we achieved revenue of \$688 million. This segment has two major components of revenue: our Creative family of products, and our Document Services products.

In our Creative business, we continued to accelerate adoption of Creative Cloud. During Q1 we added approximately 153 thousand net new paid subscriptions with our Creative Cloud for individuals and teams offerings. Our sales team also continued to migrate enterprise customers to Enterprise Term License Agreements, or ETLAs. ETLAs for enterprise customers are similar to Creative Cloud for individuals in that they are term-based and give customers access to ongoing technology updates, and represents the first phase of migrating enterprise customers to Creative Cloud. As a reminder, our Creative Cloud subscription count excludes ETLA units.

Digital Media Results – Calculating Creative ARR

$$\begin{aligned}
 &\text{Creative Cloud ARR} \\
 &\text{Number of current paid individual and team subscriptions} \times \text{Average monthly revenue per subscription} \times 12 \\
 &+ \\
 &\text{Annual contract value of Creative ETLAs} \\
 &= \\
 &\text{Total Creative Annualized Recurring Revenue ("ARR")}
 \end{aligned}$$



Success with Creative Cloud and ETLA adoption helped to drive Creative Annualized Recurring Revenue, or ARR. Creative ARR is calculated by multiplying the number of current paid subscriptions, by the average monthly revenue per user per month, multiplied by twelve – and adding the annual contract value of Creative product ETLAs.

Digital Media Results – Creative Cloud Metrics

Metric	Q1 FY13	Q4 FY12	Q3 FY12
Total paid subscriptions exiting the quarter (thousands)	479	326	194
Creative ARR (millions)	\$233	\$153	\$90
Percentage on Annual (vs. month-to-month)	92%	90%	88%
Percentage with full Creative Cloud (vs. point products)	81%	81%	79%

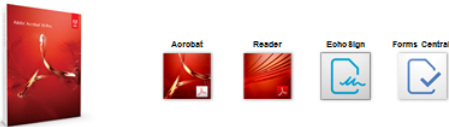
- Added 153,000 net new subscriptions in Q1
- Excludes enterprise ETLA users
- Achieved Creative ARR of \$233 million
- 92% are on Annual plan and 81% have full Creative Cloud offering



Exiting Q1, we had a total of \$233 million of Creative ARR – up from \$153 million exiting Q4, and exceeding our Q1 target of \$215 million.

As of the end of Q1, 92% of Creative Cloud subscribers are on an annual plan, versus month-to-month; and 81% of subscribers are licensed to the full Creative Cloud versus point product subscriptions. Adobe.com remains the preferred way for our customers to engage with us when subscribing to Creative Cloud.

**Digital Media Results – Document Services**



- Achieved Q1 Document Services revenue of \$188 million
- Grew Document Services ARR to \$64 million
- Performance driven by continued adoption of recent Acrobat release, and growth with EchoSign and Acrobat Cloud services

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In Document Services, we achieved year-over-year revenue growth in addition to increasing Document Services ARR from \$50 million exiting Q4 to \$64 million exiting Q1, exceeding our target of \$60 million. Continued adoption of our recent Acrobat release, combined with growth in EchoSign, our electronic contract solution, and Acrobat cloud services, helped drive this performance.

**Digital Marketing Results**

(In millions)

Business Segment	Q1 FY13	Q4 FY12	Q1 FY12
Digital Marketing Segment	\$268	\$299	\$266
Adobe Marketing Cloud	\$215	\$229	\$180
LiveCycle + Web Conferencing	\$52	\$70	\$86

- Adobe Marketing Cloud achieved 20% year-over-year growth
- Analytics growth driven by mobile transactions
- Focus on five Adobe Marketing Cloud solutions is resonating with customers

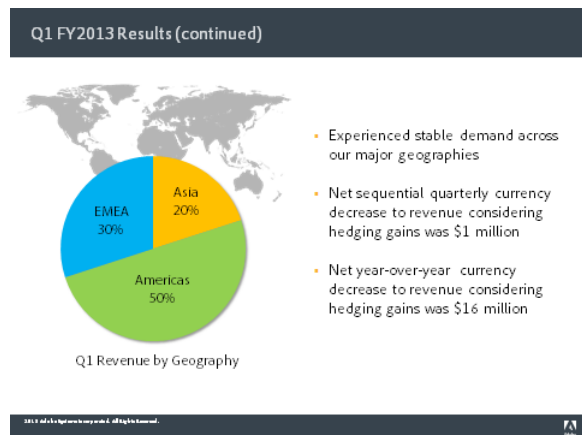
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In our Digital Marketing segment, there are two components. The first is revenue from our Adobe Marketing Cloud offering; and during the quarter, we achieved Adobe Marketing Cloud revenue of \$215 million. This represents year-over-year growth of 20%.

Mobile device use continues to be a driver in the Digital Marketing business; mobile transactions increased to 25%, up from 22% last quarter. Our focus on five solutions in Digital Marketing with a more simplified pricing program is resonating with customers, and increasing the potential to create larger engagements with them.

The second component of our Digital Marketing segment is revenue from the LiveCycle and Connect businesses. LiveCycle and Connect contributed \$52 million in Q1 revenue, which was consistent with our expectations.

Print and Publishing was essentially flat quarter-over-quarter, as expected.



Geographically, we experienced stable demand across our major geographies.


From a currency perspective, quarter-over-quarter FX rate changes had a \$6 million negative impact on reported revenue. Hedging gains contributed \$7 million to revenue in Q1 FY13, versus \$2 million in Q4 FY12, thus the net sequential quarterly currency decrease to revenue considering hedging gains was \$1 million.

Year-over-year, FX rate changes had a \$13 million negative impact on reported revenue. Comparing the \$7 million in Q1 FY13 hedging gains to the \$10 million of hedging gains in Q1 FY12, the net year-over-year currency decrease to revenue considering hedging gains was \$16 million.

In Q1, Adobe’s effective tax rate was 22% on a GAAP basis, and 21% on a non-GAAP basis. Both the GAAP and non-GAAP tax rates were lower than targeted primarily due to the retroactive reinstatement of the U.S. R&D credit in January 2013. Adobe’s GAAP tax rate includes a tax benefit for this credit related to our fiscal 2012, which was essentially offset by tax costs associated with licensing intellectual property. Adobe’s non-GAAP tax rate only includes the tax benefit related to the credit for fiscal 2013.



Q1 FY2013 Results (continued)



- 11,196 employees
- Trade DSO of 44 days
- Cash flow from operations was \$322 million
- Cash and short-term investments of \$3.66 billion
- Repurchased approximately 2.7 million shares

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Employees at the end of Q1 totaled 11,196 versus 11,144 at the end of last quarter.

Our trade DSO was 44 days, which compares to 45 days in the year-ago quarter, and 49 days last quarter.

During the quarter, cash flow from operations was \$322 million. Our ending cash and short-term investment position was \$3.66 billion, compared to \$3.54 billion at the end of Q4.

In Q1 we repurchased approximately 2.7 million shares at a total cost of \$100 million.

Financial Targets  
March 19, 2013

Q2 FY2013 Targets		
Revenue	\$975 million to \$1.025 billion	
Creative ARR*	~\$340 million	
Document Services ARR	~\$80 million	
Total Digital Media ARR	~\$420 million	
Earnings per share	GAAP: \$0.08 - \$0.14	Non-GAAP: \$0.29 - \$0.35

\* Targeted Creative ARR exiting Q2 is based on adding slightly more Creative Cloud paid subscriptions than what was achieved in Q1, with a sequential quarterly increase in the net new number of subscriptions through the year to achieve our 1.25 million subscription target by the end of the fiscal year.

The information discussed in this slide contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially. For a discussion of these risks and uncertainties, you should review Adobe's SEC filings. Please see our [Investor Relations](#) page for more information.

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Now, I will discuss our targets for Q2.

For the second quarter of fiscal 2013, we are targeting a revenue range of \$975 million to \$1 billion 25 million dollars.

In Digital Media we expect to exit Q2 with approximately \$340 million of Creative ARR – up from \$233 million exiting Q1. Our targeted Q2 Creative ARR is based on adding slightly more Creative Cloud paid subscriptions than what was achieved in Q1. We expect a sequential quarterly increase in the net new number of subscriptions through the year, and expect to achieve our 1.25 million subscription target by the end of the fiscal year.

In Document Services, we expect to exit Q2 with approximately \$80 million of Document Services ARR – up from \$64 million in Q1.

Adding targeted Creative ARR and Document Services ARR yields a total Digital Media ARR target exiting Q2 of approximately \$420 million. We expect a sequential quarterly increase in the amount of additional Digital Media ARR through the year to achieve our target of \$800 million exiting the fiscal year. It's worth noting that any Digital Media ARR billed in advance, such as ETLAs, is reflected in deferred revenue on the balance sheet.

Assuming the midpoint of our targeted Q2 revenue range, we expect Digital Media reported revenue to be down sequentially due to continued adoption of Creative Cloud subscription and ETLAs. In our Digital Marketing segment, we continue to target Adobe Marketing Cloud year-over-year reported revenue growth of over 20%. For the rest of our major business areas, we expect reported revenue to be relatively flat quarter-over-quarter.

We are targeting our Q2 share count to be 507 million to 509 million shares. We are targeting net non-operating expense to be between \$17 million and \$19 million on both a GAAP and non-GAAP basis. We are targeting a Q2 GAAP tax rate of 22.5%, and a non-GAAP tax rate of 21%.

These targets yield a Q2 GAAP earnings per share range of 8 cents to 14 cents per share, and a Q2 non-GAAP earnings per share range of 29 cents to 35 cents.

**Financial Targets**  
 March 19, 2013

Fiscal Year 2013 Targets		
Revenue	Approximately \$4.1 billion	
Creative ARR	~\$685 million	
Document Services ARR	~\$115 million	
Total Digital Media ARR	~\$900 million	
Earnings per share	GAAP: ~\$0.62	Non-GAAP: ~\$1.45

- Expect to exit FY13 with ~1.25 million Creative Cloud subscribers
- Targeting Adobe Marketing Cloud annual revenue growth of over 20%, based on driving over 25% bookings growth

The information discussed on this slide contains forward looking statements that involve risk and uncertainty. Actual results may differ materially. For a discussion of these risks and uncertainties, you should review Adobe's SEC filings. Please see our [Web site](#) for a detailed reconciliation between GAAP and non-GAAP figures.

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Given our Q1 results and the benefit of the reinstatement of the R&D Tax Credit, we are increasing our fiscal 2013 earnings per share targets. We are now targeting FY13 GAAP earnings per share of approximately \$0.62 per share, and FY13 non-GAAP earnings per share of approximately \$1.45.

Q1 was a great start to the year, and we are confident this is the main year of transition in our business. Our strategy and our execution show that the company is better positioned than it has ever been.

I'd now like to turn the call back over to Shantanu.

**SHANTANU NARAYEN**



Closing Comments  
Shantanu Narayen, President and CEO



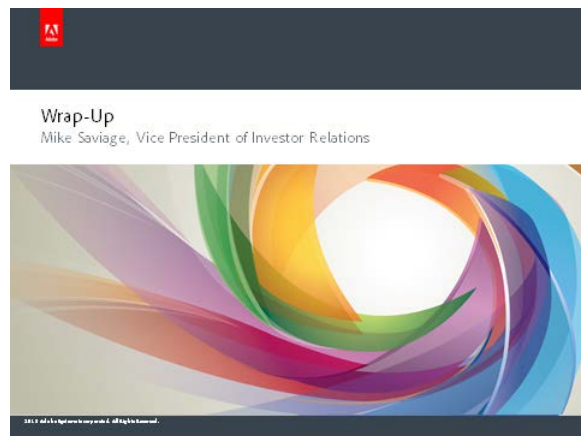
Thanks Mark.

We just spent three days with our customers at our Digital Marketing Summit and their excitement about this business is palpable. As the leader in this category, we are incredibly well positioned to take advantage of this massive opportunity with the Adobe Marketing Cloud.

Creative Cloud momentum continues to build. We are regularly releasing new innovation and are dramatically enhancing and simplifying the creative process for our customers. We encourage you to attend our MAX conference in May, where we will be making some exciting announcements. We look forward to seeing you then.

Mike.

**MIKE SAVIAGE**



Before we begin Q&A I have a few logistics items to go over.

First, for those investors and financial analysts who want to stay current on the latest Adobe news, we encourage you follow Adobe on Twitter, Facebook and YouTube, and to frequently check Adobe’s corporate blogs on [blogs.adobe.com](http://blogs.adobe.com). In addition, [tv.adobe.com](http://tv.adobe.com) is a great resource to learn more about Adobe’s products and solutions, and check out new customer case studies. Adobe’s Investor Relations website provides easy access to these resources. We also use Twitter to highlight news and interesting stories or articles which can help the investment community stay on top of what’s happening. Follow “Adobe\_IR” on Twitter to track what we have to say.


Second, we will send out invitations this week to investors and analysts to attend MAX in May in Los Angeles. On Monday May 6<sup>th</sup>, the first day of MAX, we will host a meeting with Wall Street attendees in the afternoon. This meeting, which we will webcast, will include Shantanu, Mark and David Wadhvani. They will review progress with adoption of Creative Cloud, discuss MAX news, and provide additional information to help analysts model our Creative business. Contact Adobe Investor Relations to get more information for how to attend, and go to [max.adobe.com](http://max.adobe.com) to learn more about the event.

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1-404-537-3406 (International)  
Conference ID #16765134  
Available 4pm PT on March 19, 2013 through 4pm PT on March 22, 2013



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For those who wish to listen to a playback of today’s conference call, a web-based Adobe Connect archive of the call will be available from the IR page on Adobe.com later today. Alternatively, you can listen to a phone replay by calling 855-859-2056; use conference ID #16765134. Again, the number is 855-859-2056 with ID #16765134. International callers should dial 404-537-3406. The phone playback service will be available beginning at 4pm Pacific Time today, and ending at 4pm Pacific Time on Friday March 22<sup>nd</sup>, 2013.



Q&A



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We would now be happy to take your questions. Operator.

Our actual results could differ materially from our forward-looking statements in our comments and in this presentation. Factors that might cause or contribute to such differences include, but are not limited to, those discussed below. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

*If we cannot continue to develop, market and offer new products and services or upgrades or enhancements to existing products and services that meet customer requirements, our operating results could suffer.*

The process of developing new high technology products and services and enhancing existing products and services is complex, costly and uncertain; if we fail to anticipate customers' changing needs and emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. Our inability to extend our core technologies into new applications and new platforms, including the market for mobile, tablet and other IP-connected devices ("non-PC devices"), and to anticipate or respond to technological changes could affect continued market acceptance of our products and services and our ability to develop new products and services. Additionally, any delay in the development, production, marketing or offering of a new product or service or upgrade or enhancement to an existing product or service could cause a decline in our revenues, earnings or stock price and could weaken our competitive position. We maintain strategic relationships with third parties with respect to the distribution of certain of our technologies and the support of certain product functionality. If we are unsuccessful in establishing or maintaining our strategic relationships with these third parties, our ability to compete in the marketplace or to grow our revenues would be impaired and our operating results would suffer.

We offer our PC application-based products primarily on Windows and Macintosh platforms. To the extent that there is a continued slowdown of customer purchases of personal computers on either the Windows or Macintosh platform or in general, to the extent that we have difficulty transitioning product or version releases to new Windows and Macintosh operating systems, or to the extent that significant demand arises for our products or competitive products on other platforms before we choose and are able to offer our products on these platforms, our business could be harmed. To the extent new releases of operating systems, including for non-PC devices, or other third-party products, platforms or devices make it more difficult for our products to perform, and our customers are persuaded to use alternative technologies, our business could be harmed.

*Introduction of new products, services and business models by existing and new competitors could harm our competitive position and results of operations.*

The markets for our products and services are characterized by intense competition, evolving industry standards, emerging business and distribution models, disruptive software and hardware technology developments, frequent new product and service introductions, including limited functionality alternatives available at lower costs or free of charge, short product and service life cycles and price sensitivity on the part of consumers, all of which may result in downward pressure on pricing and gross margins and could adversely affect our renewal and upgrade rates. Our future success will depend on our ability to enhance our existing products and services, introduce new products and services on a timely and cost-effective basis, meet changing customer needs, extend our core technology into new applications, and anticipate and respond to emerging standards, business models, software delivery methods and other technological changes, such as the evolution and emergence of digital application marketplaces as a direct sales and software delivery environment. These digital application marketplaces often have exclusive distribution for certain platforms, which may make it more difficult for us to compete in these markets. If any competing products, services, or operating systems achieve widespread acceptance, our operating results could suffer. In addition, consolidation has occurred among some of the competitors in the markets in which we compete. Further consolidations in these markets may subject us to increased competitive pressures and may therefore harm our results of operations.

For additional information regarding our competition and the risks arising out of the competitive environment in which we operate, see the section entitled "Competition" contained in Item 1 of our FY2012 Annual Report on Form 10-K.

If we fail to successfully manage transitions to new business models and markets, our results of operations could be negatively impacted.

We plan to release numerous new product and service offerings and employ new software delivery methods in connection with our diversification into new business models and markets. It is uncertain whether these strategies will prove successful or whether we will be able to develop the necessary infrastructure and business models more quickly than our competitors. Market acceptance of these new product and service offerings will be dependent on our ability to (1) include functionality and usability in such releases that address certain customer requirements with which our operating history is not extensive, and (2) to optimally price our products in light of marketplace conditions, our costs and consumer demand. Some of these new product and service offerings could subject us to increased risk of legal liability related to the provision of services as well as cause us to incur significant technical, legal or other costs. For example, with our introduction of on-demand or cloud-based services and subscription-based licensing models, such as Creative Cloud, we are entering markets that are not yet fully mature.

Market acceptance of such services is affected by a variety of factors, including security, reliability, performance, social/community engagement, customer concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of laws or regulations that restrict our ability to provide such services to customers in the U.S. or internationally.

Additionally, customer requirements for open standards or open-source products could impact adoption or use of some of our products or services. To the extent we incorrectly predict customer requirements for such products or services, or if there is a delay in market acceptance of such products or services, our business could be harmed.

From time to time we open source certain of our technology initiatives, provide broader open access to our technology, license certain of our technology on a royalty-free basis, and release selected technology for industry standardization. These changes may have negative revenue implications and make it easier for our competitors to produce products or services similar to ours. If we are unable to respond to these competitive threats, our business could be harmed.

We are also devoting significant resources to the development of technologies and service offerings in markets where our operating history is not extensive, including cloud-based computing and non-PC device markets. These new offerings and markets require a considerable investment of technical, financial, compliance and sales resources, and a scalable organization. Many of our competitors may have advantages over us due to their larger presence, larger developer network, deeper experience in the cloud-based computing and non-PC device markets, and greater sales, consulting and marketing resources. If we are unable to successfully establish these new offerings in light of the competitive environment, our results of operations could be negatively impacted.

*The increased emphasis on a cloud strategy may give rise to risks that could harm our business.*

To accelerate the growth of our business, we launched our subscription-based Creative Cloud offering in fiscal 2012. As a result, we expect to derive an increasing portion of our revenues in the future from subscriptions to our creative tools and cloud-based offerings. This subscription model prices and delivers our products in a way that differs from the historical pricing and delivery methods of our creative tools. These changes reflect a shift from perpetual license sales and distribution of our software in favor of providing our customers the right to access certain of our software in a hosted environment or use downloaded software for a specified subscription period. As our customers' purchases trend away from perpetual licenses toward subscriptions, we are experiencing and will continue to experience a deferral of revenues and cash received from customers. This cloud strategy requires continued investment in product development and cloud operations, and may give rise to a number of risks, including the following:

- if new or current customers desire only perpetual licenses, our subscription sales may lag behind expectations;
- the increased emphasis on a cloud strategy may raise concerns among our installed perpetual license customer base;
- we may be unsuccessful in maintaining our target pricing, new seat adoption and projected renewal rates, or we may select a target price that is not optimal and could negatively affect our sales or earnings;
- our revenues are expected to decline over the short term and may decline over the long term as a result of this strategy;
- our shift to a subscription licensing model may result in confusion among our customers, partners, resellers and investors;
- our relationships with existing partners that resell perpetual license products may be damaged; and
- we may incur costs at a higher than forecasted rate as we expand our cloud operations.

*Revenue from our product and service offerings may be difficult to predict.*

As previously discussed, we are devoting significant resources to the development of product and service offerings as well as new distribution models where our operating history is not extensive. As our traditional perpetual license business shifts toward our subscription licensing model, our perpetual license revenue may decline more quickly than anticipated. Under a subscription model, downturns or upturns in sales may not be immediately reflected in our reported financial results. Subscription pricing allows customers to use our products at a lower initial cost when compared to the sale of a perpetual license. Although the subscription model is designed to increase the number of customers who purchase our products and services and create a recurring revenue stream that is more predictable, it creates certain risks related to the timing of revenue recognition and reduced cash flows.

As a result, a portion of the subscription-based revenue we report each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods. A subscription model could also make it difficult for us to rapidly increase our revenues from subscription- or SaaS-based services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term. Further, any



increases in sales under our subscription sales model could result in decreased revenues over the short term if they are offset by a decline in sales from perpetual license customers.

Additionally, in connection with our sales efforts to enterprise customers and our introduction of enterprise term license agreements, a number of factors could make our revenue less predictable, including longer than expected sales and implementation cycles, decisions to open source certain of our technology initiatives, potential deferral of revenue due to multiple-element revenue arrangements and alternate licensing arrangements. If any of our assumptions about revenue from our new businesses or our addition of a subscription-based model prove incorrect, our actual results may vary materially from those anticipated, estimated or projected.

*We may be unable to predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.*

The SaaS business model we utilize in our Adobe Marketing Cloud offerings typically involves selling services on a subscription basis pursuant to service agreements that are generally one to three years in length, our Creative Cloud subscription agreements are generally month to month or one year in length, and subscription agreements for other products and services may provide for shorter or longer terms. Although many of our service and subscription agreements contain automatic renewal terms, our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and some customers elect not to renew. We cannot provide assurance that these subscriptions will be renewed at the same or higher level of service, for the same number of seats or for the same duration of time, if at all. Moreover, under certain circumstances, some of our customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements. We cannot be assured that we will be able to accurately predict future customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors, mergers and acquisitions affecting our customer base, reductions in our customers' spending levels, or declines in consumer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions for our services or if they renew on less favorable terms to us, our revenues may decline.

Our future growth is also affected by our ability to sell additional features and services to our current customers, which depends on a number of factors, including our customers' satisfaction with our services, the prices of our services and general economic conditions. If our efforts to cross-sell and upsell to our customers are unsuccessful, the rate at which our business grows might decline.

*Uncertainty about current and future economic conditions and other adverse changes in general political conditions in any of the major countries in which we do business could adversely affect our operating results.*

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in economic and political conditions, both domestically and globally. Uncertainty about current and future economic and political conditions on us, our customers, suppliers and partners, makes it difficult for us to forecast operating results and to make decisions about future investments. If economic growth in the U.S., Europe and other countries slows or does not improve, or if the U.S., Europe or other countries in which we do business experience further economic recessions, many customers may delay or reduce technology purchases, advertising spending or marketing spending. This could result in reductions in sales of our products and services, longer sales cycles, slower adoption of new technologies and increased price competition. Deterioration in economic conditions in any of the countries in which we do business could also cause slower or impaired collections on accounts receivable, which may adversely impact our liquidity and financial condition.

There could be a number of effects from a financial institution credit crisis on our business, which could include impaired credit availability and financial stability of our customers, including our distribution partners and channels. A disruption in the financial markets may also have an effect on our derivative counterparties and could also impair our banking partners on which we rely for operating cash management. Any of these events would likely harm our business, results of operations and financial condition.

Political instability in any of the major countries in which we do business would also likely harm our business, results of operations and financial condition.

*We may not realize the anticipated benefits of past or future acquisitions, and integration of these acquisitions may disrupt our business and management.*

We have in the past and may in the future acquire additional companies, products or technologies. We acquired Omniture in October 2009, Day Software ("Day") in October 2010 and Efficient Frontier in January 2012, as well as other smaller business and asset acquisitions. We may not realize the anticipated benefits of an acquisition, each of which involves numerous risks. These risks include:

- difficulty in integrating the operations and personnel of the acquired company;

- difficulty in effectively integrating the acquired technologies, products or services with our current technologies, products or services;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- entry into markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges;
- difficulty integrating the acquired company's accounting, management information, human resources and other administrative systems;
- inability to retain personnel of the acquired business;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- inability to take advantage of anticipated tax benefits as a result of unforeseen difficulties in our integration activities;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential additional exposure to fluctuations in currency exchange rates;
- potential impairment of our relationships with employees, customers, partners, distributors or third-party providers of our technologies, products or services;
- potential failure of the due diligence processes to identify significant problems, liabilities or other shortcomings or challenges of an acquired company or technology, including but not limited to, issues with the acquired company's intellectual property, product quality or product architecture, data back-up and security (including security from cyber-attacks), privacy practices, revenue recognition or other accounting practices, employee, customer or partner issues or legal and financial contingencies;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to, claims from terminated employees, customers, former stockholders or other third parties;
- incurring significant exit charges if products or services acquired in business combinations are unsuccessful;
- potential inability to assert that internal controls over financial reporting are effective;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions;
- potential delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product and service offerings; and
- potential incompatibility of business cultures.

Mergers and acquisitions of high technology companies are inherently risky, and ultimately, if we do not complete an announced acquisition transaction or integrate an acquired business successfully and in a timely manner, we may not realize the benefits of the acquisition to the extent anticipated.

*We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.*

In connection with the enforcement of our own intellectual property rights, the acquisition of third-party intellectual property rights, or disputes relating to the validity or alleged infringement of third-party intellectual property rights, including patent rights, we have been, are currently and may in the future be subject to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation are typically very costly and can be disruptive to our business operations by diverting the attention and energies of management and key technical personnel. Although we have successfully defended or resolved past litigation and disputes, we may not prevail in any ongoing or future litigation and disputes. Third-party intellectual property disputes, including those emanating from non-practicing entities, could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various license arrangements and service agreements. In addition, we may incur significant costs in acquiring the necessary third-party intellectual property rights for use in our products. Any of these occurrences could seriously harm our business.

*We may not be able to protect our intellectual property rights, including our source code, from third-party infringers or unauthorized copying, use or disclosure.*

Although we defend our intellectual property rights and combat unlicensed copying, access and use of software and intellectual property through a variety of techniques, preventing unauthorized use or infringement of our rights is inherently difficult. We actively combat software piracy as part of our enforcement of our intellectual property rights, but we nonetheless lose significant revenue due to illegal use of our software. If piracy activities increase, it may further harm our business.

Additionally, we take significant measures to protect the secrecy of our confidential information and trade secrets, including our source code. If unauthorized disclosure of our source code occurs through security breach, attack or otherwise, we could potentially lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third parties to compete with our products by copying functionality, which could adversely affect our revenue and operating margins. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors and partners. However, there is a risk that our confidential information and trade secrets may be disclosed or published without our authorization, and in these situations it may be difficult and/or costly for us to enforce our rights.

*Increasing regulatory focus on privacy issues and expanding laws and regulations could impact our new business models and expose us to increased liability.*

Our new business models are more highly regulated, including for privacy and data security. We are also expanding these new models in countries that have more stringent data protection laws than those in the U.S. With these new business models, our liability exposure, compliance requirements and costs associated with privacy issues will likely increase. Privacy laws globally are changing and evolving. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share or transmit personal data. New laws and industry self-regulatory codes have been enacted and more are being considered that may affect our ability to reach current and prospective consumers, to understand how our products and services are being used, to respond to consumer requests allowed under the laws, and to implement our new business models effectively. These new laws and regulations would similarly affect our competitors as well as our customers. Any perception of our practices or products as an invasion of privacy, whether or not consistent with current regulations and industry practices, may subject us to public criticism, class action lawsuits, reputational harm or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability.

On behalf of certain of our customers using some of our services, we collect and store information derived from the activities of website visitors, which may include anonymous and/or personal information. This enables us to provide such customers with reports on aggregated anonymous or personal information from and about the visitors to their websites in the manner specifically directed by each such individual customer. Federal, state and foreign governments and agencies have adopted or are considering adopting laws regarding the collection, use and disclosure of this information. Our compliance with privacy laws and regulations and our reputation among the public body of website visitors depend on such customers' adherence to privacy laws and regulations and their use of our services in ways consistent with such visitors' expectations. We also rely on representations made to us by customers that their own use of our services and the information they provide to us via our services do not violate any applicable privacy laws, rules and regulations or their own privacy policies. We ask customers to represent to us that they provide their website visitors the opportunity to "opt-out" of the information collection associated with our services, as applicable. We do not formally audit such customers to confirm compliance with these representations. If these representations are false or if such customers do not otherwise comply with applicable privacy laws, we could face potentially adverse publicity and possible legal or other regulatory action. In addition, some countries are considering enacting laws that would expand the scope of privacy-related obligations required of service providers, such as Adobe, that would require additional compliance expense and increased liability.

*Security vulnerabilities in our products and systems could lead to reduced revenues or to liability claims.*

Maintaining the security of our products, computers and networks is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures. In addition, hackers also develop and deploy viruses, worms and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Additionally, outside parties may attempt to fraudulently induce our employees or users of our products to disclose sensitive information in order to gain access to our data or our customers' data. These potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability or fines for us, damage our brand and reputation or otherwise harm our business.

Although these are industry-wide problems that affect computers and products across all platforms, they affect our products in particular because hackers tend to focus their efforts on the most popular operating systems and programs and we expect them to continue to do so. Critical vulnerabilities may be identified in certain of our applications. These vulnerabilities could cause such applications to crash and could potentially allow an attacker to take control of the affected system, which could result in liability to us or limit our ability to conduct our business and deliver our products and services to customers. We devote significant resources to address security vulnerabilities through engineering more secure products, enhancing security and reliability features in our products and systems, code hardening, conducting rigorous penetration tests, deploying security updates to address security vulnerabilities and improving our incident response time. The cost of these steps could reduce our

operating margins. Despite these efforts, actual or perceived security vulnerabilities in our products and systems may lead to claims against us and harm our reputation, and could lead some customers to seek to return products, to stop using certain services, to reduce or delay future purchases of products or services, or to use competing products or services. Customers may also increase their expenditures on security measures designed to protect their existing computer systems from attack, which could delay adoption of new technologies. Further, if we or our customers are subject to an attack, or our technology is utilized in a third-party attack, it may be necessary for us to take certain measures and make certain expenditures to take appropriate responsive and preventative steps. Any of these actions by customers could adversely affect our revenues.

*Some of our lines of business rely on us or our third-party service providers to host and deliver services and data, and any interruptions or delays in these hosted services, security or privacy breaches, or failures in data collection could expose us to liability and harm our business and reputation.*

Some of our lines of business and services, including our online store at adobe.com, our Creative Cloud offering, our hosted Digital Media offerings and our Adobe Marketing Cloud offerings, rely on services hosted and controlled directly by us or by third parties. Because we hold large amounts of customer data, some of which is hosted in third-party facilities, a security incident may compromise the confidentiality, integrity or availability of customer data. Unauthorized access to customer data may be obtained through break-ins, breach of our secure network by an unauthorized party, employee theft or misuse, or other misconduct. It is also possible that unauthorized access to customer data may be obtained through inadequate use of security controls by customers. While our products and services provide and support strong password controls, IP restriction and account controls, their use is controlled by the customer. As such, this could allow accounts to be created with weak passwords, which could result in allowing an attacker to gain access to customer data. Additionally, failure by customers to remove accounts of their own employees, or granting of accounts by the customer in an uncontrolled manner, may allow for access by former or unauthorized customer employees. If there were ever an inadvertent disclosure of personal information, or if a third party were to gain unauthorized access to the personal information we possess on behalf of our customers, our operations could be disrupted, our reputation could be harmed and we could be subject to claims or other liabilities. In addition, such perceived or actual unauthorized disclosure of the information we collect or breach of our security could damage our reputation, result in the loss of customers and harm our business.

Because of the large amount of data that we collect and manage on behalf of our customers, it is possible that hardware or software failures or errors in our systems (or those of our third-party service providers) could result in data loss or corruption or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. Furthermore, our ability to collect and report data may be delayed or interrupted by a number of factors, including access to the internet, the failure of our network or software systems, security breaches or significant variability in visitor traffic on customer websites. In addition, computer viruses may harm our systems causing us to lose data, and the transmission of computer viruses could expose us to litigation. We may also find, on occasion, that we cannot deliver data and reports to our customers in near real time because of a number of factors, including significant spikes in consumer activity on their websites or failures of our network or software. We may be liable to our customers for damages they may incur resulting from these events, such as loss of business, loss of future revenues, breach of contract or for the loss of goodwill to their business. In addition to potential liability, if we supply inaccurate information or experience interruptions in our ability to capture, store and supply information in near real time or at all, our reputation could be harmed and we could lose customers.

*Failure to manage our sales and distribution channels and third-party customer service and technical support providers effectively could result in a loss of revenue and harm to our business.*

A significant amount of our revenue for application products is from one distributor, Ingram Micro, Inc., which represented 11% of our net revenue for fiscal 2012. We have multiple non-exclusive, independently negotiated distribution agreements with Ingram Micro and its subsidiaries covering our arrangements in specified countries and regions. Each of these contracts has an independent duration, is independent of any other agreement (such as a master distribution agreement) and any termination of one agreement does not affect the status of any of the other agreements. In fiscal 2012, no single agreement with this distributor was responsible for over 5% of our total net revenue. If any one of our agreements with this distributor were terminated, we believe we could make arrangements with new or existing distributors to distribute our products without a substantial disruption to our business; however, any prolonged delay in securing a replacement distributor could have a negative short-term impact on our results of operations.

Successfully managing our indirect channel efforts to reach various potential customer segments for our products and services is a complex process across the broad range of geographies where we do business. Our distributors and other channel partners are independent businesses that we do not control. Notwithstanding the independence of our channel partners, we face potential legal risk and reputational harm from the activities of these third parties including, but not limited to, export control violations, workplace conditions, corruption and anti-competitive behavior. Although we have undertaken efforts to reduce these third-party risks, they remain present. We cannot be certain that our distribution channel will continue to market or sell our products effectively. If our distribution channel is not successful, we may lose sales opportunities, customers and revenues.

Our distributors also sell our competitors' products, and if they favor our competitors' products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products through our OEM channel, and if our OEMs decide not to bundle our applications on their devices, our results could suffer.

In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Some of these distributors may be adversely impacted by changes to our business model and practices, such as our launch of Creative Cloud, including our release of Creative Cloud offerings for teams and enterprises, or unable to withstand adverse changes in current economic conditions, which could result in insolvency and/or the inability of such distributors to obtain credit to finance purchases of our products. In addition, weakness in the end-user market could further negatively affect the cash flows of our distributors who could, in turn, delay paying their obligations to us, which would increase our credit risk exposure. Our business could be harmed if the financial condition of some of these distributors substantially weakened and we were unable to timely secure replacement distributors.

We also sell certain of our products and services through our direct sales force. Risks associated with this sales channel include longer sales and collection cycles associated with direct sales efforts, challenges related to hiring, retaining and motivating our direct sales force, and substantial amounts of training for sales representatives, including regular updates to cover new and upgraded systems, products and services. Moreover, our recent hires and sales personnel added through our recent business acquisitions may not become as productive as we would like, as in most cases it takes a significant period of time before they achieve full productivity. Our business could be seriously harmed if these expansion efforts do not generate a corresponding significant increase in revenues and we are unable to achieve the efficiencies we anticipate. In addition, the loss of key sales employees could impact our relationships and future ability to sell to certain of these accounts covered by such employees.

We also provide products and services, directly and indirectly, to a variety of governmental entities, both domestically and internationally. Risks associated with licensing and selling products and services to governmental entities include longer sales cycles associated with selling to diverse governmental entities, varying governmental budgeting processes and timelines and adherence to potentially complex specific procurement regulations and other requirements. Ineffectively managing these risks could result in the potential assessment of penalties and fines, harm to our reputation and lost sales opportunities to such governmental entities.

We outsource a substantial portion of our customer service and technical support activities to third-party service providers. We rely heavily on these third-party customer service and technical support representatives working on our behalf and we expect to continue to rely heavily on third parties in the future. This strategy provides us with lower operating costs and greater flexibility, but also presents risks to our business, including the possibilities that we may not be able to influence the quality of support that we provide as directly as we would be able to do in our own company-run call centers, and that our customers may react negatively to providing information to, and receiving support from, third-party organizations, especially if based overseas. If we encounter problems with our third-party customer service and technical support providers, our reputation may be harmed and our revenue may be adversely affected.

*Catastrophic events may disrupt our business.*

We are a highly automated business and rely on our network infrastructure and enterprise applications, internal technology systems and our website for our development, marketing, operational, support, hosted services and sales activities. In addition, some of our businesses rely on third-party hosted services and we do not control the operation of third-party data center facilities serving our customers from around the world, which increases our vulnerability. A disruption, infiltration or failure of these systems or third-party hosted services in the event of a major earthquake, fire, flood, power loss, telecommunications failure, software or hardware malfunctions, cyber-attack, war, terrorist attack or other catastrophic event could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data and could prevent us from fulfilling our customers' orders. Our corporate headquarters, a significant portion of our research and development activities, certain of our data centers and certain other critical business operations are located in the San Francisco Bay Area, and additional facilities where we conduct significant operations are located in the Salt Lake Valley Area, both of which are near major earthquake faults. We have developed certain disaster recovery plans and backup systems to reduce the potentially adverse effect of such events, but a catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected.

*Net revenue, margin or earnings shortfalls or the volatility of the market generally may cause the market price of our stock to decline.*

The market price for our common stock has experienced significant fluctuations and may continue to fluctuate significantly. A number of factors may affect the market price for our common stock, including:

- shortfalls in our revenue, margins, earnings or key performance metrics;

- confusion on the part of industry analysts and investors about the long-term impact to our business resulting from our subscription offerings;
- shortfalls in the number of paid, active Creative Cloud subscribers and ARR;
- changes in estimates or recommendations by securities analysts;
- the announcement of new products, product enhancements or service introductions by us or our competitors;
- seasonal variations in the demand for our products and services and the implementation cycles for our new customers;
- the loss of a large customer or our inability to increase sales to existing customers and attract new customers;
- variations in our or our competitors' results of operations, changes in the competitive landscape generally and developments in our industry; and
- unusual events such as significant acquisitions, divestitures, litigation, general socio-economic, regulatory, political or market conditions and other factors, including factors unrelated to our operating performance.

*We are subject to risks associated with compliance with laws and regulations globally which may harm our business.*

We are a global company subject to varied and complex laws, regulations and customs domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, data and transaction processing security, records management, employee data privacy, user-generated content hosted on websites we operate, corporate governance, employee and third-party complaints, gift policies, conflicts of interest, employment and labor relations laws, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict. Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. We incur additional legal compliance costs associated with our global operations and could become subject to legal penalties if we fail to comply with local laws and regulations in U.S. jurisdictions or in foreign countries, which laws and regulations may be substantially different from those in the U.S. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us such as the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices that violate such U.S. laws may be customary, will not take actions in violation of our internal policies. Any such violation, even if prohibited by our internal policies, could have an adverse effect on our business.

As a global business that generates approximately 50% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:

- foreign currency fluctuations;
- changes in government preferences for software procurement;
- international economic, political and labor conditions;
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;
- unexpected changes in, or impositions of, legislative or regulatory requirements;
- failure of laws to protect our intellectual property rights adequately;
- inadequate local infrastructure and difficulties in managing and staffing international operations;
- delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions;
- the imposition of governmental economic sanctions on countries in which we do business or where we plan to expand our business;
- transportation delays;
- operating in locations with a higher incidence of corruption and fraudulent business practices; and
- other factors beyond our control, including terrorism, war, natural disasters and pandemics.

If sales to any of our customers outside of the Americas are delayed or canceled because of any of the above factors, our revenue may be negatively impacted.

In addition, approximately 48% of our employees are located outside the U.S. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll and other taxes, which likely would have a direct impact on our operating costs. We also intend to continue expansion of our international operations and international sales and marketing activities. Expansion in international markets has required, and will continue to require, significant

management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets, and our revenues may not increase to offset these expected increases in costs and operating expenses, which would cause our results to suffer.

*We may incur losses associated with currency fluctuations and may not be able to effectively hedge our exposure.*

Our operating results are subject to fluctuations in foreign currency exchange rates. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We have established a hedging program to partially hedge our exposure to foreign currency exchange rate fluctuations for various currencies. If the foreign currency hedging markets are negatively affected by clearing and trade execution regulations imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the cost of hedging our foreign exchange exposure could increase.

We regularly review our hedging program and make adjustments as necessary based on the judgment factors discussed above. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

*We have issued \$1.5 billion of notes in a debt offering and may incur other debt in the future, which may adversely affect our financial condition and future financial results.*

In the first quarter of fiscal 2010, we issued \$1.5 billion in senior unsecured notes. We also have a \$1.0 billion revolving credit facility, which is currently undrawn. Although we have no current plans to request any advances under this credit facility, we may use the proceeds of any future borrowing for general corporate purposes, or for future acquisitions or expansion of our business.

This debt may adversely affect our financial condition and future financial results by, among other things:

- requiring the dedication of a portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our senior unsecured notes and revolving credit facility impose restrictions on us and require us to maintain compliance with specified covenants. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the lenders or noteholders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility could increase. Downgrades in our credit ratings could also restrict our ability to obtain additional financing in the future and could affect the terms of any such financing.

*Changes in, or interpretations of, accounting principles could have a significant impact on our financial position and results of operations.*

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions.

For example, the U.S.-based Financial Accounting Standards Board ("FASB") is currently working together with the International Accounting Standards Board ("IASB") on several projects to further align accounting principles and facilitate more comparable financial reporting between companies who are required to follow GAAP under SEC regulations and those who are required to follow International Financial Reporting Standards outside of the U.S. These efforts by the FASB and IASB may result in different accounting principles under GAAP that may result in materially different financial results for us in areas including, but not limited to, principles for recognizing revenue and lease accounting.

*If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.*

Under GAAP, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. GAAP requires us to test for goodwill impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, future cash flows and slower growth rates in our industry. We may be required to record a

significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in an impact on our results of operations.

*Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.*

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. In addition to providing for U.S. income taxes on earnings from the United States, we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the United States. While we do not anticipate changing our intention regarding permanently reinvested earnings, if certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items and to earnings considered as permanently reinvested in foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in, or our interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of our deferred tax assets and liabilities.

In addition, we are subject to the continual examination of our income tax returns by the Internal Revenue Service ("IRS") and other domestic and foreign tax authorities, including a current examination by the IRS of our fiscal 2008 and 2009 tax returns. These examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from the current examinations. We believe such estimates to be reasonable; however, there can be no assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

*If we are unable to recruit and retain key personnel our business may be harmed.*

Much of our future success depends on the continued service and availability of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel across all levels of our organization. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense in many areas where our employees are located. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed. Effective succession planning is also a key factor for our long-term success. Our failure to enable the effective transfer of knowledge and facilitate smooth transitions with regards to our key employees could adversely affect our long-term strategic planning and execution.

We believe that a critical contributor to our success to date has been our corporate culture, which we have built to foster innovation and teamwork. As we grow, including from the integration of employees and businesses acquired in connection with our previous or future acquisitions, we may find it difficult to maintain important aspects of our corporate culture which could negatively affect our ability to retain and recruit personnel and otherwise adversely affect our future success.

*Our investment portfolio may become impaired by deterioration of the capital markets.*

Our cash equivalent and short-term investment portfolio as of November 30, 2012 consisted of corporate bonds and commercial paper, foreign government securities, money market mutual funds and repurchase agreements, municipal securities, time deposits, U.S. agency securities and U.S. Treasury securities. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of November 30, 2012, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.