UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 2, 2022
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from__________to__________

Commission File Number: 0-15175

ADOBE INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0019522**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

345 Park Avenue, San Jose, California 95110-2704
(Address of principal executive offices and zip code)

(408) 536-6000
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	ADBE	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of September 23, 2022, 464.9 million shares of the registrant’s common stock, $0.0001 par value per share, were issued and outstanding.

ADOBE INC.
FORM 10-Q

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PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADOBE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value)

		September 2, 2022 (Unaudited)		December 3, 2021 (*)
ASSETS				
Current assets:				
Cash and cash equivalents	$	3,870	$	3,844
Short-term investments		1,894		1,954
Trade receivables, net of allowances for doubtful accounts of $24 and $16, respectively		1,723		1,878
Prepaid expenses and other current assets		1,002		993
Total current assets		8,489		8,669
Property and equipment, net		1,858		1,673
Operating lease right-of-use assets, net		414		443
Goodwill		12,756		12,668
Other intangibles, net		1,548		1,820
Deferred income taxes		799		1,085
Other assets		880		883
Total assets	$	26,744	$	27,241
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Trade payables	$	316	$	312
Accrued expenses		1,629		1,736
Debt		500		—
Deferred revenue		4,829		4,733
Income taxes payable		76		54
Operating lease liabilities		88		97
Total current liabilities		7,438		6,932
Long-term liabilities:				
Debt		3,627		4,123
Deferred revenue		114		145
Income taxes payable		510		534
Deferred income taxes		3		5
Operating lease liabilities		426		453
Other liabilities		253		252
Total liabilities		12,371		12,444
Stockholders' equity:				
Preferred stock, $0.0001 par value; 2 shares authorized; none issued		—		—
Common stock, $0.0001 par value; 900 shares authorized; 601 shares issued; 467 and 475 shares outstanding, respectively		—		—
Additional paid-in-capital		9,548		8,428
Retained earnings		27,158		23,905
Accumulated other comprehensive income (loss)		(224)		(137)
Treasury stock, at cost (134 and 126 shares, respectively)		(22,109)		(17,399)
Total stockholders' equity		14,373		14,797
Total liabilities and stockholders' equity	$	26,744	$	27,241

(*) The condensed consolidated balance sheet as of December 3, 2021 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 2, 2022	September 3, 2021	September 2, 2022	September 3, 2021
Revenue:				
Subscription	$ 4,128	$ 3,657	$ 12,156	$ 10,761
Product	126	119	417	427
Services and other	179	159	508	487
Total revenue	4,433	3,935	13,081	11,675
Cost of revenue:				
Subscription	413	344	1,216	996
Product	8	10	27	29
Services and other	125	113	354	333
Total cost of revenue	546	467	1,597	1,358
Gross profit	3,887	3,468	11,484	10,317
Operating expenses:				
Research and development	775	651	2,214	1,883
Sales and marketing	1,266	1,068	3,671	3,190
General and administrative	319	265	879	811
Amortization of intangibles	43	43	127	132
Total operating expenses	2,403	2,027	6,891	6,016
Operating income	1,484	1,441	4,593	4,301
Non-operating income (expense):				
Interest expense	(28)	(27)	(84)	(85)
Investment gains (losses), net	(6)	7	(23)	20
Other income (expense), net	6	(3)	5	1
Total non-operating income (expense), net	(28)	(23)	(102)	(64)
Income before income taxes	1,456	1,418	4,491	4,237
Provision for income taxes	320	206	911	648
Net income	$ 1,136	$ 1,212	$ 3,580	$ 3,589
Basic net income per share	$ 2.42	$ 2.54	$ 7.60	$ 7.51
Shares used to compute basic net income per share	469	477	471	478
Diluted net income per share	$ 2.42	$ 2.52	$ 7.57	$ 7.45
Shares used to compute diluted net income per share	469	481	473	481

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 2, 2022	September 3, 2021	September 2, 2022	September 3, 2021
	Increase/(Decrease)		Increase/(Decrease)	
Net income	$ 1,136	$ 1,212	$ 3,580	$ 3,589
Other comprehensive income (loss), net of taxes:				
Available-for-sale securities:				
Unrealized gains / losses on available-for-sale securities	(6)	(1)	(35)	(4)
Derivatives designated as hedging instruments:				
Unrealized gains / losses on derivative instruments	107	12	193	5
Reclassification adjustment for realized gains / losses on derivative instruments	(47)	5	(89)	26
Net increase (decrease) from derivatives designated as hedging instruments	60	17	104	31
Foreign currency translation adjustments	(83)	(26)	(156)	—
Other comprehensive income (loss), net of taxes	(29)	(10)	(87)	27
Total comprehensive income, net of taxes	$ 1,107	$ 1,202	$ 3,493	$ 3,616

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

	Three Months Ended September 2, 2022							
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at June 3, 2022	601	$ —	$ 9,102	$ 26,022	$ (195)	(130)	$ (20,944)	$ 13,985
Net income	—	—	—	1,136	—	—	—	1,136
Other comprehensive income (loss), net of taxes	—	—	—	—	(29)	—	—	(29)
Re-issuance of treasury stock under stock compensation plans	—	—	68	—	—	1	35	103
Repurchases of common stock	—	—	—	—	—	(5)	(1,200)	(1,200)
Stock-based compensation	—	—	378	—	—	—	—	378
Balances at September 2, 2022	601	$ —	$ 9,548	$ 27,158	$ (224)	(134)	$ (22,109)	$ 14,373

	Three Months Ended September 3, 2021							
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at June 4, 2021	601	$ —	$ 7,877	$ 21,538	$ (121)	(124)	$ (15,442)	$ 13,852
Net income	—	—	—	1,212	—	—	—	1,212
Other comprehensive income (loss), net of taxes	—	—	—	—	(10)	—	—	(10)
Re-issuance of treasury stock under stock compensation plans	—	—	52	—	—	1	29	81
Repurchases of common stock	—	—	—	—	—	(2)	(1,000)	(1,000)
Stock-based compensation	—	—	280	—	—	—	—	280
Value of shares in deferred compensation plan	—	—	—	—	—	—	(1)	(1)
Balances at September 3, 2021	601	$ —	$ 8,209	$ 22,750	$ (131)	(125)	$ (16,414)	$ 14,414

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

	Nine Months Ended September 2, 2022							
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at December 3, 2021	601	$ —	$ 8,428	$ 23,905	$ (137)	(126)	$ (17,399)	$ 14,797
Net income	—	—	—	3,580	—	—	—	3,580
Other comprehensive income (loss), net of taxes	—	—	—	—	(87)	—	—	(87)
Re-issuance of treasury stock under stock compensation plans	—	—	68	(327)	—	3	86	(173)
Repurchases of common stock	—	—	—	—	—	(11)	(4,800)	(4,800)
Stock-based compensation	—	—	1,052	—	—	—	—	1,052
Value of shares in deferred compensation plan	—	—	—	—	—	—	4	4
Balances at September 2, 2022	601	$ —	$ 9,548	$ 27,158	$ (224)	(134)	$ (22,109)	$ 14,373

	Nine Months Ended September 3, 2021							
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at November 27, 2020	601	$ —	$ 7,357	$ 19,611	$ (158)	(122)	$ (13,546)	$ 13,264
Net income	—	—	—	3,589	—	—	—	3,589
Other comprehensive income (loss), net of taxes	—	—	—	—	27	—	—	27
Re-issuance of treasury stock under stock compensation plans	—	—	52	(450)	—	3	86	(312)
Repurchases of common stock	—	—	—	—	—	(6)	(2,950)	(2,950)
Stock-based compensation	—	—	800	—	—	—	—	800
Value of shares in deferred compensation plan	—	—	—	—	—	—	(4)	(4)
Balances at September 3, 2021	601	$ —	$ 8,209	$ 22,750	$ (131)	(125)	$ (16,414)	$ 14,414

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	September 2, 2022	September 3, 2021
Cash flows from operating activities:		
Net income	$ 3,580	$ 3,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	641	583
Stock-based compensation	1,052	800
Reduction of operating lease right-of-use assets	63	53
Deferred income taxes	282	120
Unrealized losses (gains) on investments, net	33	(11)
Other non-cash items	8	3
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	146	(105)
Prepaid expenses and other assets	(133)	(423)
Trade payables	11	18
Accrued expenses and other liabilities	(237)	(47)
Income taxes payable	2	13
Deferred revenue	65	571
Net cash provided by operating activities	5,513	5,164
Cash flows from investing activities:		
Purchases of short-term investments	(703)	(881)
Maturities of short-term investments	497	701
Proceeds from sales of short-term investments	221	138
Acquisitions, net of cash acquired	(126)	(1,470)
Purchases of property and equipment	(351)	(249)
Purchases of long-term investments, intangibles and other assets	(39)	(37)
Net cash used for investing activities	(501)	(1,798)
Cash flows from financing activities:		
Repurchases of common stock	(4,800)	(2,950)
Proceeds from re-issuance of treasury stock	278	290
Taxes paid related to net share settlement of equity awards	(451)	(602)
Other financing activities, net	59	39
Net cash used for financing activities	(4,914)	(3,223)
Effect of foreign currency exchange rates on cash and cash equivalents	(72)	2
Net change in cash and cash equivalents	26	145
Cash and cash equivalents at beginning of period	3,844	4,478
Cash and cash equivalents at end of period	$ 3,870	$ 4,623
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$ 486	$ 589
Cash paid for interest	$ 101	$ 100

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 3, 2021 on file with the SEC (our "Annual Report").

Use of Estimates

In preparing the condensed consolidated financial statements and related disclosures in conformity with GAAP and pursuant to the rules and regulations of the SEC, we must make estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ materially from these estimates.

Fiscal Year

Our fiscal year is a 52- or 53-week year that ends on the Friday closest to November 30. Our financial results for the nine months ended September 3, 2021 benefited from an extra week in the first quarter of fiscal 2021 due to our 52/53 week financial calendar whereby fiscal 2022 is a 52-week year compared with fiscal 2021 which was a 53-week year.

Significant Accounting Policies

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report.

Adopted Accounting Guidance and Accounting Pronouncements Not Yet Effective

There have been no recent accounting pronouncements, changes in accounting pronouncements or recently adopted accounting guidance during the nine months ended September 2, 2022 that are of significance or potential significance to us.

NOTE 2. REVENUE

Segment Information

Our segment results for the three months ended September 2, 2022 and September 3, 2021 were as follows:

(dollars in millions)	Digital Media	Digital Experience	Publishing and Advertising	Total
Three months ended September 2, 2022				
Revenue	$ 3,232	$ 1,120	$ 81	$ 4,433
Cost of revenue	136	385	25	546
Gross profit	$ 3,096	$ 735	$ 56	$ 3,887
Gross profit as a percentage of revenue	96 %	66 %	69 %	88 %
Three months ended September 3, 2021				
Revenue	$ 2,865	$ 985	$ 85	$ 3,935
Cost of revenue	106	334	27	467
Gross profit	$ 2,759	$ 651	$ 58	$ 3,468
Gross profit as a percentage of revenue	96 %	66 %	68 %	88 %

Our segment results for the nine months ended September 2, 2022 and September 3, 2021 were as follows:

(dollars in millions)	Digital Media	Digital Experience	Publishing and Advertising	Total
Nine months ended September 2, 2022				
Revenue	$ 9,542	$ 3,272	$ 267	$ 13,081
Cost of revenue	411	1,111	75	1,597
Gross profit	$ 9,131	$ 2,161	$ 192	$ 11,484
Gross profit as a percentage of revenue	96 %	66 %	72 %	88 %
Nine months ended September 3, 2021				
Revenue	$ 8,511	$ 2,857	$ 307	$ 11,675
Cost of revenue	303	972	83	1,358
Gross profit	$ 8,208	$ 1,885	$ 224	$ 10,317
Gross profit as a percentage of revenue	96 %	66 %	73 %	88 %

Revenue by geographic area for the three and nine months ended September 2, 2022 and September 3, 2021 were as follows:

	Three Months		Nine Months	
(in millions)	2022	2021	2022	2021
Americas	$ 2,600	$ 2,242	$ 7,570	$ 6,651
EMEA	1,143	1,061	3,436	3,139
APAC	690	632	2,075	1,885
Total	$ 4,433	$ 3,935	$ 13,081	$ 11,675

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Revenue by major offerings in our Digital Media reportable segment for the three and nine months ended September 2, 2022 and September 3, 2021 were as follows:

	Three Months		Nine Months	
(in millions)	2022	2021	2022	2021
Creative Cloud	$ 2,625	$ 2,372	$ 7,778	$ 7,069
Document Cloud	607	493	1,764	1,442
Total Digital Media revenue	$ 3,232	$ 2,865	$ 9,542	$ 8,511

Subscription revenue by segment for the three and nine months ended September 2, 2022 and September 3, 2021 were as follows:

	Three Months		Nine Months	
(in millions)	2022	2021	2022	2021
Digital Media	$ 3,116	$ 2,757	$ 9,190	$ 8,156
Digital Experience	981	864	2,874	2,493
Publishing and Advertising	31	36	92	112
Total subscription revenue	$ 4,128	$ 3,657	$ 12,156	$ 10,761

Contract Balances

A receivable is recorded when an unconditional right to invoice and receive payment exists, such that only the passage of time is required before payment of consideration is due. Included in trade receivables on the condensed consolidated balance sheets are unbilled receivable balances which have not yet been invoiced, and are typically related to license revenue or services which are delivered prior to invoicing. As of September 2, 2022, the balance of trade receivables, net of allowances for doubtful accounts, was $1.72 billion, inclusive of unbilled receivables of $97 million. As of December 3, 2021, the balance of trade receivables, net of allowances for doubtful accounts, was $1.88 billion, inclusive of unbilled receivables of $82 million.

We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables and is based on both specific and general reserves. We maintain general reserves on a collective basis by considering factors such as historical experience, credit-worthiness, the age of the trade receivable balances, current economic conditions and a reasonable and supportable forecast of future economic conditions. The allowance for doubtful accounts was $24 million and $16 million as of September 2, 2022 and December 3, 2021, respectively.

A contract asset is recognized when a conditional right to consideration exists and transfer of control has occurred. Contract assets are included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion on the condensed consolidated balance sheets. We regularly review contract asset balances for impairment, considering factors such as historical experience, credit-worthiness, age of the balance, current economic conditions and a reasonable and supportable forecast of future economic conditions. Contract asset impairments were not material for the nine months ended September 2, 2022. Contract assets were $80 million and $85 million as of September 2, 2022 and December 3, 2021, respectively.

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services, including non-cancellable and non-refundable committed funds and refundable customer deposits. Deferred revenue is recognized as revenue when transfer of control to customers has occurred. As of September 2, 2022, the balance of deferred revenue was $4.94 billion, which includes $33 million of refundable customer deposits. Arrangements with some of our enterprise customers with non-cancellable and non-refundable committed funds provide options to either renew monthly on-premise term-based licenses or use some or all funds to purchase other Adobe products or services. Non-cancellable and non-refundable committed funds related to these agreements comprised approximately 5% of the total deferred revenue.

As of December 3, 2021, the balance of deferred revenue was $4.88 billion. During the three and nine months ended September 2, 2022, approximately $873 million and $4.37 billion of revenue, respectively, was recognized that was included in the balance of deferred revenue as of December 3, 2021.

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and unbilled amounts that will be recognized as revenue in future periods. As of September 2, 2022, remaining performance obligations were approximately $14.11 billion. Non-cancellable and non-refundable funds related to some of our enterprise customer agreements referred to in the paragraph above comprised approximately 5% of the total remaining performance obligations. Approximately 73% of the remaining performance obligations, excluding the aforementioned enterprise customer agreements, are expected to be recognized over the next 12 months with the remainder recognized thereafter.

Incremental costs of obtaining a contract with a customer are capitalized if we expect the benefit of those costs to be longer than one year and primarily relate to sales commissions paid to our sales force personnel. Capitalized contract acquisition costs are included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion on the condensed consolidated balance sheets. Capitalized contract acquisition costs were $649 million and $611 million as of September 2, 2022 and December 3, 2021, respectively.

We record refund liabilities for amounts that may be subject to future refunds, which include sales returns reserves and customer rebates and credits. Refund liabilities are included in accrued expenses on the condensed consolidated balance sheets. Refund liabilities were $105 million and $128 million as of September 2, 2022 and December 3, 2021, respectively.

NOTE 3. ACQUISITIONS

Figma

Subsequent to September 2, 2022, we entered into a definitive agreement under which we intend to acquire Figma, Inc. (“Figma”) for approximately $20 billion, comprised of approximately half cash and half stock, subject to customary purchase price adjustments. Approximately 6 million additional restricted stock units will be granted to Figma’s Chief Executive Officer and employees that will vest over four years subsequent to closing. The transaction is subject to regulatory approvals and customary closing conditions, and is expected to close in 2023. We will be required to pay Figma a reverse termination fee of $1 billion if the transaction fails to receive regulatory clearance, assuming all other closing conditions have been satisfied or waived, or if it fails to close within 18 months from September 15, 2022.

Figma is a privately held company that provides a web-first collaborative product design platform. Following the closing, we intend to integrate Figma into our Digital Media reportable segment for financial reporting purposes.

Frame.io

On October 7, 2021, we completed the acquisition of Frame.io, a privately held company that provides a cloud-based video collaboration platform, for approximately $1.24 billion, primarily in cash consideration. The financial results of Frame.io have been included in our condensed consolidated financial statements since the date of the acquisition. Frame.io is reported as part of our Digital Media reportable segment.

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The table below represents the final purchase price allocation to total identifiable intangible assets acquired and net liabilities assumed based on their respective estimated fair values as of October 7, 2021 and the associated estimated useful lives at that date. During the nine months ended September 2, 2022, we recorded purchase accounting adjustments that were not material based on changes to management's estimates and assumptions in regards to the total purchase price and its related impact to goodwill.

(dollars in millions)	Amount	Weighted Average Useful Life (years)
Purchased technology	$ 331	4
In-process research and development [1]	19	N/A
Trademarks	4	3
Customer contracts and relationships	3	10
Total identifiable intangible assets	357	
Net liabilities assumed	(36)	N/A
Goodwill [2]	915	N/A
Total purchase price	$ 1,236	

(1) Capitalized as purchased technology and considered indefinite lived until completion or abandonment of the associated research and development efforts.

(2) Non-deductible for tax purposes.

Workfront

On December 7, 2020, we completed the acquisition of Workfront, a privately held company that provides a workflow platform, for approximately $1.52 billion of cash consideration. The financial results of Workfront have been included in our condensed consolidated financial statements since the date of the acquisition. Workfront is reported as part of our Digital Experience reportable segment.

The table below represents the final purchase price allocation to total identifiable intangible assets acquired and net liabilities assumed based on their estimated fair values as of December 7, 2020 and the associated estimated useful lives at that date.

(dollars in millions)	Amount	Weighted Average Useful Life (years)
Customer contracts and relationships	$ 290	10
Purchased technology	100	3
Backlog	40	2
Trademarks	30	5
Total identifiable intangible assets	460	
Net liabilities assumed	(31)	N/A
Goodwill [1]	1,095	N/A
Total purchase price	$ 1,524	

(1) Non-deductible for tax purposes.

Pro forma financial information has not been presented for these acquisitions as the impacts to our condensed consolidated financial statements were not material.

NOTE 4. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents consist of highly liquid marketable securities with remaining maturities of three months or less at the date of purchase. We classify our investments in marketable debt securities as “available-for-sale.” We carry these investments at fair value, based on quoted market prices or other readily available market information. Unrealized gains and unrealized non-credit-related losses of marketable debt securities are included in accumulated other comprehensive income, net of taxes, in our condensed consolidated balance sheets. Unrealized credit-related losses are recorded to other income (expense), net in our condensed consolidated statements of income with a corresponding allowance for credit-related losses in our condensed consolidated balance sheets. Gains and losses are determined using the specific identification method and recognized when realized in our condensed consolidated statements of income.

Cash, cash equivalents and short-term investments consisted of the following as of September 2, 2022:

(in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 595	$ —	$ —	$ 595
Cash equivalents:				
Corporate debt securities	21	—	—	21
Money market funds	3,202	—	—	3,202
Time deposits	25	—	—	25
U.S. agency securities	13	—	—	13
U.S. Treasury securities	14	—	—	14
Total cash equivalents	3,275	—	—	3,275
Total cash and cash equivalents	3,870	—	—	3,870
Short-term fixed income securities:				
Asset-backed securities	114	—	(2)	112
Corporate debt securities	1,322	—	(22)	1,300
Foreign government securities	5	—	—	5
Municipal securities	23	—	—	23
U.S. agency securities	19	—	—	19
U.S. Treasury securities	448	—	(13)	435
Total short-term investments	1,931	—	(37)	1,894
Total cash, cash equivalents and short-term investments	$ 5,801	$ —	$ (37)	$ 5,764

Cash, cash equivalents and short-term investments consisted of the following as of December 3, 2021:

(in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 750	$ —	$ —	$ 750
Cash equivalents:				
Corporate debt securities	5	—	—	5
Money market funds	2,914	—	—	2,914
Time deposits	175	—	—	175
Total cash equivalents	3,094	—	—	3,094
Total cash and cash equivalents	3,844	—	—	3,844
Short-term fixed income securities:				
Asset-backed securities	124	—	—	124
Corporate debt securities	1,426	2	(3)	1,425
Municipal securities	28	—	—	28
U.S. Treasury securities	378	—	(1)	377
Total short-term investments	1,956	2	(4)	1,954
Total cash, cash equivalents and short-term investments	$ 5,800	$ 2	$ (4)	$ 5,798

See Note 5 for further information regarding the fair value of our financial instruments.

The following table summarizes the estimated fair value of short-term fixed income debt securities classified as short-term investments based on stated effective maturities as of September 2, 2022:

(in millions)	Estimated Fair Value
Due within one year	$ 868
Due between one and two years	676
Due between two and three years	336
Due after three years	14
Total	$ 1,894

We review our debt securities classified as short-term investments on a regular basis for impairment. For debt securities in unrealized loss positions, we determine whether any portion of the decline in fair value below the amortized cost basis is due to credit-related factors if we neither intend to sell nor anticipate that it is more likely than not that we will be required to sell prior to recovery of the amortized cost basis. We consider factors such as the extent to which the market value has been less than the cost, any noted failure of the issuer to make scheduled payments, changes to the rating of the security and other relevant credit-related factors in determining whether or not a credit loss exists. During the nine months ended September 2, 2022 and September 3, 2021, we did not recognize an allowance for credit-related losses on any of our investments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The fair value of our financial assets and liabilities at September 2, 2022 was determined using the following inputs:

(in millions)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Corporate debt securities	$ 21	$ —	$ 21	$ —
Money market funds	3,202	3,202	—	—
Time deposits	25	25	—	—
U.S. agency securities	13	—	13	—
U.S. Treasury securities	14	—	14	—
Short-term investments:				
Asset-backed securities	112	—	112	—
Corporate debt securities	1,300	—	1,300	—
Foreign government securities	5	—	5	—
Municipal securities	23	—	23	—
U.S. agency securities	19	—	19	—
U.S. Treasury securities	435	—	435	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	183	—	183	—
Other assets:				
Deferred compensation plan assets	150	150	—	—
Total assets	$ 5,502	$ 3,377	$ 2,125	$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$ 9	$ —	$ 9	$ —

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of our financial assets and liabilities at December 3, 2021 was determined using the following inputs:

(in millions)		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Corporate debt securities	$ 5	$ —	$ 5	$ —
Money market funds	2,914	2,914	—	—
Time deposits	175	175	—	—
Short-term investments:				
Asset-backed securities	124	—	124	—
Corporate debt securities	1,425	—	1,425	—
Municipal securities	28	—	28	—
U.S. Treasury securities	377	—	377	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	98	—	98	—
Other assets:				
Deferred compensation plan assets	151	151	—	—
Total assets	$ 5,297	$ 3,240	$ 2,057	$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$ 8	$ —	$ 8	$ —

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

Our fixed income available-for-sale debt securities consist of high quality, investment grade securities from diverse issuers with a weighted average credit rating of AA-. We value these securities based on pricing from independent pricing vendors who use matrix pricing valuation techniques including market approach methodologies that model information generated by market transactions involving identical or comparable assets, as well as discounted cash flow methodologies. Inputs include quoted prices in active markets for identical assets or inputs other than quoted prices that are observable either directly or indirectly in determining fair value, including benchmark yields, issuer spreads off benchmark yields, interest rates and U.S. Treasury or swap curves. We therefore classify all of our fixed income available-for-sale securities as Level 2. We perform routine procedures such as comparing prices obtained from multiple independent sources to ensure that appropriate fair values are recorded.

The fair values of our money market funds, time deposits and deferred compensation plan assets, which consist of money market and other mutual funds, are based on quoted prices in active markets at the measurement date.

Our over-the-counter foreign currency derivatives are valued using pricing models and discounted cash flow methodologies based on observable foreign exchange and interest rate data at the measurement date.

Our other current financial assets and current financial liabilities have fair values that approximate their carrying values.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The fair value of our senior notes was $3.91 billion as of September 2, 2022, based on observable market prices in less active markets and categorized as Level 2. *See Note 14 for further details regarding our debt.*

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

We may use derivatives to partially offset our business exposure to foreign currency and interest rate risk on expected future cash flows and certain existing assets and liabilities. We do not use any of our derivative instruments for trading purposes.

We enter into master netting arrangements to mitigate credit risk in derivative transactions by permitting net settlement of transactions with the same counterparty. We do not offset fair value amounts recognized for derivative instruments under master netting arrangements. We also enter into collateral security agreements with certain of our counterparties to exchange cash collateral when the net fair value of certain derivative instruments fluctuates from contractually established thresholds. Collateral posted is included in prepaid expenses and other current assets and collateral received is included in accrued expenses on our condensed consolidated balance sheets.

Cash Flow Hedges

In countries outside the United States, we transact business in U.S. Dollars and in various other currencies. We may use foreign exchange option contracts or forward contracts to hedge a portion of our forecasted foreign currency denominated revenue. These foreign exchange contracts, carried at fair value, have maturities of up to 12 months.

In June 2019, we entered into Treasury lock agreements with large financial institutions which fixed benchmark U.S. Treasury rates for an aggregate notional amount of $1 billion of our future debt issuance. These derivative instruments hedged the impact of changes in the benchmark interest rate to future interest payments and were settled upon debt issuance in the first quarter of fiscal 2020. We incurred a loss related to the settlement of the instruments which is amortized to interest expense over the term of our debt due February 1, 2030. *See Note 14 for further details regarding our debt.*

As of September 2, 2022, we had net derivative gains on our foreign exchange option contracts expected to be recognized within the next 18 months, of which $165 million of gains are expected to be recognized into revenue within the next 12 months. In addition, we had net derivative losses on our Treasury lock agreements, of which $5 million is expected to be recognized into interest expense within the next 12 months.

Non-Designated Hedges

Our derivatives not designated as hedging instruments consist of foreign currency forward contracts that we primarily use to hedge monetary assets and liabilities denominated in non-functional currencies.

The fair value of derivative instruments on our condensed consolidated balance sheets as of September 2, 2022 and December 3, 2021 were as follows:

(in millions)	2022		2021	
	Fair Value Asset Derivatives	**Fair Value Liability Derivatives**	**Fair Value Asset Derivatives**	**Fair Value Liability Derivatives**
Derivatives designated as hedging instruments:				
Foreign exchange option contracts[1]	$ 179	$ —	$ 91	$ —
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts[1]	4	9	7	8
Total derivatives	$ 183	$ 9	$ 98	$ 8

(1) Fair value asset derivatives are included in prepaid expenses and other current assets and fair value liability derivatives are included in accrued expenses on our condensed consolidated balance sheets.

Gains and losses on derivative instruments, net of tax, recognized in our condensed consolidated statements of comprehensive income for the three and nine months ended September 2, 2022 and September 3, 2021 were associated with our foreign exchange option contracts. For the three and nine months ended September 2, 2022, we recognized $107 million and $193 million of net gains, respectively, in our condensed consolidated statements of comprehensive income. For the three and nine months ended September 3, 2021, net gains recognized in our condensed consolidated statements of comprehensive income were not material.

The effects of derivative instruments on our condensed consolidated statements of income for the three and nine months ended September 2, 2022 and September 3, 2021 were primarily associated with foreign exchange option contracts. For the three and nine months ended September 2, 2022, we reclassified $54 million and $105 million of net gains, respectively, from accumulated other comprehensive income into revenue resulting from our foreign exchange option contracts. Comparatively, for the three and nine months ended September 3, 2021, we reclassified $5 million and $26 million of net losses, respectively, from accumulated other comprehensive income into revenue resulting from our foreign exchange option contracts.

NOTE 7. GOODWILL AND OTHER INTANGIBLES

Goodwill as of September 2, 2022 and December 3, 2021 was $12.76 billion and $12.67 billion, respectively. The increase was primarily due to the completion of business acquisitions during the nine months ended September 2, 2022.

Other intangible assets subject to amortization as of September 2, 2022 and December 3, 2021 were as follows:

(in millions)	2022			2021		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer contracts and relationships	$ 1,201	$ (462)	$ 739	$ 1,213	$ (379)	$ 834
Purchased technology	1,060	(477)	583	1,053	(344)	709
Trademarks	376	(161)	215	376	(128)	248
Other	59	(48)	11	60	(31)	29
Other intangibles, net	$ 2,696	$ (1,148)	$ 1,548	$ 2,702	$ (882)	$ 1,820

Amortization expense related to other intangibles was $101 million and $303 million for the three and nine months ended September 2, 2022, respectively. Comparatively, amortization expense related to other intangibles was $83 million and $262 million for the three and nine months ended September 3, 2021, respectively. Of these amounts, $58 million and $176 million were included in cost of revenue for the three and nine months ended September 2, 2022, respectively, and $40 million and $130 million were included in cost of revenue for the three and nine months ended September 3, 2021, respectively.

As of September 2, 2022, the estimated aggregate amortization expense in future periods was as follows:

(in millions)	Other Intangibles [(1)]
Remainder of 2022	$ 101
2023	376
2024	331
2025	293
2026	142
Thereafter	286
Total expected amortization expense	$ 1,529

(1) Excludes capitalized in-process research and development which is considered indefinite lived until the completion or abandonment of the associated research and development efforts.

NOTE 8. ACCRUED EXPENSES

Accrued expenses as of September 2, 2022 and December 3, 2021 consisted of the following:

(in millions)	2022	2021
Accrued compensation and benefits	$ 380	$ 490
Accrued bonuses	377	455
Derivative collateral liabilities	151	91
Accrued corporate marketing	118	96
Taxes payable	104	119
Other	499	485
Accrued expenses	$ 1,629	$ 1,736

Other primarily includes refund liabilities and general corporate accruals for local and regional expenses. *See Note 6 for further details regarding our derivative collateral liabilities.*

NOTE 9. STOCK-BASED COMPENSATION

Restricted Stock Units

Restricted stock unit activity for the nine months ended September 2, 2022 was as follows:

	Number of Shares (in millions)	Weighted Average Grant Date Fair Value	Aggregate Fair Value[1] (in millions)
Beginning outstanding balance	6.6	$ 411.52	
Awarded	3.9	$ 482.83	
Released	(2.4)	$ 376.20	
Forfeited	(0.6)	$ 438.28	
Ending outstanding balance	7.5	$ 457.41	$ 2,755
Expected to vest	6.8	$ 455.52	$ 2,502

(1) The aggregate fair value is calculated using the closing stock price as of September 2, 2022 of $368.14.

The total fair value of restricted stock units vested during the nine months ended September 2, 2022 was $1.08 billion.

Performance Shares

In the first quarter of fiscal 2022, the Executive Compensation Committee of our Board of Directors (the "ECC") approved the 2022 Performance Share Program. Shares approved under our 2022 Performance Share Program may be earned based on the achievement of (i) an objective relative total stockholder return measured over a three-year performance period, as well as (ii) revenue-based financial metrics measured over three one-year performance periods. Each type of performance goal is weighted 50% and achievement of each performance goal is determined independently of the other. Shares associated with each performance goal are not awarded until the corresponding performance targets are defined. Shares under our 2022 Performance Share Program will be earned and cliff-vest upon the later of (i) the three-year anniversary of the earliest vesting commencement date or (ii) the ECC's certification of the level of achievement of the final performance period, contingent upon the participant's continued service.

Our performance share awards which are contingent upon achievement of relative total stockholder return are valued using a Monte Carlo Simulation model, with compensation costs recognized over the longer of the remaining performance or service period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Our performance share awards which are contingent upon achievement of revenue-based financial metrics are valued based on the fair market value of the award on the grant date. The related compensation costs are recognized over the longer of the remaining performance or service period based upon the expected levels of achievement, which are assessed periodically until certification by the ECC.

As of September 2, 2022, the shares awarded under our 2022, 2021 and 2020 Performance Share Programs remained outstanding and were yet to be earned. For information regarding our outstanding 2021 and 2020 Performance Share Programs, including the terms, see “Note 12. Stock-Based Compensation” of our Annual Report on Form 10-K for the fiscal year ended December 3, 2021.

Performance share activity for the nine months ended September 2, 2022 was as follows:

	Number of Shares (in millions)	Weighted Average Grant Date Fair Value	Aggregate Fair Value[1] (in millions)
Beginning outstanding balance	0.6	$ 408.84	
Awarded	0.3	$ 402.24	
Released	(0.4)	$ 291.15	
Forfeited	(0.1)	$ 490.39	
Ending outstanding balance	0.4	$ 495.23	$ 158
Expected to vest	0.4	$ 494.35	$ 144

(1) The aggregate fair value is calculated using the closing stock price as of September 2, 2022 of $368.14.

Under our Performance Share Programs, participants generally have the ability to receive up to 200% of the target number of shares originally granted. Shares released during the nine months ended September 2, 2022 resulted from 168% achievement of target for the 2019 Performance Share Program, as certified by the ECC in the first quarter of fiscal 2021. Shares awarded during the nine months ended September 2, 2022 include 0.2 million additional shares awarded for the final achievement of the 2019 Performance Share Program. The remaining awarded shares were for the 2022 Performance Share Program.

The total fair value of performance shares vested during the nine months ended September 2, 2022 was $192 million.

Employee Stock Purchase Plan Shares

Employees purchased 0.8 million shares at an average price of $333.92 and 1.0 million shares at an average price of $294.15 for the nine months ended September 2, 2022 and September 3, 2021, respectively. The intrinsic value of shares purchased during the nine months ended September 2, 2022 and September 3, 2021 was $73 million and $256 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

Compensation Costs

As of September 2, 2022, there was $3.04 billion of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards and purchase rights which will be recognized over a weighted average period of 2.36 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Total stock-based compensation costs included in our condensed consolidated statements of income for the three and nine months ended September 2, 2022 and September 3, 2021 were as follows:

	Three Months		Nine Months	
(in millions)	2022	2021	2022	2021
Cost of revenue	$ 26	$ 19	$ 71	$ 53
Research and development	189	141	527	408
Sales and marketing	112	81	305	227
General and administrative	51	39	149	133
Total	$ 378	$ 280	$ 1,052	$ 821

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) and activity, net of related taxes, were as follows:

(in millions)	December 3, 2021	Increase / Decrease	Reclassification Adjustments	September 2, 2022
Net unrealized gains / losses on available-for-sale securities:				
Unrealized gains on available-for-sale securities	$ 2	$ (2)	$ —	$ —
Unrealized losses on available-for-sale securities	(4)	(33)	—	(37)
Net unrealized gains / losses on available-for-sale securities	(2)	(35)	— (1)	(37)
Net unrealized gains / losses on derivative instruments designated as hedging instruments	29	193	(89) (2)	133
Cumulative foreign currency translation adjustments	(164)	(156)	—	(320)
Total accumulated other comprehensive income (loss), net of taxes	$ (137)	$ 2	$ (89)	$ (224)

(1) Reclassification adjustments for gains / losses on available-for-sale securities are classified in other income (expense), net.

(2) Reclassification adjustments for gains / losses on foreign currency hedges are classified in revenue and reclassification adjustments for gains / losses on Treasury lock hedges are classified in interest expense.

Taxes related to each component of other comprehensive income (loss) for the three and nine months ended September 2, 2022 and September 3, 2021 were not material.

NOTE 11. STOCK REPURCHASE PROGRAM

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase shares in the open market or enter into structured repurchase agreements with third parties. In December 2020, our Board of Directors granted authority to repurchase up to $15 billion in common stock through the end of fiscal 2024.

During our first quarter of fiscal 2022, we entered into an accelerated share repurchase agreement (“ASR”) with a large financial institution whereupon we provided them with a prepayment of $2.4 billion. Under the terms of the ASR, the financial institution agreed to deliver a portion of shares to us at contract inception and the remaining shares at settlement, which occurred in the third quarter of fiscal 2022. The total number of shares delivered and average purchase price paid per share were determined upon settlement based on the Volume Weighted Average Price (“VWAP”) over the term of the ASR, less an agreed upon discount.

During the nine months ended September 2, 2022 and September 3, 2021, we also entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $2.4 billion and $2.95 billion, respectively. Under the terms of these structured stock repurchase agreements, the financial institutions agreed to deliver shares to us at monthly intervals during the respective contract terms, and the number of shares delivered each month was determined based on the total notional amount of the contracts, the number of trading days in the intervals and the VWAP during the intervals less an agreed upon discount.

During the nine months ended September 2, 2022, we repurchased a total of 10.7 million shares, including approximately 5.4 million shares at an average price of $429.13 through structured repurchase agreements entered into during fiscal 2021 and the nine months ended September 2, 2022, as well as 5.3 million shares at an average purchase price of $451.55 through the ASR described above. During the nine months ended September 3, 2021 we repurchased approximately 5.6 million shares at an average price of $508.52 through structured repurchase agreements entered into during fiscal 2020 and the nine months ended September 3, 2021.

For the nine months ended September 2, 2022, the prepayments were classified as treasury stock, a component of stockholders' equity on our condensed consolidated balance sheets, at the payment date, though only shares physically delivered to us by September 2, 2022 were excluded from the computation of net income per share. As of September 2, 2022, $400 million of prepayment remained under our outstanding structured stock repurchase agreement.

Subsequent to September 2, 2022, as part of the December 2020 stock repurchase authority, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $1.75 billion. Upon completion of the $1.75 billion stock repurchase agreement, $6.55 billion remains under our December 2020 authority.

NOTE 12. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three and nine months ended September 2, 2022 and September 3, 2021:

	Three Months		Nine Months	
(in millions, except per share data)	2022	2021	2022	2021
Net income	$ 1,136	$ 1,212	$ 3,580	$ 3,589
Shares used to compute basic net income per share	468.5	476.7	471.1	477.8
Dilutive potential common shares from stock plans and programs	0.9	4.0	1.6	3.7
Shares used to compute diluted net income per share	469.4	480.7	472.7	481.5
Basic net income per share	$ 2.42	$ 2.54	$ 7.60	$ 7.51
Diluted net income per share	$ 2.42	$ 2.52	$ 7.57	$ 7.45
Anti-dilutive potential common shares	5.0	0.1	3.5	0.1

NOTE 13. COMMITMENTS AND CONTINGENCIES

Royalties

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

Indemnifications

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

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

Legal Proceedings

In connection with 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 may be 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 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 to intellectual property disputes, we are subject to legal proceedings, claims, including claims relating to commercial, employment and other matters, and investigations, including government investigations. Some of these disputes, legal proceedings and investigations may include speculative claims for substantial or indeterminate amounts of damages. We consider all claims on a quarterly basis in accordance with GAAP and based on known facts assess whether potential losses are considered reasonably possible or probable and estimable. Based upon this assessment, we then evaluate disclosure requirements and whether to accrue for such claims in our financial statements. This determination is then reviewed and discussed with the Audit Committee of the Board of Directors.

We make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in this note, we have determined that no provision for liability nor disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

All legal costs associated with litigation are expensed as incurred. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against us. It is possible, nevertheless, that our consolidated financial position, results of operations or cash flows could be negatively affected by an unfavorable resolution of one or more of such proceedings, claims or investigations.

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

NOTE 14. DEBT

The carrying values of our borrowings as of September 2, 2022 and December 3, 2021 were as follows:

(dollars in millions)	Issuance Date	Due Date	Effective Interest Rate	2022	2021
1.70% 2023 Notes	February 2020	February 2023	1.92%	$ 500	$ 500
1.90% 2025 Notes	February 2020	February 2025	2.07%	500	500
3.25% 2025 Notes	January 2015	February 2025	3.67%	1,000	1,000
2.15% 2027 Notes	February 2020	February 2027	2.26%	850	850
2.30% 2030 Notes	February 2020	February 2030	2.69%	1,300	1,300
Total debt outstanding, at par				$ 4,150	$ 4,150
Current portion of debt, at par				(500)	—
Unamortized discount and debt issuance costs				(23)	(27)
Carrying value of long-term debt				$ 3,627	$ 4,123
Carrying value of current debt, net of unamortized discount and debt issuance costs				$ 500	$ —

Senior Notes

In January 2015, we issued $1 billion of senior notes due February 1, 2025. The related discount and issuance costs are amortized to interest expense over the term of the notes using the effective interest method. Interest is payable semi-annually, in arrears, on February 1 and August 1.

In February 2020, we issued $500 million of senior notes due February 1, 2023, $500 million of senior notes due February 1, 2025, $850 million of senior notes due February 1, 2027 and $1.30 billion of senior notes due February 1, 2030. Our total proceeds of approximately $3.14 billion, net of issuance discount, were used for general corporate purposes including repayment of debt instruments due in fiscal 2020. The related discount and issuance costs are amortized to interest expense over the respective terms of the notes using the effective interest method. Interest is payable semi-annually, in arrears, on February 1 and August 1.

During the first quarter of fiscal 2022, we reclassified the senior notes due February 1, 2023 as current debt in our condensed consolidated balance sheets. As of September 2, 2022, the carrying value of our current debt was $500 million, net of the related discount and issuance costs. We intend to refinance the current portion of our debt on or before the due date.

Our senior notes rank equally with our other unsecured and unsubordinated indebtedness. We may redeem the notes at any time, subject to a make-whole premium. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The notes do not contain financial covenants but include covenants that limit our ability to grant liens on assets and to enter into sale and leaseback transactions, subject to significant allowances.

Revolving Credit Agreement

In June 2022, we entered into a credit agreement ("Revolving Credit Agreement"), providing for a five-year $1.5 billion senior unsecured revolving credit facility, which replaced our previous five-year $1 billion senior unsecured revolving credit agreement entered into in October 2018 (the "Prior Revolving Credit Agreement"). The Revolving Credit Agreement provides for loans to Adobe and certain of its subsidiaries that may be designated from time to time as additional borrowers. Pursuant to the terms of the Revolving Credit Agreement, we may, subject to the agreement of lenders to provide additional commitments, obtain up to an additional $500 million in commitments, for a maximum aggregate commitment of $2 billion. At our election, loans under the Revolving Credit Agreement will bear interest at either the (i) term Secured Overnight Financing Rate ("SOFR"), plus a margin, (ii) adjusted daily SOFR rate, plus a margin, (iii) alternative currency rate, plus a margin, or (iv) base rate, which is defined as the highest of (a) the federal funds rate plus 0.500%, (b) the agent's prime rate, or (c) term SOFR plus

1.00%. The margin for term SOFR, adjusted daily SOFR, and alternative currency rate loans is based on our debt ratings, and ranges from 0.460% to 0.900%. In addition, facility fees determined according to our debt ratings are payable on the aggregate commitments, regardless of usage, quarterly in an amount ranging from 0.04% to 0.10% per annum. We are permitted to permanently reduce the aggregate commitment under the Revolving Credit Agreement at any time. Subject to certain conditions stated in the Revolving Credit Agreement, Adobe and any of its subsidiaries designated as additional borrowers may borrow, prepay and re-borrow amounts at any time during the term of the Revolving Credit Agreement.

The Revolving Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including events of default and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding the incurrence of liens and indebtedness, certain merger transactions, dispositions and other matters, all subject to certain exceptions.

The facility will terminate and all amounts owing thereunder will be due and payable on the maturity date unless (a) the commitments are terminated earlier upon the occurrence of certain events, including an event of default, or (b) the maturity date is further extended upon our request, subject to the agreement of the lenders.

As of September 2, 2022, there were no outstanding borrowings under this Revolving Credit Agreement.

In connection with and at the time that we entered into the Revolving Credit Agreement, the Prior Revolving Credit Agreement originally scheduled to expire in October 2023 was terminated. There were no outstanding borrowings or letters of credit issued under the Prior Revolving Credit Agreement at the time of termination. There were no penalties paid as a result of the termination of the Prior Revolving Credit Agreement.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto.

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements, including statements regarding product plans, future growth, market opportunities, fluctuations in foreign currency exchange rates, strategic investments, industry positioning, customer acquisition and retention, the amount of annualized recurring revenue, revenue growth and anticipated impacts on our business of the ongoing COVID-19 pandemic and related public health measures. In addition, when used in this report, the words "will," "expects," "could," "would," "may," "anticipates," "intends," "plans," "believes," "seeks," "targets," "estimates," "looks for," "looks to," "continues" and similar expressions, as well as statements regarding our focus for the future, are generally intended to identify forward-looking statements. Each of the forward-looking statements we make in this report involves risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" in Part II, Item 1A of this report. The risks described herein and in other documents we file from time to time with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for fiscal 2021, should be carefully reviewed. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document, except as required by law.

BUSINESS OVERVIEW

Founded in 1982, Adobe is one of the largest and most diversified software companies in the world. We offer a line of products and services used by creative professionals, including photographers, video editors, graphic and experience designers and game developers; communicators, including content creators, students, marketers and knowledge workers; businesses of all sizes; and consumers for creating, managing, delivering, measuring, optimizing, engaging and transacting with compelling content and experiences across personal computers, smartphones, other electronic devices and digital media formats.

We market our products and services directly to enterprise customers through our sales force and local field offices. We license our products to end users through app stores and our own website at www.adobe.com. We offer many of our products via a Software-as-a-Service ("SaaS") model or a managed services model (both of which are referred to as hosted or cloud-based) as well as through term subscription and pay-per-use models. We also distribute certain products and services through a network of distributors, value-added resellers, systems integrators, independent software vendors, retailers, software developers and original equipment manufacturers ("OEMs"). In addition, we license our technology to hardware manufacturers, software developers and service providers for use in their products and solutions. Our products run on desktop and laptop computers, smartphones, tablets, other devices and the web, depending on the product. We have operations in the Americas; Europe, Middle East and Africa ("EMEA"); and Asia-Pacific ("APAC").

Adobe was originally incorporated in California in October 1983 and was reincorporated in Delaware in May 1997. Our executive offices and principal facilities are located at 345 Park Avenue, San Jose, California 95110-2704. Our telephone number is 408-536-6000 and our website is www.adobe.com. Investors can obtain copies of our SEC filings from our website free of charge, as well as from the SEC website at www.sec.gov. The information posted to our website is not incorporated into this Quarterly Report on Form 10-Q.

OPERATIONS OVERVIEW

For our third quarter of fiscal 2022, we experienced strong demand across our Digital Media and Digital Experience offerings, driven by the ongoing shift towards a digital-first world. As we execute on our long-term growth initiatives, we have continued to experience growth in software-based subscription revenue across our portfolio of offerings.

Digital Media

In our Digital Media segment, we are a market leader with Creative Cloud, our subscription-based offering which provides desktop tools, mobile apps and cloud-based services for designing, creating and publishing rich content and immersive 3D experiences. Starting in December 2021, Creative Cloud includes Adobe Express, a web and mobile application designed to enable a broad spectrum of users, including novice content creators, communicators and creative professionals, to create, edit and customize content quickly and easily with content-first, task-based solutions. Creative Cloud delivers value with deep, cross-product integration, frequent product updates and feature enhancements, cloud-enabled services including storage and syncing of files across users' machines, machine learning and artificial intelligence, access to marketplace, social and community-based features with our Adobe Stock and Behance services, app creation capabilities, tools which assist with enterprise deployments and team collaboration, and affordable pricing for cost-sensitive customers.

We offer Creative Cloud for individuals, students, teams and enterprises. We expect Creative Cloud will drive sustained long-term revenue growth through a continued expansion of our customer base by attracting new users with new features and products like Adobe Express that make creative tools accessible to first-time creators and communicators, continuing to acquire users with low cost of entry and delivery of additional features and value to Creative Cloud, and delivering new features and technologies to existing customers with our latest releases. We have also built out a marketplace for Creative Cloud subscribers to enable the delivery and purchase of stock content in our Adobe Stock service. Overall, our strategy with Creative Cloud is designed to enable us to increase our revenue with users, attract more new customers, and grow our recurring and predictable revenue stream that is recognized ratably.

We continue to implement strategies that are designed to accelerate awareness, consideration and purchase of subscriptions to our Creative Cloud offerings. These strategies include increasing the value Creative Cloud users receive, such as offering new desktop and mobile applications, as well as targeted promotions and offers that attract past customers and potential users to experience and ultimately subscribe to Creative Cloud. Because of the shift towards Creative Cloud subscriptions and Enterprise Term License Agreements ("ETLAs"), revenue from perpetual licensing of our Creative products has been immaterial to our business.

We are also a market leader with our Document Cloud offerings built around our Adobe Acrobat family of products, with a set of integrated mobile apps and cloud-based document services which enable users to create, review, approve, sign and track documents regardless of platform or application source type. Document Cloud, which enhances the way people manage critical documents at home, in the office and across devices, includes Adobe Acrobat, Adobe Acrobat Sign and Adobe Scan. Adobe Acrobat is offered both through subscription and perpetual licenses.

As part of our Creative Cloud and Document Cloud strategies, we utilize a data-driven operating model ("DDOM") and our Adobe Experience Cloud solutions to raise awareness of our products, drive new customer acquisition, engagement and retention, and optimize customer journeys, and it continues to contribute strong growth in the business.

Annualized Recurring Revenue ("ARR") is currently the key performance metric our management uses to assess the health and trajectory of our overall Digital Media segment. ARR should be viewed independently of revenue, deferred revenue and remaining performance obligations as ARR is a performance metric and is not intended to be combined with any of these items. We adjust our reported ARR on an annual basis to reflect any exchange rate changes. Our reported ARR results in the current fiscal year are based on currency rates set at the beginning of the year and held constant throughout the year. We calculate ARR as follows:

Creative ARR	Annual Value of Creative Cloud Subscriptions and Services + Annual Creative ETLA Contract Value
Document Cloud ARR	Annual Value of Document Cloud Subscriptions and Services + Annual Document Cloud ETLA Contract Value
Digital Media ARR	Creative ARR + Document Cloud ARR

In March 2022, in response to the Russia-Ukraine war, we announced a halt of all new sales of our products and services in Russia and Belarus. As a result, we reduced our Digital Media ARR balance by $75 million, which represented our Digital Media ARR for existing business in Russia and Belarus. While we continued to provide Digital Media services in Ukraine, we also reduced our Digital Media ARR balance by an additional $12 million, which represented our Digital Media business in Ukraine. This resulted in a total ARR reduction of $87 million taken at the beginning of the second quarter of fiscal 2022.

Creative ARR exiting the third quarter of fiscal 2022 was $11.15 billion, up from $10.22 billion at the end of fiscal 2021. Document Cloud ARR exiting the third quarter of fiscal 2022 was $2.25 billion, up from $1.93 billion at the end of fiscal 2021. Total Digital Media ARR grew to $13.40 billion at the end of the third quarter of fiscal 2022, up from $12.15 billion at the end of fiscal 2021.

Our success in driving growth in ARR has positively affected our revenue growth. Creative revenue in the third quarter of fiscal 2022 was $2.63 billion, up from $2.37 billion in the third quarter of fiscal 2021, representing 11% year-over-year growth. Document Cloud revenue in the third quarter of fiscal 2022 was $607 million, up from $493 million in the third quarter of fiscal 2021, representing 23% year-over-year growth. Total Digital Media segment revenue grew to $3.23 billion in the third quarter of fiscal 2022, up from $2.87 billion in the third quarter of fiscal 2021, representing 13% year-over-year growth driven by strong net new user growth.

Digital Experience

We are a market leader in the fast-growing category addressed by our Digital Experience segment. The Adobe Experience Cloud applications, services and platform are designed to manage customer journeys, enable shoppable experiences and deliver intelligence for businesses of any size in any industry. Our differentiation and competitive advantage are strengthened by our ability to use the Adobe Experience Platform to integrate our comprehensive set of solutions.

Adobe Experience Cloud delivers solutions for our customers across the following strategic growth pillars:

- *Data insights and audiences*. Our solutions, including Adobe Analytics, Adobe Experience Platform, Customer Journey Analytics, Adobe Audience Manager and our Real-time Customer Data Platform, deliver robust customer profiles and AI-powered analytics across the customer journey to provide timely, relevant experiences across platforms.

- *Content and commerce*. Our solutions help customers manage, deliver and optimize content delivery through Adobe Experience Manager, and to enable shopping experiences that scale from mid-market to enterprise businesses with Adobe Commerce.

- *Customer journeys*. Our solutions help businesses manage, test, target, personalize and orchestrate campaigns and customer journeys across B2E use cases, including through Marketo Engage, Adobe Campaign, Adobe Target and Journey Optimizer.

- *Marketing workflow*. We offer Adobe Workfront, a work management platform directed toward marketers to orchestrate campaign workflows.

In addition to chief marketing officers, chief revenue officers and digital marketers, users of our Digital Experience solutions include advertisers, campaign managers, publishers, data analysts, content managers, social marketers, marketing executives and information management and technology executives. These customers often are involved in workflows that utilize other Adobe products, such as our Digital Media offerings. By combining the creativity of our Digital Media business with the science of our Digital Experience business, we help our customers to more efficiently and effectively make, manage, measure and monetize their content across every channel with an end-to-end workflow and feedback loop.

We utilize a direct sales force to market and license our Digital Experience solutions, as well as an extensive ecosystem of partners, including marketing agencies, systems integrators and independent software vendors that help license and deploy our solutions to their customers. We have made significant investments to broaden the scale and size of all of these routes to market, and our recent financial results reflect the success of these investments.

Digital Experience revenue was $1.12 billion in the third quarter of fiscal 2022, up from $985 million in the third quarter of fiscal 2021, representing 14% year-over-year growth. Driving this increase was the increase in subscription revenue, which grew to $981 million in the third quarter of fiscal 2022 from $864 million in the third quarter of fiscal 2021, representing 14% year-over-year growth.

Macroeconomic Conditions

As a corporation with an extensive global footprint, we are subject to risks and exposures from foreign currency exchange rate fluctuations caused by significant events with macroeconomic impacts, including, but not limited to, the Russia-Ukraine war, COVID-19 pandemic and actions taken by central banks to counter inflation. We continuously monitor the direct and indirect impacts of these circumstances on our business and financial results, as well as the overall global economy and geopolitical landscape. Foreign currency exchange rate fluctuations have negatively impacted our revenue and earnings during the nine months ended September 2, 2022, and may continue to negatively impact our financial results in the fourth quarter of fiscal 2022.

While our revenue and earnings are relatively predictable as a result of our subscription-based business model, the broader implications of these macroeconomic events on our business, results of operations and overall financial position, particularly in the long term, remain uncertain. *See Risk Factors for further discussion of the possible impact of these macroeconomic issues on our business.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, business combinations and income taxes have the greatest potential impact on our condensed consolidated financial statements. These areas are key components of our results of operations and are based on complex rules requiring us to make judgments and estimates, and consequently, we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

There have been no significant changes in our critical accounting policies and estimates during the nine months ended September 2, 2022, as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 3, 2021.

Recent Accounting Pronouncements

See Note 1 of our notes to condensed consolidated financial statements for information regarding recent accounting pronouncements that are of significance or potential significance to us.

RESULTS OF OPERATIONS

Financial Performance Summary

- Total Digital Media ARR of approximately $13.40 billion as of September 2, 2022 increased by $1.24 billion, or 10%, from $12.15 billion as of December 3, 2021. The change in our Digital Media ARR is primarily due to new user adoption of our Creative Cloud and Document Cloud offerings, partially offset by an $87 million ARR reduction taken in March 2022 in response to the Russia-Ukraine war.

- Creative revenue during the three months ended September 2, 2022 of $2.63 billion increased by $253 million, or 11%, compared to the year-ago period. Document Cloud revenue during the three months ended September 2, 2022 of $607 million increased by $114 million, or 23%, compared to the year-ago period. The increases were primarily due to subscription revenue growth associated with our Creative Cloud and Document Cloud offerings.

- Digital Experience revenue of $1.12 billion during the three months ended September 2, 2022 increased by $135 million, or 14%, compared to the year-ago period. The increase was primarily due to subscription revenue growth across our offerings.

- Remaining performance obligations of $14.11 billion as of September 2, 2022 increased by $115 million, or 1%, from $13.99 billion as of December 3, 2021 primarily due to new contracts and renewals for our Digital Media offerings, partially offset by the impact of foreign currency exchange rate fluctuations.

- Cost of revenue of $546 million during the three months ended September 2, 2022 increased by $79 million, or 17%, compared to the year-ago period primarily due to increases in hosting services and data center costs, as well as increases in base and incentive compensation and related benefits costs.

- Operating expenses of $2.40 billion during the three months ended September 2, 2022 increased by $376 million, or 19%, compared to the year-ago period primarily due to increases in base and incentive compensation and related benefits costs, as well as increased marketing spend.

- Cash flows from operations of $5.51 billion during the nine months ended September 2, 2022 increased by $349 million, or 7%, compared to the year-ago period primarily due to higher net income adjusted for the net effect of non-cash items.

Revenue for the Three and Nine Months Ended September 2, 2022 and September 3, 2021

Revenue for the nine months ended September 3, 2021 benefited from an extra week in the first quarter of fiscal 2021 due to our 52/53 week financial calendar whereby fiscal 2022 is a 52-week year compared with fiscal 2021 which was a 53-week year.

(dollars in millions)	Three Months			Nine Months		
	2022	2021	% Change	2022	2021	% Change
Subscription	$ 4,128	$ 3,657	13 %	$ 12,156	$ 10,761	13 %
Percentage of total revenue	93 %	93 %		93 %	92 %	
Product	126	119	6 %	417	427	(2)%
Percentage of total revenue	3 %	3 %		3 %	4 %	
Services and other	179	159	13 %	508	487	4 %
Percentage of total revenue	4 %	4 %		4 %	4 %	
Total revenue	$ 4,433	$ 3,935	13 %	$ 13,081	$ 11,675	12 %

Subscription

Our subscription revenue is comprised primarily of fees we charge for our subscription and hosted service offerings, and related support, including Creative Cloud and certain of our Adobe Experience Cloud and Document Cloud services. We primarily recognize subscription revenue ratably over the term of agreements with our customers, beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions and invoicing is aligned to the pattern of performance, customer benefit and consumption, are recognized on a usage basis.

We have the following reportable segments: Digital Media, Digital Experience, and Publishing and Advertising. Subscription revenue by reportable segment for the three and nine months ended September 2, 2022 and September 3, 2021 is as follows:

(dollars in millions)	Three Months			Nine Months		
	2022	2021	% Change	2022	2021	% Change
Digital Media	$ 3,116	$ 2,757	13 %	$ 9,190	$ 8,156	13 %
Digital Experience	981	864	14 %	2,874	2,493	15 %
Publishing and Advertising	31	36	(14)%	92	112	(18)%
Total subscription revenue	$ 4,128	$ 3,657	13 %	$ 12,156	$ 10,761	13 %

Product

Our product revenue is comprised primarily of fees related to licenses for on-premise software purchased on a perpetual basis, for a fixed period of time or based on usage for certain of our OEM and royalty agreements. We primarily recognize product revenue at the point in time the software is available to the customer, provided all other revenue recognition criteria are met.

Services and Other

Our services and other revenue is comprised primarily of fees related to consulting, training, maintenance and support for certain on-premise licenses that are recognized at a point in time and our advertising offerings. We typically sell our consulting contracts on a time-and-materials and fixed-fee basis. These revenues are recognized as the services are performed for time-and-materials contracts and on a relative performance basis for fixed-fee contracts. Training revenues are recognized as the services are performed. Our maintenance and support offerings, which entitle customers, partners and developers to receive desktop product upgrades and enhancements or technical support, depending on the offering, are generally recognized ratably over the term of the arrangement. Transaction-based advertising revenue is recognized on a usage basis as we satisfy the performance obligations to our customers.

Segment Information

(dollars in millions)	Three Months		% Change	Nine Months		% Change
	2022	2021		2022	2021	
Digital Media	$ 3,232	$ 2,865	13 %	$ 9,542	$ 8,511	12 %
Percentage of total revenue	73 %	73 %		73 %	73 %	
Digital Experience	1,120	985	14 %	3,272	2,857	15 %
Percentage of total revenue	25 %	25 %		25 %	24 %	
Publishing and Advertising	81	85	(5)%	267	307	(13)%
Percentage of total revenue	2 %	2 %		2 %	3 %	
Total revenue	$ 4,433	$ 3,935	13 %	$ 13,081	$ 11,675	12 %

Digital Media

Revenue by major offerings in our Digital Media reportable segment for the three and nine months ended September 2, 2022 and September 3, 2021 were as follows:

(dollars in millions)	Three Months		% Change	Nine Months		% Change
	2022	2021		2022	2021	
Creative Cloud	$ 2,625	$ 2,372	11 %	$ 7,778	$ 7,069	10 %
Document Cloud	607	493	23 %	1,764	1,442	22 %
Total Digital Media revenue	$ 3,232	$ 2,865	13 %	$ 9,542	$ 8,511	12 %

Revenue from Digital Media increased $367 million and $1.03 billion during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 driven by increases in revenue associated with our Creative and Document Cloud subscription offerings due to continued demand amid an increasingly digital environment and strong customer acquisition and engagement.

Digital Experience

Revenue from Digital Experience increased $135 million and $415 million during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 primarily due to net new additions across our subscription offerings.

Geographical Information

(dollars in millions)	Three Months		% Change	Nine Months		% Change
	2022	2021		2022	2021	
Americas	$ 2,600	$ 2,242	16 %	$ 7,570	$ 6,651	14 %
Percentage of total revenue	59 %	57 %		58 %	57 %	
EMEA	1,143	1,061	8 %	3,436	3,139	9 %
Percentage of total revenue	26 %	27 %		26 %	27 %	
APAC	690	632	9 %	2,075	1,885	10 %
Percentage of total revenue	15 %	16 %		16 %	16 %	
Total revenue	$ 4,433	$ 3,935	13 %	$ 13,081	$ 11,675	12 %

Overall revenue during the three and nine months ended September 2, 2022 increased in all geographic regions as compared to the three and nine months ended September 3, 2021 primarily due to increases in Digital Media and Digital Experience revenue. Within each geographic region, the fluctuations in revenue by reportable segment were attributable to the factors noted in the segment information above.

Included in the overall change in revenue for the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 were impacts associated with foreign currency which were mitigated in part by our foreign currency hedging program. During the three and nine months ended September 2, 2022 as compared to the year-ago periods, the U.S. Dollar strengthened against foreign currencies, including the Euro and the Japanese Yen, which decreased revenue in U.S. Dollar equivalents by $156 million and $273 million, respectively. For the three and nine months ended

September 2, 2022, the foreign currency impacts to revenue were offset in part by net hedging gains from our cash flow hedging program of $54 million and $105 million, respectively.

Cost of Revenue for the Three and Nine Months Ended September 2, 2022 and September 3, 2021

(dollars in millions)	Three Months			Nine Months		
	2022	2021	% Change	2022	2021	% Change
Subscription	$ 413	$ 344	20 %	$ 1,216	$ 996	22 %
Percentage of total revenue	9 %	9 %		9 %	9 %	
Product	8	10	(20)%	27	29	(7)%
Percentage of total revenue	*	*		*	*	
Services and other	125	113	11 %	354	333	6 %
Percentage of total revenue	3 %	3 %		3 %	3 %	
Total cost of revenue	$ 546	$ 467	17 %	$ 1,597	$ 1,358	18 %

(*) Percentage is less than 1%.

Subscription

Cost of subscription revenue consists of third-party hosting services and data center costs, including expenses related to operating our network infrastructure. Cost of subscription revenue also includes compensation costs associated with network operations, implementation, account management and technical support personnel, royalty fees, software costs and amortization of certain intangible assets.

Cost of subscription revenue increased during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 primarily due to the following:

	Components of % Change 2022-2021 QTD	Components of % Change 2022-2021 YTD
Hosting services and data center costs	8 %	11 %
Amortization of intangibles	6	5
Base compensation and related benefits	3	3
Incentive compensation, cash and stock-based	1	1
Royalty costs	2	2
Total change	20 %	22 %

Product

Cost of product revenue is primarily comprised of third-party royalties, localization costs and the costs associated with the manufacturing of our products.

Services and Other

Cost of services and other revenue is primarily comprised of compensation and contracted costs incurred to provide consulting services, training and product support, and hosting services and data center costs.

Cost of services and other revenue increased during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 primarily due to increases in professional fees and compensation costs.

Operating Expenses for the Three and Nine Months Ended September 2, 2022 and September 3, 2021

(dollars in millions)	Three Months			Nine Months		
	2022	2021	% Change	2022	2021	% Change
Research and development	$ 775	$ 651	19 %	$ 2,214	$ 1,883	18 %
Percentage of total revenue	17 %	17 %		17 %	16 %	
Sales and marketing	1,266	1,068	19 %	3,671	3,190	15 %
Percentage of total revenue	29 %	27 %		28 %	27 %	
General and administrative	319	265	20 %	879	811	8 %
Percentage of total revenue	7 %	7 %		7 %	7 %	
Amortization of intangibles	43	43	— %	127	132	(4)%
Percentage of total revenue	1 %	1 %		1 %	1 %	
Total operating expenses	$ 2,403	$ 2,027	19 %	$ 6,891	$ 6,016	15 %

Research and Development

Research and development expenses consist primarily of compensation and contracted costs associated with software development, third-party hosting services and data center costs, related facilities costs and expenses associated with computer equipment and software used in development activities.

Research and development expenses increased during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 primarily due to the following:

	Components of % Change 2022-2021 QTD	Components of % Change 2022-2021 YTD
Incentive compensation, cash and stock-based	8 %	7 %
Base compensation and related benefits	8	7
Professional and consulting fees	1	2
Various individually insignificant items	2	2
Total change	19 %	18 %

Investments in research and development, including the recruiting and hiring of software developers, are critical to remain competitive in the marketplace and are directly related to continued timely development of new and enhanced offerings and solutions. We will continue to focus on long-term opportunities available in our end markets and make significant investments in the development of our subscription and service offerings, applications and tools.

Sales and Marketing

Sales and marketing expenses consist primarily of compensation costs, amortization of contract acquisition costs, including sales commissions, travel expenses and related facilities costs for our sales, marketing, order management and global supply chain management personnel. Sales and marketing expenses also include the costs of programs aimed at increasing revenue, such as advertising, trade shows and events, public relations and other market development programs.

Sales and marketing expenses increased during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 primarily due to the following:

	Components of % Change 2022-2021 QTD	Components of % Change 2022-2021 YTD
Marketing spend related to campaigns, events and overall marketing efforts	7 %	5 %
Base compensation and related benefits	5	4
Incentive compensation, cash and stock-based	3	3
Professional and consulting fees	2	2
Various individually insignificant items	2	1
Total change	19 %	15 %

General and Administrative

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

General and administrative expenses increased during the three and nine months ended September 2, 2022 as compared to the three and nine months ended September 3, 2021 primarily due to the following:

	Components of % Change 2022-2021 QTD	Components of % Change 2022-2021 YTD
Charitable contributions	6 %	2 %
Base compensation and related benefits	5	3
Incentive compensation, cash and stock-based	5	2
Bad debt expense	3	1
Various individually insignificant items	1	—
Total change	20 %	8 %

Amortization of Intangibles

Amortization expenses decreased during the nine months ended September 2, 2022 as compared to the nine months ended September 3, 2021 primarily due to certain intangible assets from previous acquisitions becoming fully amortized in fiscal 2021. The decrease in amortization expense was partially offset by increases to amortization expense primarily associated with intangible assets purchased through our acquisition of Frame.io during the fourth quarter of fiscal 2021.

Non-Operating Income (Expense), Net for the Three and Nine Months Ended September 2, 2022 and September 3, 2021

(dollars in millions)	Three Months			Nine Months		
	2022	2021	% Change	2022	2021	% Change
Interest expense	$ (28)	$ (27)	4 %	$ (84)	$ (85)	(1)%
Percentage of total revenue	(1)%	(1)%		(1)%	(1)%	
Investment gains (losses), net	(6)	7	**	(23)	20	**
Percentage of total revenue	*	*		*	*	
Other income (expense), net	6	(3)	**	5	1	**
Percentage of total revenue	*	*		*	*	
Total non-operating income (expense), net	$ (28)	$ (23)	**	$ (102)	$ (64)	**

(*) Percentage is less than 1%.
(**) Percentage is not meaningful.

Interest Expense

Interest expense represents interest associated with our debt instruments. Interest on our senior notes is payable semi-annually, in arrears, on February 1 and August 1.

Investment Gains (Losses), Net

Investment gains (losses), net consists principally of unrealized holding gains and losses associated with our deferred compensation plan assets, and gains and losses associated with our direct and indirect investments in privately held companies.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest earned on cash, cash equivalents and short-term fixed income investments. Other income (expense), net also includes realized gains and losses on fixed income investments and foreign exchange gains and losses.

Provision for Income Taxes for the Three and Nine Months Ended September 2, 2022 and September 3, 2021

(dollars in millions)	Three Months		% Change	Nine Months		% Change
	2022	2021		2022	2021	
Provision for income taxes	$ 320	$ 206	55 %	$ 911	$ 648	41 %
Percentage of total revenue	7 %	5 %		7 %	6 %	
Effective tax rate	22 %	15 %		20 %	15 %	

Our effective tax rates increased by approximately seven percentage points and five percentage points for the three and nine months ended September 2, 2022, respectively, as compared to the three and nine months ended September 3, 2021, primarily due to lower tax benefits related to stock-based compensation during the three and nine months ended September 2, 2022.

Our effective tax rate for the three months ended September 2, 2022 was higher than the U.S. federal statutory tax rate of 21% primarily due to the impact of state taxes, partially offset by the U.S. federal research tax credit. Our effective tax rate for the nine months ended September 2, 2022 was lower than the U.S. federal statutory tax rate of 21%, primarily due to the impact of the U.S. federal research tax credit and tax benefits related to stock-based compensation, partially offset by state taxes.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we considered all available positive and negative evidence, including our past operating results, forecasted earnings, future taxable income and prudent and feasible tax planning strategies. On the basis of this evaluation, we continue to maintain a valuation allowance to reduce our deferred tax assets to the amount realizable. The total valuation allowance was $427 million as of September 2, 2022, primarily attributable to certain state credits.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. The current U.S. tax law subjects the earnings of certain foreign subsidiaries to U.S. tax and generally allows an exemption from taxation for distributions from foreign subsidiaries.

In the current global tax policy environment, the U.S. Treasury and other domestic and foreign governing bodies continue to consider, and in some cases introduce, changes in regulations applicable to corporate multinationals such as Adobe. As regulations are issued, we account for finalized regulations in the period of enactment.

Accounting for Uncertainty in Income Taxes

The gross liabilities for unrecognized tax benefits excluding interest and penalties were $307 million and $289 million as of September 2, 2022 and September 3, 2021, respectively. If the total unrecognized tax benefits at September 2, 2022 and September 3, 2021 were recognized, $198 million and $204 million would decrease the respective effective tax rates.

As of September 2, 2022 and September 3, 2021, the combined amounts of accrued interest and penalties related to tax positions taken on our tax returns were approximately $14 million and $23 million, respectively. These amounts were included in long-term income taxes payable in their respective years.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of our tax assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Given the uncertainties described above, we can only determine a range of estimated potential decreases in underlying unrecognized tax benefits ranging from $0 to approximately $15 million over the next 12 months.

In addition, in the United States and other countries where we conduct business and in jurisdictions in which we are subject to tax, including those covered by governing bodies that enact tax laws applicable to us, such as the European Commission of the European Union, we are subject to potential changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These countries, other governmental bodies and intergovernmental economic organizations such as the Organization for Economic Cooperation and Development, have or could make unprecedented assertions about how taxation is determined in their jurisdictions that are contrary to the way in which we have interpreted and historically applied the rules and regulations described above in such jurisdictions. In the current global tax policy environment, any changes in laws, regulations and interpretations related to these assertions could adversely affect our effective tax rates, cause us to respond by making changes to our business structure, or result in other costs to us which could adversely affect our operations and financial results.

Moreover, we are subject to examinations by the U.S. Internal Revenue Service and other domestic and foreign taxing authorities. Although we believe our worldwide provision for income taxes and other tax liabilities are reasonable, the determination of certain positions requires significant judgement, of which we cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

This data should be read in conjunction with our condensed consolidated statements of cash flows.

	As of	
(in millions)	September 2, 2022	December 3, 2021
Cash and cash equivalents	$ 3,870	$ 3,844
Short-term investments	$ 1,894	$ 1,954
Working capital	$ 1,051	$ 1,737
Stockholders' equity	$ 14,373	$ 14,797

A summary of our cash flows is as follows:

	Nine Months Ended	
(in millions)	September 2, 2022	September 3, 2021
Net cash provided by operating activities	$ 5,513	$ 5,164
Net cash used for investing activities	(501)	(1,798)
Net cash used for financing activities	(4,914)	(3,223)
Effect of foreign currency exchange rates on cash and cash equivalents	(72)	2
Net change in cash and cash equivalents	$ 26	$ 145

Our primary source of cash is receipts from revenue. Our primary uses of cash are our stock repurchase program as described below, payroll-related expenses, general operating expenses including marketing, travel and office rent, and cost of revenue. Other sources of cash include proceeds from participation in the employee stock purchase plan. Other uses of cash include business acquisitions, purchases of property and equipment and payments for taxes related to net share settlement of equity awards.

Cash Flows from Operating Activities

Net cash provided by operating activities of $5.51 billion for the nine months ended September 2, 2022 was primarily comprised of net income adjusted for the net effect of non-cash items and changes in operating assets and liabilities. The primary working capital sources of cash were net income, together with decreases in trade receivables driven by strong collections. The primary working capital uses of cash were decreases in accrued expenses and other liabilities largely driven by the payment of accrued bonuses and operating leases.

Cash Flows from Investing Activities

Net cash used for investing activities of $501 million for the nine months ended September 2, 2022 was primarily due to ongoing capital expenditures and business acquisitions.

Cash Flows from Financing Activities

Net cash used for financing activities of $4.91 billion for the nine months ended September 2, 2022 was primarily due to payments for our common stock repurchases and taxes paid related to the net share settlement of equity awards, offset in part by proceeds from re-issuance of treasury stock mainly for our employee stock purchase plan. *See the section titled "Stock Repurchase Program" below.*

Liquidity and Capital Resources Considerations

Our existing cash, cash equivalents and investment balances may fluctuate during fiscal 2022 due to changes in our planned cash outlay.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, risks detailed in Part II, Item 1A titled “Risk Factors.” Based on our current business plan and revenue prospects, we believe that our existing cash, cash equivalents and investment balances, our anticipated cash flows from operations and our available credit facility will be sufficient to meet our working capital, operating resource expenditure and capital expenditure requirements for the next twelve months.

Our cash equivalent and short-term investment portfolio as of September 2, 2022 consisted of asset-backed securities, corporate debt securities, foreign government securities, money market funds, municipal securities, time deposits, U.S. agency securities and U.S. Treasury securities. We use professional investment management firms to manage a large portion of our invested cash.

We expect to continue our investing activities, including short-term and long-term investments, purchases of computer systems for research and development, sales and marketing, product support and administrative staff, and facilities expansion. Furthermore, cash reserves may be used to repurchase stock under our stock repurchase program and to strategically acquire companies, products or technologies that are complementary to our business.

Subsequent to September 2, 2022, we entered into a definitive agreement under which we intend to acquire Figma, Inc. (“Figma”) for approximately $20 billion, comprised of approximately half cash and half stock, subject to customary purchase price adjustments. Approximately 6 million additional restricted stock units will be granted to Figma’s Chief Executive Officer and employees that will vest over four years subsequent to closing. The transaction is subject to regulatory approvals and customary closing conditions, and is expected to close in 2023. We will be required to pay Figma a reverse termination fee of $1 billion if the transaction fails to receive regulatory clearance, assuming all other closing conditions have been satisfied or waived, or if it fails to close within 18 months from September 15, 2022. We expect to finance the cash portion of the consideration using cash, cash equivalent and short-term investment balances on hand and, if necessary, a term loan. While the transaction is pending, at a minimum we expect to maintain share repurchases sufficient to offset the dilution of equity issuances to our employees. *See Note 3 of our notes to condensed consolidated financial statements for further information regarding our intended acquisition of Figma.*

Revolving Credit Agreement

On June 30, 2022, we entered into a credit agreement (the “Revolving Credit Agreement”) with a syndicate of lenders, providing for a five-year $1.5 billion senior unsecured revolving credit facility through June 30, 2027, which replaces our previous five-year $1 billion senior unsecured revolving credit agreement dated as of October 17, 2018. Subject to the agreement of lenders, we may obtain up to an additional $500 million in commitments, for a maximum aggregate commitment of $2 billion. As of September 2, 2022, there were no outstanding borrowings under the Revolving Credit Agreement and the entire $1.5 billion credit line remains available for borrowing.

Under the terms of our Revolving Credit Agreement, we are not prohibited from paying cash dividends unless payment would trigger an event of default or if one currently exists. We do not anticipate paying any cash dividends in the foreseeable future.

Senior Notes

We have $4.15 billion senior notes outstanding, which rank equally with our other unsecured and unsubordinated indebtedness. As of September 2, 2022, the carrying value of our senior notes was $4.13 billion and our maximum commitment for interest payments was $416 million for the remaining duration of our outstanding senior notes. Interest is payable semi-annually, in arrears, on February 1 and August 1. Our senior notes do not contain any financial covenants. *See Note 14 of our notes to condensed consolidated financial statements for further details regarding our debt.*

During the first quarter of fiscal 2022, we reclassified the senior notes due February 1, 2023 as current debt in our condensed consolidated balance sheets. As of September 2, 2022, the carrying value of our current debt was $500 million, net of the related discount and issuance costs. We intend to refinance the current portion of our debt on or before the due date.

Contractual Obligations

Our principal commitments as of September 2, 2022 consisted of purchase obligations resulting from agreements to purchase goods and services in the ordinary course of business and obligations under operating lease arrangements. During the second quarter of fiscal 2022, we restructured certain of our long-term supplier commitments that increased our minimum purchase obligations by $4.75 billion through May 2029. There have been no other material changes to our non-cancellable unconditional purchase obligations during the nine months ended September 2, 2022.

Other

Our transition tax liability related to historical undistributed foreign earnings, which was accrued as a result of the U.S. Tax Act was approximately $313 million as of September 2, 2022 and is payable in installments through fiscal 2026. As we repatriate foreign earnings for use in the United States, the distributions will generally be exempt from federal income taxes under current U.S. tax law. In addition, the U.S. Tax Act requires companies to capitalize and amortize research and development expenditures starting fiscal 2023. If not modified, we anticipate an adverse impact to our effective rates for income taxes paid, which will be partially offset by the increase in the foreign-derived intangible income deduction, for fiscal 2023 and beyond.

The Inflation Reduction Act enacted on August 16, 2022 introduced new provisions including a corporate book minimum tax effective for us beginning in fiscal 2024 and an excise tax on net stock repurchases made after December 31, 2022. We are currently evaluating the impacts, if any, of these provisions to our results of operations and cash flows.

Stock Repurchase Program

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase shares in the open market or enter into structured repurchase agreements with third parties. In December 2020, our Board of Directors granted authority to repurchase up to $15 billion in common stock through the end of fiscal 2024.

During the nine months ended September 2, 2022, we repurchased a total of 10.7 million shares, including approximately 5.4 million shares at an average price of $429.13 through structured repurchase agreements entered into during fiscal 2021 and the nine months ended September 2, 2022, as well as 5.3 million shares at an average purchase price of $451.55 through an accelerated share repurchase agreement entered into during the first quarter of fiscal 2022.

During the third quarter of fiscal 2022, we entered into a structured stock repurchase agreement with a large financial institution, whereupon we provided them with a prepayment of $1.2 billion. As of September 2, 2022, $400 million of prepayment remained under our outstanding structured stock repurchase agreement.

Subsequent to September 2, 2022, as part of the December 2020 stock repurchase authority, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $1.75 billion. Upon completion of the $1.75 billion stock repurchase agreement, $6.55 billion remains under our December 2020 authority.

See Note 11 of our notes to condensed consolidated financial statements for further details regarding our stock repurchase program.

Indemnifications

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk exposures for the nine months ended September 2, 2022, as compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended December 3, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of September 2, 2022, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and regulations and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended September 2, 2022 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Adobe have been detected.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 13 of our notes to condensed consolidated financial statements for information regarding our legal proceedings.

ITEM 1A. RISK FACTORS

As previously discussed, our actual results could differ materially from our forward-looking statements. Below we discuss some of the factors that could cause these differences. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

Risks Related to Our Ability to Grow Our Business

The effects of the COVID-19 pandemic have materially affected how we and our customers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

The COVID-19 pandemic and related public health measures have materially affected how we and our customers are operating our businesses and have in the past materially affected our operating results; the extent to which this will impact our future results remains uncertain. Due to our subscription-based business model, the effect of the pandemic may not be fully reflected in our results of operations until future periods. If the pandemic has a substantial impact on our employees', partners' or customers' businesses and productivity, our results of operations and overall financial performance may be harmed. The global macroeconomic effects of the pandemic may persist for an indefinite period, including in specific regions of the world or sectors of the economy, even after the pandemic has subsided.

The spread of COVID-19 has caused us to modify our business practices, including implementing prolonged closures of certain Adobe offices and restricting employee travel. We have since re-opened our offices and encouraged employees to return to the office on a voluntary basis. The reopening of our U.S. offices has created and may continue to create additional risks and operational challenges and may require us to make additional investments in the design, implementation and enforcement of new workplace health and safety protocols. Even if we follow what we believe to be best practices, our efforts to reopen our offices safely may not be successful and could expose our employees, partners and customers to health risks, and us to associated liability. Furthermore, additional governmental restrictions, new regulations or other changing conditions could cause us to temporarily re-close certain offices. We have offered, and plan to continue to offer, a significant percentage of our employees flexibility in the amount of time they work in an office, which may adversely impact the productivity of certain employees and harm our business, including our future operating results. This may also present risks for our real estate portfolio and strategy and may present operational, cybersecurity and workplace culture challenges that may adversely affect our business.

We have continued to host hybrid and virtual-only customer experiences, and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. Our virtual or hybrid customer, employee and industry events may not be as successful as in-person events. Moreover, the conditions caused by the pandemic has affected the rate of IT spending and may in the future adversely affect our customers' ability or willingness to purchase our offerings. We have seen and may continue to see these conditions delay prospective customers' purchasing decisions, adversely impact our ability to provide on-site consulting services to our customers, result in extended payment terms, reduce the value or duration of their subscription contracts, or affect attrition rates, all of which could adversely affect our future sales, operating results and overall financial performance.

Our operations have also been negatively affected by a range of external factors related to the pandemic that are not within our control, and COVID-19 cases (including the emergence and spread of more transmissible variants) continue to surge in certain parts of the world, including the United States. Vaccines for COVID-19 continue to be administered in the United States and other countries around the world, but the extent and rate of vaccine adoption, the long-term efficacy of these vaccines and other factors remain uncertain. Authorities throughout the world have from time to time implemented measures to contain or mitigate the spread of the virus, including physical distancing, travel bans and restrictions, closure of non-essential businesses, quarantines, work-from-home directives, mask requirements, shelter-in-place orders and vaccination programs. These measures have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide, which have impacted our business and results of operations, may delay the provisioning of our offerings and may impact our employees. As long as the pandemic continues, our employees will continue to be exposed to health risks, and we could be negatively impacted in the future if a significant number of our employees, or employees who perform critical functions, become ill, quarantine as a result of exposure to COVID-19 or do not comply with vaccination programs. As we continue to monitor the situation and public health guidance throughout the world, we may adjust our current policies and practices, and existing and new precautionary measures could negatively affect our operations.

The extent of the impact from the pandemic depends on future developments that cannot be accurately predicted at this time, such as the duration and spread of the pandemic, future waves of COVID-19 infections (including the spread of variants or mutant strains) resulting in additional preventive measures to contain or mitigate the spread of the virus, the extent and effectiveness of containment actions, the administration, adoption and efficacy of vaccination programs and the impact of these and other factors on our employees, customers, partners and vendors. If we are not able to respond to and manage the impact of such events effectively, our business will be harmed.

Finally, to the extent that the pandemic harms our business and results of operations, many of the other risks described in this "Risk Factors" section may be heightened.

Our competitive position and results of operations could be harmed if we do not compete effectively.

The markets for our products and services are characterized by intense competition, new industry standards, evolving distribution models, limited barriers to entry, disruptive technology developments, short product life cycles, customer price sensitivity, global market conditions and frequent product introductions (including alternatives with limited functionality available at lower costs or free of charge). Any of these factors could create downward pressure on pricing and gross margins and could adversely affect our renewal and upsell and cross-sell rates, as well as our ability to attract new customers. Our future success will depend on our continued ability to enhance and integrate our existing products and services, introduce new products and services in a timely and cost-effective manner, meet changing customer expectations and needs, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. Furthermore, some of our competitors and potential competitors enjoy competitive advantages such as greater financial, technical, sales, marketing and other resources, broader brand awareness and access to larger customer bases. As a result of these advantages, potential and current customers might select the products and services of our competitors, causing a loss of our market share. In addition, consolidation has occurred among some of our competitors. Further consolidations in these markets may subject us to increased competitive pressures and may 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 titled "Competition" contained in Part I, Item 1 of our Annual Report on Form 10-K.

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

The process of developing and acquiring new technology products and services and enhancing existing offerings is complex, costly and uncertain. If we fail to anticipate customers' rapidly changing needs and expectations or adapt to emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop, acquire or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. Additionally, any delay in the development, acquisition, marketing or launch of a new offering or enhancement to an existing offering could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenue, earnings or stock price and weakening our competitive position.

Consumers continue to migrate from personal computers to tablet and mobile devices. While we offer our products on a variety of hardware platforms, if we cannot continue adapting our products to tablet and mobile devices or the web, or if our competitors can adapt their products more quickly than us, our business could be harmed. Releases of new devices or operating systems may make it more difficult for our products to perform or may require significant cost to adapt our solutions to such devices or operating systems. These potential costs and delays could harm our business.

Introduction of new technology could harm our business and results of operations.

The expectations and needs of technology consumers are constantly evolving. Our future success depends on a variety of factors, including our continued ability to innovate, introduce new products and services efficiently, enhance and integrate our products and services in a timely and cost-effective manner, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. Integration of our products and services with one another and other companies' offerings creates an increasingly complex ecosystem that is partly reliant on third parties. If any disruptive technology, or competing products, services or operating systems that are not compatible with our solutions, achieve widespread acceptance, our operating results could suffer and our business could be harmed.

The introduction of, or limitations on, certain technologies may reduce the effectiveness of our products. For example, some of our products rely on tracking, third-party cookies or other identifiers to help our customers more effectively advertise and detect and prevent fraudulent activity. Consumers can control the use of these technologies through their browsers, operating systems, device settings or "ad-blocking" software or applications. Increased use of such methods, software or applications could harm our business.

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

We may not realize the anticipated benefits of an investment or acquisition of a company, division, product or technology, each of which involves numerous risks. These risks include:

- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- difficulty in, and the cost of, effectively integrating the operations, technologies, products or services, and personnel of the acquired business;
- entry into markets in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of our management and other employees from other opportunities and challenges;
- 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 take advantage of anticipated tax benefits;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- elevated delinquency or bad debt write-offs related to receivables of the acquired business we assume;
- additional costs of bringing acquired companies into compliance with laws and regulations applicable to a multinational corporation;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- impairment of our relationships with employees, customers, partners, distributors or third-party providers of our technologies, products or services;
- failure of our due diligence processes to identify significant problems, liabilities or other challenges of an acquired company or technology;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, such as 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;
- inability to conclude that our internal controls over financial reporting are effective;
- inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions;
- the failure of strategic investments to perform as expected or to meet financial projections;
- delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product and service offerings;
- increased accounts receivables collection times and working capital requirements associated with acquired business models; and
- incompatibility of business cultures.

Mergers and acquisitions of technology companies are inherently risky. If we do not complete an announced acquisition transaction, including the pending acquisition of Figma, Inc., or integrate an acquired business successfully and in a timely manner, we may not realize the benefits of the acquisition to the extent anticipated, and in certain circumstances an acquisition could harm our financial position.

Our ability to acquire other businesses or technologies, make strategic investments or integrate acquired businesses effectively may also be impaired by the effects of the COVID-19 pandemic, government actions in light of the pandemic, trade tensions and increased global scrutiny of foreign investments. For example, a number of countries, including the United States and countries in Europe and the Asia-Pacific region, are considering or have adopted restrictions on foreign investments. Governments may continue to adopt or tighten restrictions of this nature, and such restrictions could negatively impact our business and financial results.

The success of some of our product and service offerings depends on our ability to continue to attract and retain customers of and contributors to our online marketplaces for creative content.

The success of some of our product and service offerings, such as Adobe Stock, depends on our ability to continue to attract new customers and contributors to these online marketplaces for creative content, as well as our ability to continue to retain existing customers and contributors. An increase in paying customers has generally resulted in more content from contributors, which increases the size of our collection and in turn attracts new paying customers. We rely on the functionality and features of our online marketplaces, the size and content of our collection and the effectiveness of our marketing efforts to attract new customers and contributors and retain existing ones. New technologies may render the features of our online marketplaces obsolete, our collection may fail to grow as anticipated or our marketing efforts may be unsuccessful, any of which may adversely affect our results of operations.

If our products or platforms are used to create or disseminate objectionable content, particularly misleading content intended to manipulate public opinion, our brand reputation may be damaged, and our business and financial results may be harmed.

We believe that our brands have significantly contributed to the success of our business. Maintaining and enhancing the brands within Adobe increases our ability to enter new categories, launch new and innovative products to better serve our customers and expand our customer base. Our brands may be negatively affected by the use of our products or services to create or disseminate newsworthy content that is deemed to be misleading, deceptive, or intended to manipulate public opinion (e.g., “DeepFakes”), by the use of our products or services for illicit, objectionable or illegal ends, or by our failure to respond appropriately and expeditiously to such uses of our products and services. Such uses of our products and services may also cause us to face claims related to defamation, rights of publicity and privacy, illegal content, misinformation and personal injury torts. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. If we fail to appropriately respond to objectionable content created using our products or services or shared on our platforms, our users may lose confidence in our brands and our business and financial results may be adversely affected.

Social and ethical issues relating to the use of new and evolving technologies, such as AI, in our offerings may result in reputational harm and liability.

Social and ethical issues relating to the use of new and evolving technologies such as artificial intelligence (“AI”) in our offerings, may result in reputational harm and liability, and may cause us to incur additional research and development costs to resolve such issues. We are increasingly building AI into many of our offerings. As with many innovations, AI presents risks and challenges that could affect its adoption, and therefore our business. If we enable or offer solutions that draw controversy due to their perceived or actual impact on society, we may experience brand or reputational harm, competitive harm or legal liability. Potential government regulation related to AI ethics may also increase the burden and cost of research and development in this area, subjecting us to brand or reputational harm, competitive harm or legal liability. Failure to address AI ethics issues by us or others in our industry could undermine public confidence in AI, which could slow adoption of AI in our products and services.

Risks Related to the Operation of Our Business

Security breaches in data centers we manage, or third parties manage on our behalf, may compromise the confidentiality, integrity or availability of employee and customer data, which could expose us to liability and adversely affect our reputation and business.

We process and store significant amounts of employee and customer data, a large volume of which is hosted by third-party service providers. A security incident impacting our own data centers or those controlled by our service providers may compromise the confidentiality, integrity or availability of this data. Unauthorized access to or loss or disclosure of data stored by Adobe or our service providers may occur through physical break-ins, breaches of a secure network by an unauthorized party, software vulnerabilities or coding errors, employee theft or misuse or other misconduct. It is also possible that unauthorized access to or disclosure of employee or customer data may be obtained through inadequate use of security controls by customers or employees. Accounts created with weak or recycled passwords could allow cyber-attackers to gain access to employee or customer data. Additionally, failure by Adobe or our customers to remove the accounts of their own employees, or the granting of accounts in an uncontrolled manner, may allow for access by former employees or other unauthorized individuals. If there were an inadvertent disclosure of customer data, or unauthorized access to the data we possess on behalf of our customers, our operations could be disrupted, our reputation could be damaged and we could be subject to claims or other liabilities, regulatory investigations or fines. In addition, such perceived or actual unauthorized loss or disclosure of the information we collect, process or store, or breach of our security could damage our reputation, result in the loss of customers and harm our business.

We rely on data centers managed both by Adobe and third parties to host and deliver our services, as well as access, collect, process, use, transmit and store data, and any interruptions or delays in these hosted services, or failures in data collection or transmission could expose us to liability and harm our business and reputation.

Much of our business relies on hardware and services that are hosted, managed and controlled directly by Adobe or third-party service providers, including our online store at adobe.com, Creative Cloud, Document Cloud and Experience Cloud solutions. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. If our business relationship with a third-party provider of hosting or content delivery services is negatively affected, or if one of our content delivery suppliers were to terminate its agreement with us without adequate notice, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm, costly and time-intensive notification requirements, and cause us to lose customers and future business. The COVID-19 pandemic has disrupted and may continue to disrupt the supply chain of hardware needed to maintain these third-party systems and services or to run our business. In addition, supply chain disruptions stemming from the Russia-Ukraine war may harm our customers and suppliers and further complicate existing supply chain constraints. Occasionally, we migrate data among data centers and to third-party hosted environments. If a transition among data centers or to third-party service providers encounters unexpected interruptions, unforeseen complexity or unplanned disruptions despite precautions undertaken during the process, this may impair our delivery of products and services to customers and result in increased costs and liabilities, which may harm our operating results, reputation and our business.

It is also 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, cause the information that we collect or maintain to be incomplete or contain inaccuracies that our customers regard as significant, or cause us to fail to meet committed service levels or comply with regulatory notification requirements. 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, worms, ransomware or other malware may harm our systems, causing us to lose data, and the transmission of computer viruses or other malware could expose us to litigation or regulatory investigation, and costly and time-intensive notification requirements.

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 customer activity on their websites or failures of our network or software (or that of a third-party service provider). If we fail to plan infrastructure capacity appropriately and expand it proportionally with the needs of our customer base, and we experience a rapid and significant demand on the capacity of our data centers or those of third parties, service outages or performance issues could occur, which would impact our customers. Such a strain on our infrastructure capacity could subject us to regulatory and customer notification requirements, violations of service level agreement commitments, financial liabilities, result in customer dissatisfaction or harm our business. If we supply inaccurate information or experience interruptions in our systems, our reputation could be harmed, we could lose customers and we could be found liable for damages or incur other losses.

Security vulnerabilities in our products and systems, or in our supply chain, could lead to reduced revenue or to liability claims.

Maintaining the security of our products and services is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate our end points, information systems and network security measures. Cyberthreats are constantly evolving and becoming increasingly sophisticated and complex, making it increasingly difficult to detect and successfully defend against them. Certain unauthorized parties have in the past managed, and may again in the future manage, to gain access to and misuse some of our systems and software, or that of our third-party service providers, in order to access the authentication, payment and personal information of our end users' and employees. In addition, cyber-attackers (which may include individuals or groups, as well as sophisticated groups such as nation-state and state-sponsored attackers, which can deploy significant resources to plan and carry out exploits) also develop and deploy viruses, worms, credential stuffing attack tools and other malicious software programs, some of which may be specifically designed to attack our products, services, information systems or networks. Hardware, software and operating system applications that we develop or procure from third parties have contained and may contain defects in design or manufacture, including bugs, vulnerabilities and other problems that could unexpectedly compromise the security of the system or impair a customer's ability to operate or use our products. The costs to prevent, eliminate, mitigate or alleviate cyber- or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems, including notifying affected parties, may not be successful or may be delayed and could result in interruptions, delays, cessation of service and loss of existing or potential customers. It is impossible to predict the extent, frequency or impact these problems may have on us.

Outside parties have in the past and may in the future attempt to fraudulently induce our employees or users of our products or services to disclose sensitive, personal or confidential information via illegal electronic spamming, phishing or other tactics. This existing risk is compounded given the COVID-19 pandemic, as we shifted nearly all of our workforce to more frequent work-from-home arrangements. We are also planning to resume operations in our offices under a hybrid model where a large portion of our workforce will spend a portion of their time working in our offices and a portion of their time working from home. Unauthorized parties may also attempt to gain physical access to our facilities in order to infiltrate our information systems or attempt to gain logical access to our products, services or information systems for the purpose of exfiltrating content and data. These actual and 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, our customers or their end users, 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. This may result in litigation and liability or fines, our compliance with costly and time-intensive notice requirements, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our business or damage our brand and reputation, thereby requiring time and resources to mitigate these impacts. These risks will likely increase as we expand our hosted offerings, integrate our products and services and store and process more data, including personal information.

These issues affect our products and services in particular because cyber-attackers tend to focus their efforts on popular offerings with a large user base, and we expect them to continue to do so. From time to time we have identified, and in the future we may identify other, vulnerabilities in some of our applications and services and those of our third-party service providers. 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 updates to address security vulnerabilities, regularly reviewing our service providers' security controls, reviewing and auditing our hosted services against independent security control frameworks (such as ISO 27001, SOC 2 and PCI), providing resources such as mandatory security training for our workforce and improving our incident response time, but security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our operating margins, and we may be unable to implement these measures quickly enough to prevent cyber-attackers from gaining unauthorized access into our systems and products. Despite our preventative efforts, actual or perceived security vulnerabilities in our products and systems may harm our reputation or lead to claims against us (and have in the past led to such claims), and could lead some customers to stop using certain products or services, to reduce or delay future purchases of products or services, or to use competing products or services. If we do not make the appropriate level of investment in our technology systems or if our systems become out-of-date or obsolete and we are not able to deliver the quality of data security our customers require or that meet our independent security control certification requirements, our business could be adversely affected. Customers may also adopt security measures designed to protect their existing computer systems from attack, which could delay adoption of new technologies. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks, preventative measures or failure to fully meet independent security control certification requirements could adversely affect our financial results, stock price and reputation.

Some of our enterprise offerings have extended and complex sales cycles, which can make our sales cycles unpredictable.

Sales cycles for some of our enterprise offerings, including our Adobe Experience Cloud and Adobe Experience Platform solutions and Enterprise Term License Agreements ("ETLAs") in our Digital Media business, are multi-phased and complex. The complexity in these sales cycles is due to several factors, including:

- the need for our sales representatives to educate customers about the use and benefit of large-scale deployments of our products and services, including technical capabilities, security features, potential cost savings and return on investment;

- the desire of organizations to undertake significant evaluation processes to determine their technology requirements prior to making information technology expenditures;
- the need for our representatives to spend a significant amount of time assisting potential customers in their testing and evaluation of our products and services;
- intensifying competition within the industry;
- the negotiation of large, complex, enterprise-wide contracts;
- the need for our customers to obtain requisition approvals from various decision makers within their organizations due to the complexity of our solutions touching multiple departments within customers' organizations; and
- customer budget constraints, economic conditions and unplanned administrative delays.

We spend substantial time and expense on our sales efforts without assurance that potential customers will ultimately purchase our solutions. Further, restrictions in place for the COVID-19 pandemic have resulted and could continue to result in our inability to negotiate in person, even as we return many employees to their offices. As we target our sales efforts at larger enterprise customers, these trends are expected to continue and could have a greater impact on our results of operations. Additionally, our enterprise sales pattern has historically been uneven, where a higher percentage of a quarter's total sales occur during the final weeks of each quarter, which is common in our industry. Our extended sales cycle for these products and services makes it difficult to predict when a given sales cycle will close.

If our customers fail to renew subscriptions in accordance with our expectations, our future revenue and operating results could suffer.

Our Adobe Experience Cloud, Creative Cloud and Document Cloud offerings typically involve subscription-based offerings pursuant to product and service agreements. Revenue from our subscription customers is generally recognized ratably over the term of their agreements, which typically range from 1 to 36 months. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and customers may not renew their subscriptions at the same or higher level of service, for the same number of seats or for the same duration of time, if at all. Our varied customer base combined with the flexibility we offer in the length of our subscription-based agreements complicates our ability to precisely forecast renewal rates. Therefore, we cannot provide assurance 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 level of satisfaction with our services, our ability to continue enhancing features and functionality, the reliability (including uptime) of our subscription offerings, the prices of offerings and those offered by our competitors, the actual or perceived information security of our systems and services, decreases in the size of our customer base, reductions in our customers' spending levels or declines in customer activity as a result of general economic conditions or uncertainty in financial markets, including as a result of a global health crisis and geopolitical conflict, which has affected and may continue to affect certain sectors of the economy disproportionately. If our customers do not renew their subscriptions or if they renew on terms less favorable to us, our revenue may decline.

We face various risks associated with our operating as a multinational corporation.

As a global business that generates approximately 42% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:

- inflation and actions taken by central banks to counter inflation;
- foreign currency fluctuations and controls;
- international and regional economic, political and labor conditions, including any instability or security concerns abroad, including uncertainty caused by economic sanctions, trade disputes, armed conflicts and wars;
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;
- changes in, or impositions of, legislative or regulatory requirements;
- changes in laws governing the free flow of data across international borders;

- 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;
- the imposition of governmental economic sanctions on countries in which we do business or where we plan to expand our business;
- costs and delays associated with developing products in multiple languages;
- operating in locations with a higher incidence of corruption and fraudulent business practices; and
- other factors beyond our control, such as terrorism, war, natural disasters, climate change and pandemics, including fluctuations in the severity and duration of the COVID-19 pandemic and resulting restrictions on business activity, which may vary significantly by region.

Some of our third-party business partners have international operations and are also subject to these risks and, if our third-party business partners are unable to appropriately manage these risks, our business may be harmed. If sales to any of our customers outside of the Americas are reduced, delayed or canceled because of any of the above factors, our revenue may decline.

Our business could be harmed if we fail to effectively manage critical strategic third-party business relationships.

As our offerings expand and our customer base grows, our relationships with strategic partners become increasingly valuable. If our contractual relationships with these third parties were to terminate, or if we were unable to renew on favorable terms, our business could be harmed. This is especially the case when the third party's offerings are integrated with our products and services, or where the third party's offerings are difficult to substitute or replace. Alternative arrangements for such products and services may not be available to us on commercially reasonable terms, and we may experience business interruptions upon a transition to an alternative partner. The failure of third parties to provide acceptable products and services or to update their technology, including during the COVID-19 pandemic, may result in a disruption to our business operations and those of our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation.

We increasingly utilize the distribution platforms of third parties like Apple's App Store and Google's Play Store for the distribution of certain of our product offerings. Although we benefit from the strong brand recognition and large user base of these distribution platforms to attract new customers, the platform owners have wide discretion to change the pricing structure, terms of service and other policies with respect to us and other developers, and may offer or promote products that compete with our product offerings. Adverse changes by these third parties could adversely affect our financial results.

Failure of our third-party customer service and technical support providers to adequately address customers' requests could harm our business and adversely affect our financial results.

Our customers rely on our customer service support organization to resolve issues with our products and services. We depend heavily on third-party customer service and technical support representatives working on our behalf to provide such services, and we expect to continue to rely heavily on third parties in the future. This strategy presents risks to our business since we may not be able to influence the quality of support as directly as we would be able to do if our own employees performed these activities. Our customers may react negatively to providing information to, and receiving support from, third-party organizations, especially if these third-party organizations are based overseas. If we encounter problems with our third-party customer service and technical support providers, our reputation may be harmed, our ability to sell our offerings could be adversely affected, and we could lose customers and associated revenue.

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, availability and performance of our senior management and highly-skilled personnel across all levels of our organization. Our senior management has acquired specialized knowledge and skills with respect to our business, and the loss of any of these individuals could harm our business, especially if we are not successful in developing adequate succession plans. Our efforts to attract, develop, integrate and retain highly skilled employees with appropriate qualifications may be compounded by intensified restrictions on travel (including during the COVID-19 pandemic), immigration or the availability of work visas. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense and has recently intensified further due to industry trends in many areas where our employees are located. We may experience higher compensation costs to retain senior management and experienced personnel that may not be offset by improved productivity or increased sales. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed.

We continue to hire personnel in countries where exceptional technical knowledge and other expertise are offered at lower costs, which increases the efficiency of our global workforce structure and reduces our personnel related expenditures. Nonetheless, as globalization continues, competition for these employees in these countries has increased, which may impact our ability to retain these employees and increase our expenses resulting from competitive compensation. We may continue to expand our international operations and international sales and marketing activities, which would 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 revenue may not increase to offset these expected increases in costs and operating expenses, causing our results to suffer.

We believe that a critical contributor to our success to date has been our corporate culture, which we have built to foster innovation, teamwork and employee satisfaction. As we grow, including from the integration of employees and businesses acquired in connection with 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 who are essential to our future success.

Failure to manage our sales, partner and distribution channels effectively could result in a loss of revenue and harm to our business.

We contract with a number of software distributors and other strategic partners, none of which are individually responsible for a material amount of our total net revenue for any recent period. Nonetheless, if any single agreement with one of our distributors were terminated, any prolonged delay in securing a replacement distributor could have a negative impact on our results of operations.

Successfully managing our indirect distribution channel efforts to reach various customer segments for our products and services is a complex process across the broad range of geographies where we do business or plan to 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 legal risk and potential reputational harm from the activities of these third parties including, but not limited to, export control violations, workplace conditions, corruption and anti-competitive behavior.

We cannot be certain that our distribution channel will continue to market or sell our products and services effectively. If our partner and distribution channels are not successful, we may lose sales opportunities, customers and revenue. Our distributors also sell our competitors' products and services, and if they favor our competitors' products or services for any reason, they may fail to market our products or services effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products and services 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 partners and our continuing relationships with them are important to our success. Some of these distributors and partners may be unable to withstand adverse changes in economic conditions, which could result in insolvency, the inability of such distributors and partners to obtain credit to finance access to or purchases of our products and services, or a delay in paying their obligations to us.

We also sell some of our products and services through our direct sales force. Risks associated with this sales channel include more extended sales and collection cycles associated with direct sales efforts, challenges related to hiring, retaining and motivating our direct sales force, and substantial amounts of ongoing training for sales representatives. Moreover, recent hires 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 our expansion efforts do not generate a corresponding significant increase in revenue and we are unable to achieve the efficiencies we anticipate. In addition, the loss of key sales employees could impact our customer relationships and future ability to sell to certain accounts covered by such employees.

Risks Related to Laws and Regulations

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, both domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, anti-boycott, sanctions and embargoes, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, privacy practices, data residency, corporate governance, anti-trust and competition, employee and third-party complaints, anti-corruption, gift policies, conflicts of interest, 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. For example, 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, including the Foreign Corrupt Practices Act. We cannot provide assurance that our employees, contractors, agents and business partners will not take actions in violation of our internal policies or U.S. laws. 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. In response to the COVID-19 pandemic, federal, state, local and foreign governmental authorities have imposed, and may continue to impose or re-instate protocols and restrictions intended to contain the spread of the virus, including limitations on the size of gatherings, closures of work facilities, schools, public buildings and businesses, quarantines, lockdowns and travel restrictions. Such restrictions have disrupted and may continue to disrupt our business operations and limit our ability to perform critical functions.

In addition, approximately 49% of our employees are located outside the United States. 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.

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

As a global company, Adobe is subject to global data protection, privacy and security laws, regulations and codes of conduct that apply to our various business units and data processing activities. These laws, regulations and codes may be inconsistent across jurisdictions and are subject to evolving and differing (sometimes conflicting) interpretations. Government officials and regulators, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. This increased scrutiny may result in new interpretations of existing laws, thereby further impacting Adobe's business. Globally, laws such as the General Data Protection Regulation ("GDPR") in Europe and the Personal Information Protection Law ("PIPL") in China, and new and emerging state laws in the United States on privacy, data and related technologies, such as the California Consumer Privacy Act, the California Privacy Rights Act and the Virginia Consumer Data Protection Act, as well as industry self-regulatory codes, create new compliance obligations and expand the scope of potential liability, either jointly or severally with our customers and suppliers. While we have invested in readiness to comply with applicable requirements, the dynamic and evolving nature of these laws, regulations and codes, as well as their interpretation by regulators and courts, may affect our ability (and our enterprise customers' ability) to reach current and prospective customers, to respond to both enterprise and individual customer requests under the laws (such as individual rights of access, correction and deletion of their personal information) and to implement our business models effectively. These laws, regulations and codes may also impact our innovation and business drivers in developing new and emerging technologies (e.g., artificial intelligence and machine learning). These requirements, among others, may impact demand for our offerings and force us to bear the burden of more onerous obligations in our contracts. Any perception of our practices, products or services as a violation of individual privacy or data protection rights may subject us to public criticism, class action lawsuits, reputational harm, or investigations or claims by regulators, industry groups or other third parties, all of which could disrupt or adversely impact our business and expose us to increased liability. Additionally, we collect and store information on behalf of our business customers and if our customers fail to comply with contractual obligations or applicable laws, it could result in litigation or reputational harm to us.

Transferring personal information across international borders is complex and subject to legal and regulatory requirements as well as active litigation and enforcement in a number of jurisdictions around the world, each of which could have an adverse impact to our ability to process and transfer personal data as part of our business operations. For example, European data transfers outside the European Economic Area are highly regulated and litigated. The mechanisms that we and many other companies rely upon for European data transfers (e.g., Standard Contractual Clauses) are the subject of regulatory interpretation and judicial decisions by the Court of Justice of the European Union. We are closely monitoring for developments related to valid transfer mechanisms available for transferring personal data outside the European Economic Area and other countries that have similar trans-border data flow requirements and adjusting our practices accordingly. The open judicial questions and regulatory interpretations related to the validity of transfers using Standard Contractual Clauses have resulted in some changes in the obligations required to provide our services in the European Union and could expose us to potential sanctions and fines for non-compliance. Several other countries, including China, Australia, New Zealand, Brazil, Hong Kong and Japan, have also established specific legal requirements for cross-border transfers of personal information. Other countries, such as India, are considering requirements for data localization (i.e., where personal data must remain stored in the country). If other countries implement more restrictive regulations for cross-border data transfers or do not permit data to leave the country of origin, such developments could adversely impact our business and our enterprise customers' business, our financial condition and our results of operations in those jurisdictions.

Our intellectual property portfolio is a valuable asset and we may not be able to protect our intellectual property rights, including our source code, from infringement or unauthorized copying, use or disclosure.

Our intellectual property portfolio is a valuable asset. Infringement or misappropriation of our patents, trademarks, trade secrets, copyrights and other intellectual property rights could result in lost revenues and ultimately reduce their value. Preventing unauthorized use or infringement of our intellectual property rights is inherently difficult. We actively combat software piracy as we enforce our intellectual property rights, but we nonetheless lose significant revenue due to illegal use of our software. If piracy activities continue at historical levels or increase, they may further harm our business. We apply for patents in the United States and internationally to protect our newly created technology and if we are unable to obtain patent protection for the technology described in our pending patent, or if the patent is not obtained timely, this could result in revenue loss, adverse effects on operations and harm to our business. We offer our products and services in foreign countries and we may seek intellectual property protection from those foreign legal systems. Some of those foreign countries may not have as robust or comprehensive of intellectual property protection laws and schemes as those offered in the United States In some foreign countries, the mechanisms to enforce intellectual property rights may be inadequate to protect our technology, which could harm our business. 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, enforcing our rights may be difficult or costly.

If unauthorized disclosure of our source code occurs through security breach, cyber-attack or otherwise, we could 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 cause us to lose customers and could adversely affect our revenue and operating margins.

We may incur substantial costs defending against third parties alleging that we infringe their proprietary rights.

We have been, are currently and may in the future be subject to claims, negotiations and complex, protracted litigation relating to disputes regarding the validity or alleged infringement of third-party intellectual property rights, including patent rights. Intellectual property disputes and litigation are typically costly and can be disruptive to our business operations by diverting the attention of management and key personnel. We may not prevail in every lawsuit or dispute. Third-party intellectual property disputes, including those initiated by patent assertion 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, in some cases to fulfill contractual obligations with our customers. Any of these occurrences could significantly harm our business.

Changes in accounting principles, or interpretations thereof, 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, how the principles are interpreted, or the adoption of new accounting standards can have a significant effect on our reported results, and could even retroactively affect previously reported transactions, and may require that we make significant changes to our systems, processes and controls.

Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls. *For additional information regarding new standards that may have significant impact to our condensed consolidated financial statements, see the section titled “Adopted Accounting Guidance and Accounting Pronouncements Not Yet Effective” in Note 1 of our notes to condensed consolidated financial statements.*

Such changes in accounting principles may have an adverse effect on our business, financial position and results of operations, or cause an adverse deviation from our revenue and profitability targets, which may negatively impact our financial results.

Changes in tax rules and regulations, or interpretations thereof, 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. The U.S. Tax Cuts and Jobs Act (“U.S. Tax Act”), enacted into law in December 2017, changed existing U.S. tax law and introduced certain international provisions applicable to us. Among other considerations, the applicability and impact of these tax provisions, and of other U.S. or international tax law changes, could adversely affect our effective income tax rate and cash flows in future years.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items including, but not limited to, the effects of tax credits, net tax benefits from trading structure changes, tax benefits from stock-based compensation and settlements of tax examinations, and to net tax on earnings from foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates are likely to be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, the geographic mix of earnings, our repatriation policy or the valuation of our deferred tax assets and liabilities, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, or by unexpected negative changes in business and market conditions that could reduce certain tax benefits.

In addition, in the United States and other countries where we conduct business and in jurisdictions in which we are subject to tax, including those covered by governing bodies that enact tax laws applicable to us, such as the European Commission of the European Union, we are subject to potential changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These countries, other governmental bodies and intergovernmental economic organizations such as the Organization for Economic Cooperation and Development, have or could make unprecedented assertions about how taxation is determined in their jurisdictions that are contrary to the way in which we have interpreted and historically applied the rules and regulations described above in such jurisdictions. In the current global tax policy environment, any changes in laws, regulations and interpretations related to these assertions could adversely affect our effective tax rates, cause us to respond by making changes to our business structure, or result in other costs to us which could adversely affect our operations and financial results.

Moreover, we are subject to examinations by the U.S. Internal Revenue Service and other domestic and foreign taxing authorities. Although we believe our worldwide provision for income taxes and other tax liabilities are reasonable, the determination of certain positions requires significant judgement, of which we cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

Contracting with government entities exposes us to additional risks inherent in the government procurement process.

We provide products and services, directly and indirectly, to a variety of government entities, both domestically and internationally. Risks associated with licensing and selling products and services to government entities include more extended sales and collection cycles, varying governmental budgeting processes and adherence to complex procurement regulations and other government-specific contractual requirements. We have been, are currently and may in the future be subject to audits and investigations relating to our government contracts and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, payment of fines, and suspension or debarment from future government business, as well as harm to our reputation and financial results.

Risks Related to Financial Performance

Subscription offerings could create risks related to the timing of revenue recognition.

We generally recognize revenue from subscription offerings ratably over the terms of their subscription agreements, which typically range from 1 to 36 months. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Any reduction in new or renewed subscriptions in a quarter may not be reflected in our revenue results until a later quarter. Declines in new or renewed subscriptions may decrease our revenue in future quarters. Lower sales, reduced demand for our products and services, and increases in our attrition rate may not be fully reflected in our results of operations until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenue from subscription-based or hosted services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term.

Additionally, in connection with our sales efforts to enterprise customers, a number of factors could affect our revenue, including longer-than-expected sales and implementation cycles, potential deferral of revenue and alternative licensing arrangements. If any of our assumptions about revenue from our subscription-based offerings prove incorrect, our actual results may vary materially from those anticipated.

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 due to the global scope of our business. Geopolitical and economic events, including war, trade disputes, economic sanctions and emerging market volatility, and associated uncertainty have and may in the future cause currencies to fluctuate. 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 regularly review our program to partially hedge our exposure to foreign currency fluctuations and make adjustments that we believe are appropriate. Our hedging activities have not and may not in the future 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.

If our goodwill or amortizable intangible assets become impaired, then we could be required to record a significant charge to earnings.

GAAP requires us to test for goodwill impairment at least annually. In addition, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. 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 declines in stock price, market capitalization or cash flows, and slower growth rates in our industry. Depending on the results of our review, we could be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets were determined, negatively impacting our results of operations.

We have issued $4.15 billion of notes in debt offerings and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

We have $4.15 billion in senior unsecured notes and a $1.5 billion senior unsecured revolving credit agreement, which is currently undrawn. This debt may adversely affect our financial condition and future financial results by, among other things:

- increasing our vulnerability to adverse changes in general economic and industry conditions;
- requiring the dedication of a portion of our expected cash flows from operations to service our debt, thereby reducing the amount of expected cash flows 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 senior unsecured credit agreement 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 noteholders or lenders, then, subject to applicable cure periods, any outstanding debt 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, as well as the potential costs associated with a refinancing of our debt. 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 affect the terms of any such financing.

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

Our cash equivalent and short-term investment portfolio as of September 2, 2022 consisted of asset-backed securities, corporate debt securities, foreign government securities, money market funds, 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, including from impacts of the COVID-19 pandemic and the Russia-Ukraine war, 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 September 2, 2022, 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, market liquidity or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

General Risk Factors

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 website for our development, marketing, operations, 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, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, pandemics (including the COVID-19 pandemic), cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans do not adequately address, 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. Any of these events could prevent us from fulfilling our customers' orders or could negatively impact a country or region in which we sell our products, which could in turn decrease that country's or region's demand for our products. 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. 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, and the adverse effects of any such catastrophic event would be exacerbated if experienced at the same time as another unexpected and adverse event, such as the COVID-19 pandemic. For example, wildfires have resulted in power shut-offs in California and are likely to occur in the future, and this could adversely affect the work-from-home operations of our employees on the west coast.

Climate change may have a long-term impact on our business.

While we seek to partner with organizations that mitigate their business risks associated with climate change, we recognize that there are inherent risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices or for our vendors, is a priority. Our major sites in California, Utah and India are vulnerable to climate change effects. For example, in California, increasing intensity of drought throughout the state and annual periods of wildfire danger increase the probability of planned power outages in the communities where we work and live. While this danger has a low-assessed risk of disrupting normal business operations, it has the potential impact on employees' abilities to commute to work or to work from home and stay connected effectively. Climate-related events, including the increasing frequency of extreme weather events and their impact on U.S., India and other major regions' critical infrastructure, have the potential to disrupt our business, our third-party suppliers, and/or the business of our customers, and may cause us to experience higher attrition, losses, and additional costs to maintain or resume operations. To accurately assess and take potential proactive action as appropriate, Adobe is aligned with the guidelines of the Financial Stability Board's Task Force on Climate-related Financial Disclosures recommendations and the Sustainability Accounting Standards Board and the Global Reporting Initiative environmental metrics. Regulatory developments and changing market dynamics regarding climate change may impact our business, financial condition and results of operations.

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, including trends toward protectionism and nationalism, and other events beyond our control, such as economic sanctions, natural disasters, pandemics, including the COVID-19 pandemic, epidemics, armed conflicts and wars, including the Russia-Ukraine war. Additionally, the business downturn caused by the pandemic may adversely impact the businesses and financial health of many of our customers and hurt their creditworthiness (e.g., international travel bans impacting customers in the travel and hospitality industries). As a result, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services. Uncertainty about the effects of 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 countries where we do business slows, customers may delay or reduce technology purchases, advertising spending or marketing spending, and we have already experienced and may continue to experience the impact of a global decline in advertising spend as the pandemic continues to unfold. This could result in reductions in sales of our products and services, more extended sales cycles, slower adoption of new technologies and increased price competition. Among our customers are government entities, including the U.S. federal government, and our revenue could decline if spending cuts impact the government's ability to purchase our products and services. 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.

A disruption in financial markets could impair our banking partners, on which we rely for operating cash management and derivative programs. Any of these events would likely harm our business, financial condition and results of operations.

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

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

In the past, the market price for our common stock experienced significant fluctuations and it may do so in the future. A number of factors may affect the market price for our common stock, such as:

- shortfalls in, or changes in expectations about, our revenue, margins, earnings, Annualized Recurring Revenue ("ARR"), sales of our Digital Experience offerings, or other key performance metrics;
- changes in estimates or recommendations by securities analysts;
- whether our results meet analysts' expectations;
- compression or expansion of multiples used by investors and analysts to value high technology SaaS companies;
- the announcement of new products or services, product enhancements, service introductions, strategic alliances or significant agreements by us or our competitors;
- the loss of large customers or our inability to increase sales to existing customers, retain customers or attract new customers;
- recruitment or departure of key personnel;
- variations in our or our competitors' results of operations, changes in the competitive landscape generally and developments in our industry;
- general socio-economic, political or market conditions;
- macroeconomic conditions and the economic impact of the COVID-19 pandemic and the Russia-Ukraine war; and
- unusual events such as significant acquisitions by us or our competitors, divestitures, litigation, regulatory actions and other factors, including factors unrelated to our operating performance.

In addition, the market for technology stocks or the stock market in general may experience uneven investor confidence, which may cause the market price for our common stock to decline for reasons unrelated to our operating performance. Volatility in the market price of a company's securities for a period of time may increase the company's susceptibility to securities class action litigation. Oftentimes, this type of litigation is expensive and diverts management's attention and resources which may adversely affect our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Below is a summary of stock repurchases for the three months ended September 2, 2022. *See Note 11 of our notes to condensed consolidated financial statements for information regarding our stock repurchase program.*

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value that May Yet be Purchased Under the Plans [1]
	(in millions, except average price per share)			
Beginning repurchase authority				$ 9,900
June 4—July 1, 2022				
Accelerated share repurchase	2.1	$ —	2.1	$ — [2]
Other shares repurchased	1.0	$ 385.96	1.0	$ (400)
July 2—July 29, 2022				
Shares repurchased	1.1	$ 376.72	1.1	$ (400) [3]
July 30—September 2, 2022				
Shares repurchased	0.9	$ 420.58	0.9	$ (400) [3]
Total	5.1		5.1	$ 8,700

(1) In December 2020, the Board of Directors granted authority to repurchase up to $15 billion in our common stock through the end of fiscal 2024.

(2) In December 2021, we entered into an accelerated share repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $2.4 billion and received initial delivery of 3.2 million shares of our common stock. In June 2022, we settled the agreement and received a final delivery of 2.1 million shares of our common stock.

(3) In June 2022, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $1.2 billion. As of September 2, 2022, approximately $400 million of the prepayment remained under this agreement.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	Filing Date	Exhibit Number	SEC File No.	
3.1	Restated Certificate of Incorporation of Adobe	8-K	4/26/11	3.3	000-15175	
3.2	Certificate of Amendment to Restated Certificate of Adobe	8-K	10/9/18	3.1	000-15175	
3.3	Amended and Restated Bylaws	8-K	1/18/22	3.1	000-15175	
10.1	Credit Agreement, dated as of June 30, 2022, among the Company, certain subsidiaries of the Company party thereto, Bank of America, N.A. as Administrative Agent and the other lenders party thereto	8-K	7/1/22	10.1	000-15175	
10.2	Agreement and Plan of Merger, dated as of September 15, 2022, by and among Adobe Inc., Figma, Inc., Saratoga Merger Sub I, Inc., Saratoga Merger Sub II, LLC and Fortis Advisors LLC	8-K	9/15/22	2.1	000-15175	
10.3	Voting and Support Agreement, dated as of September 15, 2022, by and among Adobe Inc. and the Key Stockholders party thereto	8-K	9/15/22	10.1	000-15175	
31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934					X
31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934					X
32.1	Certification of Chief Executive Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934†					X
32.2	Certification of Chief Financial Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934†					X
101.INS	Inline XBRL Instance - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema					X
101.CAL	Inline XBRL Taxonomy Extension Calculation					X
101.LAB	Inline XBRL Taxonomy Extension Labels					X
101.PRE	Inline XBRL Taxonomy Extension Presentation					X
101.DEF	Inline XBRL Taxonomy Extension Definition					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					

† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Adobe Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADOBE INC.

By: /s/ DANIEL DURN
Daniel Durn
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: September 28, 2022

SUMMARY OF TRADEMARKS

The following trademarks of Adobe Inc. or its subsidiaries, which may be registered in the United States and/or other countries, are referenced in this Form 10-Q:

Acrobat
Acrobat Scan
Acrobat Sign
Adobe
Adobe Campaign
Adobe Commerce
Adobe Experience Cloud
Adobe Express
Adobe Stock
Adobe Target
Behance
Creative Cloud
Document Cloud
Frame.io
Journey Optimizer
Marketo
Workfront

All other trademarks are the property of their respective owners.