Financial Disclaimer

Some of the information discussed in this presentation contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For a discussion of the risks and uncertainties, you should review the Financial Disclaimer appended to this presentation and Adobe's SEC filings, including the annual report on Form 10-K for fiscal year 2014 and the quarterly reports on Form 10-Q filed by the company in 2015. In our presentation, we may discuss non-GAAP financial measures. The GAAP financial measures that correspond to such non-GAAP measures, as well as the reconciliation between the two, are available on our website at http://www.adobe.com/ADBE.

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

Changing the World Through Digital Experiences
Driving Digital Transformation

PUBLISHING

COMMERCE

MULTI-CHANNEL

TV ANYWHERE
Customer Challenges

EXPERIENCE IS THE BRAND

- Delivery of rich, consistent, cross-device experiences
- Frequent smartphone and tablet innovation
- Internet of Things
- Websites + mobile apps

THE DOCUMENT DISCONNECT

- Fragmented document workflows
- Inability to collaborate within a mobile workforce
- Inefficient business processes held up by paper-based forms/approvals

Mobile First

MARKETING BEYOND MARKETING

- Big data
- Analytics
- Privacy
- Predictive

- Social
- CPM
- Ad spend
- Conversion

Multiscreen

Cloud Delivery
Adobe's Solutions

CREATIVE CLOUD

DOCUMENT CLOUD

MARKETING CLOUD

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Adobe's Solutions

CREATIVE CLOUD
Reimagine the creative process
Desktop + mobile
ARPU-enhancing services

DOCUMENT CLOUD
Strong PDF franchise
Desktop + mobile
Creation, sharing, signing services

MARKETING CLOUD
Explosive category
Market-leading platform
Expansion beyond marketing
Creative Market Trends

- Complex content creation workflow issues
  - Print, web and mobile device content
  - Mobile app creation
- Desire to deliver richer, consistent and more personalized experiences across screens and devices
- Investment in new content monetization opportunities
  - Stock content
  - Digital publishing via app stores
  - Premium video delivery over IP
- Design-led innovation
Adobe Creative Cloud

- Desktop apps, mobile apps and Cloud-based services

- Subscription service with monthly pricing expands market opportunity
  - Lower entry price point
  - Increase in existing customer interaction
  - New customer acquisition
  - ARPU growth potential through services

- Subscribers get frequent delivery of new features and capabilities

- Collaboration with the creative community via Behance
Adobe Creative Cloud
Adobe Creative Cloud

Desktop Apps
World's best creative applications

- 1,000+ new features delivered since CS6
  - Productivity enhancements
  - Device innovation, format changes and OS updates
  - Improved performance
- Adobe “magic”
- Touch support
- Cloud-based services integration
Adobe Creative Cloud

Mobile Apps
Creativity goes mobile

- 14 Creative Cloud mobile apps extend the power of desktop apps to mobile devices
  - Imaging—Photoshop and Lightroom
  - Illustration—Illustrator
  - Video—Premiere
- Millions of new Adobe IDs created from downloads of new Creative mobile apps
- Mobile Creative SDK and Aviary acquisition give developers access to APIs to build apps and add value on top of Creative Cloud
Behance Community
World's largest creative community

- 4M+ members (up from 1M in January 2013)
- ~400,000 projects published per month
- 25M+ monthly unique visits
- Adoption by individuals & teams

Source: Adobe, Oct 2014
Adobe Creative Cloud

Assets
Asset management for Creatives

- Cloud based asset and file storage
- Multi-device synchronization
- Marketing Cloud + Creative Cloud integration
Adobe Creative Cloud

Marketplace
Fast growing creative marketplace

- Asset market
  - Adobe Stock (Fotolia)
  - Training content
  - Type
- App market (plug-ins, mobile apps)
- Creative Talent Search
Adobe Creative Cloud

CreativeSync
Connecting people to their work and community across devices and apps

- Makes users’ files, fonts, design assets and settings appear in workflows wherever they need them
- Enables the ability to start creative work on any device and seamlessly pick it up on another
- Utilizes Adobe IDs to connect Community, Market, Assets and Apps
- Powers collaboration capabilities across teams and enterprises
Three Creative Cloud Offerings

**Creative Cloud for individuals**
- 20GB cloud storage

**Creative Cloud for teams**
- 100GB cloud storage
- Centralized IT deployment tools
- Central admin control
- Expert support

**Creative Cloud for enterprises**
- Private storage
- Enterprise class IT deployment tools
- Adobe Enterprise admin dashboard
- Unlimited expert support
- Unlimited technical support
- Federated ID
- Secure asset collaboration
- Integrates with Marketing Cloud/AEM

![Desktop, Mobile, Community, Assets, Market, CreativeSync icons]
Creative Cloud Journey

2012
• CC Individual
• CS6
• Photography
• Community

2013
• CC Individual
• CC Team
• CS6

2014
• CC Enterprise
• Creative SDK

• CC 2014
• Mobile apps
• Talent

2015
• CC 2015
• Marketpalce
• Stock

Reimagine creative process
Desktop + mobile
ARPU-enhancing services
Creative Cloud 2015 Release

Unified experience across desktop and mobile

- New Adobe magic
- Up to 10X faster performance
- Connects and extends desktop features to mobile apps

Constant access to creative assets

- Exclusive CreativeSync technology to intelligently synch creative assets
- Users can start where they left off in any app they launch

New enterprise capabilities

- Enterprise administration and management
- Private storage and encrypted asset collaboration
- Integrates with Adobe Marketing Cloud

Source: Adobe
Creative Cloud 2015 Release – Introducing Adobe Stock

- Deep integration with Creative Cloud 2015 desktop apps
- Simplifies buying and selling stock content
- Stock content is a global $3 billion addressable market
Adobe Stock Plans and Pricing

ON DEMAND

$9.99 per image

SUBSCRIPTION

10 images/month $49.99/month
month-to-month

$29.99/month
with any annual
Creative Cloud subscription plan

750 images/month $249.99/month
month-to-month

$199.99/month
with an annual plan
Creative Cloud Opportunity

More than 8 million Creative Pros
Designers, web professionals, video & photography professionals

Tens of millions of users beyond Creative Pros

@Work Creatives

Knowledge workers in SMBs and enterprises

@Home Individuals

Hobbyists, consumers

Institutions, students

Education

Source: Adobe
Creative Cloud Opportunity

Creative Suite Product Family
Historical Revenue Mix

@Home Individuals
~10%

Creative Professionals
~40%

@Work Creatives
~25%

Education
~25%

Creative Professionals
~40%

@Home Individuals
~10%

@Work Creatives
~25%

Education
~25%

Source: Adobe, May 2013
Total FY2012 CS Total Perpetual Revenue
CS6 User Study
Potential Market

MIGRATION and MARKET EXPANSION
- Business policies
- Product innovation

MARKET EXPANSION
- Mobile apps
- Basic services
- "Freemium" model

MARKET EXPANSION
- Photography Plan

VALUE EXPANSION
- Talent
- Stock content
- Training

Creative Cloud for Everyone

Creative Cloud for Photographers

Creative Cloud for Individual, Teams, Enterprises

Creative Cloud "Extended"
Three Creative Cloud Growth Vectors

Migration
Migrate CS customers to CC

Value Expansion
Increase ARPU through new services

Market Expansion
Expand customer base through tiered offerings
Document Services Trends

• Fragmented document workflows
• Inability of teams to collaborate within a mobile workforce
• Inefficient business processes held up by paper-based forms and approvals
• Security of information remains a priority
• eSigning is under-utilized
Adobe Acrobat and PDF are Standards

Historical Product Lineup

- Acrobat
- Acrobat in the Cloud
- Adobe Reader
- FormsCentral
- EchoSign

- More than 20 years of Acrobat and PDF innovation
- More than 30 million Acrobat users
- More than 1 billion Adobe Reader downloads to PCs and mobile devices
- Billions of PDFs on the web

Source: Adobe, Mar 2015
Introducing Acrobat DC and the Adobe Document Cloud

- Create, manage, transact and publish critical business documents
  - Complete PDF solution across desktop, web and mobile
  - Automated e-sign and approvals integrated with systems of record
  - Manage, track and protect sensitive information

- Significant product updates
  - Touch-enabled with new user interface
  - Persistent access to recent PDFs across devices with Mobile Link and new Acrobat mobile app
  - Available in Q2 FY2015
Acrobat DC – A Complete Set of Powerful Document Tools

- >40 new and improved features focusing on making working with documents easier
  - Edit scanned documents instantly
  - Fix document photos automatically
  - Edit PDFs and reflow text naturally
  - Export to MS office formats
  - Fill and Sign any form fast
- New mobile apps and Document Cloud services extend capabilities across devices
  - Create, Export, Edit and Organize
  - Turn your camera into a portable scanner
  - Open recent files across devices with Mobile Link
Digital Media Summary

**Strategy**
- Migrate CS user base to Creative Cloud
- Expand Creative Cloud value to drive ARPU growth
- Acquire new customers with Creative Cloud market expansion initiatives
- Drive growth in document creation, sharing and signing services with Adobe Document Cloud

**Key Initiatives**
- Deliver rapid innovation to subscribers
- Address multi-device content creation and document collaboration and workflow challenges
- Redefine the creative process beyond the desktop via value-enhancing mobile apps and Cloud services
- Deliver new Acrobat DC and Adobe Document Cloud offering in 1H FY2015

**2016 MARKET OPPORTUNITY**

<table>
<thead>
<tr>
<th>Category</th>
<th>Market Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Pro</td>
<td>$5.8B</td>
</tr>
<tr>
<td>Creative Marketplace</td>
<td>$4.0B</td>
</tr>
<tr>
<td>Consumer</td>
<td>$1.7B</td>
</tr>
<tr>
<td>Acrobat/Document Services</td>
<td>$2.5B</td>
</tr>
</tbody>
</table>

~$14B Addressable Market

Source: Adobe, Oct 2014
Industry Trends Propelling Digital Marketing Growth

- Shift of marketing spend to digital
- Re-platforming of the Web within the real-time enterprise
- Demand for Cloud-based solutions
- Omni-channel personalization
- Shift to “Mobile-First” strategy
- Explosion of video distribution via IP
- Internet of Things presents next challenge and opportunity for marketers
Adobe Marketing Cloud

Puts everything digital marketers need in one spot—an integrated set of analytics, social, advertising, targeting, campaign management and web experience management solutions
## Adobe Marketing Cloud—Eight Solutions

<table>
<thead>
<tr>
<th>Solution</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe Analytics</td>
<td>Combines the power of actionable analytics and audience segmentation with value reporting and analysis, and connects it for data driven marketing</td>
</tr>
<tr>
<td>Adobe Experience Manager</td>
<td>Enables marketers to create, manage, and optimize customized online customer experiences to build brand, drive demand and extend reach in the digital world</td>
</tr>
<tr>
<td>Adobe Campaign</td>
<td>Enables marketers to plan, automate, orchestrate and measure personalized marketing communications across channels</td>
</tr>
<tr>
<td>Adobe Target</td>
<td>Helps organizations dynamically test and present highly customized experiences to a digital property in order to drive higher conversion rates</td>
</tr>
<tr>
<td>Adobe Social</td>
<td>Helps organizations measure and manage marketing activities across owned, earned and paid media—ensuring the impact of social is properly attributed</td>
</tr>
<tr>
<td>Adobe Media Optimizer</td>
<td>Combines portfolio and rules based ad management with intelligent campaign forecasting and targeted ad delivery for data optimized advertising</td>
</tr>
<tr>
<td>Adobe Audience Manager</td>
<td>Data management platform that helps marketers build unique audience profiles to identify the most valuable segments and use them across any digital channel</td>
</tr>
<tr>
<td>Adobe Primetime</td>
<td>Multiscreen TV platform that helps broadcasters, cable networks and service providers create and monetize engaging and personalized TV and film experiences</td>
</tr>
</tbody>
</table>
Adobe Marketing Cloud Journey

• Adobe Marketing Cloud
  • Social
  • Campaign
  • Primetime

• Media Optimizer
• Target

• Analytics
• Experience Manager

2012

2013

Explosive category
Market-leading platform
Expansion beyond marketing

2014

2015

• Core Services
  • Platform
  • Mobile

• Visualization
• Automation
• Integration

• Internet of Things
• Audience Manager
• Ad Tech
Adobe Marketing Cloud—Extensible Platform with Core Services

Solutions
- Adobe Analytics
- Adobe Experience Manager
- Adobe Campaign
- Adobe Target
- Adobe Social
- Adobe Media Optimizer
- Adobe Audience Manager
- Adobe Primetime

Core Services
- Profiles and Audiences
- Assets
- Activation
- Collaboration
- Admin and User Management
- Mobile
- Exchange

Platform
- Data, Content & APIs

Third-party data and applications
### Adobe Marketing Cloud Momentum

#### FY2014

- **$1.2B**
  - Adobe Marketing Cloud revenue \(^1\)
- **>30%**
  - Year/year bookings growth \(^1\)

#### LARGE DEAL MOMENTUM

- **47%**
  - Year/year increase in customers >$500K in ARR \(^2\)
- **56%**
  - Year/year increase in contracts >$1M \(^3\)

#### SOLUTION ADOPTION

- **96**
  - Multi-solution contracts >$500K \(^4\)
- **24%**
  - Of >$1M contracts involve multiple solutions \(^4\)

#### BIG DATA/CONTENT PLATFORM

- **25.8B**
  - Data transactions on Cyber Monday
- **40%**
  - Of data transactions from mobile devices \(^5\)
- **30.4T**
  - Annual data transactions \(^6\)

---

 Source: Adobe

\(^1\) Based on FY2014 actual results

\(^2\) Number of customers with ARR >$500K as of end of Q4'14

\(^3\) Based on FY2014 bookings – number of contracts >$1M

\(^4\) Based on FY2014 bookings – number of contracts with more than 1 solution

\(^5\) % of Adobe Analytics server calls from mobile devices as of end of Q4'14

\(^6\) Based on FY2014 number of data transactions
### Adobe Marketing Cloud—Industry Leadership in High-Growth Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Source: Industry analyst reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web Content Management</td>
<td></td>
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<tr>
<td>Mobile Application Development Platform</td>
<td></td>
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<tr>
<td>Cross-Channel Campaign Management</td>
<td></td>
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<tr>
<td>Data Management Platforms</td>
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<tr>
<td>Web Analytics</td>
<td></td>
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<tr>
<td>Lead to Revenue Management Platform</td>
<td></td>
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<tr>
<td>Online Testing</td>
<td></td>
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<tr>
<td>Social Media Management</td>
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Driving Thought Leadership in the Digital Marketing Industry
Explosive Growth Opportunities in Mobile and Video

MOBILE WEB

MOBILE APPS

MOBILE MARKETING

MAKE

MANAGE

MEASURE

MONETIZE

ScoreCenter
ESPN CFB - FINAL - ALA 27 TUS 15
A McGarron (ALA) 15 of22, 246 yds, 1TD, 0INT T Poole (TENN) 20 for 73yds.

Close

Reply

Ad related to efl
XFINITY® - Football Offer
www.comcast.com/Sports
Get every TD Every Game on Sunday
Video Opportunity in Broadcast and Marketing

Adobe Primetime

Player SDK
Tools to deliver premium video experience to any device

Pay-TV pass
Deliver premium content via TV Everywhere authentication

DRM
Protect and enforce video rights

Ad decisioning
Campaign management, forecasting, inventory management and reporting

Quality monitoring
Real-time insight on video quality, viewer engagement and ad impressions

Ad insertion
Dynamic ad insertion that blends with live or on-demand TV content across devices

Video analytics
Understand how audiences watch and engage with premium TV, film and ads

MAKE

MANAGE

MEASURE

MONETIZE
Adobe Primetime Adoption

Customers

Authentication-enabled Apps

Nielsen Digital Content Ratings, Powered by Adobe

- Integration of Nielsen's Digital Ratings with Adobe Analytics and Adobe Primetime
- Industry's first comprehensive measurement system for digital content and audiences across devices and platforms
- Enables ad buying across screens based on actionable data
How Adobe is Winning in Digital Marketing

CONSUMER IS AT THE CENTER

Content + Data is the foundation with profiles & context

EXPERIENCE MATTERS

Experience is the brand Mobile dominates the interface

BUSINESS RESULTS WIN

Digital Marketing drives measurable impact on the business
Adobe Marketing Cloud—Winning Through Real-Time, Personal Experiences

USER ACTIONS

- Listen
- Predict
- Assemble
- Deliver

The Last Millisecond

USER EXPERIENCE

- CRM
- 3rd
- Facebook
- Mobile
- Email

It's OK to feel this way about a car.

All-New 2.3L EcoBoost

Mustang is out of the gate with its first-ever EcoBoost engine - a 2.3L marvel of power.

- 305 horsepower
- 330 lb-ft of torque

Click here for more information.
Adobe Marketing Cloud—Winning Through Differentiation

DATA
Behavioral data
3rd + 1st party data

CONTENT
Rich, engaging experiences
Content velocity

DECISIONING & ALGORITHMS
Prediction & Action

DELIVERY
Unify and simplify cross-channel workflows and experiences
Who We Sell To Has Evolved

CRO & CCO

Heads of Digital

CMO

CIO

Analytics Professionals

Partners

Agencies
Adobe Marketing Cloud—Go-To-Market Strategy

Direct Sales

Partner Sales
Agencies, ISVs, Regional Partners, SIs

- Accenture
- Deloitte Digital
- Epsilon
- IPG
- Omnicom Group
- Publicis Groupe
- SapientNitro
- SAP
- IBM
- PwC
- WPP
Digital Marketing Summary

**Strategy**
- Build upon Adobe’s industry leadership
- Increase multi-solution Marketing Cloud usage

**Key Initiatives**
- Continue to improve integration across products and solutions
- Build out sales capacity and partner ecosystem
- Focus on competitive differentiations
  - Content + Data
  - Decisioning and algorithms
  - Personalization and delivery of engaging digital experiences across devices

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</tr>
<tr>
<td>Primetime</td>
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~$21B Addressable Market

Source: Adobe, Oct 2014
Adobe Transformation—Growing Recurring Revenue

% of Total Revenue From Recurring Sources

Q2’12  Q3’12  Q4’12  Q1’13  Q2’13  Q3’13  Q4’13  Q1’14  Q2’14  Q3’14  Q4’14  Q1’15  Q2’15

Source: Adobe
Adobe Transformation—Building Deferred Revenue

Deferred Revenue

Q1'12  Q2'12  Q3'12  Q4'12  Q1'13  Q2'13  Q3'13  Q4'13  Q1'14  Q2'14  Q3'14  Q4'14

~$1.2B

Source: Adobe
Adobe Transformation—Building Off-Balance Sheet Backlog

Unbilled Backlog

~$1.7B

Source: Adobe
Key Vectors for Adobe's Growth

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

**If we cannot continue to develop, 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 new high technology products and services and enhancing existing products and services is complex, costly and uncertain. If we fail to anticipate customers’ changing needs and emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. If we are unable to extend our core technologies into new applications and new platforms and to anticipate or respond to technological changes, the market’s acceptance of our products and services could decline and our results would suffer. Additionally, any delay in the development, production, marketing or offering of a new product or service or enhancement to an existing product or service could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenues, earnings or stock price and weakening our competitive position. We maintain strategic relationships with third parties to market certain of our products and support certain product functionality. If we are unsuccessful in establishing or maintaining our strategic relationships with these third parties, our ability to compete in the marketplace, to reach new customers and geographies or to grow our revenues would be impaired and our operating results would suffer.

We offer our products on a variety of PC, tablet and mobile devices. Recent trends have shown a technological shift from personal computers to tablet and mobile devices. If we cannot continue to adapt our products to tablet and mobile devices our business could be harmed. To the extent that consumer purchases of these devices slow down, or to the extent that significant demand arises for our products or competitive products on other platforms before we offer our products on those platforms, 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 costs in order for us to adapt our solutions to such devices or operating systems. These potential costs and delays could harm our business. 

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

The markets for our products and services are characterized by intense competition, evolving industry standards, emerging business and distribution models, disruptive technology developments, short product and service life cycles, price sensitivity on the part of customers, and frequent new 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 upgrade rates, as well as our ability to attract new customers. Our future success will depend on our ability to enhance our existing products and services, introduce new products and services on a timely and cost-effective basis, meet changing customer needs, extend our core technology into new applications, and anticipate and respond to emerging standards, business models, software delivery methods and other technological developments, such as the evolution and emergence of digital application marketplaces as a direct sales and software delivery environment. These digital application marketplaces often have exclusive distribution for certain platforms, which may make it more difficult for us to compete in these markets. If any competing products, services or operating systems (that don’t support our solutions) achieve widespread acceptance, our operating results could suffer. In addition, consolidation has occurred among some of the competitors in the markets in which we compete. Further consolidations in these markets may subject us to increased competitive pressures and may therefore harm our results of operations. For additional information regarding our competition and the risks arising out of the competitive environment in which we operate, see the section entitled “Competition” contained in Item 1 of our Annual Report on Form 10-K for the fiscal year ended November 28, 2014.

**If we fail to successfully manage transitions to new business models and markets, our results of operations could suffer.**

We often release new offerings and employ new software and services delivery methods in connection with our diversification into new business models and markets. It is uncertain whether these strategies will prove successful or whether we will be able to develop the necessary infrastructure and business models more quickly than our competitors. Market acceptance of new product and service offerings will be dependent on our ability (1) to include functionality and usability that address customer requirements, and (2) to optimally price our products in light of marketplace conditions, our costs and customer demand. New product and service offerings could subject us to increased risk of liability related to the provision of services and cause us to incur significant technical, legal or other costs. For example, with our cloud-based services and subscription-based licensing models, such as Creative Cloud, we have entered markets that may not be fully accustomed to cloud-based subscription offerings. Market acceptance of such services is affected by a variety of factors, including information security, reliability, performance, social/community engagement, local government regulations regarding online services and user-generated content, the sufficiency of technological infrastructure to support our products in certain geographies, customer concerns with entrusting a third party to store and manage its data, public concerns regarding data privacy and the enactment of laws or regulations that restrict our ability to provide such services to customers in the U.S. or internationally. If we are unable to respond to these threats, our business could be harmed.

From time to time we open-source certain of our technology initiatives, provide broader open access to our technology, license certain of our technology on a royalty-free basis, or release selected technology for industry standardization. Additionally, customer requirements for open standards or open-source products could impact adoption or use of some of our products or services. To the extent we incorrectly predict customer requirements for such products or services, or if there is a delay in market acceptance of such products or services, our business could be harmed.

We also devote significant resources to the development of technologies and service offerings in markets where our operating history is less extensive, such as the marketplace for stock imagery. These new offerings and markets may require a considerable investment of technical, financial, compliance and sales resources, and a scalable organization. Some of our competitors may have advantages over us due to their larger presence, larger developer network, deeper market experience and larger sales, consulting and marketing resources. If we are unable to successfully establish new offerings in light of the competitive environment, our results of operations could suffer.
The increased emphasis on a cloud strategy may give rise to risks that could harm our business.

Over the past several years, our business has shifted away from pre-packaged creative software to focus on a subscription model that prices and delivers our products in a way that differs from the historical pricing and delivery methods of our creative tools and document services products. These changes reflect a significant shift from perpetual license sales and distribution of our software in favor of providing our customers the right to access certain of our software in a hosted environment or use downloaded software for a specified subscription period. This cloud strategy requires continued investment in product development and cloud operations, and may give rise to a number of risks, including the following:

- if customers desire only perpetual licenses or to purchase or renew only point product subscriptions rather than acquire the entire Creative Cloud offering, our subscription sales may lag behind our expectations;
- our cloud strategy may raise concerns among our customer base, including concerns regarding changes to pricing over time, service availability, information security of a cloud solution and access to files while offline or once a subscription has expired;
- small businesses and hobbyists may turn to competitive or open-source offerings;
- we may be unsuccessful in maintaining our target pricing, new seat adoption and projected renewal rates; we may select a target price that is not optimal and could negatively affect our sales or earnings; or we may have to rely heavily on promotional rates to achieve target seat adoption, which could reduce average revenue per user; and
- we may incur costs at a higher than forecasted rate as we expand our cloud operations.

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

Although the subscription model is designed to increase the number of customers who purchase our products and services and create a recurring revenue stream that is more predictable, it creates certain risks related to the timing of revenue recognition and potential reductions in cash flows.

A portion of the subscription-based revenue we report each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenues 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. Further, any increases in sales under our subscription sales model could result in decreased revenues over the short term if they are offset by a decline in sales from perpetual license customers.

Additionally, in connection with our sales efforts to enterprise customers and our use of ETLAs, a number of factors could affect our revenues, including longer than expected sales and implementation cycles, potential deferral of revenue due to multiple-element revenue arrangements and alternate licensing arrangements. If any of our assumptions about revenue from our new businesses or our addition of a subscription-based model prove incorrect, our actual results may vary materially from those anticipated, estimated or projected.

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

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

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

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

Maintaining the security of our products, computers and networks is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures and, as we have previously disclosed, certain parties have in the past managed to breach certain of our data-security systems and misused certain of our systems and software in order to access our end users’ authentication and payment information. In addition, cyber-attackers also develop and deploy viruses, worms and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Sophisticated hardware and operating system applications that we produce or procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly compromise the security of the system. The costs to eliminate 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 may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions, as well as potential liability to the company.

Outside parties have in the past and may in the future attempt to fraudulently induce our employees or users of our services to disclose sensitive information via illegal electronic spamming, phishing or other tactics. Unauthorized parties may also attempt to gain physical access to one of our facilities in order to infiltrate our information systems. 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 or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this information. This may result in litigation and potential liability or fines for us, or governmental inquiry and oversight, any of which could damage our brand and reputation, possibly impeding our present and future success in retaining and attracting new customers and thereby requiring time and resources to repair our brand image.

These problems affect our products and services in particular because cyber-attackers tend to focus their efforts on the most popular offerings (such as those with large bases of users), and we expect them to continue to do so. Critical vulnerabilities may be identified in certain of our applications. These vulnerabilities could cause such applications to crash and could allow an attacker to take control of the affected system, which could result in liability to us or limit our ability to conduct our business and deliver our products and services to customers. We devote significant resources to address security vulnerabilities through engineering more secure products, enhancing security and reliability features in our products and systems, code hardening, conducting rigorous penetration tests, deploying security updates to address security vulnerabilities and improving our incident response time, but these 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 seek to return products, to stop using certain services, to reduce or delay future purchases of products or services, or to use competing products or services. 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 customers require, our business could be adversely affected.

Customers may also increase their expenditures on security measures designed to protect their existing computer systems from attack, which could delay adoption of new technologies. Further, if we or our customers are subject to a future attack, or our technology is utilized in a third-party attack, it may be necessary for us to take additional extraordinary measures and make additional expenditures to take appropriate responsive and preventative steps. Any of these events could adversely affect our revenues or margins. Moreover, delayed sales, lower margins or lost customers resulting from the disruptions of cyber-attacks or preventative measures could adversely affect our financial results, stock price and reputation.

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

Some of our lines of business and services, including our online store at adobe.com, Creative Cloud, other hosted Digital Media offerings and our Adobe Marketing Cloud solutions, rely on hardware and services hosted and controlled directly by us or by our third-party service providers. 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, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm and cause us to lose customers and future business, thereby reducing our revenues.

We hold large amounts of customer data, some of which is hosted in third-party facilities. A security incident at those facilities or ours may compromise the confidentiality, integrity or availability of customer data. Unauthorized access to customer data stored on our computers or networks may be obtained through break-ins, breach of our secure network by an unauthorized party, employee theft or misuse, or other misconduct. It is also possible that unauthorized access to customer data may be obtained through inadequate use of security controls by customers. While our products and services provide and support strong password controls, IP restriction and account controls, their use is controlled by the customer. Accounts created with weak passwords could allow cyber-attackers to gain access to customer data. Additionally, failure by customers to remove accounts of their own employees, or granting of accounts by the customer in an uncontrolled manner, may allow for access by former or unauthorized customer representatives. If there were an inadvertent disclosure of personal information, or if a third party were to gain unauthorized access to the personal information we possess on behalf of our customers, our operations could be disrupted, our reputation could be damaged and we could be subject to claims or other liabilities. In addition, such perceived or actual unauthorized disclosure of the information we collect or breach of our security could damage our reputation, result in the loss of customers and harm our business.

Because of the large amount of data that we collect and manage on behalf of our customers, it is possible that hardware or software failures or errors in our systems (or those of our third-party service providers) could result in data loss or corruption or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. Furthermore, our ability to collect and report data may be delayed or interrupted by a number of factors, including access to the internet, the failure of our network or software systems, security breaches or significant variability in visitor traffic on customer websites. In addition, computer viruses may harm our systems causing us to lose data, and the transmission of computer viruses could expose us to litigation. We may also find, on occasion, that we cannot deliver data and reports to our customers in near real time because of a number of factors, including significant spikes in customer activity on their websites or failures of our network or software. If we supply inaccurate information or experience interruptions in our ability to capture, store and supply information in near real time or at all, our reputation could be harmed and we could lose customers, or we could be found liable for damages or incur other losses.
Uncertainty about current and future economic conditions and other adverse changes in general political conditions in any of the major countries in which we do business could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in economic and political conditions, both domestically and globally. Uncertainty about current and future economic and political conditions on us, our customers, suppliers and partners, makes it difficult for us to forecast operating results and to make decisions about future investments. If economic growth in countries where we do business slows, customers may delay or reduce technology purchases, advertising spending or marketing spending. This could result in reductions in sales of our products and services, longer sales cycles, slower adoption of new technologies and increased price competition. Our customers include government entities, including the U.S. federal government, and if spending cuts impede the government’s ability to purchase our products and solutions, our revenues could decline. 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 financial institution credit crisis could impair credit availability and financial stability of our customers, including our distribution partners and channels. A disruption in the financial markets may also have an effect on our derivative counterparties and could also impair our banking partners on which we rely for operating cash management. Any of these events would likely harm our business, results of operations and financial condition.

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

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

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

- difficulty in integrating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies, products or services with our current technologies, products or services;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- entry into markets in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of 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 achieve the financial and strategic goals for the acquired and combined businesses;
- inability to take advantage of anticipated tax benefits as a result of unforeseen difficulties in our integration activities;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential additional exposure to fluctuations in currency exchange rates;
- potential additional costs of bringing acquired companies into compliance with laws and regulations applicable to us as a multi-national corporation;
- potential impairment of our relationships with employees, customers, partners, distributors or third-party providers of our technologies, products or services;
- potential failure of the due diligence processes to identify significant problems, liabilities or other challenges of an acquired company or technology, including but not limited to, issues with the acquired company’s intellectual property, product quality or product architecture, data back-up and security (including security from cyber-attacks), privacy practices, revenue recognition or other accounting practices, employee, customer or partner issues or legal and financial contingencies;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to claims from terminated employees, customers, former stockholders or other third parties;
- incurring significant exit charges if products or services acquired in business combinations are unsuccessful;
- potential inability to assert that internal controls over financial reporting are effective;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions;
- potential delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product and service offerings; and
- potential incompatibility of business cultures.

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

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

In connection with the enforcement of our own intellectual property rights, the acquisition of third-party intellectual property rights, or disputes relating to the validity or alleged infringement of third-party intellectual property rights, including patent rights, we have been, are currently and may in the future be subject to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation are typically 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 many past lawsuits and other disputes, we may not prevail in the future. 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.
We may not be able to protect our intellectual property rights, including our source code, from third-party infringers or unauthorized copying, use or disclosure.

Although we vigorously defend our intellectual property rights and attempt to combat uninlicensed copying, access and use of software and intellectual property through a variety of techniques, preventing unauthorized use or infringement of our rights is inherently difficult. We actively combat software piracy as 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.

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

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

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

On behalf of certain customers, we collect and store anonymous and personal information derived from the activities of end users with various channels, including traditional websites, mobile websites and applications, email interactions, direct mail, point of sale, text messaging and call centers (collectively, “channels”). This enables us to provide such customers with reports on aggregated anonymous or personal information from and about end-user interactions with various channels in the manner specifically directed by each such individual customer. Federal, state and foreign governments and agencies have adopted or are considering adopting laws regarding the collection, use and disclosure of this information. Our compliance with privacy laws and regulations and our reputation among the public body of end users depend in part on such customers’ adherence to privacy laws and regulations and their use of our services in ways consistent with such end users’ expectations. We also rely on contractual representations made to us by customers that their own use of our services and the information they provide to us via our services do not violate any applicable privacy laws, rules and regulations or their own privacy policies. We contractually obligate customers to represent to us that they provide their end users the opportunity to “opt-out” of the information collection associated with our services, as applicable. We do not formally audit such customers to confirm compliance with these representations. If these representations are false or if such customers do not otherwise comply with applicable privacy laws, we could face adverse publicity and possible legal or other regulatory action. In addition, some countries are considering enacting laws that would expand the scope of privacy-related obligations required of service providers, such as Adobe, that would require additional compliance expense and increased liability.

If we fail to process transactions effectively our revenue and earnings may be harmed.

We process a significant volume of transactions on a daily basis in both our Digital Marketing and Digital Media businesses. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential; but even the most sophisticated systems and processes may not be effective in preventing all errors. The systems supporting our business are comprised of multiple technology platforms that may be difficult to scale. If we are unable to effectively manage these systems and processes, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our customer relationships or results of operations.

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

We contract with a number of software distributors, none of which is individually responsible for a material amount of our total net revenue for any recent period. If any single agreement with one of our distributors were terminated, we believe we could make arrangements with new or existing distributors to distribute our products without a substantial disruption to our business; however, any prolonged delay in securing a replacement distributor could have a negative short-term impact on our results of operations.

Successfully managing our indirect channel efforts to reach various 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 potential legal risk and reputational harm from the activities of these third parties including, but not limited to, export control violations, workplace conditions, corruption and anti-competitive behavior. Although we have undertaken efforts to reduce these third-party risks, they remain present. We cannot be certain that our distribution channel will continue to market or sell our products effectively. If our distribution channel is not successful, we may lose sales opportunities, customers and revenues.
Our distributors also sell our competitors’ products, and if they favor our competitors’ products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products through our OEM channel, and if our OEMs decide not to bundle our applications on their devices, our results could suffer.

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

We also sell certain of our products and services through our direct sales force. Risks associated with this sales channel include longer sales and collection cycles associated with direct sales efforts, challenges related to hiring, retaining and motivating our direct sales force, and substantial amounts of training for sales representatives, including regular updates to cover new and upgraded systems, products and services. Moreover, 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 these expansion efforts do not generate a corresponding significant increase in revenues and we are unable to achieve the efficiencies we anticipate. In addition, the loss of key sales employees could impact our customer relationships and future ability to sell to certain accounts covered by such employees.

We also provide products and services, directly and indirectly, to a variety of governmental entities, both domestically and internationally. Risks associated with licensing and selling products and services to governmental entities include longer sales cycles, varying governmental budgeting processes and adherence to complex procurement regulations and other government-specific contractual requirements. Ineffectively managing these risks 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.

We outsource a substantial portion of our customer service and technical support activities to third-party service providers. We rely heavily on these third-party customer service and technical support representatives working on our behalf, and we expect to continue to rely heavily on third parties in the future. This strategy provides us with lower operating costs and greater flexibility, but also presents risks to our business due to the fact that 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 based overseas. If we encounter problems with our third-party customer service and technical support providers, our reputation may be harmed and we could lose customers and associated revenues.

Certain of our enterprise offerings have long and complex sales cycles.

Sales cycles for some of our enterprise offerings, including our Adobe Marketing Cloud Solutions and ETLAs in our Digital Media business, are long and complex. The complexity in these sales cycles is due to a number of factors, including:

- the need for our sales representatives to educate customers about the use and benefit of our large-scale deployments of our products and services, including technical capabilities, security features, potential cost savings and return on investment;
- the desire of large and medium size 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;
- the negotiation of large, complex, enterprise-wide contracts, as often required by our and our customers’ business and legal representatives;
- the need for our customers to obtain requisition approvals from various decision makers within their organizations; and
- customer budget constraints, economic conditions and unplanned administrative delays.

We spend substantial time and expense on our sales efforts without any assurance that potential customers will ultimately purchase our solutions. As we target our sales efforts at larger enterprise customers, these trends are expected to continue. 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 long sales cycle for these products makes it difficult to predict when a given sales cycle will close.

Catastrophic events may disrupt our business.

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

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

- shortfalls in our revenue, margins, earnings, the number of paid Creative Cloud subscribers, ARR, bookings within our Adobe Marketing Cloud business or other key performance metrics;
- changes in estimates or recommendations by securities analysts;
- the announcement of new products, product enhancements or service introductions by us or our competitors;
- the loss of a large customer or our inability to increase sales to existing customers or attract new customers;
- variations in our or our competitors' results of operations, changes in the competitive landscape generally and developments in our industry; and
- unusual events such as significant acquisitions, divestitures, litigation, general socio-economic, regulatory, political or market conditions and other factors, including factors unrelated to our operating performance.

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

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

We face various risks associated with operating as a multi-national 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:

- foreign currency fluctuations;
- changes in government preferences for software procurement;
- international economic, political and labor conditions;
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;
- unexpected changes in, or impositions of, legislative or regulatory requirements;
- 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;
- transportation delays;
- operating in locations with a higher incidence of corruption and fraudulent business practices; and
- other factors beyond our control, including terrorism, war, natural disasters and pandemics.

If sales to any of our customers outside of the Americas are delayed or canceled because of any of the above factors, our revenues may decline.

In addition, approximately 52% of our employees are located outside the U.S. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers’ compensation rates, citizenship requirements and payroll and other taxes, which likely would have a direct impact on our operating costs. We may continue to expand our international operations and international sales and marketing activities. Expansion in international markets has required, and will continue to require, significant management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets, and our revenues may not increase to offset these expected increases in costs and operating expenses, which would cause our results to suffer.

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

Our operating results are subject to fluctuations in foreign currency exchange rates. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We have established a hedging program to partially hedge our exposure to
foreign currency exchange rate fluctuations for various currencies. We regularly review our hedging program and make adjustments as necessary based on the factors discussed above. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

We have issued $1.9 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 $1.9 billion in senior unsecured notes outstanding. We also have a $1 billion revolving credit facility, which is currently undrawn. This debt may adversely affect our financial condition and future financial results by, among other things:

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

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

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, 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 could affect the terms of any such financing.

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

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

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

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

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

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

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

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items and to earnings considered as permanently reinvested in foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in, or our interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of our deferred tax assets and liabilities. The United States, countries in the European Union and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These potential changes could adversely affect our effective tax rates or result in other costs to us.

In addition, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities, including a current examination by the IRS of our fiscal 2010, 2011 and 2012 tax returns. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from the current examinations. There can be no assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.
If we are unable to recruit and retain key personnel our business may be harmed.

Much of our future success depends on the continued service and availability of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business, especially in the event that we have not been successful in developing adequate succession plans. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel across all levels of our organization. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense in many areas where our employees are located. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed. Effective succession planning is also a key factor for our long-term success. Our failure to enable the effective transfer of knowledge and facilitate smooth transitions of our key employees could adversely affect our long-term strategic planning and execution.

We believe that a critical contributor to our success to date has been our corporate culture, which we have built to foster innovation, 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.

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

Our cash equivalent and short-term investment portfolio as of May 29, 2015 consisted of corporate bonds and commercial paper, U.S. agency securities and U.S. Treasury securities, money market mutual funds, municipal securities, time deposits and asset-backed securities. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of May 29, 2015, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.