ADOBE SYSTEMS INC
Form 10-Q
September 25, 2014

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended August 29, 2014

or

o 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 SYSTEMS INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0019522 (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)

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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller	Smaller reporting company o

reporting company)

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

The number of shares outstanding of the registrant's common stock as of September 19, 2014 was 498,738,874.

ADOBE SYSTEMS INCORPORATED
FORM 10-Q

TABLE OF CONTENTS

2

Table of Contents

PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	August 29, 2014 (Unaudited)	November 29, 2013 (*)
ASSETS		
Current assets:		
Cash and cash equivalents	$903,329	$834,556
Short-term investments	2,616,868	2,339,196
Trade receivables, net of allowances for doubtful accounts of $7,879 and $10,228, respectively	528,331	599,820
Deferred income taxes	79,713	102,247
Prepaid expenses and other current assets	151,227	170,110
Total current assets	4,279,468	4,045,929
Property and equipment, net	785,856	659,774
Goodwill	4,746,781	4,771,981
Purchased and other intangibles, net	490,839	605,254
Investment in lease receivable	80,439	207,239
Other assets	110,297	90,121
Total assets	$10,493,680	$10,380,298
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$53,791	$62,096
Accrued expenses	630,679	656,939
Debt and capital lease obligations	606,426	14,676
Accrued restructuring	2,351	6,171
Income taxes payable	4,438	10,222
Deferred revenue	947,563	775,544
Total current liabilities	2,245,248	1,525,648
Long-term liabilities:		
Debt and capital lease obligations	901,830	1,499,297
Deferred revenue	48,975	53,268
Accrued restructuring	5,776	7,717
Income taxes payable	141,473	132,545
Deferred income taxes	344,715	375,634
Other liabilities	74,403	61,555
Total liabilities	3,762,420	3,655,664
Stockholders' equity:		
Preferred stock, $0.0001 par value; 2,000 shares authorized, none issued	—	—
Common stock, $0.0001 par value; 900,000 shares authorized; 600,834 shares issued; 498,599 and 496,261 shares outstanding, respectively	61	61
Additional paid-in-capital	3,675,629	3,392,696

Retained earnings	6,850,790	6,928,964
Accumulated other comprehensive income	20,067	46,103
Treasury stock, at cost (102,235 and 104,573 shares, respectively), net of reissuances	(3,815,287)	(3,643,190)
Total stockholders' equity	6,731,260	6,724,634
Total liabilities and stockholders' equity	$10,493,680	$10,380,298

(*) The Condensed Consolidated Balance Sheet as of November 29, 2013 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.

3

Table of Contents

ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 29, 2014	August 30, 2013	August 29, 2014	August 30, 2013
Revenue:				
Products	$349,151	$582,178	$1,299,852	$1,902,866
Subscription	547,373	299,346	1,447,630	778,133
Services and support	108,885	113,595	326,255	332,542
Total revenue	1,005,409	995,119	3,073,737	3,013,541
Cost of revenue:				
Products	23,172	32,564	75,169	111,351
Subscription	86,670	71,656	247,549	200,763
Services and support	47,882	42,856	138,419	126,927
Total cost of revenue	157,724	147,076	461,137	439,041
Gross profit	847,685	848,043	2,612,600	2,574,500
Operating expenses:				
Research and development	212,049	208,700	630,666	621,435
Sales and marketing	406,475	388,673	1,243,446	1,188,914
General and administrative	141,676	128,043	409,798	381,766
Restructuring and other charges	201	(791)	498	24,203
Amortization of purchased intangibles	13,108	13,064	40,012	38,295
Total operating expenses	773,509	737,689	2,324,420	2,254,613
Operating income	74,176	110,354	288,180	319,887
Non-operating income (expense):				
Interest and other income (expense), net	1,454	1,732	7,162	4,246
Interest expense	(13,361)	(16,747)	(47,054)	(50,786)
Investment gains (losses), net	669	(2,079)	813	(5,476)
Total non-operating income (expense), net	(11,238)	(17,094)	(39,079)	(52,016)
Income before income taxes	62,938	93,260	249,101	267,871
Provision for income taxes	18,252	10,258	68,842	43,206
Net income	$44,686	$83,002	$180,259	$224,665
Basic net income per share	$0.09	$0.16	$0.36	$0.45
Shares used to compute basic net income per share	498,468	504,116	497,782	502,039
Diluted net income per share	$0.09	$0.16	$0.35	$0.44
Shares used to compute diluted net income per share	507,811	514,058	508,575	513,155

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 29, 2014	August 30, 2013	August 29, 2014	August 30, 2013
	Increase/(Decrease)		Increase/(Decrease)	
Net income	$44,686	$83,002	$180,259	$224,665
Other comprehensive income, net of taxes:				
Available-for-sale securities:				
Unrealized gains / losses on available-for-sale securities	(1,822)	(7,757)	1,666	(12,310)
Reclassification adjustment for gains / losses on available-for-sale securities recognized	(1,592)	46	(3,480)	(2,326)
Net increase (decrease) from available-for-sale securities	(3,414)	(7,711)	(1,814)	(14,636)
Derivatives designated as hedging instruments:				
Unrealized gains / losses on derivative instruments	10,003	(2,947)	11,976	29,713
Reclassification adjustment for gains / losses on derivative instruments recognized	(1,075)	(10,487)	(6,490)	(32,880)
Net increase (decrease) from derivatives designated as hedging instruments	8,928	(13,434)	5,486	(3,167)
Foreign currency translation adjustments	(32,090)	6,651	(29,708)	57
Other comprehensive income, net of taxes	(26,576)	(14,494)	(26,036)	(17,746)
Total comprehensive income, net of taxes	$18,110	$68,508	$154,223	$206,919

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	August 29, 2014	August 30, 2013
Cash flows from operating activities:		
Net income	$180,259	$224,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	235,443	239,877
Stock-based compensation	248,811	244,090
Deferred income taxes	(7,912)	41,002
Write down of assets held for sale	—	23,838
Unrealized (gains) losses on investments	47	6,719
Tax benefit (shortfall) from employee stock option plans	31,883	(17,186)
Other non-cash items	829	2,972
Excess tax benefits from stock-based compensation	(31,953)	—
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	71,973	112,015
Prepaid expenses and other current assets	13,352	(13,669)
Trade payables	(8,305)	16,106
Accrued expenses	(13,749)	(65,992)
Accrued restructuring	(5,627)	(8,454)
Income taxes payable	4,952	(75,908)
Deferred revenue	167,726	106,629
Net cash provided by operating activities	887,729	836,704
Cash flows from investing activities:		
Purchases of short-term investments	(1,412,539)	(1,635,999)
Maturities of short-term investments	913,308	292,374
Proceeds from sales of short-term investments	209,172	1,084,873
Acquisitions, net of cash acquired	—	(704,375)
Purchases of property and equipment	(111,557)	(153,237)
Purchases of long-term investments and other assets	(12,496)	(64,820)
Proceeds from sale of long-term investments	1,364	3,396
Net cash used for investing activities	(412,748)	(1,177,788)
Cash flows from financing activities:		
Purchases of treasury stock	(475,000)	(700,000)
Proceeds from issuance of treasury stock	213,841	526,240
Cost of issuance of treasury stock	(163,293)	(90,356)
Excess tax benefits from stock-based compensation	31,953	—
Proceeds from debt and capital lease obligations	—	25,703
Repayment of debt and capital lease obligations	(11,431)	(19,838)
Debt issuance costs	—	(357)
Net cash used for financing activities	(403,930)	(258,608)
Effect of foreign currency exchange rates on cash and cash equivalents	(2,278)	(6,275)
Net decrease in cash and cash equivalents	68,773	(605,967)
Cash and cash equivalents at beginning of period	834,556	1,425,052

Cash and cash equivalents at end of period	$903,329	$819,085
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$7,114	$110,697
Cash paid for interest	$61,562	$64,334
Non-cash investing activities:		
Investment in lease receivable applied to building purchase	$126,800	$—
Issuance of common stock and stock awards assumed in business acquisitions	$—	$1,160

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

ADOBE SYSTEMS INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual Consolidated Financial Statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the Consolidated Financial Statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended November 29, 2013 on file with the SEC (our "Annual Report").

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

Recent Accounting Pronouncements Not Yet Effective

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for us in the first quarter of fiscal 2018. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

With the exception of the new revenue standard discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended August 29, 2014, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended November 29, 2013, that are of significance or potential significance to us.

NOTE 2. ACQUISITIONS

On July 22, 2013, we completed our acquisition of privately held Neolane, a leader in cross-channel campaign management technology. During the third quarter of fiscal 2013, we began integrating Neolane into our Digital Marketing reportable segment. Neolane brings a platform for automation and execution of marketing campaigns across the web, e-mail, social, mobile, call center, direct mail, point of sale and other emerging channels which will drive consistent brand experiences and personalized campaigns for our customers.

Under the acquisition method of accounting, the total final purchase price was allocated to Neolane's net tangible and intangible assets based upon their estimated fair values as of July 22, 2013. The total final purchase price for Neolane was $616.7 million of which $515.2 million was allocated to goodwill that was non-deductible for tax purposes, $115.0 million to identifiable intangible assets and $13.5 million to net liabilities assumed. The impact of this acquisition was not material to our Condensed Consolidated Financial Statements.

On December 20, 2012, we completed our acquisition of privately held Behance, an online social media platform to showcase and discover creative work. During the first quarter of fiscal 2013, we began integrating Behance into our Digital Media reportable segment. Behance's community and portfolio capabilities has brought additional community features to Creative Cloud since its acquisition. We have included the financial results of Behance in our Condensed Consolidated Financial Statements beginning on the acquisition date.

Under the acquisition method of accounting, the total purchase price was allocated to Behance's net tangible and intangible assets based upon their estimated fair values as of December 20, 2012. The total final purchase price for Behance was $111.1 million of which $91.4 million was allocated to goodwill, $28.5 million to identifiable intangible assets and $8.8 million to net liabilities assumed. The impact of this acquisition was not material to our Condensed

Consolidated Financial Statements.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

Cash, cash equivalents and short-term investments consisted of the following as of August 29, 2014 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$274,463	$—	$—	$274,463
Cash equivalents:				
Money market mutual funds	565,996	—	—	565,996
Time deposits	62,870	—	—	62,870
Total cash equivalents	628,866	—	—	628,866
Total cash and cash equivalents	903,329	—	—	903,329
Short-term fixed income securities:				
Corporate bonds and commercial paper	1,456,706	5,955	(425)	1,462,236
Foreign government securities	23,128	40	(3)	23,165
Municipal securities	185,634	543	(5)	186,172
U.S. agency securities	506,227	881	(260)	506,848
U.S. Treasury securities	437,362	580	(122)	437,820
Subtotal	2,609,057	7,999	(815)	2,616,241
Marketable equity securities	174	453	—	627
Total short-term investments	2,609,231	8,452	(815)	2,616,868
Total cash, cash equivalents and short-term investments	$3,512,560	$8,452	$(815)	$3,520,197

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash, cash equivalents and short-term investments consisted of the following as of November 29, 2013 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$286,221	$—	$—	$286,221
Cash equivalents:				
Money market mutual funds	429,373	—	—	429,373
Time deposits	104,711	—	—	104,711
U.S. Treasury securities	14,251	—	—	14,251
Total cash equivalents	548,335	—	—	548,335
Total cash and cash equivalents	834,556	—	—	834,556
Short-term fixed income securities:				
Corporate bonds and commercial paper	1,261,375	7,116	(631)	1,267,860
Foreign government securities	11,213	56	—	11,269
Municipal securities	186,320	328	(24)	186,624
U.S. agency securities	446,615	1,516	(186)	447,945
U.S. Treasury securities	424,076	799	(97)	424,778
Subtotal	2,329,599	9,815	(938)	2,338,476
Marketable equity securities	177	543	—	720
Total short-term investments	2,329,776	10,358	(938)	2,339,196
Total cash, cash equivalents and short-term investments	$3,164,332	$10,358	$(938)	$3,173,752

See Note 4 for further information regarding the fair value of our financial instruments.
The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category, that have been in an unrealized loss position for less than twelve months, as of August 29, 2014 and November 29, 2013 (in thousands):

	2014		2013	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper	$256,849	$(289)	$225,759	$(631)
Foreign government securities	7,595	(3)	—	—
Municipal securities	9,837	(5)	13,522	(24)
U.S. Treasury and agency securities	169,621	(232)	105,278	(283)
Total	$443,902	$(529)	$344,559	$(938)

There were 208 securities and 177 securities in an unrealized loss position for less than twelve months at August 29, 2014 and at November 29, 2013, respectively.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category, that were in a continuous unrealized loss position for more than twelve months, as of August 29, 2014 (in thousands):

	2014	
	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper	$18,577	$(136)
U.S. Treasury and agency securities	29,416	(150)
Total	$47,993	$(286)

As of August 29, 2014, there were 16 securities in an unrealized loss position for more than twelve months. As of November 29, 2013, there were no securities in an unrealized loss position for more than twelve months.

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated effective maturities as of August 29, 2014 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$629,477	$630,712
Due between one and two years	808,082	810,830
Due between two and three years	915,643	918,119
Due after three years	255,855	256,580
Total	$2,609,057	$2,616,241

We review our debt and marketable equity securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment’s amortized cost basis. If we believe that an other-than-temporary decline exists in one of these securities, we write down these investments to fair value. For debt securities, the portion of the write-down related to credit loss would be recorded to interest and other income, net in our Condensed Consolidated Statements of Income. Any portion not related to credit loss would be recorded to accumulated other comprehensive income, which is reflected as a separate component of stockholders’ equity in our Condensed Consolidated Balance Sheets. For equity securities, the write-down would be recorded to investment gains (losses), net in our Condensed Consolidated Statements of Income. During the nine months ended August 29, 2014, we did not consider any of our investments to be other-than-temporarily impaired.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4. FAIR VALUE MEASUREMENTS

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

We measure certain financial assets and liabilities at fair value on a recurring basis. There have been no transfers between fair value measurement levels during the nine months ended August 29, 2014.

The fair value of our financial assets and liabilities at August 29, 2014 was determined using the following inputs (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market mutual funds	$565,996	$565,996	$—	$—
Time deposits	62,870	62,870	—	—
Short-term investments:				
Corporate bonds and commercial paper	1,462,236	—	1,462,236	—
Foreign government securities	23,165	—	23,165	—
Marketable equity securities	627	627	—	—
Municipal securities	186,172	—	186,172	—
U.S. agency securities	506,848	—	506,848	—
U.S. Treasury securities	437,820	—	437,820	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	14,384	—	14,384	—
Other assets:				
Deferred compensation plan assets	24,821	536	24,285	—
Interest rate swap derivatives	5,146	—	5,146	—
Total assets	$3,290,085	$630,029	$2,660,056	$—
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$969	$—	$969	$—
Total liabilities	$969	$—	$969	$—

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of our financial assets and liabilities at November 29, 2013 was determined using the following inputs (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market mutual funds	$429,373	$429,373	$—	$—
Time deposits	104,711	104,711	—	—
U.S. Treasury securities	14,251	—	14,251	—
Short-term investments:				
Corporate bonds and commercial paper	1,267,860	—	1,267,860	—
Foreign government securities	11,269	—	11,269	—
Marketable equity securities	720	720	—	—
Municipal securities	186,624	—	186,624	—
U.S. agency securities	447,945	—	447,945	—
U.S. Treasury securities	424,778	—	424,778	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	11,891	—	11,891	—
Other assets:				
Deferred compensation plan assets	19,816	894	18,922	—
Total assets	$2,919,238	$535,698	$2,383,540	$—
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,067	$—	$1,067	$—
Total liabilities	$1,067	$—	$1,067	$—

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

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

Our deferred compensation plan assets consist of prime money market funds and mutual funds.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We also have direct investments in privately held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. If we determine that an other-than-temporary impairment has occurred, we write down the investment to its fair value. We estimate fair value of our cost method investments considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. For the three and nine months ended August 29, 2014, we determined there were no other-than-temporary impairments on our cost method investments. Comparatively, for the three and nine months ended August 30, 2013, we determined there were other-than-temporary impairments of $2.0 million and $7.0 million, respectively, on our cost method investments which were written down to fair value.

As of August 29, 2014, the carrying value of our lease receivables approximated fair value, based on Level 2 valuation inputs which include Treasury rates, LIBOR rates and applicable credit spreads. See Note 12 for further details regarding our investment in lease receivables.

The fair value of our senior notes was $1.6 billion as of August 29, 2014, based on observable market prices in less active market and categorized as Level 2. See Note 13 for further details regarding our debt.

NOTE 5. DERIVATIVES AND HEDGING ACTIVITIES

Hedge Accounting

We recognize derivative instruments and hedging activities as either assets or liabilities in our Condensed Consolidated Balance Sheets and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting.

Fair Value Hedging—Interest Rate Swap

During the third quarter of fiscal 2014, we entered into interest rate swaps designated as a fair value hedge related to our $900.0 million of 4.75% fixed interest rate senior notes due February 1, 2020 (the “2020 Notes”). In effect, the interest rate swaps convert the fixed interest rate on our 2020 Notes to a floating interest rate based on the London Interbank Offered Rate (“LIBOR”). Under the terms of the swaps, we will pay monthly interest at the one-month LIBOR rate plus a fixed number of basis points on the $900 million notional amount through February 1, 2020. In exchange, we will receive 4.75% fixed rate interest from the swap counterparties. See Note 13 for further details regarding our debt.

The interest rate swaps are accounted for as fair value hedges and substantially offset the changes in fair value of the hedged portion of the underlying debt that are attributable to the changes in market risk. Therefore, the gains and losses related to changes in the fair value of the interest rate swaps are included in interest and other income (expense), net in our Condensed Consolidated Statement of Income. The fair value of the interest rate swaps is reflected in other assets in our Condensed Consolidated Balance Sheets.

Economic Hedging—Hedges of Forecasted Transactions

In countries outside the U.S., we transact business in U.S. Dollars and in various other currencies. We may use foreign exchange option contracts or forward contracts to hedge certain cash flow exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities of up to twelve months. We enter into these foreign exchange contracts to hedge a portion of our forecasted foreign currency denominated revenue in the normal course of business and accordingly, they are not speculative in nature.

We recognize these contracts as derivative instruments and they are classified as either assets or liabilities on the balance sheet and measured on a recurring basis at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the contract and whether it is designated and qualifies for hedge accounting. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We record changes in the intrinsic value of these cash flow hedges in accumulated other comprehensive income in our Condensed Consolidated Balance Sheets, until the forecasted transaction

13

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to revenue. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to interest and other income (expense), net in our Condensed Consolidated Statements of Income at that time. If we do not elect hedge accounting, or the contract does not qualify for hedge accounting treatment, the changes in fair market value from period to period are recorded in interest and other income (expense), net in our Condensed Consolidated Statements of Income.

Balance Sheet Hedging—Hedging of Foreign Currency Assets and Liabilities

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

The bank counterparties to these contracts expose us to credit-related losses in the event of their nonperformance. However, to mitigate that risk, we only contract with counterparties who meet our minimum requirements as determined by our counterparty risk assessment process. We monitor ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on our ongoing assessment of counterparty risk, we may adjust our exposure to various counterparties. In addition, our hedging policy establishes maximum limits for each counterparty to mitigate any concentration of risk.

We evaluate hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and record any ineffective portion of the hedging instruments in interest and other income (expense), net on our Condensed Consolidated Statements of Income. The net gain (loss) recognized in interest and other income (expense), net for cash flow hedges due to hedge ineffectiveness was insignificant for the periods presented. The time value of purchased contracts is recorded in interest and other income (expense), net in our Condensed Consolidated Statements of Income.

The fair value of derivative instruments on our Condensed Consolidated Balance Sheets as of August 29, 2014 and November 29, 2013 were as follows (in thousands):

	2014		2013	
	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) (3)]	$13,153	$—	$8,913	$—
Interest rate swap [(2)]	5,146	—	—	—
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [(1)]	1,231	969	2,978	1,067
Total derivatives	$19,530	$969	$11,891	$1,067

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(1) Included in prepaid expenses and other current assets and accrued expenses for asset derivatives and liability derivatives, respectively, on our Condensed Consolidated Balance Sheets.

(2) Included in other assets on our Condensed Consolidated Balance Sheets.

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

The aggregate fair value of derivative instruments in net asset positions represent the maximum exposure to loss at the reporting date as a result of all of the counterparties failing to perform as contracted. This exposure could be reduced by the fair value of liabilities included in master netting arrangements with those same counterparties.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The effect of foreign currency derivative instruments designated as cash flow hedges and of foreign currency derivative instruments not designated as hedges in our Condensed Consolidated Statements of Income for the three and nine months ended August 29, 2014 was as follows (in thousands):

	Three Months		Nine Months	
	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts
Derivatives in cash flow hedging relationships:				
Net gain (loss) recognized in OCI, net of tax(1)	$10,003	$—	$11,976	$—
Net gain (loss) reclassified from accumulated OCI into income, net of tax(2)	$1,075	$—	$6,490	$—
Net gain (loss) recognized in income(3)	$(4,676)	$—	$(11,871)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(1,575)	$—	$(855)

The effect of derivative instruments designated as cash flow hedges and of derivative instruments not designated as hedges in our Condensed Consolidated Statements of Income for the three and nine months ended August 30, 2013 was as follows (in thousands):

	Three Months		Nine Months	
	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts
Derivatives in cash flow hedging relationships:				
Net gain (loss) recognized in OCI, net of tax(1)	$(2,947)	$—	$29,713	$—
Net gain (loss) reclassified from accumulated OCI into income, net of tax(2)	$10,487	$—	$32,880	$—
Net gain (loss) recognized in income(3)	$(3,989)	$—	$(13,656)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(2,028)	$—	$2,768

(1) Net change in the fair value of the effective portion classified in other comprehensive income (“OCI”).
(2) Effective portion classified as revenue.
(3) Ineffective portion and amount excluded from effectiveness testing classified in interest and other income (expense), net.
(4) Classified in interest and other income (expense), net.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6. GOODWILL AND PURCHASED AND OTHER INTANGIBLES

Goodwill as of August 29, 2014 and November 29, 2013 was $4.747 billion and $4.772 billion, respectively. During the second quarter of fiscal 2014, we completed our annual goodwill impairment test associated with our three reporting units—Digital Media, Digital Marketing and Print and Publishing—and determined there was no impairment of goodwill.

Purchased and other intangible assets subject to amortization as of August 29, 2014 and November 29, 2013 were as follows (in thousands):

	2014			2013		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Purchased technology	$400,114	$ (254,595)	$145,519	$423,237	$ (220,414)	$202,823
Customer contracts and relationships	$380,753	$ (134,892)	$245,861	$389,800	$ (111,416)	$278,384
Trademarks	67,105	(34,496)	32,609	67,546	(27,933)	39,613
Acquired rights to use technology	157,827	(92,948)	64,879	155,322	(76,740)	78,582
Localization	1,442	(956)	486	3,404	(2,172)	1,232
Other intangibles	12,473	(10,988)	1,485	16,447	(11,827)	4,620
Total other intangible assets	$619,600	$ (274,280)	$345,320	$632,519	$ (230,088)	$402,431
Purchased and other intangible assets, net	$1,019,714	$ (528,875)	$490,839	$1,055,756	$ (450,502)	$605,254

In the first quarter of fiscal 2013, we acquired rights to use certain technology for $51.8 million. Of this cost, an estimated $25.3 million was related to future licensing rights that has been capitalized and is being amortized on a straight-line basis over the estimated useful lives ranging from five to ten years. We estimated that the remaining cost of $26.5 million was related to historical use of licensing rights and was expensed as cost of product revenue.

In the second quarter of fiscal 2014, certain purchased intangibles associated with our acquisitions of Efficient Frontier and Day Software Holding AG became fully amortized and were removed from the Condensed Consolidated Balance Sheets. Amortization expense related to purchased and other intangible assets was $39.1 million and $115.1 million for the three and nine months ended August 29, 2014, respectively. Comparatively, excluding the expense associated with historical use of the acquired rights to use the technology discussed in the paragraph above, amortization expense was $42.2 million and $117.1 million for the three and nine months ended August 30, 2013, respectively. Of these amounts, $26.0 million and $75.1 million were included in cost of sales for the three and nine months ended August 29, 2014, respectively, and $29.4 million and $79.6 million for the three and nine months ended August 30, 2013, respectively.

As of August 29, 2014, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal Year	Purchased Technology	Other Intangible Assets
Remainder of 2014	$18,692	$ 18,196
2015	61,000	68,267
2016	22,646	62,298
2017	15,197	52,916
2018	8,803	42,021

Thereafter	19,181	101,622
Total expected amortization expense	$ 145,519	$ 345,320

16

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7. ACCRUED EXPENSES

Accrued expenses as of August 29, 2014 and November 29, 2013 consisted of the following (in thousands):

	2014	2013
Accrued compensation and benefits	$309,507	$318,219
Sales and marketing allowances	73,792	66,502
Accrued corporate marketing	27,522	22,801
Taxes payable	17,241	18,225
Royalties payable	12,300	14,778
Accrued interest expense	7,295	20,613
Other	183,022	195,801
Accrued expenses	$630,679	$656,939

Other primarily includes general corporate accruals for technical support and local and regional expenses, including our accrual for a loss contingency as of August 29, 2014. Other is also comprised of deferred rent related to office locations with rent escalations and foreign currency liability derivatives. See Note 12 for further information regarding the loss contingency.

NOTE 8. STOCK-BASED COMPENSATION

Summary of Restricted Stock Units

Restricted stock unit activity for the nine months ended August 29, 2014 and the fiscal year ended November 29, 2013 was as follows (in thousands):

	2014	2013
Beginning outstanding balance	17,948	18,415
Awarded	4,054	7,236
Released	(7,085)	(6,224)
Forfeited	(1,072)	(1,479)
Ending outstanding balance	13,845	17,948

Information regarding restricted stock units outstanding at August 29, 2014 and August 30, 2013 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2014			
Restricted stock units outstanding	13,845	1.12	$995.5
Restricted stock units vested and expected to vest	12,367	1.05	$882.4
2013			
Restricted stock units outstanding	18,163	1.29	$831
Restricted stock units vested and expected to vest	16,159	1.22	$736.8

(*) The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market values as of August 29, 2014 and August 30, 2013 were $71.90 and $45.75, respectively.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Summary of Performance Shares

On January 24, 2014, our Executive Compensation Committee approved the 2014 Performance Share Program, including the award calculation methodology, under the terms of our 2003 Equity Incentive Plan. Under our 2014 Performance Share Program ("2014 Program"), shares may be earned based on the achievement of an objective relative total stockholder return measured over a three-year performance period. The purpose of the 2014 Program is to help focus key employees on building stockholder value, provide significant award potential for achieving outstanding Company performance and enhance the ability of the Company to attract and retain highly talented and competent individuals. Performance share awards will be awarded and fully vest upon the Executive Compensation Committee's certification of the level of achievement following the three-year anniversary of the grant date on January 24, 2017. Participants in the 2014 Program generally have the ability to receive up to 200% of the target number of shares originally granted.

Effective January 24, 2013, our Executive Compensation Committee modified our Performance Share Program by eliminating the use of qualitative performance objectives, with 100% of shares to be earned based on the achievement of an objective relative total stockholder return measured over a three-year performance period. Performance awards were granted under the 2013 Performance Share Program ("2013 Program") pursuant to the terms of our 2003 Equity Incentive Plan. The purpose of the 2013 Program is to align key management and senior leadership with stockholders' interests over the long term and to retain key employees. Performance share awards will be awarded and fully vest upon the Executive Compensation Committee's certification of the level of achievement following the three-year anniversary of the grant date on January 24, 2016. Participants in the 2013 Program generally have the ability to receive up to 200% of the target number of shares originally granted.

As of August 29, 2014, the shares awarded under our 2013 and 2014 Performance Share Programs are yet to be achieved. The following table sets forth the summary of performance share activity under our 2013 and 2014 Performance Share Programs for the nine months ended August 29, 2014 (in thousands):

	Shares Granted	Maximum Shares Eligible to Receive
Beginning outstanding balance	854	1,707
Awarded	709	1,417
Forfeited	(46)	(90)
Ending outstanding balance	1,517	3,034

In the first quarter of fiscal 2013, the Executive Compensation Committee certified the actual performance achievement of participants in the 2012 Performance Share Program ("2012 Program"). Based upon the achievement of specific and/or market-based performance goals outlined in the 2012 Program, participants had the ability to receive up to 150% of the target number of shares originally granted. Actual performance resulted in participants achieving 116% of target or approximately 1.3 million shares for the 2012 Program. One third of the shares under the 2012 Program vested in the first quarter of fiscal 2013 and the remaining two thirds vest evenly on the following two anniversaries of the grant date, contingent upon the recipient's continued service to Adobe.

The following table sets forth the summary of performance share activity under our 2010, 2011 and 2012 Programs, based upon share awards actually achieved, for the nine months ended August 29, 2014 and the fiscal year ended November 29, 2013 (in thousands):

	2014	2013
Beginning outstanding balance	861	388
Achieved	—	1,279

Released	(486)	(665)
Forfeited	(21)	(141)
Ending outstanding balance	354	861

18

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Information regarding performance shares outstanding at August 29, 2014 and August 30, 2013 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2014			
Performance shares outstanding	354	0.41	$25.4
Performance shares vested and expected to vest	339	0.41	$24.2
2013			
Performance shares outstanding	868	0.83	$39.7
Performance shares vested and expected to vest	804	0.81	$36.7

(*) The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market values as of August 29, 2014 and August 30, 2013 were $71.90 and $45.75, respectively.

Summary of Stock Options

There were no option grants during the three and nine months ended August 29, 2014 and the three months ended August 30, 2013. The assumptions used to value the option grants during the nine months ended August 30, 2013 were as follows:

	Nine Months 2013	
Expected life (in years)	3.2	
Volatility	27	%
Risk free interest rate	0.36	%

Option activity for the nine months ended August 29, 2014 and the fiscal year ended November 29, 2013 was as follows (in thousands):

	2014		2013	
Beginning outstanding balance	7,359		24,517	
Granted	—		25	
Exercised	(3,585	)	(15,872	)
Cancelled	(134	)	(1,584	)
Increase due to acquisition	—		273	
Ending outstanding balance	3,640		7,359	

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Information regarding stock options outstanding at August 29, 2014 and August 30, 2013 is summarized below:

	Number of Shares (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2014				
Options outstanding	3,640	$28.98	3.33	$156.2
Options vested and expected to vest	3,610	$29.08	3.31	$154.5
Options exercisable	3,056	$30.26	2.99	$127.3
2013				
Options outstanding	9,525	$30.80	3.10	$142.6
Options vested and expected to vest	9,359	$30.93	3.05	$138.9
Options exercisable	7,489	$32.23	2.49	$101.5

(*) The intrinsic value is calculated as the difference between the market value as of the end of the fiscal period and the exercise price of the shares. As reported by the NASDAQ Global Select Market, the market values as of August 29, 2014 and August 30, 2013 were $71.90 and $45.75, respectively.

Summary of Employee Stock Purchase Plan Shares

The expected life of the employee stock purchase plan (“ESPP”) shares is the average of the remaining purchase periods under each offering period. The assumptions used to value employee stock purchase rights during the three and nine months ended August 29, 2014 and August 30, 2013 were as follows:

	Three Months		Nine Months	
	2014	2013	2014	2013
Expected life (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Volatility	26 - 27%	27 - 29%	26 - 28%	26 - 30%
Risk free interest rate	0.06 - 0.47%	0.09 - 0.34%	0.06 - 0.47%	0.09 - 0.34%

Employees purchased 2.9 million shares at an average price of $34.76 and 3.4 million shares at an average price of $25.71 for the nine months ended August 29, 2014 and August 30, 2013, respectively. The intrinsic value of shares purchased during the nine months ended August 29, 2014 and August 30, 2013 was $93.4 million and $58.5 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 August 29, 2014, there was $468.0 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards which will be recognized over a weighted average period of 1.7 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Total stock-based compensation costs that have been included in our Condensed Consolidated Statements of Income for the three months ended August 29, 2014 and August 30, 2013 were as follows (in thousands):

Income Statement Classifications	2014 Option Grants and Stock Purchase Rights	2014 Restricted Stock and Performance Share Awards	2013 Option Grants and Stock Purchase Rights	2013 Restricted Stock and Performance Share Awards
Cost of revenue—subscription	$458	$1,451	$380	$1,245
Cost of revenue—services and support	1,064	1,666	878	2,609
Research and development	4,151	26,100	4,786	25,736
Sales and marketing	4,492	25,447	4,617	24,309
General and administrative	1,682	16,502	1,858	14,606
Total	$11,847	$71,166	$12,519	$68,505

Total stock-based compensation costs that have been included in our Condensed Consolidated Statements of Income for the nine months ended August 29, 2014 and August 30, 2013 were as follows (in thousands):

Income Statement Classifications	2014 Option Grants and Stock Purchase Rights	2014 Restricted Stock and Performance Share Awards	2013 Option Grants and Stock Purchase Rights	2013 Restricted Stock and Performance Share Awards
Cost of revenue—subscription	$1,424	$4,261	$1,463	$3,489
Cost of revenue—services and support	2,759	4,886	2,559	7,419
Research and development	12,397	78,567	15,340	74,677
Sales and marketing	13,571	76,541	16,177	72,087
General and administrative	4,962	49,443	6,518	44,361
Total	$35,113	$213,698	$42,057	$202,033

NOTE 9. RESTRUCTURING CHARGES

Restructuring Plans

Our restructuring plans consist of reductions in workforce and the consolidation of facilities to better align our resources around our business strategies. As of August 29, 2014, we considered our restructuring plans to be substantially complete. We continue to make cash outlays to settle obligations under these plans, however the current impact to our Condensed Consolidated Financial Statements is not significant.

Summary of Restructuring Plans

The following table sets forth a summary of restructuring activities related to all of our restructuring plans during the nine months ended August 29, 2014 (in thousands):

	November 29, 2013	Costs Incurred	Cash Payments	Other Adjustments	August 29, 2014
Termination benefits	$2,233	$—	$(1,363)	$(262)	$608
Cost of closing redundant facilities	11,655	528	(4,761)	97	7,519
Total restructuring plans	$13,888	$528	$(6,124)	$(165)	$8,127

21

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Accrued restructuring charges of $8.1 million as of August 29, 2014 includes $2.3 million recorded in accrued restructuring, current and $5.8 million related to long-term facilities obligations recorded in accrued restructuring, non-current on our Condensed Consolidated Balance Sheets. We expect to pay accrued termination benefits through fiscal 2014 and facilities-related liabilities under contract through fiscal 2021 of which approximately 40% will be paid through 2015.

NOTE 10. STOCKHOLDERS' EQUITY

Retained Earnings

The changes in retained earnings for the nine months ended August 29, 2014 were as follows (in thousands):

Balance as of November 29, 2013	$6,928,964
Net income	180,259
Re-issuance of treasury stock	(258,433)
Balance as of August 29, 2014	$6,850,790

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

The components of accumulated other comprehensive income and activity, net of related taxes, as of August 29, 2014 were as follows (in thousands):

	November 29, 2013	Increase / Decrease	Reclassification Adjustments	August 29, 2014
Net unrealized gains on available-for-sale securities:				
Unrealized gains on available-for-sale securities	$ 10,178	$1,596	$ (3,534)	$8,240
Unrealized losses on available-for-sale securities	(937)	70	54	(813)
Net unrealized gains on available-for-sale securities	9,241	1,666	(3,480) [1]	7,427
Net unrealized gains on derivative instruments designated as hedging instruments	5,367	11,976	(6,490) [2]	10,853
Cumulative foreign currency translation adjustments	31,495	(29,708)	—	1,787
Total accumulated other comprehensive income, net of taxes	$ 46,103	$(16,066)	$ (9,970)	$20,067

[1] Classified in interest and other income (expense), net.
[2] Classified as revenue.

22

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table sets forth the taxes related to each component of other comprehensive income for the three and nine months ended August 29, 2014 and August 30, 2013 (in thousands):

	Three Months		Nine Months Ended	
	2014	2013	2014	2013
Available-for-sale securities:				
Unrealized gains / losses	$68	$117	$37	$151
Reclassification adjustments	(3)	(2)	(6)	(2)
Subtotal available-for-sale securities	65	115	31	149
Derivatives designated as hedging instruments:				
Unrealized gains on derivative instruments*	—	—	—	—
Reclassification adjustments*	—	—	—	—
Subtotal derivatives designated as hedging instruments	—	—	—	—
Foreign currency translation adjustments	(1,577)	372	(474)	(128)
Total taxes, other comprehensive income	$(1,512)	$487	$(443)	$21