# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

## ADOBE INC. FORM 10-K

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### **Forward-Looking Statements**

In addition to historical information, this Annual Report on Form€10-K contains forward-looking statements, including

Experience Platform, enables businesses to design, orchestra	te and measure event-driven, customer-led journey	/s across

#### COMPETITION

The	market	ts fo	r our	produc	ets ar	nd	services	are	charac	eterizeo	l by	intense	compet	tition,	new	industry	standards,	evolving

In printing technologies, we believe the principal competi	tive factors for OEMs in selecting a pa	ge description language

stationery, fliers and posters to brochures, annual reports, magazines and books with professional layout and typesetting tools, customers can create multicolumn pages that feature stylish typography and rich graphics, images and tables. Tight integration with other Adobe offerings such as Photoshop, Illustrator and Acrobat enables customers to work productively in print and digital

drag and drop background images from Photoshop, geometry from Substance Painter and 3D models from Adobe Stock - without leaving Dimension. Dimension is available to Adobe Creative Cloud subscribers, and customers can also subscribe to use it as an individual cloud-enabled subscription product.

Adobe Aero

Office software, graphics applications and more. Acrobat enables automated collaborative workflows with a rich set of commenting tools and review tracking features and includes everything needed to create and distribute rich, secure electronic documents that can be viewed easily within leading web browsers or on computer desktops via the free Adobe Acrobat Reader.

Adobe Acrobat is available to both Adobe Creative Cloud and Adobe Document Cloud subscribers. Customers can also

are customized to their needs. Adobe Analytics lets users capture, analyze and integrate data from virtually any source, both online and offline, from web, email and CRM to voice, IoT and connected car data.

#### Adobe Audience Manager

Adobe Audience Manager is a data management platform that helps digital publishers build unique audience profiles to identify the most valuable segments and use them across any digital channel. Adobe Audience Manager consolidates audience

#### PRODUCT DEVELOPMENT

Name Age Positions

€John Murphy 51 Executive Vice President and Chief Financial Officer

Name Age Positions

Ann Lewnes 58

		TIL:
are increasingly scrutinizing how companies collect, process, use,	store, snare and transmit personal data.	This increased scrutiny

These problems affect our products and services in particular because cyber-attackers tend to focus their efforts on popul	ar

circumstances, some of our customers have the right to cancel their agreements prior to the expiration of the terms. Our varied customer base combined with the flexibility we offer in the length of our subscription-based agreements complicates our ability to precisely forecast renewal rates. Therefore, we cannot provide assurance that we will be able to accurately predict future customer renewal rates.

Our customers•renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue enhancing features and functionality, the reliability (including uptime) of our subscription offerings, the prices of offerings and those offered by our competitors, the actual or perceived information security of our systems and services, decreases in the size of our customer base, reductions in our customers• spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions

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

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

Changes resulting from these new standards may result in materially different financial results and may require that we

judgment of the appropriate trade-offs among risk, opportunity and expense. We regularly review our program to partially hedge our exposure to foreign currency fluctuations and make adjustments as necessary. 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.

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

Our customers rely on our customer service support organization to resolve issues with our products and services. We

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

GAAP requires us to test for goodwill impairment at least annually. In addition, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### PART II

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from our Consolidated Financial Statements. As our historical

ITEM 7.@MANAGEMENT•S OPERATIONS	DISCUSSION	AND ANAL	YSIS OF FIN	ANCIAL COND	ITION AND	RESULTS OF

### **Business Combinations**

The uniocase and parental	se price of acquired com	panies to tangle to an	s mangrere assets acqu	

#### RESULTS OF OPERATIONS

#### Overview of 2019

For fiscal 2019, we reported strong financial results consistent with the continued execution of our long-term plans for our two strategic growth areas, Digital Media and Digital Experience, while continuing to market and license a broad portfolio of products and solutions.

On December 1, 2018, the beginning of our fiscal year 2019, we adopted the requirements of the new revenue standard utilizing the modified retrospective method of transition, and began to report our financial results under the new revenue standard. The impact of the adoption was not significant to our results of operations.

In our Digital Media segment, we are a market leader with Creative Cloud, our subscription-based offering which provides desktop tools, mobile apps and cloud-based services for designing, creating and publishing rich and immersive content. Creative Cloud delivers value with deep, cross-product integration, frequent product updates and feature enhancements, cloud-enabled

We have the following reportable segments: Digital Media, Digital Experience and Publishing. Subscription revenue by reportable segment for fiscal 2019, 2018 and 2017

 $2020. \, As \, of \, November \pounds 30, 2018, we \, had \, unbilled \, backlog \, of \, approximately$ 

Sales and mark	eting expenses incre	ased due to the fol	llowing:		

Interest and Other Income (Expense), Net $\S$ 

Interest and other income (expense), net consists primarily of interest earned on cash, cash equivalents and short-term fixed

We are a United States-based multinational company subject to tax in	n multiple U.S. and foreign tax jurisdictions. A significant

# Other Liquidity and Capital Resources Considerations

Our existing cash, cash equivalents and investment balances may fluctuate during fiscal s Considerations

The following is a summary of our structure of the struct	ctured stock repurchases executed with large financial institutions during fiscal 2019,

transactions. In addition, we enter into collateral security agreements that provide for collateral to be received or posted when the	

### **Interest Rate Risk**

Short-Term Investments and Fixed Income Securities

At November £29, 2019, we had debt securities classified as short-term investments of \$1.53 billion. Changes in interest

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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### ADOBE INC.

## CONSOLIDATED STATEMENTS OF INCOME

### (In thousands, except per share data)

Revenue:	N	ovember€29, 2019	Years Ended Tovember€30, 2018	Ι	December¢1, 2017
Subscription	\$	9,994,463	\$ 7,922,152	\$	6,133,869
Product		647,788	622,153		706,76
Services and support		529,046	485,703		460,86

### ADOBE INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

### (In thousands)

	Years Ended					
	November€29, 2019		November€30, 2018		I	December∉1, 2017
			Incr	ease/(Decrease)		
Net income	\$	2,951,458	\$	2,590,774	\$	1,693,954
Other comprehensive income (loss), net of taxes:						
Available-for-sale securities:						
Unrealized gains / losses on available-for-sale securities		29,409		(24,464)		(2,503)
Reclassification adjustment for recognized gains / losses on available- for-sale securities		124		10,650		(947)
Net increase (decrease) from available-for-sale securities		29,533		(13,814)		(3,450)
Derivatives designated as hedging instruments:						
Unrealized gains / losses on derivative instruments		294		74,080		6,917
Reclassification adjustment for realized gains / losses on derivative instruments		(44,334)		(48,981)		(31,973)
Net increase (decrease) from derivatives designated as hedging instruments		(44,040)		25,099		(25,056)
Foreign currency translation adjustments		(25,397)		(47,594)		90,287
Other comprehensive income (loss), net of taxes		(39,904)		(36,309		

### ADOBE INC.

**Recently Adopted Accounting Guidance** 

from their customers. Certain contracts with advertising agencies contain sequential liability provisions, under which the agency is not required to pay until payment is received from the agency•s customers. In these circumstances, we evaluate the credit-worthiness of the agency•s customers in addition to the agency itself. If we license our software or provide SaaS services to a customer where we have a reason to believe the customer•s ability and intention to pay is not probable, the arrangement is not considered to be a revenue contract. Accordingly, we will not recognize any consideration received as revenue until termination or substantive completion of the services.

two strategic growth opportunities as described in a third segment that contains some of our management of the segment that contains some of our management of the segment	I in the $f$ Business Overview,, with a ture products and solutions.	nin Part I, Item 1, placing our	Publishing business

## Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables. The allowance is based on both specific and general reserves. We regularly review our trade receivables allowance by considering

Cash, cash equivalents and short-term investments consisted of the following as of November €29, 2019:

€(in thousands)	Amortized Cost	Unrealized Gains	τ	Unrealized Losses	Estimated Fair€Value
Current assets:					
Cash	\$ 466,941	\$ †	\$	†	\$ 466,941
Cash equivalents:					
Corporate debt securities	45,703	2		(1)	45,704
Money market mutual funds	2,049,057	†		†	2,049,057
Time deposits	 88,519	 †_		†	88,519
Total cash equivalents	2,183,279	2		(1)	2,183,280
Total cash and cash equivalents	2,650,220	2		(1)	2,650,221
Short-term fixed income securities:					
Asset-backed securities	88,584	146		(9)	88,721
Corporate debt securities	1,408,332	4,251		(252)	1,412,331
Municipal securities	17,642	67		†	17,709
U.S. Treasury securities	 7,992	 2		†	7,994
Total short-term investments	1,522,550	4,466		(261)	1,526,755
Total cash, cash equivalents and short-term investments	\$ 4,172,770	\$ 4,468	\$	(262)	\$ 4,176,976

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 November $\{29, 2019 \text{ and November}\}$ 30, 2018:

## NOTE 5. #FAIR VALUE MEASUREMENTS

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

The fair value of our financial assets and liabilities at November £30, 2018 was determined using the following inputs:

€(in thousands)	Fair Value Measurements at Reporting Date Using							
			Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs			Significant Inobservable Inputs
A		Total		(Level€1)		(Level€2)		(Level€3)
Assets:								
Cash equivalents:								
Money market mutual funds	\$	1,234,188	\$	1,234,188	\$	†	\$	†
Time deposits		40,023		40,023		†		†
Short-term investments:								
Asset-backed securities		41,508		†		41,508		†
Corporate debt securities		1,522,208		†		1,522,208		†
Foreign government securities		4,155		†		4,155		†
Municipal securities		18,316		†		18,316		†
Prepaid expenses and other current assets:								
Foreign currency derivatives		44,259		†		44,259		†
Other assets:								
Deferred compensation plan assets		68,988		3,895		65,093		†
Total assets	\$	2,973,645	\$	1,278,106	\$	1,695,539	\$	†

# NOTE 7. $\P$ PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following as of November ₹29, 2019 and November ₹30, 2018:

(in thousands)	2019	2	2018
Computers and other equipment	\$ 1,424,368	\$	

As of November £29, 2019, the shares awarded under our 2019, 2018 and 2017 Performance Share Programs remain outstanding and are yet to be achieved.

#### Issuance of Shares

Upon vesting of restricted stock units and performance shares, purchases of shares under the ESPP and exercise of stock options, we will issue treasury stock. If treasury stock is not available, common stock will be issued. In order to minimize the

Information regarding restricted stock units outstanding at November £29, 2019,

Summary of Employee Stock Purchase Plan Shares

The weighted average subscription date fair value of shares under the ESPP during fiscal 2019, 2018 and 2017 were \$72.98, \$53.12

Total stock-based compensation costs that have been included in our Consolidated Statements of Income for fiscal 2019, 2018 and 2017 were as follows:

## NOTE 15. NET INCOME PER SHARE

#### Royalties

We have royalty commitments associated with the licensing of certain offerings and products. Royalty expense is generally based on a dollar amount per unit or a percentage of the underlying revenue. Royalty expense, which was recorded under our cost of revenue on our Consolidated Statements of Income, was approximately \$153.7 million, \$119.1 million and \$100.9 million in fiscal 2019, 2018 and 2017, respectively.

#### Indemnifications

In the ordinary course of business, we provide indemnifications of varying scope to customers and channel partners against claims of intellectual property infringement made by third parties arising from the use of our products and from time to time, we

#### ADOBE INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

#### NOTE 17. €DEBT

(in thousands)

Our debt as of November £29, 2019 and November £30, 2018 consisted of the following:

2019

2018

(		=	 
Current debt:			
Term loan		\$	

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors Adobe Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Adobe Inc. and subsidiaries (the Company) as of November

Exhibit				Exhibit		Filed
Number	Exhibit Description	Form	Filing Date	Number	SEC File No.	Herewith

4.4

	Reference	

			- P			
Exhibit Number	Exhibit Description	Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
10.3C	Form of Director Grant Restricted Stock Unit Grant Notice and Award Agreement pursuant to 2019 Equity Incentive Plan*	10-Q	6/26/19	10.35C	000-15175	
10.3D	Anil Chakravarthy Restricted Stock Unit Grant Notice					

<sup>\*</sup> Compensatory plan or arrangement.

<sup>©</sup> The certifications attached as Exhibits€32.1 and 32.2 that accompany this Annual Report on Form€10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Adobe Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as

Signature		Title	Date
/s/ LAURA DESMOND Laura Desmond	Director		January 21, 2020
/s/ CHARLES GESCHKE Charles Geschke	Director		January 21, 2020
/s/ KATHLEEN OBERG Kathleen Oberg	Director		January 21, 2020
/s/ DHEERAJ PANDEY Dheeraj Pandey	Director		January 21, 2020
/s/ DAVID RICKS			

## **SUMMARY OF TRADEMARKS**®