

ADOBE SYSTEMS INC
Form 10-Q
September 27, 2016

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 2, 2016

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

For the transition period from _____ to _____

Commission File Number: 0-15175

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

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

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

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reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The number of shares outstanding of the registrant's common stock as of September 23, 2016 was 497,227,020.

ADOBE SYSTEMS INCORPORATED
FORM 10-Q

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PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

| | September 2, 2016 (Unaudited) | November 27, 2015 (*) |
|--|-------------------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$767,672 | \$876,560 |
| Short-term investments | 3,678,726 | 3,111,524 |
| Trade receivables, net of allowances for doubtful accounts of \$6,066 and \$7,293, respectively | 731,166 | 672,006 |
| Prepaid expenses and other current assets | 241,146 | 161,802 |
| Total current assets | 5,418,710 | 4,821,892 |
| Property and equipment, net | 811,524 | 787,421 |
| Goodwill | 5,433,180 | 5,366,881 |
| Purchased and other intangibles, net | 454,230 | 510,007 |
| Investment in lease receivable | 80,439 | 80,439 |
| Other assets | 169,358 | 159,832 |
| Total assets | \$12,367,441 | \$11,726,472 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade payables | \$83,444 | \$93,307 |
| Accrued expenses | 666,278 | 679,884 |
| Income taxes payable | 10,662 | 6,165 |
| Deferred revenue | 1,745,282 | 1,434,200 |
| Total current liabilities | 2,505,666 | 2,213,556 |
| Long-term liabilities: | | |
| Debt | 1,916,591 | 1,907,231 |
| Deferred revenue | 52,703 | 51,094 |
| Income taxes payable | 276,131 | 256,129 |
| Deferred income taxes | 238,459 | 208,209 |
| Other liabilities | 99,945 | 88,673 |
| Total liabilities | 5,089,495 | 4,724,892 |
| 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; 497,025 and 497,809 shares outstanding, respectively | 61 | 61 |
| Additional paid-in-capital | 4,541,798 | 4,184,883 |
| Retained earnings | 7,714,904 | 7,253,431 |
| Accumulated other comprehensive income (loss) | (134,111) | (169,080) |
| Treasury stock, at cost (103,809 and 103,025 shares, respectively), net of reissuances | (4,844,706) | (4,267,715) |
| Total stockholders' equity | 7,277,946 | 7,001,580 |
| Total liabilities and stockholders' equity | \$12,367,441 | \$11,726,472 |

The Condensed Consolidated Balance Sheet as of November 27, 2015 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.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|-----------------------|------------|-----------------------|--------------|
| | September 2August 28, | | September 2August 28, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenue: | | | | |
| Subscription | \$ 1,168,602 | \$ 829,065 | \$ 3,322,560 | \$ 2,316,470 |
| Product | 180,960 | 275,338 | 578,572 | 840,650 |
| Services and support | 114,405 | 113,365 | 344,879 | 331,987 |
| Total revenue | 1,463,967 | 1,217,768 | 4,246,011 | 3,489,107 |
| Cost of revenue: | | | | |
| Subscription | 116,990 | 103,605 | 339,664 | 302,826 |
| Product | 15,435 | 24,545 | 51,490 | 65,715 |
| Services and support | 70,276 | 62,835 | 212,198 | 174,415 |
| Total cost of revenue | 202,701 | 190,985 | 603,352 | 542,956 |
| Gross profit | 1,261,266 | 1,026,783 | 3,642,659 | 2,946,151 |

Operating expenses: