Eagle Bulk Shipping Inc.
Form SC 13D/A
August 17, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 13D
(Amendment No. 2)
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO RULE 13d-2(a)

Eagle Bulk Shipping Inc.
(Name of Issuer)

Common Stock
(Title of Class of Securities)

Y2187A127
(CUSIP Number)

Todd E. Molz
Managing Director and General Counsel
Oaktree Capital Group Holdings GP, LLC
333 South Grand Avenue, 28th Floor
Los Angeles, California 90071
(213) 830-6300
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

March 30, 2016
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-l(f) or 240.13d-1(g), check the following box.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7(b) for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

OCM Opps EB Holdings, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292[1,2]
	8	SHARED VOTING POWER None
	9	SOLE DISPOSITIVE POWER 15,418,292[1,2]
	10	SHARED DISPOSITIVE POWER None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

15,418,292[1,2]

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03% [3]

14 TYPE OF REPORTING PERSON

OO

---

1 Consists of (i) 15,417,928 shares of Common Stock, par value $0.01 ("Common Stock"), of Eagle Bulk Shipping Inc. (the "Issuer") and (ii) 364 shares of Common Stock issuable upon exercise of the warrants (the "Warrants") issued and distributed by the Issuer to the Reporting Persons in connection with the Restructuring (as defined below).
2 All Common Stock share numbers reported in this Amendment reflect the 1-for-20 reverse stock split of the Common Stock that was effective as of 5:00 p.m., Eastern Time, on August 4, 2016.
3 The percentages are calculated based upon (i) the 18,804,203 shares of Common Stock reported to be outstanding as of August 9, 2016 by the Company in its Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission (the "SEC") on August 9, 2016, (ii) the 29,333,318 shares of Common Stock issued by the Company upon the closing under the Stock Purchase Agreement (the "Stock Purchase Closing"), as reported in Exhibit 99.1 to its Form 8-K filed with the SEC on August 10, 2016, (iii) 364 shares of Common Stock issuable upon exercise of the Warrants but excluding (x) shares of Common Stock issuable upon exercise of the Warrants issued and distributed by the Issuer in connection with the Restructuring (other than Warrants held by the Reporting Persons), and (y) any shares issued pursuant to a management incentive plan.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Management, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292*
	8	SHARED VOTING POWER None
	9	SOLE DISPOSITIVE POWER 15,418,292*
	10	SHARED DISPOSITIVE POWER None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

15,418,292*

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03%

14 TYPE OF REPORTING PERSON

PN

*Solely in its capacity as the sole director of OCM Opps EB Holdings, Ltd.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Holdings, Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292*
	8	SHARED VOTING POWER None
	9	SOLE DISPOSITIVE POWER 15,418,292*
	10	SHARED DISPOSITIVE POWER None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

15,418,292*

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03%

14 TYPE OF REPORTING PERSON

CO

* Solely in its capacity as general partner of Oaktree Capital Management, L.P.

1	NAME OF REPORTING PERSON OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Oaktree Capital Group, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) (b)
3	SEC USE ONLY	
4	SOURCE OF FUNDS Not Applicable	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292*
	8	SHARED VOTING POWER None
	9	SOLE DISPOSITIVE POWER 15,418,292*
	10	SHARED DISPOSITIVE POWER None

11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 15,418,292*
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03%

14 TYPE OF REPORTING PERSON

OO

* Solely in its capacity as the sole shareholder of Oaktree Holdings, Inc.

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Group Holdings GP, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not Applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 15,418,292*
	8	SHARED VOTING POWER None
	9	SOLE DISPOSITIVE POWER 15,418,292*
	10	SHARED DISPOSITIVE POWER None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

15,418,292*

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

32.03%

14 TYPE OF REPORTING PERSON

OO

* Solely in its capacity as the duly elected manager of Oaktree Capital Group, LLC.

Item 1. Security and Issuer

This Amendment No. 2 (this "Amendment No. 2") is being filed by the undersigned to amend the Schedule 13D filed with the SEC on October 24, 2014, as amended by Amendment No. 1 thereto, filed with the SEC on January 1, 2015 (as so amended, the "Schedule 13D") with respect to shares of Common Stock, par value $0.01 ("Common Stock"), of Eagle Bulk Shipping Inc. (the "Issuer"). The address of the principal executive office of the Issuer is 300 First Stamford Place 5th Floor Stamford, CT 06902.

As of August 16, 2016, as reflected in this Schedule 13D, the Reporting Persons (as hereinafter defined) beneficially owned that number of Common Shares (the "Subject Shares"), set forth on the cover pages hereto, which information is hereby incorporated by reference into this Item 1.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 is amended and supplemented by adding thereto the following:

"On March 30, 2016, certain affiliates of the Reporting Persons participated as lenders in a $60 million secured term loan (the "Second Lien Loan") to the Issuer pursuant to the Second Lien Loan Agreement, dated as of March 30, 2016, among the Issuer, as borrower certain subsidiaries of the Issuer, as guarantors, certain lenders thereunder, including such affiliates of the Reporting Persons (the "Second Lien Lenders"), and Wilmington Savings Fund Society, FSB, as agent for the Second Lien Lenders (the "Second Lien Loan Agreement"), which provided for two issuances of shares of Common Stock to the Second Lien Lenders, the second of which was subject to shareholder approval.

Pursuant to the Second Lien Loan Agreement and, in the case of the second issuance, following shareholder approval, the Issuer delivered to EB Holdings in two separate issuances an aggregate of 7,068,274 shares of Common Stock for no additional consideration.

On July 1, 2016, the Issuer, EB Holdings and certain other investors named therein entered into a Stock Purchase Agreement dated July 1, 2016 (the "Stock Purchase Agreement"), pursuant to which EB Holdings agreed to purchase an aggregate of 7,564,290 shares of Common Stock for an aggregate purchase price of $22,692,870. Pursuant to the Stock Purchase Agreement and following shareholder approval of such issuance, the Issuer delivered to EB Holdings 7,564,290 shares in connection with the Stock Purchase Agreement for an aggregate purchase price of $22,692,870.

All Common Stock share numbers reported in this Amendment reflect the 1-for-20 reverse stock split of the Common Stock that was effective as of 5:00 p.m., Eastern Time, on August 4, 2016.

The foregoing description of the Second Lien Loan Agreement and the Stock Purchase Agreement does not purport to be a complete description of the terms thereof and is qualified in its entirety by reference to the full text of such agreements, which are referenced in Exhibit 1 and Exhibit 2, respectively, to this Schedule 13D, and which are hereby incorporated by reference into this Item 3."

Item 4. Purpose of Transaction

Item 4 is amended and supplemented by adding thereto the following:

In connection with the Second Lien Loan Agreement, the Stock Purchase Agreement and the Preferred Stock Purchase Agreement (as defined below) and the transactions thereunder, the board of directors of the Issuer and the shareholders of the Issuer approved an amendment to the articles of incorporation of the Issuer, and such articles were so amended, (i) to increase the number of authorized shares of Common Stock, from 150,000,000 to 700,000,000, (ii) to effect a reverse stock split of the Issuer's issued and outstanding shares of Common Stock and (iii) to authorize 25,000,000 shares of preferred stock, par value US$0.01 per share.

The information contained in Item 6 of this Schedule 13D is incorporated herein by reference.

Item 5. Interest in Securities of the Issuer

Item 5 is hereby amended and restated as follows.

"(a) and (b)

The information contained on the cover pages and Item 1 of this Schedule 13D is incorporated herein by reference.

Ownership percentages set forth in this Schedule 13D are based on a total of (i) the 18,804,203 shares of Common Stock reported to be outstanding as of August 9, 2016 by the Company in its Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission (the "SEC") on August 9, 2016, (ii) the 29,333,318 shares of Common Stock issued by the Company upon the closing under the Stock Purchase Agreement, as reported in Exhibit 99.1 to its Form 8-K filed with the SEC on August 10, 2016, (iii) 364 shares of Common Stock issuable upon exercise of the Warrants but excluding (x) shares of Common Stock issuable upon exercise of the Warrants issued and distributed by the Issuer in connection with the Restructuring (other than Warrants held by the Reporting Persons), and (y) any shares issued pursuant to a management incentive plan.

EB Holdings directly holds (i) 15,417,928 shares of Common Stock and has the sole power to vote and dispose of such Common Stock and (ii) 364 Warrants. Each Warrant is exercisable by EB Holdings for one share of Common Stock at an exercise price of $556.40 per share (subject to certain antidilutive adjustments). The Warrants will expire pursuant to their terms on October 15, 2021.

Management, in its capacity as the sole director of EB Holdings has the ability to direct the management of the business of EB Holdings, including the power to vote and dispose of securities held by EB Holdings therefore, Management may be deemed to beneficially own the Subject Shares.

Holdings, Inc., in its capacity as the general partner of Management, has the ability to direct the management of Management's business, including the power to direct the decisions of Management regarding the voting and disposition of securities held by EB Holdings therefore, Holdings, Inc. may be deemed to have indirect beneficial ownership of the Subject Shares.

OCG, in its capacity as the sole shareholder of Holdings, Inc., has the ability to appoint and remove directors of Holdings, Inc. and, as such, may indirectly control the decisions of Holdings, Inc. regarding the voting and disposition of securities held by EB Holdings. Therefore, OCG may be deemed to have indirect beneficial ownership of the Subject Shares.

OCGH GP, in its capacity as the duly appointed manager of OCG, has the ability appoint and remove directors of OCG and, as such, may indirectly control the decisions of OCG regarding the voting and disposition of securities held by EB Holdings therefore, OCGH GP may be deemed to have indirect beneficial ownership of the Subject Shares.

(c)

Except for the transaction described herein, there have been no other transactions in the securities of the Issuer effected by any Reporting Person within the last 60 days.

Item 6 is incorporated by reference into this Item 5(c).

(d) and (e)

Not applicable.”

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Item 6 is amended and restated below:

“On May 13, 2016, EB Holdings and certain of its affiliates entered into an Amended and Restated Registration Rights Agreement, (the “A&R Registration Rights Agreement”) with the Issuer with respect to the Common Stock. Pursuant to the Registration Rights Agreement, the Holders (as defined in the Registration Rights Agreement and which include EB Holdings and such affiliates) have, among other things and subject to the terms and conditions set forth therein, certain demand, shelf and “piggy back” registration rights with respect to shares of Common Stock held by the

Holders, including the right to demand an initial public offering and listing on the New York Stock Exchange or the Nasdaq Stock Market to be commenced at a time when the Issuer otherwise does not have a class of securities registered pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") or a reporting obligation under the Exchange Act. Demand rights include that upon the written request of EB Holdings or one of such other Holders, the Issuer will file with the SEC a registration statement covering the resale of Common Shares beneficially owned by the requesting parties, subject to the limitations that the Issuer will not be required to file such a registration statement (a) more than once in any 90-day period or (b) if the shares to be covered by such registration statement have a market price of less than $50 million.

The Registration Rights Agreement will terminate with respect to holder of registrable securities if (a) such holder, together with its affiliates, beneficially owns less than 1% of the Common Stock, (b) if all of the registrable securities owned by such Holder and its affiliates could be sold in any ninety-day period pursuant to Rule 144 without volume or manner-of-sale restrictions or (c) if all of the Common Stock held by such holder and its affiliates has been sold.

On May 26, 2016, the Issuer, certain affiliates of the Reporting Persons and certain other investors named therein entered into a Preferred Stock Purchase Agreement, dated as of May 26, 2016 (the "Preferred Stock Purchase Agreement"), pursuant to which such affiliates agreed to purchase an aggregate of 3,951 shares of Cumulative Redeemable Series A Preferred Stock, par value $0.01 per share, of the Issuer (the "Preferred Stock") for an aggregate purchase price of $3,911,490.

The foregoing description of the Registration Rights Agreement and the Preferred Stock Purchase Agreement does not purport to be a complete description of the terms thereof and is qualified in its entirety by reference to the full text of such agreements, which are referenced in Exhibit 3 and Exhibit 4, respectively, to this Schedule 13D, and which are hereby incorporated by reference into this Item 6."

Item 7. Material to be filed as Exhibits

The following are filed herewith or incorporated by reference as Exhibits to this Schedule 13D:

Exhibit 1	Second Lien Loan Agreement, dated March 30, 2016, by and among Eagle Bulk Shipping Inc., as borrower, the subsidiary guarantors party thereto, the certain lenders party thereto and Wilmington Savings Fund Society, FSB, as agent (incorporated by reference to Exhibit 10.2 of the Issuer's Current Report on Form 8-K filed with the SEC March 30, 2016).
Exhibit 2	Stock Purchase Agreement, dated July 1, 2016, by and among the Eagle Bulk Shipping Inc. and the Investors party thereto (incorporated by reference to Exhibit 10.1 of the Issuer's Current Report on Form 8-K filed with the SEC July 5, 2016).
Exhibit 3	Amended and Restated Registration Rights Agreement, dated as of May 13, 2016, by and among Eagle Bulk Shipping Inc. and the Holders party thereto (incorporated by reference to Exhibit 10.1 of the Issuer's Current Report on Form 8-K filed with the SEC by the Issuer on May 17, 2016).
Exhibit 4	Preferred Stock Purchase Agreement, dated May 26, 2016, by and among Eagle Bulk Shipping Inc. and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 of the Issuer's Current Report on Form 8-K filed with the SEC May 27, 2016).

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this Schedule 13D is true, complete and correct.

Dated as of August 17, 2016.

OCM OPPS EB HOLDINGS, LTD.

By: Oaktree Capital Management, L.P.
Its: Director

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE CAPITAL
MANAGEMENT, L.P.

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE
HOLDINGS, INC.

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE CAPITAL
GROUP, LLC

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

OAKTREE CAPITAL
GROUP HOLDINGS
GP, LLC

By: /s/ Jordan Mikes
Name: Jordan Mikes
Title: Vice President

ISPLAY: inline; FONT-FAMILY: times new roman; FONT-SIZE: 10pt"> (48,991) 4,437

Income before income taxes	296,752	174,416	657,140	541,308
Provision for income taxes	66,687	38,371	151,310	122,757
Net income	$230,065	$136,045	$505,830	$418,551
Basic net income per share	$0.44	$0.26	$0.97	$0.79
Shares used to compute basic net income per share	518,710	525,911	523,039	528,015
Diluted net income per share	$0.44	$0.26	$0.95	$0.79
Shares used to compute diluted net income per share	523,179	531,809	530,356	532,846

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	
	September 3, 2010	August 28, 2009
Cash flows from operating activities:		
Net income	$505,830	$418,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	216,641	197,386
Stock-based compensation	174,245	126,231
Deferred income taxes	(176,882)	22,671
Unrealized losses on investments	8,766	13,308
Tax benefit from employee stock option plans	37,987	2,711
Other non-cash items	2,054	8,948
Excess tax benefits from stock-based compensation	(10,172)	(84)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	(74,722)	182,377
Prepaid expenses and other current assets	(11,953)	15,663
Trade payables	(2,439)	(7,424)
Accrued expenses	52,100	(44,351)
Accrued restructuring	(26,294)	(27,527)
Income taxes payable	3,445	12,619
Deferred revenue	103,758	(57,126)
Net cash provided by operating activities	802,364	863,953
Cash flows from investing activities:		
Purchases of short-term investments	(1,999,341)	(1,142,015)
Maturities of short-term investments	512,534	333,219
Proceeds from sales of short-term investments	629,673	504,958
Purchases of property and equipment	(114,215)	(84,659)
Proceeds from sale of property and equipment	32,151	—
Purchases of long-term investments and other assets	(22,876)	(24,891)
Proceeds from sale of long-term investments	3,586	4,909
Other	2,198	3,271
Net cash used for investing activities	(956,290)	(405,208)
Cash flows from financing activities:		
Purchases of treasury stock	(650,020)	(350,013)
Proceeds from issuance of treasury stock	129,640	122,219
Excess tax benefits from stock-based compensation	10,172	84
Proceeds from debt	1,493,439	—
Repayment of debt and captial lease obligations	(1,001,559)	—
Debt issuance costs	(10,662)	—
Net cash used for financing activities	(28,990)	(227,710)

Effect of foreign currency exchange rates on cash and cash equivalents	(2,422)	14,659
Net (decrease) increase in cash and cash equivalents	(185,338)	245,694
Cash and cash equivalents at beginning of period	999,487	886,450
Cash and cash equivalents at end of period	$814,149	$1,132,144
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$286,271	$78,635
Cash paid for interest	$34,135	$1,941
Non-cash investing activities:		
Property and equipment acquired under capital leases	$32,151	$—

See accompanying Notes to Condensed Consolidated Financial Statements.

5

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 27, 2009 on file with the SEC. The nine months ended September 3, 2010 financial results benefitted from an extra week in the first quarter of fiscal 2010 due to our 52/53 week financial calendar whereby fiscal 2010 is a 53-week year compared with fiscal 2009 which was a 52-week year.

Significant Accounting Policies

With the exception of the adoption of an accounting pronouncement related to revenue recognition, discussed below, there have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended November 27, 2009.

In October 2009, the Financial Accounting Standards Board ("FASB") amended the accounting standards for certain multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using the best estimated selling price ("BESP") of deliverables if a vendor does not have vendor-specific objective evidence ("VSOE") of selling price or third-party evidence ("TPE") of selling price; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We elected to early adopt this accounting guidance at the beginning of our first quarter of fiscal 2010 on a prospective basis for applicable transactions originating or materially modified after November 27, 2009.

Multiple Element Arrangements

We enter into multiple element revenue arrangements in which a customer may purchase a combination of software, upgrades, hosting services, maintenance and support, and consulting.

For multiple element arrangements that contain non-software related elements, for example our software as a service ("SaaS") offerings, we allocate revenue to each non-software element based upon the relative selling price of each and if software and software-related elements are also included in the arrangement, to those elements as a group based on our BESP for the group. When applying the relative selling price method, we determine the selling price for each deliverable using VSOE of selling price, if it exists, or TPE of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use our BESP for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria is met for each element. The manner in which we account for multiple element arrangements that contain only software and software-related elements remains unchanged.

Consistent with our methodology under previous accounting guidance, we determine VSOE for each element based on historical stand-alone sales to third-parties or from the stated renewal rate for the elements contained in the initial arrangement.

6

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In certain instances, we were not able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to us infrequently selling each element separately, not pricing products or services within a narrow range, or
only having a limited sales history. When VSOE cannot be established, we attempt to establish the selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our offerings contain significant differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, we typically are not able to obtain TPE of selling price.

When we are unable to establish selling prices using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings.

We determine BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives and pricing practices. The determination of BESP is made through consultation with and formal approval by our management, taking into consideration our go-to-market strategy.

We regularly review VSOE and have established a review process for TPE and BESP and maintain internal controls over the establishment and updates of these estimates. There was no material impact to revenue during the three and nine months ended September 3, 2010 resulting from changes in VSOE, TPE or BESP, nor do we expect a material impact from such changes in the near term.

Given the nature of our transactions, which are primarily software and software-related, our go-to-market strategies and our pricing practices, total net revenue as reported during the three and nine months ended September 3, 2010 is materially consistent with total net revenue that would have been reported if the transactions entered into or materially modified after November 27, 2009 were subject to previous accounting guidance.

The new accounting standards for revenue recognition, if applied in the same manner to the year ended November 27, 2009, would not have had a material impact on total net revenues for that fiscal year. In terms of the timing and pattern of revenue recognition, the new accounting guidance for revenue recognition is not expected to have a significant effect on total net revenues in periods after the initial adoption.

Recent Accounting Pronouncements

There have also been no new accounting pronouncements during the nine months ended September 3, 2010, with the exception of those discussed below, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended November 27, 2009, that are of significance, or potential significance, to us.

Fair Value Measurements

In January 2010, the FASB issued new accounting guidance expanding disclosures about fair value measurements by adding disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements and the transfers between Levels 1, 2 and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure requirements related to the activity in Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We adopted the new disclosures in the second quarter of fiscal 2010, which included changing the description of certain asset classes in the tables in Notes 3 and 4 to conform with the requirements of the new guidance. We will adopt the Level 3 requirements in the first quarter of fiscal 2012. Since the adoption of the new standards only required additional disclosure, the adoption did not have an impact on our consolidated financial position, results of operations and cash flows.

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Variable Interest Entities

In June 2009, the FASB issued amended standards for determining whether to consolidate a variable interest entity. These new standards amend the evaluation criteria to identify the primary beneficiary of a variable interest entity and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the variable interest entity. The provisions of the new standards are effective for annual reporting periods beginning after November 15, 2009 and interim periods within those fiscal years. These standards were effective for us beginning in the first quarter of fiscal 2010. The adoption of the new standards did not have an impact on our consolidated financial position, results of operations and cash flows.

Intangible Assets Useful Lives

In April 2008, the FASB issued new standards which provided guidance on how to determine the useful life of intangible assets by amending the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. These standards are effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and was effective for us beginning in the first quarter of fiscal 2010. There was no impact to our current consolidated financial statements as we did not purchase any intangible assets during the three and nine months ended September 3, 2010.

Business Combinations and Non-Controlling Interests

In December 2007, the FASB revised their guidance for business combinations and non-controlling interests. The new standards change how business acquisitions are accounted for and impact financial statements both on the acquisition date and in subsequent periods. The changes also impact the accounting and reporting for minority interests, which are recharacterized as non-controlling interests and classified as a component of equity. The new standards were effective for us beginning in the first quarter of fiscal 2010. We currently believe that depending on the size and frequency of acquisitions, the adoption of these standards may have a material effect on our future consolidated financial statements. There was no material impact to our current consolidated financial statements as we did not have any business combinations close during the three and nine months ended September 3, 2010.

NOTE 2. ACQUISITIONS

Omniture, Inc.

On October 23, 2009, we completed the acquisition of Omniture, Inc. ("Omniture"), an industry leader in Web analytics and online business optimization based in Orem, Utah, for approximately $1.8 billion. Under the terms of the agreement, we completed our tender offer to acquire all of the outstanding shares of Omniture common stock at a price of $21.50 per share, net to the seller in cash, without interest. Acquiring Omniture accelerates our strategy of delivering more effective solutions for creating, delivering, measuring and optimizing Web content and applications. The transaction was accounted for using the purchase method of accounting. We have included the financial results of

Omniture in our Condensed Consolidated Financial Statements beginning on the acquisition date. Following the closing, we integrated Omniture as a new segment for financial reporting purposes.

The total purchase price for Omniture was approximately $1.8 billion which consisted of $1.7 billion in cash paid for outstanding common stock, $85.0 million for the estimated fair value of earned stock options and restricted stock units assumed and converted and $14.4 million for direct transaction costs. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions. During the first half of fiscal 2010, we finalized our purchase accounting after adjustments were made to the preliminary purchase price allocation to reflect the finalization of the valuation of intangible assets and deferred revenue. Additional adjustments were also made to restructuring liabilities, taxes and residual goodwill. Of the total final purchase price, $1.34 billion has been allocated to goodwill, $436.1 million to identifiable intangible assets, $33.4 million to net tangible assets and $11.3 million to restructuring liabilities. We also expensed $4.6 million for in-process research and development charges.

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the results of Adobe and Omniture for the three and nine months ended August 28, 2009, on a pro forma basis, as though the companies had been combined as of the beginning of fiscal 2009. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2009 or of results that may occur in the future.

(in thousands, except per share data)	Three Months Ended August 28, 2009	Nine Months Ended August 28, 2009
Net revenue	$751,602	$2,417,394
Net income	$96,685	$351,213
Basic net income per share	$0.18	$0.67
Shares used to compute basic net income per share	525,911	528,015
Diluted net income per share	$0.18	$0.66
Shares used to compute diluted net income per share	533,284	534,033

Day Software Holding AG

In July 2010, we entered into a definitive agreement with Day Software Holding AG ("Day"). Under the terms of the agreement, we have commenced a public tender offer to acquire all of the publicly held registered shares of Day for 139 Swiss Francs per share in cash in a transaction valued at approximately 254.7 million Swiss Francs on a fully diluted equity-value basis. In order to hedge the economic exposure related to this acquisition, we entered into a forward contract to purchase 254.7 million Swiss Francs for $242.5 million U.S. dollars maturing near the expected closing date of the acquisition. The market value of this forward contract was $8.1 million U.S. dollars as of September 3, 2010 and is included in other assets on our Condensed Consolidated Balance Sheets, with changes in the market value of $8.1 million recorded to interest and other income (expense), net on our Condensed Consolidated Statements of Income. Upon maturity of the forward contract, any remaining changes in the market value will be recorded to interest and other income (expense), net. This forward contract is accounted for as a separate transaction apart from the acquisition.

Day is a provider of web content management solutions that leading global enterprises rely on for Web 2.0 content application and content infrastructure, based in Basel, Switzerland and Boston, Massachusetts. We believe that our acquisition of Day will provide comprehensive solutions to create, manage, deliver and optimize content. The transaction is subject to customary closing conditions and is expected to close in the fourth quarter of our fiscal 2010. Following the closing, we intend to integrate Day as a product line within our Enterprise segment for financial reporting purposes.

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 earnings. Gains and losses are determined using the specific identification method.

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 September 3, 2010 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$93,170	$—	$—	$93,170
Cash equivalents:				
Money market mutual funds	597,801	—	—	597,801
Time deposits	57,238	—	—	57,238
U.S. agency securities	19,599	1	—	19,600
Corporate bonds	46,340	—	—	46,340
Total cash equivalents	720,978	1	—	720,979
Total cash and cash equivalents	814,148	1	—	814,149
Short-term fixed income securities:				
U.S. Treasury securities	401,173	3,155	(8)	404,320
U.S. agency securities	339,476	1,088	(35)	340,529
Municipal securities	120,904	46	(29)	120,921
Corporate bonds	808,745	8,720	(252)	817,213
Foreign government securities	65,475	633	(2)	66,106
Subtotal	1,735,773	13,642	(326)	1,749,089
Marketable equity securities	10,950	4,086	—	15,036
Total short-term investments	1,746,723	17,728	(326)	1,764,125
Total cash, cash equivalents and short-term investments	$2,560,871	$17,729	$(326)	$2,578,274

Cash, cash equivalents and short-term investments consisted of the following as of November 27, 2009 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$75,110	$—	$—	$75,110
Cash equivalents:				
Money market mutual funds	884,240	—	—	884,240
Time deposits	40,137	—	—	40,137
Total cash equivalents	924,377	—	—	924,377
Total cash and cash equivalents	999,487	—	—	999,487
Short-term fixed income securities:				
U.S. Treasury securities	373,180	3,199	(1)	376,378
U.S. agency securities	59,447	273	—	59,720
Corporate bonds	407,465	8,111	(1)	415,575
Foreign government securities	47,620	666	—	48,286
Subtotal	887,712	12,249	(2)	899,959
Marketable equity securities	2,527	2,500	—	5,027

Total short-term investments	890,239	14,749	(2)	904,986
Total cash, cash equivalents and short-term investments	$1,889,726	$14,749	$(2)	$1,904,473

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

10

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 have been in a continuous unrealized loss position for less than twelve months, as of September 3, 2010 and November 27, 2009 (in thousands):

	2010		2009	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury and agency securities	$89,272	$(43)	$11,179	$(1)
Corporate bonds	117,257	(252)	5,041	(1)
Foreign government securities	4,335	(2)	—	—
Municipal securities	31,092	(29)	—	—
Total	$241,956	$(326)	$16,220	$(2)

As of September 3, 2010 and November 27, 2009, there were no securities in a continuous unrealized loss position for more than twelve months. There were 76 securities and 4 securities that were in an unrealized loss position at September 3, 2010 and at November 27, 2009, respectively.

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated maturities as of September 3, 2010 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$854,720	$856,275
Due within two years	472,194	477,545
Due within three years	336,531	340,439
Due after three years	72,328	74,830
Total	$1,735,773	$1,749,089

As of September 3, 2010, 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

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 three months ended September 3, 2010.

The fair value of our financial assets and liabilities at September 3, 2010 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	$597,801	$ 597,801	$ —	$ —
Time deposits	57,238	57,238	—	—
U.S. agency securities	19,600	—	19,600	—
Corporate bonds	46,340	—	46,340	—
Short-term investments:				
U.S. Treasury securities	404,320	—	404,320	—
U. S. agency securities	340,529	—	340,529	—
Municipal securities	120,921	—	120,921	—
Corporate bonds	817,213	—	817,213	—
Foreign government securities	66,106	—	66,106	—
Marketable equity securities	15,036	15,036	—	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	18,290	—	18,290	—
Other assets:				
Investments of limited partnership	26,793	—	—	26,793
Deferred compensation plan assets	9,873	614	9,259	—
Total assets	$2,540,060	$ 670,689	$ 1,842,578	$ 26,793
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,680	$ —	$ 1,680	$ —
Total liabilities	$1,680	$ —	$ 1,680	$ —

12

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of our financial assets and liabilities at November 27, 2009 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	$884,240	$ 884,240	$ —	$ —
Time deposits	40,137	40,137	—	—
Short-term investments:				
U.S. Treasury securities	376,378	—	376,378	—
U.S. agency securities	59,720	—	59,720	—
Municipal securities	—	—	—	—
Corporate bonds	415,575	—	415,575	—
Foreign government securities	48,286	—	48,286	—
Marketable equity securities	5,027	5,027	—	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	4,307	—	4,307	—
Other assets:				
Investments of limited partnership	37,121	—	—	37,121
Deferred compensation plan assets	9,045	717	8,328	—
Total assets	$1,879,836	$ 930,121	$ 912,594	$ 37,121
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,589	$ —	$ 1,589	$ —
Total liabilities	$1,589	$ —	$ 1,589	$ —

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 A- 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 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.

The investments of limited partnership relate to our interest in Adobe Ventures IV L.P. (“Adobe Ventures”), which are consolidated in our Condensed Consolidated Financial Statements. The Level 3 investments consist of investments in privately-held companies. These investments are remeasured at fair value each period with any gains or losses recognized in investment gains (losses), net in our Condensed Consolidated Statements of Income. There was no impact to other comprehensive income (“OCI”) related to our Level 3 investments. We estimated fair value of the Level 3 investments by 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.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

A reconciliation of the beginning and ending balances for investments of limited partnership using significant unobservable inputs (Level 3) as of September 3, 2010 and November 27, 2009 was as follows (in thousands):

Balance as of November 28, 2008	$38,753
Purchases and sales of investments, net	1,921
Unrealized net investment losses included in earnings	(3,553)
Balance as of November 27, 2009	37,121
Purchases and sales of investments, net	(2,599)
Unrealized net investment losses included in earnings	(7,729)
Balance as of September 3, 2010	$26,793

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. During the three and nine months ended September 3, 2010, we determined that certain of our direct cost method investments were other-than-temporarily impaired which resulted in charges of $1.9 million and $2.3 million, respectively, which were included in investment gains (losses), net in our Condensed Consolidated Statements of Income.

See Note 7 for further information regarding our limited partnership interest in Adobe Ventures and our cost method investments.

NOTE 5. DERIVATIVES AND HEDGING ACTIVITIES

In countries outside the U.S., we transact business in U.S. dollars and in various other currencies. Therefore, we are subject to exposure from movements in foreign currency rates. We may use foreign exchange option contracts or forward contracts to hedge certain operational ("cash flow") exposures resulting from changes in foreign currency exchange rates. These foreign exchange contracts, carried at fair value, may have maturities between one and twelve months. The maximum original duration of any contract is 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 derivative instruments from hedging activities as either assets or liabilities on the balance sheet 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. 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 on our Condensed Consolidated Balance Sheets, until the forecasted transaction 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 on our Condensed Consolidated Statements of Income at that time.

We also hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in exchange rates. These derivative instruments 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 on our Condensed Consolidated Statements of Income. These derivative instruments 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.

We mitigate concentration of risk related to foreign currency hedges as well as interest rate hedges through a policy that establishes counterparty limits. 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

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

requirements under our counterparty risk assessment process. In addition, our hedging policy establishes maximum limits for each counterparty. We monitor ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on our on-going assessment of counterparty risk, we will adjust our exposure to various counterparties.

The aggregate fair value of derivative instruments in net asset positions as of September 3, 2010 and November 27, 2009 was $18.3 million and $4.3 million, respectively. These amounts 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 up to $1.7 million and $1.6 million, respectively, of liabilities included in master netting arrangements with those same counterparties.

The fair value of derivative instruments on our Condensed Consolidated Balance Sheets as of September 3, 2010 and November 27, 2009 were as follows (in thousands):

	2010		2009	
	Fair Value Asset Derivatives(1)	Fair Value Liability Derivatives(2)	Fair Value Asset Derivatives(1)	Fair Value Liability Derivatives(2)
Derivatives designated as hedging instruments:				
Foreign exchange option contracts(3)	$9,439	$—	$4,175	$—
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	8,851	1,680	132	1,589
Total derivatives	$18,290	$1,680	$4,307	$1,589

(1) Included in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

(2) Included in accrued expenses on our Condensed Consolidated Balance Sheets.

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

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 three and nine months ended September 3, 2010 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)	$15,208	$—	$23,580	$—

Net gain (loss) reclassified from accumulated OCI into income, net of tax(2)	$13,223	$—	$19,428	$—
Net gain (loss) recognized in income(3)	$(8,383)	$—	$(18,149)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(5,627)	$—	$16,174

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 three and nine months ended August 28, 2009 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)	$(329)	$—	$(14,516)	$—
Net gain (loss) reclassified from accumulated OCI into income, net of tax(2)	$749	$—	$27,138	$—
Net gain (loss) recognized in income(3)	$(3,734)	$—	$(12,782)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(1,650)	$—	$(10,200)

(1) Net change in the fair value of the effective portion classified in 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.

NOTE 6. GOODWILL AND PURCHASED AND OTHER INTANGIBLES

Goodwill as of September 3, 2010 and November 27, 2009 was $3.490 billion and $3.495 billion, respectively. The change includes adjustments to our Omniture purchase price allocation through the second quarter of fiscal 2010 and foreign currency translation adjustments. We also recorded adjustments for restructuring and tax deductions from acquired stock options associated with our Omniture and Macromedia acquisitions.

Purchased and other intangible assets subject to amortization as of September 3, 2010 and November 27, 2009 were as follows (in thousands):

	2010			2009		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Purchased technology	$219,843	$ (51,709)	$ 168,134	$586,952	$ (387,731)	$ 199,221
Localization	$16,090	$ (10,343)	$ 5,747	$20,284	$ (15,222)	$ 5,062

Trademarks	172,015	(128,599)	43,416	172,030	(104,953)	67,077
Customer contracts and relationships	364,231	(187,457)	176,774	363,922	(159,450)	204,472
Other intangibles	46,421	(27,401)	19,020	54,535	(2,979)	51,556
Total other intangible assets	$598,757	$ (353,800)	$ 244,957	$610,771	$ (282,604)	$ 328,167
Purchased and other intangible assets	$818,600	$ (405,509)	$ 413,091	$1,197,723	$ (670,335)	$ 527,388

During the first half of fiscal 2010, purchased and other intangible assets from prior acquisitions, primarily Macromedia, became fully amortized and were removed from the balance sheet. Amortization expense related to purchased and other intangible assets was $38.5 million and $117.6 million for the three and nine months ended September 3, 2010, respectively. Comparatively, amortization expense was $34.4 million and $109.7 million for the three and nine months ended August 28, 2009, respectively. Of these amounts, $21.0 million and $63.6 million were included in cost of sales for the three and nine months ended September 3, 2010, respectively, and $19.4 million and $64.1 million were included in cost of sales for the three and nine months ended August 28, 2009, respectively.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of September 3, 2010, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal Year	Purchased Technology	Other Intangible Assets
Remainder of 2010	$8,813	$24,624
2011	31,870	50,740
2012	30,263	22,385
2013	26,403	21,686
2014	24,983	21,286
Thereafter	45,802	104,236
Total expected amortization expense	$168,134	$244,957

NOTE 7. OTHER ASSETS

Other assets as of September 3, 2010 and November 27, 2009 consisted of the following (in thousands):

	2010	2009
Acquired rights to use technology	$74,719	$84,313
Investments	42,831	63,526
Security and other deposits	10,760	11,692
Prepaid royalties	9,359	12,059
Debt issuance costs	9,901	—
Deferred compensation plan assets	9,873	9,045
Restricted cash	2,452	4,650
Prepaid land lease	13,254	3,209
Prepaid rent	934	1,377
Other	3,343	1,394
Other assets	$177,426	$191,265

Included in investments are our indirect investments through our limited partnership interest in Adobe Ventures of approximately $26.8 million and $37.1 million as of September 3, 2010 and November 27, 2009, respectively. We consolidate Adobe Ventures in accordance with the provisions for consolidating variable interest entities as we have determined we have the power to direct the activities that most significantly impact the entity's economic performance and we have the obligation to absorb losses or the right to receive benefits through our limited partnership interest in Adobe Ventures. The partnership is controlled by Granite Ventures, an independent venture capital firm and sole general partner of Adobe Ventures. We are the primary beneficiary of Adobe Ventures and bear virtually all of the risks and rewards related to our ownership. Our investment in Adobe Ventures does not have a significant impact on our consolidated financial position, results of operations or cash flows.

The primary purpose of our limited partnership interest in Adobe Ventures is to invest in securities of private companies which either operate in, or are expected to operate in, industries where technology and business model trends are expected to have an impact on our core business. Our limited partnership interest in Adobe Ventures terminated on September 30, 2010 and no additional investments will be made. Our maximum capital commitment to Adobe Ventures was $104.6 million, of which approximately $95.7 million was invested.

Adobe Ventures carries its investments in equity securities at estimated fair value and investment gains and losses are included in our Condensed Consolidated Statements of Income. Substantially all of the investments held by Adobe Ventures at September 3, 2010 and November 27, 2009 are not publicly traded and, therefore, there is no established market for these securities. In order to determine the fair value of these investments, we use the most recent round of financing involving new non-strategic investors or estimates of fair value made by Granite Ventures. We evaluate the fair value of these investments held by Adobe Ventures on a regular basis. This evaluation includes, but is not limited to, reviewing each company's cash position, financing needs, earnings and revenue outlook, operational performance, management and ownership changes and competition. In the case of privately-held companies, this evaluation is based on information that we request from these companies. This information is not subject to the same disclosure regulations as U.S. publicly traded companies and as such, the basis for these evaluations is subject to the timing and the accuracy of the data received from these companies.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Also included in investments are our direct investments in privately-held companies of approximately $16.0 million and $26.4 million as of September 3, 2010 and November 27, 2009, respectively, which are accounted for based on the cost method. We assess these investments for impairment in value as circumstances dictate.

NOTE 8. ACCRUED EXPENSES

Accrued expenses as of September 3, 2010 and November 27, 2009 consisted of the following (in thousands):

	2010	2009
Accrued compensation and benefits	$213,630	$164,352
Sales and marketing allowances	29,587	32,774
Accrued marketing	31,130	28,233
Taxes payable	17,664	11,879
Accrued interest expense	5,642	1,355
Other	170,824	181,053
Accrued expenses	$468,477	$419,646

Other primarily includes general corporate accruals for local and regional expenses and technical support. Other is also comprised of deferred rent related to office locations with rent escalations, accrued royalties and foreign currency derivatives.

NOTE 9. INCOME TAXES

The gross liability for unrecognized tax benefits at September 3, 2010 was $212.7 million, exclusive of interest and penalties. If the total unrecognized tax benefits at September 3, 2010 were recognized in the future, $195.2 million of unrecognized tax benefits would decrease the effective tax rate, which is net of an estimated $17.4 million federal benefit related to deducting certain payments on future state tax returns.

As of September 3, 2010, the combined amount of accrued interest and penalties related to tax positions taken on our tax returns was approximately $18.5 million. This amount is included in non-current income taxes payable.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of current and non-current assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Given the uncertainties described, we can only determine a range of estimated potential decreases in underlying unrecognized tax benefits ranging from $0 to approximately $100 million. These amounts could decrease income tax expense.

In December 2009, we repatriated $700 million of undistributed foreign earnings for which a deferred tax liability had been previously accrued. As such, a long-term deferred tax liability of approximately $200 million was reclassified from deferred income taxes to income taxes payable. During the second and third quarters of fiscal 2010, $150 million of these liabilities in income taxes payable were paid.

NOTE 10. STOCK-BASED COMPENSATION

The assumptions used to value option grants during the three and nine months ended September 3, 2010 and August 28, 2009 were as follows:

	Three Months		Nine Months	
	2010	2009	2010	2009
Expected life (in years)	3.8 – 4.1	3.7 – 3.8	3.8 – 5.1	3.0 – 3.8
Volatility	35%	37 – 43%	29 – 36%	37 – 57%
Risk free interest rate	1.04 – 1.30%	1.93 – 2.24%	1.04 – 2.66%	1.16 – 2.24%

18

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The expected term of 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 September 3, 2010 and August 28, 2009 were as follows:

	Three Months		Nine Months	
	2010	2009	2010	2009
Expected life (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility	37 – 40%	40%	32 – 40%	40 – 57%
Risk free interest rate	0.22 – 0.63%	0.33 – 1.05%	0.18 – 1.09%	0.27 – 1.05%

Summary of Stock Options

Option activity for the nine months ended September 3, 2010 and the fiscal year ended November 27, 2009 was as follows (in thousands):

	2010	2009
Beginning outstanding balance	41,251	40,704
Granted	3,135	5,758
Exercised	(4,503)	(7,560)
Cancelled	(2,397)	(3,160)
Increase due to acquisition	—	5,509
Ending outstanding balance	37,486	41,251

Information regarding stock options outstanding at September 3, 2010 and August 28, 2009 is summarized below:

	Number of Shares (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2010				
Options outstanding	37,486	$30.63	3.83	$112.5
Options vested and expected to vest	36,184	$30.69	3.77	$107.4
Options exercisable	27,280	$31.06	3.21	$74.7
2009				
Options outstanding	38,549	$29.75	3.92	$176.9
Options vested and expected to vest	36,986	$29.78	3.84	$168.5
Options exercisable	26,573	$29.21	3.23	$127.8

(*) 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

September 3, 2010 and August 28, 2009 were $29.49 and $31.73, respectively.

Summary of Employee Stock Purchase Plan Shares

Employees purchased 3.3 million shares at an average price of $20.19 and 3.2 million shares at an average price of $19.04 for the nine months ended September 3, 2010 and August 28, 2009, respectively. The intrinsic value of shares purchased during the nine months ended September 3, 2010 and August 28, 2009 was $33.9 million and $21.7 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.

TABLE OF CONTENTS

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Summary of Restricted Stock Units

Restricted stock unit activity for the nine months ended September 3, 2010 and the fiscal year ended November 27, 2009 was as follows (in thousands):

	2010	2009
Beginning outstanding balance	10,433	4,261
Awarded	6,814	6,176
Released	(2,170)	(1,162)
Forfeited	(1,112)	(401)
Increase due to acquisition	—	1,559
Ending outstanding balance	13,965	