

ADOBE SYSTEMS INC
Form 8-K
January 27, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (date of earliest event reported): January 27, 2017 (January 24, 2017)

Adobe Systems Incorporated
(Exact name of Registrant as specified in its charter)

Delaware 0-15175 77-0019522
(State or other jurisdiction of (Commission File Number) (I.R.S. Employer Identification No.)
incorporation)

345 Park Avenue
San Jose, California 95110-2704
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 536-6000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(b) Departure of Corporate Controller and Chief Accounting Officer

On January 27, 2017, Richard Rowley retired from his position as the Corporate Controller and Chief Accounting Officer of Adobe Systems Incorporated (“Adobe” or the “Company”) following ten years of service. His decision to retire was previously announced in a Current Report on Form 8-K filed on October 7, 2016. Mark Garrett, Executive Vice President and Chief Financial Officer of Adobe, will serve as the interim principal accounting officer while Adobe completes its search for Mr. Rowley’s replacement.

(e) 2017 Performance Share Program

On January 24, 2017, the Executive Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of the Company approved the 2017 Performance Share Program, including the Award Calculation Methodology (the “Program”), under the terms of the Company’s 2003 Equity Incentive Plan. The Committee established the Program to help focus key employees on building stockholder value, provide significant award potential for achieving outstanding Company performance, and enhance the ability of the Company to attract and retain highly talented individuals. Members of the Company’s executive management team and other key members of senior management were selected by the Committee to participate in the Program for fiscal year 2017. The Committee granted awards to the executive officers under the Program on January 24, 2017 in the form of a target award and a maximum award of performance shares (“Performance Shares”), approved pursuant to the terms of the Company’s 2003 Equity Incentive Plan.

Under the Program, shares may be earned based on the achievement of objective relative total stockholder return (“TSR”) measured over a three-year performance period (Adobe’s 2017 - 2019 fiscal years). The Committee will certify actual performance achievement following the Company’s 2019 fiscal year end and the corresponding number of Performance Shares earned for the three-year performance period, subject to specified change of control exceptions. In addition, as a condition to earning any Performance Shares, a participant must continue to provide service to Adobe (or an affiliate) through the latter of the certification date and January 24, 2020. Accordingly, the Performance Shares will align our executives’ interests with those of our stockholders, while serving as a key retention mechanism over the long term.

Each participant can earn between 0% and 200% (the payout cap under the Program) of his or her target number of Performance Shares. The amount of Performance Shares actually earned is based on a relative three-year TSR measure, which objectively compares the TSR of Adobe’s common stock against the TSR of the companies included in the NASDAQ 100 Index as of December 3, 2016 (the first day of Adobe’s 2017 fiscal year) during the course of the three-year period. Generally, TSR will be compared using the 90-calendar day average ending at the beginning of Adobe’s 2017 fiscal year and ending at the end of Adobe’s 2019 fiscal year. The number of Performance Shares awarded will increase or decrease 2.5% for every percentile that Adobe’s TSR percentile rank is above or below, respectively, the NASDAQ 100 companies’ 50th percentile, and no shares will be awarded if the Company’s performance ranks below the 25th percentile for the three-year performance period. Additionally, regardless of Adobe’s relative position with respect to the NASDAQ 100 companies, the award will be capped at 100% of target in the case of Adobe having a negative absolute TSR over the measurement period.

The target awards and maximum awards for the Performance Shares granted to the Company’s principal executive officer, principal financial officer and other named executive officers* on January 24, 2017 are as set forth below.

Officer	Title	Target Maximum Award
Shantanu Narayen	President and Chief Executive Officer	84,980,169,960
Mark Garrett	Executive Vice President and Chief Financial Officer	25,970,51,940
Abhay Parasnis	Executive Vice President and Chief Technology Officer	23,605,47,210
Bradley Rencher	Executive Vice President and General Manager, Digital Marketing	25,970,51,940
Matthew Thompson	Executive Vice President, Worldwide Field Operations	28,330,56,660

* For purposes of this filing, the term “named executive officer” refers to executive officers for whom disclosure was required in our most recent filing with the Securities Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934 that required disclosure pursuant to Item 402(c) of Regulation S-K.

A participant may receive less than his or her target award, and in no event may actual shares earned exceed the maximum award. Any shares issued under the Program are subject to recoupment in accordance with the Company’s clawback policies.

The description of the Program contained herein is a summary of the material terms of the Program, does not purport to be complete and is qualified in its entirety by reference to the Program used in connection with the 2003 Equity Incentive Plan, which is incorporated herein by reference as Exhibit 10.1. Copies of the 2017 Performance Share Program and the form of Award Grant Notice and Performance Share Award Agreement for use in connection with grants under this Program are filed herewith as Exhibits 10.2 and 10.3, respectively, and are incorporated herein by reference.

2017 Executive Annual Incentive Plan

On January 24, 2017, the Committee approved the terms of the 2017 Executive Annual Incentive Plan (the “Incentive Plan”), adopted pursuant to the stockholder-approved 2016 Cash Performance Bonus Plan (the “Master Bonus Plan”). The Incentive Plan applies to certain executive officers of the Company and is designed to drive revenue growth, encourage accountability, drive execution of short-term priorities tied to long-term strategy and annual operating plan objectives, and recognize and reward the Company’s executives upon the achievement of certain objectives.

Executive officers designated by the Company’s Board of Directors as an officer for purposes of Section 16 of the Securities and Exchange Act of 1934, as amended, who are Senior Vice President level or above and who are employed by the Company during its 2017 fiscal year are eligible to participate in the Incentive Plan. Pursuant to the Incentive Plan, each participant is eligible to receive an incentive bonus calculated as a percentage of his or her base salary.

The Incentive Plan requires that the Company achieve at least 90% of the GAAP revenue target set forth in the annual operating plan for fiscal year 2017 as approved by the Board at the beginning of the fiscal year (the “FY17 Operating Plan”) as a minimum performance threshold before participants may earn any incentive bonus under the Incentive Plan. If the initial threshold is not achieved, no payments may be made under the Incentive Plan. If this initial threshold is achieved, each participant is eligible to earn a maximum bonus equal to 200% of such participant’s annual bonus target, up to a maximum of \$5 million, subject to reduction as described below. The target bonus is calculated by multiplying a participant’s base salary in effect at the end of the performance period by a Committee-approved target bonus percentage.

For fiscal year 2017, the target bonus and maximum bonus, expressed as a percentage of base salary for the Company’s principal executive officer, principal financial officer and other named executive officers, would be as follows:

Officer	Title	Target	Maximum
Shantanu Narayan	President and Chief Executive Officer	150%	300%
Mark Garrett	Executive Vice President and Chief Financial Officer	100%	200%
Abhay Parasnis	Executive Vice President and Chief Technology Officer	100%	200%
Bradley Rencher	Executive Vice President and General Manager, Digital Marketing	100%	200%
Matthew Thompson	Executive Vice President, Worldwide Field Operations	100%	200%

The maximum bonus for each participant is subject to reduction based on the Company's or the participant's performance. Fifty percent of a participant's target award opportunity is tied to the Corporate Performance Result and fifty percent of a participant's target award opportunity is tied to his or her Individual Performance Result, each as described below.

The actual bonus is comprised of:

$$\text{Corporate Performance Result (50\%)} + \text{Individual Performance Result (50\%)}$$

The "Corporate Performance Result" (expressed as a percentage) is the product of: (1) Financial Performance and (2) Customer Retention & Satisfaction.

The Company's financial performance for the Performance Period ("Financial Performance") is determined by a metric comprised of both (1) net new annualized recurring revenue in Digital Media and (2) net bookings for the Adobe Marketing Cloud ("Bookings"), in both cases as set forth in the FY17 Operating Plan.

As described in our Annual Report on Form 10-K for the fiscal year ended December 2, 2016, we define annualized recurring revenue, or ARR, in our Digital Media business as the sum of Creative ARR and Document Cloud ARR. We define Creative ARR as the sum of: (1) the annual value of Creative Cloud subscriptions and services; plus (2) the annual contract value of Digital Publishing Suite; plus (3) the annual contract value of Creative Enterprise Term License Agreements. We define Document Cloud ARR as the sum of (1) the annual value of Document Cloud subscriptions and services; plus (2) the annual contract value of Document Cloud Enterprise Term License Agreements.

The Bookings target for Adobe Marketing Cloud is also based on the target set forth in the FY17 Operating Plan.

Financial Performance measures net new ARR in our Digital Media business and Bookings for Adobe Marketing Cloud, both equally weighted, with the actual percentage of Financial Performance achievement determining the Financial Performance payout percentage (with a maximum achievement of 200%), as shown on Exhibit A of the Incentive Plan. The Financial Performance is also subject to adjustment by the Committee by up to 20 percentage points up or down based on the Committee's assessment of the Company's qualitative performance during the fiscal year (with a maximum achievement of 200%). The Financial Performance payout percentage, after any adjustment as described in the preceding sentence, will cap the Corporate Performance Result. The Corporate Performance Result may be adjusted downward based on the outcome of performance relative to Customer Retention and Satisfaction metrics ("Customer Retention & Satisfaction") established by the Committee in consultation with the Board at the outset of the fiscal year. The percentage achievement of Customer Retention & Satisfaction (assessed on a scale of 0% to 100%) is multiplied by the Financial Performance to determine the Corporate Performance Result.

The remaining 50% of each participant's bonus opportunity under the Incentive Plan is based on individual performance including, without limitation, achievement of individual performance goals selected by the Committee at the outset of the performance period, which goals are specifically tailored to each participant and aligned with the achievement of strategic objectives contained in the FY17 Operating Plan (the "Individual Performance Result"). A participant's Individual Performance Result may range from 0% to 200%.

Once each component described above is certified by the Committee, the actual bonus award earned by each participant under the Incentive Plan is determined using the following formula:

$$\text{Actual Award} = \left[(\text{Corporate Performance Result \%} * 50\%) + (\text{Individual Performance Result \%} * 50\%) \right] \times \text{Target Award}$$

(\$) (\$)

Any amounts paid under the Incentive Plan are subject to recoupment from participants in accordance with the Company's clawback policies.

The description of the Incentive Plan contained herein is a summary of the material terms of the Incentive Plan, does not purport to be complete, and is qualified in its entirety by reference to the Incentive Plan and the 2016 Executive Cash Performance Bonus Plan, which is incorporated herein by reference as Exhibit 10.4. A copy of the Incentive Plan is filed herewith as Exhibit 10.5 and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference		Filed	
		Form	Date	Number	Herewith
10.1	2003 Equity Incentive Plan, as amended	8-K	4/14/16	10.1	
10.2	2017 Performance Share Program				X
10.3	Form of 2017 Performance Share Award Grant Notice and Award Agreement pursuant to 2017 Performance Share Program				X
10.4	2016 Executive Cash Performance Bonus Plan	8-K	1/29/16	10.4	
10.5	2017 Executive Annual Incentive Plan				X
10.6	Form of RSU Grant Notice and Award Agreement pursuant to 2003 Equity Incentive Plan				X

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ADOBE
SYSTEMS
INCORPORATED

Date: January 27, 2017 By: /s/ Michael
Dillon
Michael Dillon
Executive Vice
President,
General Counsel
and Corporate
Secretary

EXHIBIT INDEX

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10.5	2017 Executive Annual Incentive Plan				X
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