

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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MACROMEDIA INC

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2001

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 No. 000-22688

**MACROMEDIA, INC.
(A Delaware Corporation)**

I.R.S. Employer Identification No. 94-3155026

**600 Townsend Street
San Francisco, California 94103
(415) 252-2000**

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 the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: \$0.001 par value Common Stock; 57,853,442 shares outstanding on July 17, 2001.

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MACROMEDIA, INC. AND SUBSIDIARIES

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2001

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MACROMEDIA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

ASSETS	June 30, 2001	March 31, 2001
Current assets:		
Cash and cash equivalents	\$ 102,554	\$ 116,507
Short-term investments	51,921	61,463
<hr/>		
Total cash, cash equivalents and short-term investments	154,475	177,970
Accounts receivable, net	33,747	37,861
Receivable from equity affiliate	–	2,621
Inventory	2,967	2,114
Prepaid expenses and other current assets	19,361	22,556
Deferred tax assets, short-term	14,861	12,663
<hr/>		
Total current assets	225,411	255,785
Land and building, net	17,896	18,109
Other fixed assets, net	79,113	96,495
Related party loans	15,395	14,175
Investment in equity affiliate	9,349	31,290
Intangible assets, net	309,172	345,234
Restricted cash	11,409	9,202
Other long-term assets	7,941	15,383
<hr/>		
Total assets	\$ 675,686	\$ 785,673
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,981	\$ 8,273
Accrued liabilities	67,711	91,033
Accrued restructuring, current	12,101	–
Unearned revenue	17,839	16,982
<hr/>		
Total current liabilities	104,632	116,288
Accrued restructuring, non-current	9,779	–
Other long-term liabilities	1,329	1,172
<hr/>		
Total liabilities	115,740	117,460
<hr/>		
Stockholders' equity:		
Preferred stock, par value \$0.001 per share; 5,000 shares authorized; no shares issued as of June 30, and March 31, 2001, respectively	–	–
Common stock, par value \$0.001 per share; 200,000 shares authorized; 59,554 and 59,221 shares issued as of June 30, and March 31, 2001, respectively	60	59
Treasury stock at cost; 1,818 shares as of June 30, and March 31, 2001	(33,649)	(33,649)
Additional paid-in capital	716,453	713,579

Deferred compensation	(593)	(907)
Accumulated other comprehensive income	626	308
Accumulated deficit	(122,951)	(11,177)
	<hr/>	<hr/>
Total stockholders' equity	559,946	668,213
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 675,686	\$ 785,673
	<hr/>	<hr/>

See accompanying notes to condensed consolidated financial statements.

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MACROMEDIA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended	
	June 30,	
	2001	2000
	<hr/>	<hr/>
Revenues	\$ 88,743	\$ 94,764
Cost of revenues	11,137	10,111
	<hr/>	<hr/>
Gross profit	77,606	84,653
	<hr/>	<hr/>
Operating expenses:		
Sales and marketing	48,621	38,886
Research and development	29,946	24,915
General and administrative	12,736	8,901
Acquisition-related expenses	-	1,674
Non-cash compensation	-	1,923
Restructuring expenses	39,539	-
Amortization of intangibles	29,065	316
	<hr/>	<hr/>
Total operating expenses	159,907	76,615
	<hr/>	<hr/>
Operating income (loss)	(82,301)	8,038
Other income (expense):		
Interest and investment income	2,270	3,192
Loss on investments	(6,683)	-
Loss on equity affiliate	(26,861)	-
Other	556	441

Total other income (expense)	(30,718)	3,633
Minority interest	–	3,922
Income (loss) before income taxes	(113,019)	15,593
Benefit (provision) for income taxes	1,245	(3,586)
Net income (loss)	\$ (111,774)	\$ 12,007
Net income (loss) per share:		
Basic	\$ (1.94)	\$ 0.24
Diluted	\$ (1.94)	\$ 0.21
Weighted average common shares outstanding used in calculating net income (loss) per share:		
Basic	57,522	49,462
Diluted	57,522	56,638

See accompanying notes to condensed consolidated financial statements.

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MACROMEDIA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended	
	June 30,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	\$ (111,774)	\$ 12,007
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,801	7,435
Deferred income taxes	(2,198)	(394)
Tax benefit from employee stock plans	–	3,538
Non-cash compensation	–	160
Minority interest	–	(3,922)
Impairment of long-lived assets	13,062	–
Loss on investments	6,683	–
Loss on equity affiliate	26,861	–
Change in operating assets and liabilities:		
Accounts receivable, net	7,358	5,111

Inventory	(853)	(166)
Prepaid expenses and other current assets	2,706	(1,018)
Accounts payable	(1,292)	(1,909)
Accrued liabilities	(15,673)	3,505
Accrued restructuring	21,880	–
Unearned revenue	857	(103)
Net cash provided by (used in) operating activities	(10,582)	24,244
Cash flows from investing activities:		
Capital expenditures	(10,357)	(17,007)
Purchase of short-term investments	(26,057)	(31,339)
Maturities and sales of short-term investments	35,917	20,462
Related party loans receivable	(1,221)	(1,519)
Purchase of investments	–	(2,513)
Purchase of investments in equity affiliate	(2,995)	–
Purchase of restricted cash	(2,207)	(4,475)
Sale (purchase) of other assets	279	(2,520)
Other long-term liabilities	157	56
Net cash used in investing activities	(6,484)	(38,855)
Cash flows from financing activities:		
Proceeds from issuance of subsidiary preferred stock	–	4,732
Proceeds from issuance of common stock, net	3,113	23,979
Net cash provided by financing activities	3,113	28,711
Increase (decrease) in cash and cash equivalents	(13,953)	14,100
Cash and cash equivalents, beginning of period	116,507	115,084
Cash and cash equivalents, end of period	\$ 102,554	\$ 129,184

See accompanying notes to condensed consolidated financial statements.

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MACROMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

Macromedia develops software that enables its customers to build, rapidly deploy, and manage relatively simple to sophisticated Websites that provide dynamic content, personalized interaction, and secure business transactions. Macromedia's products range from stand-alone products for Web authoring and graphics creation to products that provide robust, secure, scalable foundations for building online applications that support online commerce, strengthen customer and partner relationships, and automate key business processes. Macromedia sells its products through a network of distributors, value-added resellers (VAR's), its own sales force and Website, and to original equipment

manufacturers (OEM' s) in North America, Europe, Asia Pacific and Latin America. In addition, Macromedia derives revenues from software maintenance and technology licensing agreements. Macromedia, Inc. and its subsidiaries are hereinafter collectively referred to as the "Company" or "Macromedia".

2. Basis of Presentation

The condensed consolidated financial statements at June 30, 2001 and March 31, 2001 and for the three months ended June 30, 2001 and 2000 are unaudited and reflect all adjustments (consisting only of normal recurring accruals) that are, in the opinion of management, necessary for a fair presentation of Macromedia' s financial position and operating results for the interim periods. As of June 30, 2001, the Company allocates the amortization of its deferred compensation to its cost of revenues, sales and marketing, research and development, and general and administrative functions.

At June 30, 2000, the Company owned a controlling interest in the outstanding voting stock of AtomShockwave (formerly shockwave.com) and accounted for AtomShockwave as a consolidated subsidiary. Since March 31, 2001, the Company has accounted for its investment in AtomShockwave under the equity method of accounting due to the deconsolidation of AtomShockwave during the fourth quarter of fiscal year 2001 (see Note 4). Prior to the Company' s deconsolidation of AtomShockwave, gains or losses from the sale of subsidiary capital stock were recorded in additional paid-in-capital, net of tax. Historically, the Company considered AtomShockwave a start up and the ultimate realization of the adjustments relating to these transactions was not assured. As such, no gains or losses were recognized by the Company.

These condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes normally provided in annual financial statements. As a result, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management' s discussion and analysis of financial condition and results of operations, contained in Macromedia' s annual report on Form 10-K for the fiscal year ended March 31, 2001. The results of operations for the three months ended June 30, 2001 are not necessarily indicative of the results for the fiscal year ended March 31, 2002 or any other future periods.

Certain amounts in the accompanying condensed consolidated financial statements for the three months ended June 30, 2000 have been reclassified in order to conform with the presentation of the condensed consolidated financial statements for the three months ended June 30, 2001.

3. Investments

The Company holds non-marketable investments in the common and preferred stock of several companies. These strategic investments do not represent a greater than 20% voting interest in the investee and the Company does not have the ability to significantly influence the investee' s management. Accordingly the investments are accounted for on the cost basis. Impairment losses are recognized on these strategic investments when the Company determines that there has been a decline in the carrying amount of the investment that is other than temporary. During the three months ended June 30, 2001 the Company recorded impairment losses on strategic investments of \$6.7 million. The losses represented write-offs or write-downs of the Company' s carrying amount of these investments and were determined by using, among other factors, the inability of the investee to obtain additional private financing, the suspension of an investee' s current operations, and uncertain financial conditions of the investees.

4. Investment in Equity Affiliate

At March 31, 2001 the Company owned 38% of the voting common and preferred stock outstanding of AtomShockwave and accordingly accounted for its ownership under the equity method of accounting. The Company accounts for its share of AtomShockwave's losses on a 90-day lag due to AtomShockwave's inability to provide timely financial statements.

During the first quarter of fiscal year 2002, the Company recorded a loss of approximately \$5.8 million on its equity affiliate reflecting its share of AtomShockwave losses for the three months ended March 31, 2001. The Company also made additional investments in AtomShockwave in return for pending secured promissory notes of \$2.2 million and the purchase of \$2.4 million in AtomShockwave common stock. These investments were made in arms-length transactions with AtomShockwave and certain Macromedia executives. In addition, Macromedia and AtomShockwave are currently revising the terms of their license agreement.

In June 2001, AtomShockwave announced a restructuring plan which included significant staff reduction and the closure of several offices to enable the company to operate within its existing funding. As a result, at June 30, 2001 the Company reviewed the carrying amount of its investment in AtomShockwave, which resulted in the write-down of the Company's investment in AtomShockwave by approximately \$20.8 million and the write-off of certain receivables totaling approximately \$344,000. The Company's recognition of its share of AtomShockwave's losses, write-down of its investment, and write-off of certain receivables were recorded as a loss on equity affiliate in its statement of operations.

At June 30, 2001, the Company held approximately 40% of the outstanding voting stock of AtomShockwave and will record its share of AtomShockwave's results for the three months ended June 30, 2001 during its second quarter of fiscal year 2002.

5. Earnings (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities are composed of incremental common shares issuable upon the exercise of stock options and warrants. Potentially dilutive securities were not included in the computation of diluted net loss per share for the three months ended June 30, 2001 because their effects would be antidilutive due to the Company's loss position.

The following table sets forth the reconciliations of the numerator and denominator used in the computation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Three Months Ended June 30,	
	2001	2000
Basic Net Income (Loss) Per Share Computation		
Numerator:		
Net income (loss)	\$ (111,774)	\$ 12,007
Denominator:		
Weighted average number of common shares outstanding	57,522	49,462
Basic net income (loss) per share	\$ (1.94)	\$ 0.24

MACROMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three Months Ended June 30,	
	2001	2000
Diluted Net Income (Loss) Per Share Computation		
Numerator:		
Net income (loss)	\$ (111,774)	\$ 12,007
Denominator:		
Weighted average number of common shares outstanding during the period	57,522	49,462
Effect of dilutive securities:		
Convertible preferred stock and stock warrants	-	16
Stock options and restricted stock	-	7,160
Total	57,522	56,638
Diluted net income (loss) per share	\$ (1.94)	\$ 0.21

The table below presents potentially dilutive securities that are excluded from the diluted net income (loss) per share calculation because their effects would be antidilutive. Potentially dilutive securities for the three months ended June 30, 2001 consist of all restricted stock, warrants, and stock options outstanding due to the Company's loss position (in thousands):

	Three Months Ended June 30,	
	2001	2000
Restricted stock and warrants	35	-
Stock options	9,113	19
Total	9,148	19

6. Intangible Assets

Intangible assets as of June 30, and March 31, 2001 consisted of the following (in thousands):

June 30, 2001	March 31, 2001
------------------	-------------------

Goodwill	\$ 278,416	\$ 285,413
Developed technology	34,000	34,000
Assembled workforce	24,975	24,975
Other intangibles	6,911	6,911
	344,302	351,299
Less accumulated amortization	(35,130)	(6,065)
	\$ 309,172	\$ 345,234

7. Comprehensive Income (Loss)

Statement of Financial Accounting Standards (“SFAS No. 130”), *Reporting Comprehensive Income (Loss)*, which establishes the standards for the reporting of comprehensive income (loss) and its components, requires unrealized gains and losses on the Company’s available-for-sale securities to be included in comprehensive income (loss). The only component of the Company’s Comprehensive Income (Loss) is unrealized gains on securities classified as available-for-sale. The following table sets forth the calculation of comprehensive income (loss), net of tax (in thousands):

	Three Months Ended	
	2001	2000
Net income (loss)	\$ (111,774)	\$ 12,007
Unrealized gain on securities	318	2
Comprehensive income (loss)	\$ (111,456)	\$ 12,009

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MACROMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Business Combination

During March 2001, the Company acquired Allaire Corporation (“Allaire”) for a total purchase price of \$428.0 million. The excess of the purchase price over the net tangible assets acquired totaled \$364.9 million, of which \$18.0 million was expensed in the fourth quarter of fiscal year 2001 as acquired in-process research and development. The remaining \$346.9 million of the purchase price was recorded as goodwill and other intangible assets, and are being amortized on a straight-line basis over a period of three years. During the three months ended June 30, 2001, the Company recorded net purchase price adjustments totaling approximately \$7.0 million. These adjustments primarily relate to a decrease in Allaire liabilities assumed at the acquisition date and were recorded as a reduction to goodwill.

9. Change in Accounting Estimate

The Company is in the process of replacing its existing Website infrastructure with technology acquired from Allaire. The Company's Website is integral to support its sales and marketing, customer support, on-line product distribution, and technical support to customers. As a result, management has evaluated the useful life of the current infrastructure and decreased its remaining estimated useful life to 6 months, revised from an original useful life of 36 months. This change in estimated useful life was applied prospectively commencing April 1, 2001 and has resulted in an increase to depreciation expense and corresponding increase to loss before taxes of \$4.2 million for the quarter ended June 30, 2001.

10. Accrued Restructuring

In April 2001, the Company began executing a restructuring plan to deliver cost synergies associated with the acquisition of Allaire during the fourth quarter of fiscal year 2001 and align its cost structure with the weaker business environment. In connection with the restructuring, the Company recorded expenses totaling approximately \$39.5 million. These expenses were recorded in continuing operations for the three months ended June 30, 2001, and were recognized in accordance with Emerging Issues Task Force ("EITF") No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*, Staff Accounting Bulletin ("SAB") No. 100, *Restructuring and Impairment Charges*, and SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. Detail of the expenses, payment activity and ending accrual balance related to the restructuring is presented in the following table (in thousands):

Restructuring Expenses:	Total expense	Cash payments	Non-cash charges	Accrual balance as of June 30, 2001
Facilities	\$ 19,684	\$ (925)	\$ –	\$ 18,759
Impairment of fixed assets	13,062	–	(13,062)	–
Workforce reduction	4,248	(3,358)	–	890
Other charges	2,545	(175)	(139)	2,231
Total	\$ 39,539	\$ (4,458)	\$ (13,201)	\$ 21,880

Restructuring expenses associated with facilities represent estimated and actual costs for approximately 18 facilities to either fulfill the Company's lease obligation net of sublease income, the net fees expected to be incurred to sublet certain facilities, or the estimated amount to be paid to terminate the lease contract before the end of the lease term. The Company expects to make future rent expense payments, net of sublease income, on its contractual lease obligations for these facilities, the longest of which extends through fiscal year 2011.

In connection with the restructuring plan, the Company also incurred expenses relating to the impairment of fixed assets. The impairments represent write-offs or write downs of leasehold improvements and furniture and fixtures deemed to be excess due to the closure of office facilities and termination of employees.

Under the plan, the Company had a workforce reduction where it terminated approximately 200 employees, primarily in North America and the United Kingdom and across all of Macromedia's business functions. The worldwide workforce reductions started during the current quarter and payments are expected to be substantially complete during the second quarter of fiscal year 2002. The costs consisted of employee termination and severance expenditures, which represent severance, fringe benefits and job placement costs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Included in the restructuring are other charges of approximately \$2.5 million, of which \$1.7 million relates to non-severance obligations under an amendment to contractual agreements with certain personnel. The remaining \$879,000 relates to contract cancellation fees surrounding marketing contracts, including advertising. The Company expects to complete payments under these obligations during the fourth quarter of fiscal year 2002.

11. Segments of an Enterprise and Related Information

At June 30, 2001, the Company operated in one business segment, the Software segment. The Company's Software segment develops software that enables its customers to build, rapidly deploy, and manage relatively simple to sophisticated Websites that provide dynamic content, personalized interaction, and secure business transactions. Due to the acquisition of Allaire during the fourth quarter of fiscal year 2001, the Company is currently realigning its products into three product lines: *DreamTools*, *Rich Media*, and *Server Products*. Enterprise wide revenue by product line for the current quarter is disclosed in the following table (in thousands). Information for three months ended June 30, 2000 is not disclosed, as it is impracticable to do so.

Three Months Ended June 30, 2001	DreamTools	Rich Media	Server		Total
			Products	Other	
Revenues	\$ 32,493	\$ 31,760	\$ 18,681	\$ 5,809	\$ 88,743

The Company is currently in the process of completing its integration with Allaire and developing a methodology for allocation of costs by product line as well as revising the data reviewed by the chief operating decision maker (the "CODM"). Accordingly, the CODM currently evaluates operating segment performance based on net revenues and total operating expenses of the Software segment. The Company's chief executive officer is its CODM. The operating segments' accounting policies are the same as those described in the summary of accounting policies in the Company's annual report on Form 10-K for the year ended March 31, 2001.

Prior to the fourth quarter of fiscal year 2001, the Company's operations included a second business segment, shockwave.com (currently AtomShockwave), a provider of online entertainment on the Web. The Company had no intersegment transactions for the three months ended June 30, 2001 and \$932,000 for the three months ended June 30, 2000. These intersegment transactions represent royalty revenues paid by shockwave.com. Segment data for the three months ended June 30, 2001 and 2000 are shown in the following tables (in thousands):

Three Months Ended June 30, 2001	Software	shockwave-.com	Total
Revenues	\$ 88,743	\$ -	\$ 88,743
Cost of revenues (1)	11,125	-	11,125
Gross profit	77,618	-	77,618
Direct operating expenses (1)	91,239	-	91,239
Acquisition related, restructuring, and certain non-cash charges (1)	68,680	-	68,680
Total operating income (loss)	\$ (82,301)	\$ -	\$ (82,301)
Total assets	\$ 675,686	\$ -	\$ 675,686

- (1) The Company allocated non-cash compensation for the three-months ended June 30, 2001 to cost of revenues, sales and marketing, research and development, and general and administrative expenses. Accordingly, approximately \$76,000 of non-cash compensation from these administrative functions is included in acquisition related, restructuring, and certain non-cash charges.

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MACROMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three Months Ended June 30, 2000	Software	shockwave- .com	Total
Revenues	\$ 90,313	\$ 4,451	\$ 94,764
Cost of revenues	9,470	641	10,111
Gross profit	80,843	3,810	84,653
Direct operating expenses	60,695	12,007	72,702
Acquisition-related expenses and certain non-cash charges	2,124	1,789	3,913
Total operating income (loss)	\$ 18,024	\$ (9,986)	\$ 8,038
Total assets	\$ 332,526	\$ 50,641	\$ 383,167

A reconciliation of the totals reported for the combined operating segments to the applicable line items in the consolidated financial statements for the three months ended June 30, 2001 and 2000 is as follows (in thousands):

	Three Months Ended June 30,	
	2001	2000
Total operating income (loss)	\$ (82,301)	\$ 8,038
Other income (loss)	(30,718)	3,633
Minority interest	-	3,922
Income (loss) before taxes	\$ (113,019)	\$ 15,593

12. Commitments and Contingencies

Restricted Cash. The Company has non-current cash of approximately \$11.4 million, the use of which is restricted. The restrictions on these funds primarily involve a security deposit on a lease of real property located in Newton, Massachusetts. These funds cannot be withdrawn without the written consent of the landlord or until such time the Company obtains other sources for the deposit requirements.

Legal. On July 31, 1997, a complaint entitled *Rosen et al. v. Macromedia, Inc. et al.*, (Case No. 988526) was filed in the Superior Court for San Francisco, California. The complaint alleges that we and five of our former officers and directors engaged in securities fraud in violation of California Corporations Code Sections 25400 and 25500 by seeking to inflate the value of our stock by issuing statements that were allegedly false or misleading (or omitted material facts necessary to make any statements made not false or misleading) regarding our financial results and prospects. Four similar complaints by persons seeking to represent the same class of purchasers subsequently have been filed in San Francisco Superior Court, and have been consolidated for pre-trial purposes with *Rosen*. Defendants filed demurrers to the complaint and other motions, which were argued on December 9, 1997 and January 5, 1998. Before the demurrers could be heard, one defendant, Richard Wood, died in an automobile accident. In March 1998, the Court sustained the demurrers as to claims against Susan Bird and overruled the demurrers as to Macromedia, John Colligan, James Von Ehr, II, and Kevin Crowder. In May 1999, the Court granted plaintiffs' motion for certification of a class of all persons who purchased our common stock from April 18, 1996 through January 9, 1997. Discovery proceedings are in process but a substantial portion has been completed and a jury trial has been set for December 2001. The consolidated complaint seeks damages in unspecified amounts, as well as other forms of relief. Although we are not able to predict the outcome of the litigation, we intend to vigorously defend the action.

On August 10, 2000, Adobe Systems, Inc. ("Adobe") filed suit against us in the United States District Court for the District of Delaware (Case No. 00-743-JJF). On September 18, 2000, Adobe filed a first amended complaint in the same action. In the first amended complaint, Adobe alleges that certain of our products infringe U.S. Patents Nos. 5,546,528 and 6,084,597. On September 27, 2000, we answered the first amended complaint by denying the allegations and filing counterclaims against Adobe seeking a declaration that Adobe's patents are invalid and unenforceable, and alleging infringement of three of our patents. In particular, we allege infringement of U.S. Patent No. 5,467,443 by at least the Adobe Illustrator product and U.S. Patents Nos. 5,151,998 and 5,204,969 by the Adobe Premiere product. On October 17, 2000, Adobe filed its answer denying the allegations in our counterclaims. Each party is requesting monetary damages for infringement of its patents and an injunction against future infringement. Further, each party is seeking a court declaration that it is not infringing the other party's patents, that the other parties' patents are invalid and an award of attorneys' fees. Discovery has begun in this matter, and trial is currently set for April 2002. Although we are not able to predict the outcome of the litigation, we intend to vigorously defend and pursue the matter.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On and after September 25, 2000, Allaire Corporation ("Allaire"), prior to its acquisition by us, and certain of Allaire's officers and directors were named as defendants in several putative class action lawsuits filed in the United States District Court for the District of Massachusetts, each alleging violations of the federal securities laws. On December 5, 2000, the Court consolidated the lawsuits under the caption *In re: Allaire Corporation Securities Litig., No. 00-CV-11972 (WGY)* ("Class Action"), and appointed lead plaintiffs and counsel for the putative class. On February 23, 2001, the lead plaintiffs, on behalf of a putative class defined as those who purchased Allaire stock between January 26, 2000, and September 18, 2000, filed a Corrected Consolidated Class Action Complaint alleging that Allaire, Joseph J. Allaire, Jeremy Allaire, David A. Gerth and David J. Orfao, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, and seeking damages, interest, and attorneys' fees and costs. On April 26, 2001, the defendants served a motion to dismiss the Class Action, which will be filed with the Court once the parties have concluded their briefing of that motion.

On April 11, 2001, Allaire, after it was merged into Macromedia, Joseph J. Allaire, Jeremy Allaire, David A. Gerth and David J. Orfao were named as defendants in an additional lawsuit alleging violations of the federal securities laws that also was filed in the United States District Court for the District of Massachusetts, *Kassin v. Allaire Corporation, et al., No. 01-10600-WGY* ("Kassin"). The complaint in

Kassin, filed on behalf of an individual, alleges substantially the same violations of the Securities Exchange Act of 1934 as have been asserted in the Class Action, and additional claims for common law fraud and negligent misrepresentation. On May 11, 2001, the Court consolidated the Class Action and Kassin for purposes of briefing and oral argument on the defendants' motions to dismiss. On May 17, 2001, the defendants served a motion to dismiss Kassin, which will be filed with the Court once the parties have concluded their briefing of that motion. Although the Class Action and Kassin litigation are in their early stages and we are not able to predict the outcome of the litigation at this time, we intend to defend these claims vigorously.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except for historical financial information contained herein, the matters discussed in this quarterly report may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended and subject to the safe harbor created by the Securities Litigation Reform Act of 1995. Such statements include declarations regarding our intent, belief or current expectations and those of our management. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks, uncertainties, and other factors, some of which are beyond our control. Therefore, actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, those risks and uncertainties identified under "Risk Factors that May Affect Future Results of Operations" and the other risks detailed from time to time in our reports and registration statements filed with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this report, and we will not necessarily update information in this report if any of these forward-looking statements later turn out to be inaccurate.

Results of Operations

Overview. Macromedia, Inc. develops, markets, and supports software products, technologies, and services to create Web content and applications. Our products enable our customers to build, rapidly deploy, and manage relatively simple to sophisticated Websites that provide dynamic content, personalized interaction, and secure business transactions. Macromedia's products range from stand-alone products for Web authoring and graphics creation to products that provide robust, secure, scalable foundations for building online applications that support online commerce, strengthen customer and partner relationships, and automate key business processes.

On March 20, 2001, we acquired Allaire Corporation ("Allaire"), a publicly held company that provides software products for companies building their businesses on the Web. Accordingly, our results for the current quarter include a full quarter of operations from the former Allaire entity. Due to the acquisition of Allaire, we are currently realigning our products into three product lines: *DreamTools Products*, including Dreamweaver, Dreamweaver UltraDev, Fireworks, and HomeSite; *Rich Media Products*, including Flash, Director, FreeHand, Authorware, Flash Player, and Shockwave Player; and *Server Products*, including ColdFusion, JRun, and Generator. Training and other miscellaneous revenues are included in Other Revenue.

Prior to the fourth quarter of fiscal year 2001, our operations included a business segment consisting of our then consolidated subsidiary, AtomShockwave (formerly shockwave.com), a provider of online entertainment on the Web. On January 14, 2001, shockwave.com consummated its merger with AtomFilms, with the surviving company named AtomShockwave. As a result of the transaction, we no longer consolidate the results of AtomShockwave and currently operate in one business segment, the Software segment. We evaluate operating segment performance based on net revenues and total operating expenses of the Software segment. The operating segments' accounting

policies are the same as those described in the summary of accounting policies in our annual report on Form 10-K for the year ended March 31, 2001.

Revenues. We sell our products through a network of distributors, value-added resellers (VAR' s), our own sales force and Website, and to original equipment manufacturers (OEM' s) in North America, Europe, Asia Pacific, and Latin America. In addition, we derive revenues from software maintenance and technology licensing agreements.

Revenues for the Software segment have declined by \$1.6 million, to \$88.7 million for the current quarter from \$90.3 million in the first quarter of fiscal year 2001. The majority of the decrease is attributable to a decline in demand for our Rich Media Products (primarily Director, FreeHand and Flash) and DreamTools Products, (primarily Dreamweaver), in line with the overall market decline for our core software products. This decline was partially offset by contributions from Server Products resulting from our merger with Allaire.

Consolidated revenues have decreased by \$6.0 million or 6% to \$88.7 million for the three months ended June 30, 2001 from \$94.8 million for the three months ended June 30, 2000. The consolidated decrease is due to the Software segment' s decline in revenues as well as our deconsolidation of shockwave.com, which accounted for \$4.5 million of our consolidated revenues for the three months ended June 30, 2000.

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Our revenues from North America for the Software segment have increased by \$6.3 million to \$56.6 million for the current quarter from \$50.3 million in the first quarter of fiscal year 2001. International revenues for the Software segment decreased by \$7.9 million to \$32.1 million when comparing the same time periods. The increase in North America revenues is primarily due to new product launches and the contribution of Allaire Server Products, which were primarily sold in North America during the current quarter. This increase in North America was partially offset by the decline in demand for our core software products. The decline in international revenues is primarily due to lower demand for our products in Japan and Europe. (See "Risk Factors That May Affect Future Results of Operations – Risks of International Operations" for additional information.) The following table summarizes revenues by geography for the Software segment (in millions, except percentages):

	Three Months Ended June 30,		
	2001	2000	% change
North America	\$ 56.6	\$ 50.3	12.5 %
<i>% of total revenues</i>	<i>64 %</i>	<i>56 %</i>	
International	\$ 32.1	\$ 40.0	(19.8)%
<i>% of total revenues</i>	<i>36 %</i>	<i>44 %</i>	
Total revenues	\$ 88.7	\$ 90.3	(1.7)%

Gross profit. Gross profit for the Software segment has declined by \$3.2 million to \$77.6 million for the current quarter from \$80.8 million in the first quarter of fiscal year 2001. The decrease is primarily due to increases in service-related training costs, material, and royalty costs which have increased due to our acquisition of Allaire.

Consolidated gross profit decreased by \$7.0 million or 8% to \$77.6 million for the three months ended June 30, 2001 from \$84.7 million for the three months ended June 30, 2000. The consolidated decrease is due to the Software segment' s decreased gross profit as well as our

deconsolidation of shockwave.com, which accounted for \$3.8 million of our consolidated gross profit for the three months ended June 30, 2000.

Sales and marketing. Sales and marketing expenses for the Software segment have increased by \$14.4 million to \$48.6 million for the current quarter from \$34.2 million for the first quarter of fiscal year 2001. The increase is mainly due to growth in headcount as a result of our acquisition of Allaire, increased information technology and infrastructure costs, and increased facilities charges to accommodate our growth. A portion of the increased infrastructure costs relates to increased amortization during the current quarter due to a revision of the useful life for our existing Website infrastructure, which is being replaced by developed architecture using technologies acquired from Allaire. This change in estimated useful life was applied prospectively commencing April 1, 2001, and resulted in a remaining useful life of 6 months, revised from an original useful life of 36 months.

Consolidated sales and marketing expenses increased by \$9.7 million or 25% to \$48.6 million for the three months ended June 30, 2001 from \$38.9 million for the three months ended June 30, 2000. The consolidated increase is due to the Software segment's increased sales and marketing costs, offset by our deconsolidation of shockwave.com, which accounted for \$4.7 million of our consolidated sales and marketing expenses for the three months ended June 30, 2000.

Research and development. Research and development expenses for the Software segment increased by \$10.8 million to \$29.9 million for the current quarter from \$19.1 million for the first quarter of fiscal year 2001. The increase is attributable primarily to headcount growth, increased information technology infrastructure costs, and increases in facility charges to accommodate our growth. Our headcount growth is primarily attributable to our acquisition of Allaire. A portion of the increase relates to increased amortization during the current quarter due to a revision of the useful life for our existing Website infrastructure, which is being replaced by developed architecture using technologies acquired from Allaire. This change in estimated useful life was applied prospectively commencing April 1, 2001, and resulted in a remaining useful life of 6 months, revised from an original useful life of 36 months.

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Consolidated research and development expenses increased by \$5.0 million or 20% to \$29.9 million for the three months ended June 30, 2001 from \$24.9 million for the three months ended June 30, 2000. The consolidated increase is due to the Software segment's increased research and development costs, offset by our deconsolidation of shockwave.com, which accounted for \$5.8 million of our consolidated research and development expenses for the three months ended June 30, 2000.

General and administrative. General and administrative expenses for the Software segment have increased by \$5.4 million to \$12.7 million for the current quarter from \$7.3 million for the first quarter of fiscal year 2001. The increase is primarily due to headcount growth and increased facilities, information technology, and legal costs. A portion of the increase relates to increased amortization during the current quarter due to a revision of the useful life for our existing Website infrastructure, which is being replaced by developed architecture using technologies acquired from Allaire. This change in estimated useful life was applied prospectively commencing April 1, 2001, and resulted in a remaining useful life of 6 months, revised from an original useful life of 36 months.

Consolidated general and administrative expenses increased by \$3.8 million or 43% to \$12.7 million for the three months ended June 30, 2001 from \$8.9 million for the three months ended June 30, 2000. The consolidated increase is due to the Software segment's increased general and administrative costs, offset by our deconsolidation of shockwave.com, which accounted for \$1.6 million of our consolidated general and administrative expenses for the three months ended June 30, 2000.

Acquisition-related expenses. During the current period we incurred no acquisition-related expenses. For the first quarter of fiscal year 2001 we recorded \$1.7 million in consolidated acquisition related-expenses consisting of certain technology rights and related software products from the acquisition of Bitcraft, Inc.

Non-cash compensation. Consolidated non-cash compensation charges decreased by \$1.8 million to \$76,000 for the current quarter from \$1.9 million for the first quarter of fiscal year 2001. The decrease is due to the deconsolidation of shockwave.com during the fourth quarter of fiscal year 2001 and associated deferred compensation balances. We have allocated non-cash compensation charges to cost of revenues, sales and marketing, research and development, and general and administrative expenses for the three months ended June 30, 2001.

Restructuring expenses. In April 2001, we began executing a restructuring plan to deliver cost synergies associated with the acquisition of Allaire during the fourth quarter of fiscal year 2001 and align our cost structure with the weaker business environment. In connection with the restructuring, we recorded expenses totaling approximately \$39.5 million during the three months ended June 30, 2001. The restructuring charges consisted of facilities costs, impairment of excess leasehold improvements and furniture and fixtures, employee termination and severance costs, and certain other charges.

As of June 30, 2001, a restructuring balance of \$21.9 million remained accrued, relating to pending leased facility obligations being executed under the restructuring plan, ongoing scheduled severance payments, and amounts due under contract amendments. We expect to make future rent expense payments, net of sublease income, on our contractual lease obligations through fiscal year 2011. We also anticipate completing our payments related to our workforce reduction and other charges during the second and fourth quarters of fiscal year 2002, respectively.

Amortization of intangibles. Consolidated amortization of intangible assets increased by \$28.7 million to \$29.1 million for the current quarter from \$316,000 for the first quarter of fiscal year 2001. The increase is primarily due to amortization of goodwill and related intangibles resulting from the acquisition of Allaire during the fourth quarter of fiscal year 2001.

Interest and investment income. Consolidated interest and investment income decreased by \$922,000 to \$2.3 million for the current quarter from \$3.2 million for the first quarter of fiscal year 2001. The decrease is primarily due to lower cash and investment balances and declining market yields during the current quarter when compared to the first quarter of fiscal year 2001.

Loss on investments. During the three months ended June 30, 2001, we recognized consolidated losses totaling approximately \$6.7 million on various strategic investments held at cost. The losses represented write-offs or write-downs of the carrying amounts of these investments and were due to, among other factors, the inability of the investee to obtain additional private financing, the suspension of an investee's current operations, and uncertain financial conditions of the investees. We will continue to assess the carrying amount of our remaining cost basis investments using factors such as, but not limited to, cash flow projections, revenue trends, market values for comparable public companies, and changes in capitalization structure that would impact liquidation preferences.

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Loss on equity affiliate. During the three months ended June 30, 2001, we recognized losses amounting to approximately \$26.9 million relating to an investment in our equity affiliate, AtomShockwave. We recorded a loss of approximately \$5.8 million reflecting our share of AtomShockwave's losses for the three months ended March 31, 2001. In June 2001, AtomShockwave announced a restructuring plan which included significant staff reduction and the closure of several offices to enable the company to operate within its existing funding. Accordingly, we reviewed the carrying amount of our investment in AtomShockwave, which resulted in the write-down of our investment by approximately \$20.8 million and the write-off of certain receivables totaling approximately \$344,000. The recognition of our share in AtomShockwave's losses, write-down of our investment, and write-off of certain receivables were recorded as a loss on equity affiliate in our statement of operations. We will continue to assess the carrying amount of our investment in AtomShockwave.

Other income (expense). Other income and expense primarily consist of foreign exchange gains or losses, bank fees, investment management fees, and other miscellaneous non-operating income and expense items. Other income increased by \$115,000 to \$556,000 for the current quarter from \$441,000 for the first quarter of fiscal year 2001.

Benefit (provision) for income taxes. During the current quarter we received a benefit of \$1.2 million primarily due to an increase in net deferred tax assets, as compared to a provision of \$3.6 million for the first quarter of fiscal year 2001. We believe it is more likely than not that future operations will generate sufficient taxable income to realize the net deferred tax assets we recognized. The increase in net deferred tax assets are primarily due to an increase in reserves and the recognition of certain deferred tax assets acquired from Allaire.

Liquidity and Capital Resources

At June 30, 2001, we had cash, cash equivalents, and short-term investments of \$154.5 million, a 13% decrease from March 31, 2001 balance of \$178.0 million. Working capital decreased to \$120.8 million for the current quarter, a 13% decrease from March 31, 2001 balance of \$139.5 million. The decrease in working capital is primarily due to a decrease in cash, cash equivalent and short-term investments balances used to fund current operations, partially offset by a decrease in accounts payable and accrued liabilities.

For the current quarter, cash used by operating activities was \$10.6 million, as compared to cash provided by operating activities of \$24.2 million for the three months ended June 30, 2000. Cash used by operating activities for the current quarter was primarily due to the net loss during the current quarter and payments of accrued liabilities. Cash used in investing activities for the current quarter was \$6.5 million, as compared to \$38.9 million for the three months ended June 30, 2000. Cash used by investing activities for the current quarter was used primarily for infrastructure growth, net maturities and sales of short-term investments, purchase of AtomShockwave common stock, and issuance of related party loans and notes receivable. Cash provided by financing activities for the current quarter was \$3.1 million, as compared to \$28.7 million for the three months ended June 30, 2000. Cash provided by financing activities for the current quarter is due to the exercise of common stock options.

Collectively, the above activity contributed to a net decrease of \$14.0 million from the March 31, 2001 cash and cash equivalents balances. During the first three months of fiscal year 2002, we made investments in property and equipment of \$10.4 million. We anticipate future capital expenditures of approximately \$20.0 million for the remainder of fiscal year 2002.

We have non-current cash of approximately \$11.4 million that is restricted as to its use. The restrictions on these funds concern security deposits on a lease of real property. These funds cannot be withdrawn without the written consent of the landlord or until such time that the amount of security deposit is reduced pursuant to the terms of the lease.

We believe that existing cash, cash equivalents and investments, together with cash generated from operations, will be sufficient to meet our operating requirements through at least June 30, 2002.

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Recent Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133, as amended by SFAS No. 137, *Deferral of Effective Date of Statement 133*, was effective as of April 1, 2001. SFAS 133 requires the recognition of all derivatives on the balance sheet at fair value. Macromedia's adoption of SFAS 133 did not have a material impact on its financial position or results of operations. Macromedia has no designated hedges for accounting purposes.

In July 2001, the FASB issued SFAS No. 141, *Business Combinations*. SFAS 141 requires that all business combinations be accounted for under the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. Macromedia has not yet evaluated the effects of these changes on its consolidated financial statements.

In July 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. Macromedia will be required to implement SFAS 142 as of the beginning of its fiscal year 2003. Macromedia has not yet evaluated the effects of these changes on its consolidated financial statements.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

Except for the historical information contained in this Quarterly Report, the matters discussed herein are forward-looking statements that involve risks and uncertainties, including those detailed below, and from time to time in our other reports filed with the Securities and Exchange Commission. The actual results that we achieve may differ materially from any forward-looking statements due to such risks and uncertainties.

General Economic Conditions, Dependence on the Growth of the Internet and the Viability of Web-based Customers – Our business is subject to the effects of general economic conditions globally, and, in particular, market conditions in the software and Internet-based industries. In recent quarters, our operating results have been adversely affected as a result of unfavorable economic conditions and reduced capital spending globally. If the economic conditions, both domestically and internationally, do not improve, or if we experience a worsening in the global economic slowdown, we may continue to experience material adverse impacts on our results of operations.

Further, our success and the demand for our products depend largely on the continued viability of our Web-based customers and the continued growth in the use of the Internet. Many of these Web-based companies who purchase licenses to our software products incur net losses from their operations and rely primarily on outside financing to fund their continued operations. The availability of such financing for non-profitable Web-based companies is subject to factors beyond our control, including, but not limited to, the perceived viability of the business plan of such companies, the potential for such companies to realize profits in the foreseeable future, and the cost of capital. In the event that Web-based companies who purchase licenses to our software products are unable to secure the financing necessary to meet their operational and capital requirements, such customers may cease operations or materially reduce the purchases of our products. In addition, issues concerning the commercial use of the Internet, including security, reliability, cost, ease of access, quality of service and necessary increases in bandwidth availability remain outstanding and are likely to affect the development of the market for our products. Further, the rate of development and adoption of the Internet has been slower outside of the United States and the cost of bandwidth has been higher. Accordingly, our continued growth depends in part on the adoption of the Internet internationally as well as domestically.

Risk Associated with Acquisitions – We have grown in part because of business combinations with other companies and we may make further acquisitions in the future. On March 20, 2001, we consummated an acquisition of Allaire Corporation. Because of the maturity and the size of Allaire Corporation's operations, the location of its headquarters, the material differences in the customer base and functionality of Allaire Corporation's and our products, the acquisition may present a materially higher product, marketing, research and development, facilities, information systems, accounting, personnel, and other integration challenges than those we have faced in connection with our prior acquisitions and may delay or jeopardize the complete integration of certain businesses we had acquired previously. Acquisitions generally involve significant risks, including difficulties in the assimilation of the operations, services, technologies and corporate culture of the acquired companies, diversion of management's attention from other business concerns, overvaluation of the acquired companies, and the acceptance of the acquired companies' products and services by our customers. In addition, future acquisitions would likely result in the incurrence of dilution, if stock is issued, or debt and contingent liabilities and an increase in amortization expenses related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition, results of operations, and liquidity. Accordingly, any future acquisitions or failure to effectively integrate acquired companies could result in a material adverse effect on our results of operations.

Intense Competition – The markets for our products are highly competitive and are characterized by pressure to reduce prices, incorporate new features, and accelerate the release of new product versions and enhanced services. A number of companies currently offer products and services that compete directly or indirectly with one or more of our products. Our primary competitors include, among others, Adobe, Microsoft, and Corel. In addition, we may be deemed to compete with large Web and database platform companies that offer a variety of software products, such as IBM, Oracle, and Sun Microsystems, as well as a number of companies that offer Web application servers, such as BEA Systems, Hewlett Packard, SilverStream Software and ATG. Several of our current and potential competitors have greater financial, marketing, and technical resources than we do. As we compete with larger competitors across a broader range of product lines and different platforms, we may face increasing competition from such companies or from other companies.

Rapidly Changing Technology – The developing digital media, Internet and online services markets and the personal computer industry are characterized by rapidly changing technology, resulting in shorter product life cycles and rapid price declines. We must continuously update our existing products, services and content to keep them current with changing technology and consumer tastes and must develop new products, services and content to take advantage of new technologies and consumer preferences that could render our existing products obsolete. Our future prospects are highly dependent on our ability to increase functionality of existing products and services in a timely manner and to develop new products and services that address new technologies and achieve market acceptance. New products and enhancements must keep pace with competitive offerings, adapt to new platforms and emerging industry standards, and provide additional functionality. There can be no assurance that we will be successful in these efforts.

In addition, the demand for certain of our products, including the Macromedia JRun product, could be harmed if the Java programming language loses market acceptance. While a number of companies have introduced Web applications based on Java, the demand for Java-based applications could decrease, and support of the Java programming language could decline as alternative programming languages are introduced. A continued decline in the growth of the Internet or the Java programming language or any inability by us to adapt to changes in the Internet or the technology used for operation of the Internet, including Java, could have a material adverse effect on our results of operations.

Fluctuations of Operating Results; Product Introduction Delays; Product Defects – Our operating results, especially quarterly results, may vary significantly depending on the timing of new product introductions and enhancements. A substantial portion of our revenue is derived from the introduction of new products or enhancements to existing products. In the past we have experienced delays in the development of new products and enhancement of existing products, and such delays may occur in the future. If we are unable, due to resource constraints or technological or other reasons, to develop and introduce products in a timely manner, this inability could have a material adverse effect on our results of operations. If we do not ship new versions of our products as planned, or if new products do not receive market acceptance, our results of operations could be materially adversely affected.

Our results of operations also may vary significantly depending on the impact of any of the following: the timing of product and service introductions by competitors, changes in pricing, execution and volume of technology licensing agreements, the volume and timing of orders received during the quarter for software products, and finally, any acquisitions of other companies or technologies. Our future operating results may fluctuate as a result of these and other factors, including our ability to continue to develop or acquire innovative products and services, our product, service, and customer mix, and the level of our competition. Our results of operations may also be affected by seasonal trends. A significant portion of our operating expenses is relatively fixed, and planned expenditures are based primarily on sales forecasts. As a result, if revenues do not meet our forecasts, operating results may be materially adversely affected. There can be no assurance that sales of our existing products will either continue at historical rates or increase, or that new products introduced by us, whether developed internally or acquired, will achieve market acceptance. Our historical rates of growth should not be taken as being indicative of growth rates that can be expected in the future.

In addition, our business could be adversely affected if any new products or new version of existing products fail to perform properly. Software products may contain undetected errors or “bugs”, which may result in product failures or security breaches or otherwise fail to perform in accordance with customer expectations. The occurrence of errors could result in loss of or delay in revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, or damage to our efforts to build brand awareness, any of which could have a material adverse effect on our business, operating results, and financial condition.

Dependence on Distributors – A substantial majority of our revenue is derived from the sale of our software products through a variety of distribution channels, including traditional software distributors, mail order, educational distributors, VARs, OEMs, hardware and software superstores, retail dealers, and our direct sales force and Website. Domestically, our products are sold primarily through distributors, VARs, and OEMs. In particular, Ingram Micro accounted for 25% of revenues for each of the three months ended June 30, 2001 and 2000. In addition, we believe that certain distributors are reducing their inventory in the channel and returning unsold products to better manage their inventories. Distributors are increasingly seeking to return unsold product, particularly when a new version or upgrade of a product has superseded such products. If our distributors seek to return increasing amounts of products, such returns could have a material adverse effect on our revenues and results of operations. The loss of, or a significant reduction in sales volume to, a significant reseller, could have a material adverse effect on our results of operations.

Risks of International Operations – For the three months ended June 30, 2001 and 2000 we derived approximately 36% and 42% of our consolidated revenues from international sales, respectively. We expect that international sales will continue to represent a significant percentage of our revenues. We rely primarily on distributors for sales of our software products in foreign countries and, accordingly, are dependent on their ability to promote and support our software products, and in some cases, to translate them into foreign languages. International business is subject to a number of special risks, including: foreign government regulation; general geopolitical risks such as political and economic instability, hostilities with neighboring countries, and changes in diplomatic and trade relationships; more prevalent software piracy; unexpected changes in, or imposition of, regulatory requirements, tariffs, import and export restrictions, and other barriers and restrictions; longer payment cycles, greater difficulty in accounts receivable collection, potentially adverse tax consequences, the burdens of complying with a variety of foreign laws; foreign currency risk; and other factors beyond our control. Additionally, we are uncertain whether the recent weaknesses experienced in foreign economies will continue in the foreseeable future due to, among other things, possible currency devaluation and liquidity problems in these regions.

We enter into foreign exchange forward contracts to reduce economic exposure associated with sales and asset balances denominated in various European currencies and Japanese Yen. As of June 30, 2001, the notional amount of forward contracts outstanding amounted to \$15.0 million. There can be no assurance that such contracts will adequately manage our exposure to currency fluctuations.

Euro Currency – On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the Euro as the common legal currency and established fixed rates of conversion between their existing sovereign currencies and the Euro. The Euro trades on currency exchanges and is available for non-cash transactions. A three-year transition period is underway during which transactions can be made in the existing sovereign currencies. The conversion to the Euro has alleviated currency exchange risk between the member countries.

There can be no assurance that all issues related to the Euro conversion have been identified, and we may be at risk if we, or any of our principal suppliers, are unable to deal with the impact of the Euro conversion. To date, none of our international suppliers have expressed an intention to invoice in Euros.

Key Personnel – Our future growth and success depend, in part, on the continued service of our highly skilled employees, including, but not limited to, our management team. Our ability to attract and retain employees is dependent on a number of factors, including our continued ability to provide attractive stock incentive awards and competition for such employees from third parties. The loss of key employees or inability to recruit, as needed, new employees could have a material adverse affect on our business and our ability to grow in the future.

Volatility of Stock – Our future earnings and stock price may be subject to significant volatility. Any shortfall in revenue or earnings from levels expected by securities analysts, general decline in economic conditions, or material reductions in spending by our customers, could have an immediate and significant adverse effect on the trading price of our common stock in any given period. Additionally, we may not learn of such shortfalls until late in the reporting period, which could result in an even more immediate and adverse effect on the trading price of our common stock. Finally, we participate in a highly dynamic industry. In addition to factors specific to us, changes in analysts’ earnings

estimates for us or our industry and factors affecting the corporate environment, our industry, or the securities markets in general will often result in significant volatility of our common stock price.

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MACROMEDIA, INC. AND SUBSIDIARIES

Intellectual Property Rights – We rely on a combination of patent, copyright, trade secret, and trademark laws, as well as employee and third-party nondisclosure agreements, to protect our intellectual property rights and products. Policing unauthorized use of products and fully protecting our proprietary rights are difficult, and we cannot guarantee that the steps we have taken to protect our proprietary rights will be adequate. In addition, effective patent, copyright, trade secret, and trademark protection may not be available in every country in which our products are distributed.

Further, we are currently, and may in the future, be involved in legal disputes relating to the validity or alleged infringement of our, or of a third party's, intellectual property rights. Intellectual property litigation is typically extremely costly and can be disruptive to our business operations by diverting the attention and energies of our management and key technical personnel. In addition, any adverse decisions could subject us to significant liabilities, require us to seek licenses from others, prevent us from manufacturing or licensing certain of our products, or cause severe disruptions to our operations or the markets in which we compete, any one of which could dramatically impact our business and results of operations.

Venture and Equity Investments – We have invested a substantial amount of capital and time on finding, funding, and helping to develop certain privately held companies, many of which can be considered in the start-up or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. Therefore, we could lose our entire investment, or a substantial portion thereof, in one or more of these companies.

California's Energy Crisis – California is currently experiencing an energy crisis and has recently experienced significant power shortages. As a result, energy costs in California have risen and may continue to rise significantly over the next year. Because our principal operating facilities are located in California, our operating expenses may increase significantly if this trend continues. In addition, California has been initiating and may continue to initiate rolling blackouts through the state. If blackouts interrupt our power supply, we may be temporarily unable to operate at full capacity. Moreover, the energy crisis could cause or contribute to a slowdown in the national economy, which could cause a reduction in demand for our products, and could in turn, materially and adversely affect our business.

Generally Accepted Accounting Principles – We prepare our financial statements in conformity with generally accepted accounting principles ("GAAP"). GAAP are subject to interpretation by the American Institute of Certified Public Accountants, the Securities and Exchange Commission, and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results, and may affect the reporting of transactions completed prior to the announcement of a change.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Please refer to our market risk disclosures set forth in our 2001 Annual Report filed on Form 10-K for a more detailed discussion of quantitative and qualitative disclosures about market risk. Our market risk exposure has not changed significantly since the time we included the disclosures in our 2001 Annual Report on Form 10-K.

MACROMEDIA, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On July 31, 1997, a complaint entitled *Rosen et al. v. Macromedia, Inc. et al.*, (Case No. 988526) was filed in the Superior Court for San Francisco, California. The complaint alleges that we and five of our former officers and directors engaged in securities fraud in violation of California Corporations Code Sections 25400 and 25500 by seeking to inflate the value of our stock by issuing statements that were allegedly false or misleading (or omitted material facts necessary to make any statements made not false or misleading) regarding our financial results and prospects. Four similar complaints by persons seeking to represent the same class of purchasers subsequently have been filed in San Francisco Superior Court, and have been consolidated for pre-trial purposes with *Rosen*. Defendants filed demurrers to the complaint and other motions, which were argued on December 9, 1997 and January 5, 1998. Before the demurrers could be heard, one defendant, Richard Wood, died in an automobile accident. In March 1998, the Court sustained the demurrers as to claims against Susan Bird and overruled the demurrers as to Macromedia, John Colligan, James Von Ehr, II, and Kevin Crowder. In May 1999, the Court granted plaintiffs' motion for certification of a class of all persons who purchased our common stock from April 18, 1996 through January 9, 1997. Discovery proceedings are in process but a substantial portion has been completed and a jury trial has been set for December 2001. The consolidated complaint seeks damages in unspecified amounts, as well as other forms of relief. Although we are not able to predict the outcome of the litigation, we intend to vigorously defend the action.

On August 10, 2000, Adobe Systems, Inc. ("Adobe") filed suit against us in the United States District Court for the District of Delaware (Case No. 00-743-JJF). On September 18, 2000, Adobe filed a first amended complaint in the same action. In the first amended complaint, Adobe alleges that certain of our products infringe U.S. Patents Nos. 5,546,528 and 6,084,597. On September 27, 2000, we answered the first amended complaint by denying the allegations and filing counterclaims against Adobe seeking a declaration that Adobe's patents are invalid and unenforceable, and alleging infringement of three of our patents. In particular, we allege infringement of U.S. Patent No. 5,467,443 by at least the Adobe Illustrator product and U.S. Patents Nos. 5,151,998 and 5,204,969 by the Adobe Premiere product. On October 17, 2000, Adobe filed its answer denying the allegations in our counterclaims. Each party is requesting monetary damages for infringement of its patents and an injunction against future infringement. Further, each party is seeking a court declaration that it is not infringing the other party's patents, that the other parties' patents are invalid and an award of attorneys' fees. Discovery has begun in this matter, and trial is currently set for April 2002. Although we are not able to predict the outcome of the litigation, we intend to vigorously defend and pursue the matter.

On and after September 25, 2000, Allaire Corporation ("Allaire"), prior to its acquisition by us, and certain of Allaire's officers and directors were named as defendants in several putative class action lawsuits filed in the United States District Court for the District of Massachusetts, each alleging violations of the federal securities laws. On December 5, 2000, the Court consolidated the lawsuits under the caption *In re: Allaire Corporation Securities Litig.*, No. 00-CV-11972 (WGY) ("Class Action"), and appointed lead plaintiffs and counsel for the putative class. On February 23, 2001, the lead plaintiffs, on behalf of a putative class defined as those who purchased Allaire stock between January 26, 2000, and September 18, 2000, filed a Corrected Consolidated Class Action Complaint alleging that Allaire, Joseph J. Allaire, Jeremy Allaire, David A. Gerth and David J. Orfao, violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, and seeking damages, interest, and attorneys' fees and costs. On April 26, 2001, the defendants served a motion to dismiss the Class Action, which will be filed with the Court once the parties have concluded their briefing of that motion.

On April 11, 2001, Allaire, after it was merged into Macromedia, Joseph J. Allaire, Jeremy Allaire, David A. Gerth and David J. Orfao were named as defendants in an additional lawsuit alleging violations of the federal securities laws that also was filed in the United States District Court for the District of Massachusetts, *Kassin v. Allaire Corporation, et al.*, No. 01-10600-WGY ("Kassin"). The complaint in *Kassin*, filed on behalf of an individual, alleges substantially the same violations of the Securities Exchange Act of 1934 as have been asserted in the Class Action, and additional claims for common law fraud and negligent misrepresentation. On May 11, 2001, the Court consolidated

the Class Action and Kassin for purposes of briefing and oral argument on the defendants' motions to dismiss. On May 17, 2001, the defendants served a motion to dismiss Kassin, which will be filed with the Court once the parties have concluded their briefing of that motion. Although the Class Action and Kassin litigation are in their early stages and we are not able to predict the outcome of the litigation at this time, we intend to defend these claims vigorously.

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MACROMEDIA, INC. AND SUBSIDIARIES

Item 2. Changes in Securities and Use of Proceeds

(A) *Common Stock, \$0.001 par value per share.* In May 2001, our board of directors adopted amendments to our bylaws to limit the manner in which a special meeting of the stockholders may be called, to require an advance notice to the board of directors of any such special meeting of the stockholders, and to limit the scope of business that may be brought forth in such meeting. In addition, the bylaws were further amended to clarify that any reduction in the number of authorized directorships would not decrease the remaining terms of the then incumbent directors, to clarify the manner in which the date of each board meeting may be set, to grant the board the discretionary power to delegate the election of certain executive officers to the chief executive officer and to permit the use of electronic means to deliver notices and consents. Moreover, the bylaws were amended to require approval by stockholders holding no less than 66.67% of the then outstanding shares of Macromedia prior to any amendment to the bylaws by the stockholders. The amendments to the bylaws, as permitted by our certificate of incorporation and our bylaws, were adopted by the directors without stockholder approval. Certain amendments to the bylaws adopted by the board may result in discouraging any future takeover attempts of Macromedia without board approval, and therefore, may be deemed to constitute anti-takeover provisions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits.

EXHIBIT NUMBER	EXHIBIT TITLE
3.01	Registrant' s Amended and Restated Bylaws. (a)
10.01	1992 Equity Incentive Plan, as amended to date. (*)
10.02	1993 Directors Stock Option Plan, as amended to date. (*)

(a) Incorporated by reference to the Registrant' s Annual Report on Form 10-K for the fiscal year ended March 31, 2001.

(*) Filed herewith.

(B) Reports on Form 8-K:

1. A Current Report on Form 8-K was filed by the Company on April 4, 2001. In this report, pursuant to the requirements of Items 2 and 7 of Form 8-K, the Company announced the acquisition of Allaire Corporation. The Company indicated that the financial information required under Item 7 of Form 8-K would be provided no later than 60 days after April 4, 2001.

2. An amended Current Report on Form 8-K/A was filed by the Company on June 4, 2001. In this amended report, pursuant to the requirements of Item 7 of Form 8-K, the Company filed Allaire Corporation' s audited fiscal year 2000 financial statements, and the pro forma financial information resulting from the acquisition.

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SIGNATURES

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 thereunto duly authorized.

Dated: August 3, 2001

MACROMEDIA, INC.

By: /s/ Elizabeth A. Nelson

Elizabeth A. Nelson
 Executive Vice President, Chief Financial
 Officer and Secretary
 (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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(*) Filed herewith.

MACROMEDIA, INC.

1992 EQUITY INCENTIVE PLAN

As Adopted September 23, 1992
and Amended Through May 3, 2001

1. PURPOSE. The purpose of the Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, its Parent, Subsidiaries and Affiliates, by offering them an opportunity to participate in the Company's future performance through awards of Options, Restricted Stock and Stock Bonuses. Capitalized terms not defined in the text are defined in Section 24.

2. SHARES SUBJECT TO THE PLAN.

2.1 Number of Shares Available. Subject to Sections 2.2 and 18, the total number of Shares reserved and available for grant and issuance pursuant to the Plan shall be 19,780,000 Shares. Any Shares issuable upon exercise of options granted pursuant to the Authorware 1988 Stock Option Plan, the Macromind, Inc. 1989 Incentive Stock Option Plan and 1989 Nonstatutory Stock Option Plan, and the Paracomp, Inc. 1989 Stock Option Plan (the "Prior Plans") that expire or become unexercisable for any reason without having been exercised in full, shall no longer be available for distribution under the Prior Plans, but shall be available for distribution under this Plan. Subject to Sections 2.2 and 18, Shares shall again be available for grant and issuance in connection with future Awards under the Plan that: (a) are subject to issuance upon exercise of an Option but cease to be subject to such Option for any reason other than exercise of such Option, (b) are subject to an Award granted hereunder but are forfeited or are repurchased by the Company at the original issue price, or (c) are subject to an Award that otherwise terminates without Shares being issued.

2.2 Adjustment of Shares. In the event that the number of outstanding Shares is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then (a) the number of Shares reserved for issuance under the Plan, (b) the Exercise Prices of and number of Shares subject to outstanding Options, and (c) the number of Shares subject to other outstanding Awards shall be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share shall not be issued but shall either be paid in cash at Fair Market Value or shall be rounded up to the nearest Share, as determined by the Committee; and provided, further, that the

Exercise Price of any Option may not be decreased to below the par value of the Shares.

3. ELIGIBILITY. ISOs (as defined in Section 5 below) may be granted only to employees (including officers and directors who are also employees) of the Company or of a Parent or Subsidiary of the Company. All other Awards may be granted to employees,

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officers, directors, consultants, independent contractors and advisers of the Company or any Parent, Subsidiary or Affiliate of the Company; provided such consultants, contractors and advisers (a) are natural persons; (b) render bona fide services to the Company; and (c) the services are not in connection with the offer and sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities. No "Named Executive Officer" (as that term is defined in Item 402(a)(3) of Regulation S-K promulgated under the Exchange Act) shall be eligible to receive more than 1,800,000 Shares at any time during the term of this Plan pursuant to the grant of Awards hereunder. A person may be granted more than one Award under the Plan.

4. ADMINISTRATION.

4.1 Committee Authority. The Plan shall be administered by the Committee or the Board acting as the Committee. Subject to the general purposes, terms and conditions of the Plan, and to the direction of the Board, the Committee shall have full power to implement and carry out the Plan. The Committee shall have the authority to:

- (a) construe and interpret the Plan, any Award Agreement and any other agreement or document executed pursuant to the Plan;
- (b) prescribe, amend and rescind rules and regulations relating to the Plan;
- (c) select persons to receive Awards;
- (d) determine the form and terms of Awards;
- (e) determine the number of Shares or other consideration subject to Awards;
- (f) determine whether Awards will be granted singly, in combination, in tandem, in replacement of, or as alternatives to, other Awards under the Plan or any other incentive or compensation plan of the Company or any Parent, Subsidiary or Affiliate of the Company;

- (g) grant waivers of Plan or Award conditions;
- (h) determine the vesting, exercisability and payment of Awards;
- (i) correct any defect, supply any omission, or reconcile any inconsistency in the Plan, any Award or any Award Agreement;
- (j) determine whether an Award has been earned; and
- (k) make all other determinations necessary or advisable for the administration of the Plan.

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4.2 Committee Discretion. Any determination made by the Committee with respect to any Award shall be made in its sole discretion at the time of grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time, and such determination shall be final and binding on the Company and all persons having an interest in any Award under the Plan. The Committee may delegate to one or more officers of the Company the authority to grant an Award under the Plan to Participants who are not Insiders of the Company.

4.3 Compliance With Code Section 162(m). If two or more members of the Board are Outside Directors, the Committee shall be comprised of at least two members of the Board, all of whom are Outside Directors.

5. OPTIONS. The Committee may grant Options to eligible persons and shall determine whether such Options shall be Incentive Stock Options within the meaning of the Code ("ISOs") or Nonqualified Stock Options ("NQSOs"), the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may be exercised, and all other terms and conditions of the Option, including, in the case of a NQSO and subject to the limits in Section 11 on such transfers, whether the Option or an interest therein may be transferred during the Participant's lifetime, all subject to the following:

5.1 Form of Option Grant. Each Option granted under the Plan shall be evidenced by an Award Agreement which shall expressly identify the Option as an ISO or NQSO ("Stock Option Agreement"), and be in such form and contain such provisions (which need not be the same for each Participant) as the Committee shall from time to time approve, and which shall comply with and be subject to the terms and conditions of the Plan.

5.2 Date of Grant. The date of grant of an Option shall be

the date on which the Committee makes the determination to grant such Option, unless otherwise specified by the Committee. The Stock Option Agreement and a copy of the Plan will be delivered to the Participant within a reasonable time after the granting of the Option.

5.3 Exercise Period. Options shall be exercisable within the times or upon the events determined by the Committee as set forth in the Stock Option Agreement; provided, however, that no Option shall be exercisable after the expiration of one hundred twenty (120) months from the date the Option is granted, and provided further that no Option granted to a person who directly or by attribution owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary of the Company ("Ten Percent Stockholder") shall be exercisable after the expiration of five (5) years from the date the Option is granted. The Committee also may provide for the exercise of Options to become exercisable at one time or from time to time, periodically or otherwise, in such number or percentage as the Committee determines.

5.4 Exercise Price. The Exercise Price shall be determined by the Committee when the Option is granted and may be not less than 100% of the Fair Market Value of the Shares on the date of grant; provided that the Exercise Price of any Option

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granted to a Ten Percent Stockholder shall not be less than 110% of the Fair Market Value of the Shares on the date of grant. Payment for the Shares purchased may be made in accordance with Section 8 of the Plan.

5.5 Method of Exercise. Options may be exercised only by delivery by the Holder to the Company of a written stock option exercise agreement (the "Exercise Agreement") in a form approved by the Committee (which need not be the same for each Holder), stating the number of Shares being purchased, the restrictions imposed on the Shares, if any, and such representations and agreements regarding Holder's investment intent and access to information, if any, as may be required or desirable by the Company to comply with applicable securities laws, together with payment in full of the Exercise Price for the number of Shares being purchased.

5.6 Termination. Notwithstanding the exercise periods set forth in the Stock Option Agreement, exercise of an Option shall always be subject to the following:

- (a) If the Participant is Terminated for any reason except death or Disability, then Holder may exercise such Holder's Options only to the extent that such Options would have been exercisable upon the Termination Date no later than ninety (90) days after the Termination Date

(or such shorter time period as may be specified in the Stock Option Agreement or such longer time period, not exceeding five (5) years, after the Termination Date as may be determined by the Committee and specified in the Stock Option Agreement, with any exercise beyond three (3) months after the Termination Date deemed to be an NQSO), but in any event, no later than the expiration date of the Options.

- (b) If the Participant is terminated because of death or Disability (or the participant dies within three months of such termination), then Participant's Options may be exercised only to the extent that such Options would have been exercisable by Participant on the Termination Date and must be exercised by the Holder no later than twelve (12) months after the Termination Date (or such shorter time period as may be specified in the Stock Option Agreement or such longer time period, not exceeding five (5) years, after the Termination Date as may be determined by the Committee and specified in the Stock Option Agreement (with any exercise beyond (i) three (3) months after the Termination Date when the Termination is for any reason other than the Participant's death or disability, within the meaning of Section 22(e)(3) of the Code, or (ii) twelve (12) months after the Termination Date when the Termination is for Participant's death or disability, within the meaning of Section 22(e)(3) of the Code, deemed to be an NQSO), but in any event no later than the expiration date of the Options.

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5.7 Limitations on Exercise. The Committee may specify a reasonable minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent Holder from exercising the Option for the full number of Shares for which it is then exercisable.

5.8 Limitations on ISOs. The aggregate Fair Market Value (determined as of the date of grant) of Shares with respect to which ISOs are exercisable for the first time by a Participant during any calendar year (under the Plan or under any other incentive stock option plan of the Company or any Affiliate, Parent or Subsidiary of the Company) shall not exceed \$100,000. If the Fair Market Value of Shares on the date of grant with respect to which ISOs are exercisable for the first time by a Participant during any calendar year exceeds \$100,000, the Options for the first \$100,000 worth of Shares to become exercisable in such calendar year shall be ISOs and the Options for the amount

in excess of \$100,000 that become exercisable in that calendar year shall be NQSOs. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date of the Plan to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISOs, such different limit shall be automatically incorporated herein and shall apply to any Options granted after the effective date of such amendment.

5.9 Modification, Extension or Renewal. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefor, provided that any such action may not, without the written consent of Participant, impair any of Participant's rights under any Option previously granted. Any outstanding ISO that is modified, extended, renewed or otherwise altered shall be treated in accordance with Section 424(h) of the Code. The Committee may reduce the Exercise Price of outstanding Options without the consent of Participants affected by a written notice to them; provided, however, that the Exercise Price may not be reduced below the minimum Exercise Price that would be permitted under Section 5.4 of the Plan for Options granted on the date the action is taken to reduce the Exercise Price; provided, further, that the Exercise Price shall not be reduced below the par value of the Shares, if any.

5.10 No Disqualification. Notwithstanding any other provision in the Plan, no term of the Plan relating to ISOs shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify the Plan under Section 422 of the Code or, without the consent of the Participant affected, to disqualify any ISO under Section 422 of the Code.

6. RESTRICTED STOCK. A Restricted Stock Award is an offer by the Company to sell to an eligible person Shares that are subject to restrictions. The Committee shall determine to whom an offer will be made, the number of Shares the person may purchase, the price to be paid (the "Purchase Price"), the restrictions to which the Shares shall be subject, and all other terms and conditions of the Restricted Stock Award, subject to the following:

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6.1 Form of Restricted Stock Award. All purchases under a Restricted Stock Award made pursuant to the Plan shall be evidenced by an Award Agreement ("Restricted Stock Purchase Agreement") that shall be in such form (which need not be the same for each Participant) as the Committee shall from time to time approve, and shall comply with and be subject to the terms and conditions of the Plan. The offer of Restricted Stock shall be accepted by the Holder's execution and delivery of the Restricted Stock Purchase Agreement and full payment for the Shares to the Company within thirty (30) days from the date the Restricted Stock Purchase Agreement is delivered to the person. If such person does not execute and deliver the Restricted Stock Purchase Agreement along with full payment for the Shares to the Company within thirty (30) days,

then the offer shall terminate, unless otherwise determined by the Committee.

6.2 Purchase Price. The Purchase Price of Shares sold pursuant to a Restricted Stock Award shall be determined by the Committee and shall be at least 85% of the Fair Market Value of the Shares when the Restricted Stock Award is granted, except in the case of a sale to a Ten Percent Stockholder, in which case the Purchase Price shall be 100% of the Fair Market Value. Payment of the Purchase Price may be made in accordance with Section 8 of the Plan.

6.3 Restrictions. Restricted Stock Awards shall be subject to such restrictions as the Committee may impose. The Committee may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions, in whole or part, based on length of service, performance or such other factors or criteria as the Committee may determine.

7. STOCK BONUSES.

7.1 Awards of Stock Bonuses. A Stock Bonus is an award of Shares (which may consist of Restricted Stock) for services rendered to the Company or any Parent, Subsidiary or Affiliate of the Company. A Stock Bonus may be awarded for past services already rendered to the Company, or any Parent, Subsidiary or Affiliate of the Company pursuant to an Award Agreement (the "Stock Bonus Agreement") that shall be in such form (which need not be the same for each Participant) as the Committee shall from time to time approve, and shall comply with and be subject to the terms and conditions of the Plan. A Stock Bonus may be awarded upon satisfaction of such performance goals as are set out in advance in Participant's individual Award Agreement (the "Performance Stock Bonus Agreement") that shall be in such form (which need not be the same for each Participant) as the Committee shall from time to time approve, and shall comply with and be subject to the terms and conditions of the Plan. Stock Bonuses may vary from Participant to Participant and between groups of Participants, and may be based upon the achievement of the Company, Parent, Subsidiary or Affiliate and/or individual performance factors or upon such other criteria as the Committee may determine.

7.2 Terms of Stock Bonuses. The Committee shall determine to whom a Stock Bonus shall be granted, the number of Shares to be awarded to the Participant, whether such Shares shall be Restricted Stock and all other terms and conditions of the Stock Bonus. If the Stock Bonus is being earned upon the satisfaction of performance goals pursuant to a Performance Stock Bonus Agreement, then the Committee

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shall determine: (a) the nature, length and starting date of any period during which performance is to be measured (the "Performance Period") for each Stock Bonus; (b) the performance goals and criteria to be used to measure the

performance, if any; (c) the number of Shares that may be awarded to the Participant; and (d) the extent to which such Stock Bonuses have been earned. Performance Periods may overlap and Participants may participate simultaneously with respect to Stock Bonuses that are subject to different Performance Periods and different performance goals and other criteria. The number of Shares may be fixed or may vary in accordance with such performance goals and criteria as may be determined by the Committee. The Committee may adjust the performance goals applicable to the Stock Bonuses to take into account changes in law and accounting or tax rules and to make such adjustments as the Committee deems necessary or appropriate to reflect the impact of extraordinary or unusual items, events or circumstances to avoid windfalls or hardships.

7.3 Form of Payment. The earned portion of a Stock Bonus may be paid currently or on a deferred basis with such interest or dividend equivalent, if any, as the Committee may determine. Payment may be made in the form of cash, whole Shares, including Restricted Stock, or a combination thereof, either in a lump sum payment or in installments, all as the Committee shall determine.

7.4 Termination During Performance Period. If a Participant is Terminated during a Performance Period for any reason, then such Holder shall be entitled to payment (whether in Shares, cash or otherwise) with respect to the Stock Bonus only to the extent earned as of the date of Termination in accordance with the Performance Stock Bonus Agreement, unless the Committee shall determine otherwise.

8. PAYMENT FOR SHARE PURCHASES.

8.1 Payment. Payment for Shares purchased pursuant to the Plan may be made in cash (by check) or, where expressly approved for the Participant by the Committee and where permitted by law:

- (a) in the case of exercise by the Participant, Participant's guardian or legal representative or the authorized legal representative of Participant's heirs or legatees after Participant's death, by cancellation of indebtedness of the Company to the Participant;
- (b) by surrender of Shares that either: (1) have been owned by Holder for more than six (6) months and have been paid for within the meaning of SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such Shares); or (2) were obtained by Holder in the public market;
- (c) by tender of a full recourse promissory note having such terms as may be approved by the Committee and bearing interest at a rate sufficient to avoid imputation of income under Sections 483 and 1274 of the Code; provided, however, that Holders who are not employees of

Company shall not be entitled to purchase Shares with a promissory note unless the note is adequately secured by collateral other than the Shares; provided, further, that the portion of the Purchase Price equal to the par value of the Shares, if any, must be paid in cash;

- (d) in the case of exercise by the Participant, Participant's guardian or legal representative or the authorized legal representative of Participant's heirs or legatees after Participant's death, by waiver of compensation due or accrued to Participant for services rendered;
- (e) by tender of property;
- (f) with respect only to purchases upon exercise of an Option, and provided that a public market for the Company's stock exists:
 - (1) through a "same day sale" commitment from Holder and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby Holder irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or
 - (2) through a "margin" commitment from Holder and an NASD Dealer whereby Holder irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; or
- (g) by any combination of the foregoing.

8.2 Loan Guarantees. The Committee may help the Participant pay for Shares purchased under the Plan by authorizing a guarantee by the Company of a third-party loan to the Participant.

9. WITHHOLDING TAXES.

9.1 Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under the Plan, the Company may require the Holder to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such Shares. Whenever, under the Plan, payments in satisfaction of Awards are to be made in cash, such payment shall be net of an amount sufficient to satisfy federal, state, and local withholding tax requirements.

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9.2 Stock Withholding. When, under applicable tax laws, a Participant incurs tax liability in connection with the exercise or vesting of any Award that is subject to tax withholding and the Participant is obligated to pay the Company the amount required to be withheld, the Committee may in its sole discretion allow the Participant to satisfy the minimum withholding tax obligation by electing to have the Company withhold from the Shares to be issued that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld, determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose will be made in accordance with the requirements established by the Committee and be in writing in a form acceptable to the Committee.

10. PRIVILEGES OF STOCK OWNERSHIP.

10.1 Voting and Dividends. No Holder shall have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Holder. After Shares are issued to the Holder, the Holder shall be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Holder may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company shall be subject to the same restrictions as the Restricted Stock; provided, further, that the Holder shall have no right to retain such dividends or distributions with respect to Shares that are repurchased at the Participant's original Purchase Price pursuant to Section 12.

10.2 Financial Statements. The Company shall provide financial statements to each Holder prior to such Holder 's purchase of Shares under the Plan, and to each Holder annually during the period such Holder has Options outstanding; provided, however, the Company shall not be required to provide such financial statements to Holders who are also Participants and whose

services in connection with the Company assure them access to equivalent information.

11. TRANSFERABILITY. Except as otherwise provided in this Section 11, no Award and no interest therein may be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will and by the laws of descent and distribution and no Award may be made subject to execution, attachment or similar process:

(a) All Awards other than NQSO's. All Awards other than NQSO's shall be exercisable: (i) during the Participant's lifetime, only by (A) the Participant, or (B) the Participant's guardian or legal representative; and (ii) after Participant's death, by the legal representative of the Participant's heirs or legatees; and

(b) NQSOs. Unless otherwise restricted by the Committee, an NQSO Option shall be exercisable: (i) during the Participant's lifetime only by (A) the Participant, (B) the Participant's guardian or legal representative, (C) a Family Member of the Participant

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who has acquired the Option by Permitted Transfer; and (ii) after Participant's death, by the legal representative of the Participant's heirs or legatees.

12. RESTRICTIONS ON SHARES. At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) in the Award Agreement (a) a right of first refusal to purchase all Shares that a Holder may propose to transfer to a third party, and/or (b) a right to repurchase a portion of or all Shares held by a Holder following the related Participant's Termination at any time within ninety (90) days after the later of Participant's Termination Date and the date Participant purchases Shares under the Plan, for cash or cancellation of purchase money indebtedness, at: (A) with respect to Shares that are "Vested" (as defined in the Award Agreement), the higher of: (1) the original Purchase Price under the Award, or (2) the Fair Market Value of such Shares on Participant's Termination Date, provided, such right of repurchase terminates when the Company's securities become publicly traded; or (B) with respect to Shares that are not "Vested" (as defined in the Award Agreement), at the original Purchase Price under the Award, provided, that the right to repurchase at the original Purchase Price lapses at the rate of at least 20% per year over 5 years from the date the Shares were purchased, and if the right to repurchase is assignable, the assignee must pay the Company, upon assignment of the right to repurchase, cash equal to the excess of the Fair Market Value of the Shares over the original Purchase Price.

13. CERTIFICATES. All certificates for Shares or other securities delivered under the Plan shall be subject to such stock transfer orders, legends and other restrictions as the Committee may deem necessary or advisable,

including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed.

14. ESCROW; PLEDGE OF SHARES. To enforce any restrictions on a Holder's Shares, the Committee may require the Holder to deposit all certificates, together with stock powers or other instruments of transfer approved by the Committee, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Committee may cause a legend or legends referencing such restrictions to be placed on the certificates. Any Participant who is permitted to execute a promissory note as partial or full consideration for the purchase of Shares under the Plan shall be required to pledge and deposit with the Company all or part of the Shares so purchased as collateral to secure the payment of Participant's obligation to the Company under the promissory note; provided, however, that the Committee may require or accept other or additional forms of collateral to secure the payment of such obligation and, in any event, the Company shall have full recourse against the Participant under the promissory note notwithstanding any pledge of the Participant's Shares or other collateral. In connection with any pledge of the Shares, Participant shall be required to execute and deliver a written pledge agreement in such form as the Committee shall from time to time approve. The Shares purchased with the promissory note may be released from the pledge on a pro-rata basis as the promissory note is paid.

15. EXCHANGE AND BUYOUT OF AWARDS. The Committee may, at any time or from time to time, authorize the Company, with the consent of the respective Holders, to

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issue new Awards in exchange for the surrender and cancellation of any or all outstanding Awards. The Committee may at any time buy from a Participant an Award previously granted with payment in cash, Shares (including Restricted Stock) or other consideration, based on such terms and conditions as the Committee and the Holder shall agree.

16. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE. An Award shall not be effective unless such Award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed, as they are in effect on the date of grant of the Award and also on the date of exercise or other issuance. Notwithstanding any other provision in the Plan, the Company shall have no obligation to issue or deliver certificates for Shares under the Plan prior to (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable, and/or (b) completion of any registration or other qualification of such shares under any state or federal law or ruling

of any governmental body that the Company determines to be necessary or advisable. The Company shall be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company shall have no liability for any inability or failure to do so.

17. NO OBLIGATION TO EMPLOY. Nothing in the Plan or any Award granted under the Plan shall confer or be deemed to confer on any Participant any right to continue in the employ of, or other relationship with, the Company or any Parent, Subsidiary or Affiliate of the Company or limit in any way the right of the Company or any Parent, Subsidiary or Affiliate of the Company to terminate Participant's employment or other relationship at any time, with or without cause.

18. CORPORATE TRANSACTIONS.

18.1 Assumption or Replacement of Awards by Successor. In the event of (a) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company and the Awards granted under the Plan are assumed or replaced by the successor corporation, which assumption shall be binding on all Holders), (b) a dissolution or liquidation of the Company, (c) the sale of substantially all of the assets of the Company, or (d) any other transaction which qualifies as a "corporate transaction" under Section 424(a) of the Code wherein the stockholders of the Company give up all of their equity interest in the Company (except for the acquisition, sale or transfer of all or substantially all of the outstanding shares of the Company), any or all outstanding Awards may be assumed or replaced by the successor corporation, which assumption or replacement shall be binding on all Holders. In the alternative, the successor corporation may substitute equivalent Awards or provide substantially similar consideration to Holders as was provided to stockholders (after taking into account the existing provisions of the Awards). The successor corporation may also issue, in place of outstanding Shares of the Company held by the Holder, substantially

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similar shares or other property subject repurchase restrictions no less favorable to the Holder.

18.2 Expiration of Options. In the event such successor corporation, if any, refuses to assume or substitute the Options, as provided above, pursuant to a transaction described in Subsection 18.1(a) above, such Options shall expire on such transaction at such time and on such conditions as the Board shall determine. In the event such successor corporation, if any, refuses to assume or substitute the Options as provided above, pursuant to a

transaction described in Subsections 18.1(b), (c) or (d) above, or there is no successor corporation, and if the Company ceases to exist as a separate corporate entity, then, notwithstanding any contrary terms in the Award Agreement, the Options shall expire on a date at least twenty (20) days after the Board gives written notice to Holders specifying the terms and conditions of such termination.

18.3 Other Treatment of Awards. Subject to any greater rights granted to Holders under the foregoing provisions of this Section 18, in the event of the occurrence of any transaction described in Section 18.1, any outstanding Awards shall be treated as provided in the applicable agreement or plan of merger, consolidation, dissolution, liquidation, sale of assets or other "corporate transaction."

18.4 Assumption of Awards by the Company. The Company, from time to time, also may substitute or assume outstanding awards granted by another company, whether in connection with an acquisition of such other company or otherwise, by either (a) granting an Award under the Plan in substitution of such other company's award, or (b) assuming such award as if it had been granted under the Plan if the terms of such assumed award could be applied to an Award granted under the Plan. Such substitution or assumption shall be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under the Plan if the other company had applied the rules of the Plan to such grant. In the event the Company assumes an award granted by another company, the terms and conditions of such award shall remain unchanged (except that the exercise price and the number and nature of Shares issuable upon exercise of any such option will be adjusted appropriately pursuant to Section 424(a) of the Code). In the event the Company elects to grant a new Option rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price.

19. ADOPTION AND STOCKHOLDER APPROVAL. The Plan shall become effective on the date that it is adopted by the Board (the "Effective Date"). The Plan shall be approved by the stockholders of the Company (excluding Shares issued pursuant to this Plan), consistent with applicable laws, within twelve months before or after the Effective Date. Upon the Effective Date, the Board may grant Awards pursuant to the Plan; provided, however, that: (a) no Option may be exercised prior to initial stockholder approval of the Plan; (b) no Option granted pursuant to an increase in the number of Shares approved by the Board shall be exercised prior to the time such increase has been approved by the stockholders of the Company; and (c) in the event that stockholder approval is not obtained within the time period provided herein, all Awards granted hereunder shall be canceled, any Shares issued pursuant to any Award shall be canceled and any purchase of Shares hereunder shall be rescinded.

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20. TERM OF PLAN. The Plan will terminate ten (10) years from the

Effective Date or, if earlier, the date of stockholder approval.

21. AMENDMENT OR TERMINATION OF PLAN. The Board may at any time terminate or amend the Plan in any respect, including without limitation amendment of any form of Award Agreement or instrument to be executed pursuant to the Plan; provided, however, that the Board shall not, without the approval of the stockholders of the Company, amend the Plan in any manner that requires such stockholder approval pursuant to the Code or the regulations promulgated thereunder as such provisions apply to ISO plans.

22. NONEXCLUSIVITY OF THE PLAN. Neither the adoption of the Plan by the Board, the submission of the Plan to the stockholders of the Company for approval, nor any provision of the Plan shall be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock options and bonuses otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

23. GOVERNING LAW. The Plan and all agreements, documents and instruments entered into pursuant to the Plan shall be governed by and construed in accordance with the internal laws of the State of California, excluding that body of law pertaining to conflict of laws.

24. DEFINITIONS. As used in the Plan, the following terms shall have the following meanings:

"Affiliate" means any corporation that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another corporation, where "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to cause the direction of the management and policies of the corporation, whether through the ownership of voting securities, by contract or otherwise.

"Award" means any award under the Plan, including any Option, Restricted Stock or Stock Bonus.

"Award Agreement" means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Award.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the committee appointed by the Board to administer the Plan, or if no committee is appointed, the Board.

"Company" means Macromedia, Inc., a corporation organized under the laws of the State of Delaware, or any successor corporation.

"Disability" means a disability, whether temporary or permanent, partial or total, within the meaning of Section 22(e)(3) of the Code, as determined by the Committee.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exercise Price" means the price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option.

"Fair Market Value" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

- (a) if such Common Stock is then quoted on the NASDAQ National Market System, its last reported sale price on the NASDAQ National Market System or, if no such reported sale takes place on such date, the average of the closing bid and asked prices;
- (b) if such Common Stock is publicly traded and is then listed on a national securities exchange, the last reported sale price or, if no such reported sale takes place on such date, the average of the closing bid and asked prices on the principal national securities exchange on which the Common Stock is listed or admitted to trading;
- (c) if such Common Stock is publicly traded but is not quoted on the NASDAQ National Market System nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on such date, as reported by The Wall Street Journal, for the over-the-counter market; or
- (d) if none of the foregoing is applicable, by the Board of Directors of the Company in good faith.

"Family Member" includes any of the following:

(a) child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the Participant, including any such person with such relationship to the

Participant by adoption;

(b) any person (other than a tenant or employee) sharing the Participant's household;

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(c) a trust in which the persons in (a) and (b) have more than fifty percent of the beneficial interest;

(d) a foundation in which the persons in (a) and (b) or the Participant control the management of assets; or

(e) any other entity in which the persons in (a) and (b) or the Participant own more than fifty percent of the voting interest.

"Holder" means the following person to the extent such person has or controls an interest in an Award at the time in question: (a) the Participant; (b) the Participant's guardian or legal representative; (c) a Family Member who is a transferee of an Award from the Participant in a Permitted Transfer, and (d) the authorized legal representative of such person's heirs or legatees after such person's death.

"Insider" means an officer or director of the Company or any other person whose transactions in the Company's Common Stock are subject to Section 16 of the Exchange Act.

"Option" means an award of an option to purchase Shares pursuant to Section 5.

"Outside Director" shall mean any director who is not (i) a current employee of the Company or any Parent, Subsidiary or Affiliate of the Company, (ii) a former employee of the Company or any Parent, Subsidiary or Affiliate of the Company who is receiving compensation for prior services (other than benefits under a tax-qualified pension plan), (iii) a current or former officer of the Company or any Parent, Subsidiary or Affiliate of the Company or (iv) currently receiving compensation for personal services in any capacity, other than as a director, from the Company or any Parent, Subsidiary or Affiliate of the Company; provided, however, that at such time as the term "Outside Director", as used in Section 162(m) is defined in regulations promulgated under Section 162(m) of the Code, "Outside Director" shall have the meaning set forth in such regulations, as amended from time to time and as interpreted by the Internal Revenue Service.

"Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if at the time of the granting of an Award under the Plan, each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of

all classes of stock in one of the other corporations in such chain.

"Participant" means a person who receives an Award under the Plan.

"Permitted Transfer" means, as authorized by this Plan and the Committee in an NQSO Option, any transfer effected by the Participant during the Participant's lifetime of an interest in such Option but only such transfers which are by gift or domestic relations order. A Permitted Transfer does not include any transfer for value and neither of the following are transfers for value: (a) a transfer of under a domestic

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relations order in settlement of marital property rights or (b) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members or the Participant in exchange for an interest in that entity.

"Plan" means this Macromedia, Inc. 1992 Equity Incentive Plan, as amended from time to time.

"Restricted Stock Award" means an award of Shares pursuant to Section 6.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Shares" means shares of the Company's Common Stock, \$0.001 par value, reserved for issuance under the Plan, as adjusted pursuant to Sections 2 and 15, and any successor security.

"Stock Bonus" means an award of Shares, or cash in lieu of Shares, pursuant to Section 7.

"Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of granting of the Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Termination" or "Terminated" means, for purposes of the Plan with respect to a Participant, that the Participant has ceased to provide services as an employee, director, consultant, independent contractor or adviser, to the Company or a Parent, Subsidiary or Affiliate of the Company, except in the case of sick leave, military leave, or any other leave of absence

approved by the Committee, provided, that such leave is for a period of not more than ninety (90) days, or reinstatement upon the expiration of such leave is guaranteed by contract or statute. The Committee shall have sole discretion to determine whether a Participant has ceased to provide services and the effective date on which the Participant ceased to provide services (the "Termination Date").

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MACROMEDIA, INC.

1993 DIRECTORS STOCK OPTION PLAN

As Adopted October 15, 1993
and Amended Through June 5, 2001

1. PURPOSE. This Stock Option Plan (this "Plan") is established to provide equity incentives for nonemployee members of the Board of Directors of Macromedia, Inc. (the "Company") who are described in Section 6.1 below, by granting such persons options ("Options") to purchase shares of stock of the Company.

2. ADOPTION AND STOCKHOLDER APPROVAL. This Plan was adopted by the Board and approved by the stockholders of the Company on October 15, 1993. This Plan shall be amended effective on the date that such amendment is adopted by the Board of Directors (the "Board") of the Company. After adoption of any such amendment by the Board, Options may be granted under this Plan pursuant to such amendment. No Option that is issued as a result of any increase in the number of shares authorized to be issued under this Plan shall be exercised prior to the time such increase has been approved by the stockholders of the Company and all such Options granted pursuant to such increase shall terminate if such stockholder approval is not obtained.

3. TYPES OF OPTIONS AND SHARES. Options granted under this Plan shall be nonqualified stock options ("NQSOs"). The shares of stock that may be purchased upon exercise of Options granted under this Plan (the "Shares") are shares of the Common Stock of the Company.

4. NUMBER OF SHARES. The maximum number of Shares that may be issued pursuant to Options granted under this Plan is 890,000 Shares, subject to adjustment as provided in this Plan. If any Option is terminated for any reason without being exercised in whole or in part, the Shares thereby released from such Option shall be available for purchase under other Options subsequently granted under this Plan. At all times during the term of this Plan, the Company shall reserve and keep available such number of Shares as shall be required to satisfy the requirements of outstanding Options under this Plan.

5. ADMINISTRATION. This Plan shall be administered by the Board or by a committee of not less than two members of the Board appointed to administer this Plan (the "Committee"). As used in this Plan, references to the Committee shall mean either such Committee or the Board if no committee has been established. The interpretation by the Committee of any of the provisions of this Plan or any Option granted under this Plan shall be final and binding upon the Company and all persons having an interest in any Option or any Shares purchased pursuant to an Option.

6. ELIGIBILITY AND AWARD FORMULA.

6.1 Eligibility. Options may be granted only to directors of the Company who are not employees of the Company or any Parent, Subsidiary or Affiliate of the Company, as those terms are defined in Section 18 below (each an "Optionee").

6.2 Initial Grant. Each Optionee who becomes a member of the Board for the first time after June 5, 2001 will automatically be granted an Option for 60,000 Shares (the "Initial Grant") on the date such Optionee first joins the Board.

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6.3 Succeeding Grants. Each Optionee who is a member of the Board on or after June 5, 2001 will be granted an Option for 60,000 Shares, reduced by the number of Shares subject to Options that remain unvested as of the date of such grant (a "Succeeding Grant"), immediately following the 2001 Annual Meeting of Stockholders. Such Succeeding Grant shall be in lieu of any other Succeeding Grant which the Optionee would otherwise be eligible to receive. Thereafter, each Optionee will be granted a Succeeding Grant immediately following the Annual Meeting of Stockholders that occurs on or after the third anniversary of Optionee's last preceding Succeeding Grant, or in the absence of a Succeeding Grant, Optionee's Initial Grant.

6.4 Committee Grants. Each Optionee who serves as a member of either the Audit Committee of the Board or the Compensation Committee of the Board will receive an additional Option grant immediately following the Annual Meeting of Stockholders as follows:

- (a) Audit Committee. If the Optionee is serving as a member of the Audit Committee of the Board, the Optionee will be granted an Option for 10,000 Shares (the "Audit Committee Grant"). If the Optionee is serving as the chairman of the Audit Committee, the Optionee will be granted an additional Option for 5,000 Shares (the "Audit Committee Chairman Grant").
- (b) Compensation Committee. If the Optionee is serving as a member of the Compensation Committee of the Board, the Optionee will be granted an Option for 7,500 Shares (the "Compensation Committee Grant"). If the Optionee is serving as the chairman of the Compensation Committee, the Optionee will be granted an additional Option for 5,000 Shares (the "Compensation Committee Chairman Grant").

6.5 Maximum Shares; Modification of Award Formula. The maximum number of Shares that may be issued to any one director under this Plan is 200,000. No grant will be made, however, if such grant will cause the number of Shares issued or subject to outstanding Options under this Plan to exceed the number specified in Section 4 above. Notwithstanding the foregoing, in its sole discretion, the Board may increase or decrease the amount of an automatic grant under Sections 6.2, 6.3 or 6.4 that may be made to any Optionee.

7. TERMS AND CONDITIONS OF OPTIONS. Subject to the following and to Section 6 above:

7.1 Form of Option Grant. Each Option granted under this Plan shall be evidenced by a written Stock Option Grant ("Grant") in such form (which need not be the same for each Optionee) as the Committee shall from time to time approve, which Grant shall comply with and be subject to the terms and conditions of this Plan. Except as provided in Section 7.4, Options shall have a term of ten (10) years.

7.2 Vesting. The date an Option is granted is referred to in this Plan as the "Start Date" for such Option. Each Initial Grant shall vest as to 16.67% of the Shares subject to it on the date six months after the date of such grant and shall vest as to an additional 2.7778% of the Shares each calendar month thereafter, so long as the Optionee continuously remains a director of the Company. Each Succeeding Grant shall vest as to 2.7778% of the Shares each calendar month, so long as the Optionee continuously remains a director of the Company. Each Audit Committee Grant and each Compensation Committee Grant will vest as to 8.33% of the Shares each calendar month, so long as the Optionee continuously remains a member of the respective Committee. Each Audit

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Committee Chairman Grant and each Compensation Committee Chairman Grant will vest as to 8.33% of the Shares each calendar month, so long as the Optionee continuously remains chairman.

7.3 Exercise Price. The exercise price of an Option shall be the Fair Market Value (as defined in Section 18.4) of the Shares, at the time that the Option is granted.

7.4 Termination of Option. Except as provided below in this Section, this Option shall terminate and may not be exercised if Optionee ceases to be a member of the Board. The date on which Optionee ceases to be a member of the Board shall be referred to as the "Termination Date."

(a) Termination Generally. If Optionee ceases to be a member of the Board for any reason except death or disability, this Option, to the extent (and only to the extent) that it would have been exercisable by a Holder on the Termination Date, may be exercised by a Holder within six (6) months after the

Termination Date, but in no event later than the expiration date.

(b) Death or Disability. If Optionee ceases to be a member of the Board because of the death of Optionee or the disability of Optionee within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, this Option, to the extent (and only to the extent) that it would have been exercisable by a Holder on the Termination Date, may be exercised by a Holder within twelve (12) months after the Termination Date, but in no event later than the expiration date.

8. EXERCISE OF OPTIONS.

8.1 Notice. Options may be exercised only by delivery to the Company of an exercise agreement in a form approved by the Committee, stating the number of Shares being purchased, the restrictions imposed on the Shares and such representations and agreements regarding the Holder's investment intent and access to information as may be required by the Company to comply with applicable securities laws, together with payment in full of the exercise price for the number of Shares being purchased.

8.2 Payment. Payment for the Shares may be made (a) in cash or by check; (b) by surrender of shares of Common Stock of the Company that have been owned by the Holder for more than six (6) months (and which have been paid for within the meaning of Securities and Exchange Commission Rule 144 and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares) or were obtained by the Holder in the open public market, having a Fair Market Value equal to the exercise price of the Option; (c), in the case of exercise by the Optionee, Optionee's guardian or legal representative or the authorized legal representative of Optionee's heirs or legatees after Optionee's death, by waiver of compensation due or accrued to Optionee for services rendered; (d) provided that a public market for the Company's stock exists, through a "same day sale" commitment from the Holder and a broker-dealer that is a member of the National Association of Securities Dealers (a "NASD Dealer") whereby the Holder irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (e) provided that a public market for the Company's stock exists, through a "margin" commitment from the Holder and a NASD Dealer whereby the Holder irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; or (f) by any combination of the foregoing.

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8.3 Withholding Taxes. Prior to issuance of the Shares upon exercise

of an Option, the Holder shall pay or make adequate provision for any federal or state withholding obligations of the Company, if applicable.

8.4 Limitations on Exercise. Notwithstanding the exercise periods set forth in the Grant, exercise of an Option shall always be subject to the following limitations:

(a) An Option shall not be exercisable until such time as the Plan or, in the case of Options granted pursuant to an amendment to the number of shares that may be issued pursuant to the Plan, the amendment has been approved by the stockholders of the Company in accordance with Section 16 hereof.

(b) An Option shall not be exercisable unless such exercise is in compliance with the Securities Act of 1933, as amended (the "Securities Act"), and all applicable state securities laws, as they are in effect on the date of exercise.

(c) The Committee may specify a reasonable minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent a Holder from exercising the full number of Shares as to which the Option is then exercisable.

9. RESTRICTIONS ON TRANSFERABILITY OF OPTIONS.

(a) Unless otherwise restricted by the Committee, an Option shall be exercisable by: (i) the Optionee, (ii) the Optionee's guardian or legal representative, (iii) a Family Member of the Optionee who has acquired the Option by Permitted Transfer, or (iv) after Optionee's death, the legal representative of the Optionee's heirs or legatees. Except as provided in this Section 9(a), an Option may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will and by the laws of descent and distribution and may not be made subject to execution, attachment or similar process.

(b) For the purposes of this Section 9, a "Family Member" includes any of the following:

(i) child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the Optionee, including any such person with such relationship to the Optionee by adoption;

(ii) any person (other than a tenant or employee) sharing the Optionee's household;

(iii) a trust in which the persons in Sections 9(a) and 9(b) have more than fifty percent of the beneficial interest;

(iv) a foundation in which the persons in Sections 9(a) and 9(b)

or the Optionee control the management of assets; or

(v) any other entity in which the persons in Sections 9(a) and 9(b) or the Optionee own more than fifty percent of the voting interest.

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(c) For the purposes of this Section 9, a "Permitted Transfer" means, as permitted under the Plan and in the Option, any transfer by the Optionee during the Optionee's lifetime of an interest in the Option but only by gift or domestic relations order. A Permitted Transfer does not include any transfer for value and none of the following are transfers for value: (i) a transfer under a domestic relations order in settlement of marital property rights or (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members or the Optionee in exchange for an interest in that entity.

10. PRIVILEGES OF STOCK OWNERSHIP. No Holder shall have any of the rights of a stockholder with respect to any Shares subject to an Option until the Option has been validly exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date of exercise, except as provided in this Plan. The Company shall provide to each Holder a copy of the annual financial statements of the Company, at such time after the close of each fiscal year of the Company as they are released by the Company to its stockholders.

11. ADJUSTMENT OF OPTION SHARES. In the event that the number of outstanding shares of Common Stock of the Company is changed by a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in the capital structure of the Company without consideration, the number of Shares available under this Plan and the number of Shares subject to outstanding Options and the exercise price per share of such Options shall be proportionately adjusted, subject to any required action by the Board or stockholders of the Company and compliance with applicable securities laws; provided, however, that no certificate or scrip representing fractional shares shall be issued upon exercise of any Option and any resulting fractions of a Share shall be ignored.

12. NO OBLIGATION TO EMPLOY. Nothing in this Plan or any Option granted under this Plan shall confer on any Optionee any right to continue as a director of the Company.

13. COMPLIANCE WITH LAWS. The grant of Options and the issuance of Shares upon exercise of any Options shall be subject to and conditioned upon compliance with all applicable requirements of law, including without limitation compliance with the 1933 Securities Act, any required approval by the Commissioner of Corporations of the State of California, compliance with all other applicable state securities laws and compliance with the requirements of

any stock exchange or national market system on which the Shares may be listed. The Company shall be under no obligation to register the Shares with the Securities and Exchange Commission or to effect compliance with the registration or qualification requirement of any state securities laws, stock exchange or national market system.

14. RESTRICTIONS ON SHARES. The Company may reserve to itself or its assignee(s) in the Grant, a right to repurchase any or all unvested shares held by a Holder upon the Optionee's termination of service with the Company for any reason at the Optionee's original exercise price. Such repurchase rights shall lapse in accordance with the vesting period set forth in Section 7.2 above.

15. ASSUMPTION OF OPTIONS BY SUCCESSORS. In the event of a dissolution or liquidation of the Company, a merger in which the Company is not the surviving corporation, the sale of substantially all of the assets of the Company, or any other transaction which qualifies as a "corporate transaction" under Section 424 of the Revenue Code wherein the stockholders of the Company give up all of their equity interest in the Company (except for the acquisition of all or substantially all of the outstanding shares of the Company the vesting of all options granted pursuant to the Plan will accelerate and the options will become exercisable in full prior to the consummation of such event at such times and on such conditions as the Committee determines.

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16. AMENDMENT OR TERMINATION OF PLAN. The Committee may at any time terminate or amend this Plan but not the terms of any outstanding option; provided, however, that the Committee shall not, without the approval of the stockholders of the Company, increase the total number of Shares available under this Plan (except by operation of the provisions of Sections 4 and 11 above). In any case, no amendment of this Plan may adversely affect any then outstanding Options or any unexercised portions thereof without the written consent of the Holders.

17. TERM OF PLAN. Options may be granted pursuant to this Plan from time to time within a period of ten (10) years from the date this Plan is adopted by the Board of Directors.

18. CERTAIN DEFINITIONS. As used in this Plan, the following terms shall have the following meanings:

18.1 "Parent" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the granting of the Option, each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

18.2 "Subsidiary" means any corporation (other than the Company) in

an unbroken chain of corporations beginning with the Company if, at the time of granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

18.3 "Affiliate" means any corporation that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another corporation, where "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to cause the direction of the management and policies of the corporation, whether through the ownership of voting securities, by contract or otherwise.

18.4 "Fair Market Value" shall mean the fair market value of the Shares as determined by the Committee from time to time in good faith. If a public market exists for the Shares, the Fair Market Value shall be the average of the last reported bid and asked prices for the common stock of the Company on the last trading day prior to the date of determination, or, in the event the common stock of the Company is listed on the NASDAQ National Market System, the Fair Market Value shall be the average of the high and low prices of the common stock on the option grant date as quoted on the NASDAQ National Market System and reported in The Wall Street Journal.

18.5 "Holder" shall mean the following persons to the extent such person has or controls an interest in the Option at the time in question: (a) the Optionee; (b) the Optionee's guardian or legal representative; (c) a Family Member who is a transferee of the Option in a Permitted Transfer, as provided in Section 9; and (d) the authorized legal representative of such person's heirs or legatees after such person's death.