SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-02-02** | Period of Report: **2000-12-31**
SEC Accession No. 0001095811-01-000613

(HTML Version on secdatabase.com)

FILER

MACROMEDIA INC

CIK:**913949**| IRS No.: **943155026** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-22688** | Film No.: **1522053**
SIC: **7372** Prepackaged software

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000

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 [X] 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; 53,338,609 number of shares outstanding on January 22, 2001.

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MACROMEDIA, INC. AND SUBSIDIARIES

REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 2000

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MACROMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

<TABLE>
<CAPTION>

ASSETS	December 31, 2000	March 31, 2000
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 119,948	$ 115,084
Short-term investments	87,992	71,952
Total cash, cash equivalents and investments	207,940	187,036
Accounts receivable, net	50,108	41,883
Deferred tax assets, short-term	9,937	7,812
Other current assets	21,761	14,293
Total current assets	289,746	251,024
Land and building, net	18,322	18,982
Other fixed assets, net	73,725	41,871
Related party loans	14,904	9,944
Restricted cash	9,111	--
Other long-term assets	29,472	17,538
Total assets	$ 435,280	$ 339,359
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,118	$ 4,988
Accrued liabilities	41,793	34,735
Accrued compensation, fringe benefits and payroll taxes	19,070	19,107
Unearned revenue	10,037	10,044
Total current liabilities	74,018	68,874
Other liabilities	943	321
Total liabilities	74,961	69,195
Minority interest	11,409	15,888
Stockholders' equity:		
Common stock, par value $0.001 per share; 200,000 shares authorized; 63,884 and 50,674 shares issued as of December 31, and March 31, 2000, respectively	62	51
Treasury stock at cost; 1,818 shares as of		

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December 31, and March 31, 2000	(33,649)	(33,649)
Additional paid-in capital	407,165	335,497
Notes receivable from stockholders	(7,967)	--
Deferred compensation	(27,833)	(23,465)
Accumulated other comprehensive income	535	393
Retained earnings (deficit)	10,597	(24,551)
Total stockholders' equity	348,910	254,276
Total liabilities and stockholders' equity	$ 435,280	$ 339,359

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MACROMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Revenues	$ 103,338	$ 64,332	$ 300,523	$ 174,877
Cost of revenues	9,737	6,853	32,237	18,536
Gross profit	93,601	57,479	268,286	156,341
Operating expenses:				
Sales and marketing	39,654	26,929	117,739	75,801
Research and development	29,940	15,653	84,223	43,980
General and administrative	10,774	5,558	29,430	16,649
Acquisition-related expenses	--	6,256	4,774	11,516
Non-cash compensation	1,767	305	5,900	955
Amortization of intangibles	634	249	1,558	758
Total operating expenses	82,769	54,950	243,624	149,659
Operating income	10,832	2,529	24,662	6,682
Other income (expense):				
Interest and investment income, net	3,659	1,837	10,411	4,225
Loss on investment	(5,000)	--	(5,000)	--
Other	268	(44)	1,080	(41)
Total other income (expense)	(1,073)	1,793	6,491	4,184
Minority interest	6,727	--	15,336	--
Income before income taxes	16,486	4,322	46,489	10,866
Provision for income taxes	3,657	3,050	11,341	7,642
Net income	12,829	1,272	35,148	3,224
Accretion on mandatorily redeemable convertible preferred stock	--	(1,357)	--	(2,538)
Net income (loss) applicable to common stockholders	$ 12,829	$ (85)	$ 35,148	$ 686
Net income applicable to common stockholders per share:				
Basic	$ 0.25	$ --	$ 0.70	$ 0.02
Diluted	$ 0.23	$ --	$ 0.62	$ 0.01
Weighted average common shares outstanding used in calculating net income applicable to common stockholders per share:				
Basic	51,161	45,346	50,369	43,367
Diluted	56,452	45,346	56,625	51,565

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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MACROMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended December 31, 2000	Nine Months Ended December 31, 1999
Cash flows from operating activities:		
Net income	$ 35,148	$ 3,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,442	12,348
Write off of acquired in-process research and development	3,100	--
Deferred income taxes	(1,426)	165
Tax benefit from employee stock plans	9,038	2,759
Minority interest	(15,336)	--
Loss on impairment of investments	5,000	--
Loss on disposal of fixed assets	161	191
Change in operating assets and liabilities:		
Accounts receivable, net	(8,204)	(15,713)
Other current assets	(7,437)	2,328
Accounts payable	(1,870)	(3,192)
Accrued liabilities, accrued compensation, fringe benefits and payroll taxes	6,925	7,391
Unearned revenue	(7)	2,502
Net cash provided by operating activities	47,534	12,003
Cash flows from investing activities:		
Capital expenditures	(46,127)	(23,118)
Proceeds from sale of fixed assets	--	625
Purchase of short-term investments	(99,070)	(93,714)
Maturities and sales of short-term investments	83,172	96,459
Cash paid for acquisitions	(8,607)	--
Related party loans	(4,960)	(1,959)
Purchase of investments	(9,680)	(10,000)
Purchase of other assets	(3,320)	--
Additions to other long-term liabilities	622	4,794
Deposit of restricted cash	(9,111)	--
Net cash used in investing activities	(97,081)	(26,913)
Cash flows from financing activities:		
Proceeds from issuance of mandatorily redeemable convertible preferred stock	--	15,734
Proceeds from sale of subsidiary preferred stock	9,384	--
Proceeds from issuance of common stock, net	45,027	23,667
Proceeds from borrowings	--	999
Payments on capital lease	--	(354)
Acquisition of treasury stock	--	(8,204)
Net cash provided by financing activities	54,411	31,842
Increase in cash and cash equivalents	4,864	16,932
Adjustment to conform acquired company's year end	--	(3,826)
Total	4,864	13,106
Cash and cash equivalents, beginning of period	115,084	29,459
Cash and cash equivalents, end of period	$ 119,948	$ 42,565
Noncash investing and financing activities:		
Issuance of notes receivable upon exercise of shockwave.com options	$ 7,967	$ --

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's Software business develops Web-authoring software, software players and application server technologies that create Web site layout, graphics and rich media content for Internet users. Additionally, the Company's consumer business, shockwave.com, Inc. (shockwave.com), designs, develops and markets aggregated content to provide and expand online entertainment on the Web. Macromedia sells its products through a network of distributors, value-added resellers (VAR's), its own sales force and Web site, and to original equipment manufacturers (OEM's) in North America, Europe, Asia Pacific and Latin America. In addition, Macromedia derives revenues from advertising on its Web sites, and from software maintenance and technology licensing agreements. shockwave.com derives the majority of its revenues from advertising and sponsorship on its Web site. Macromedia, Inc. and its subsidiaries are hereinafter collectively referred to as the "Company" or Macromedia.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The condensed consolidated financial statements at December 31, 2000 and March 31, 2000 and for the three and nine months ended December 31, 2000 and 1999 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.

In fiscal 2000, Macromedia consummated mergers with Andromedia, Inc. and ESI Software, Inc., which have been accounted for using the pooling of interests method. Accordingly, the consolidated financial statements for the prior periods presented and the accompanying notes have been restated.

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, 2000. The results of operations for the three and nine months ended December 31, 2000 are not necessarily indicative of the results for the fiscal year ending March 31, 2001 or any other future periods.

3. ACQUISITIONS

On July 10, 2000, the Company acquired Middlesoft, Inc. a software development company, for approximately $9.0 million. The acquisition was accounted for under the purchase method. The purchase price of the transaction was allocated to the acquired assets and liabilities based on their fair values as of the date of the acquisition. The excess of the consideration paid over the net assets acquired totaled $8.4 million, of which $3.1 million was expensed in the second quarter of fiscal year 2001 as acquired in-process research and development and $5.3 million has been recorded as goodwill and other intangible assets, which is being amortized on a straight-line basis over three years. The amounts allocated to in-process research and development expense were determined through established valuation techniques in the high-technology industry and were expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. Research and development costs to bring the products from the acquired companies to technological feasibility are not expected to have a material impact on the Company's future results of operations or financial condition.

MACROMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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4. INVESTMENTS

The Company holds several strategic equity investments in other companies. These investments are included in the other long-term assets component of the condensed consolidated balance sheets. The cost method is used to record these investments, as the Company holds less than 20% of the voting rights of each of these investees and does not have the ability to significantly influence the investees. The Company determines the fair value of the investment based on current market price, or if the investment is not publicly traded, considers among other factors, pricing of current financing rounds.

In December 2000, the Company recognized a loss of approximately $5.0 million on its preferred stock investment in Stan Lee Media. The loss represented a write-off of the Company's carrying amount of its investment in Stan Lee Media and was due to the investee's significant decline in common stock value, its inability to obtain additional private financing and suspension of its web operations. As of December 31, 2000, carrying amounts of the Company's remaining investments approximate fair values.

5. EARNINGS PER SHARE

Basic net income per share is computed by dividing net income applicable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income applicable to common stockholders for the period by the weighted average number of common shares and potentially dilutive securities outstanding during the period, to the extent such potentially dilutive securities are dilutive. Potentially dilutive securities consist of incremental common shares issuable upon the exercise of stock options and warrants, restricted stock and upon conversion of Series A and B convertible preferred stock.

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

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
BASIC NET INCOME (LOSS) PER SHARE COMPUTATION				
Numerator:				
Net income	$ 12,829	$ 1,272	$ 35,148	$ 3,224
Accretion of mandatorily redeemable convertible preferred stock	--	(1,357)	--	(2,538)
Net income (loss) applicable to common stockholders	$ 12,829	$ (85)	$ 35,148	$ 686
Denominator:				
Weighted average number of common shares outstanding	51,161	45,346	50,369	43,367
Basic net income (loss) applicable to common stockholders per share	$ 0.25	$ --	$ 0.70	$ 0.02

</TABLE>

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
DILUTED NET INCOME (LOSS) PER SHARE COMPUTATION				
Numerator:				
Net income	$ 12,829	$ 1,272	$ 35,148	$ 3,224
Accretion of mandatorily redeemable convertible preferred stock	--	(1,357)	--	(2,538)

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Net income (loss) applicable to common stockholders	$ 12,829	$ (85)	$ 35,148	$ 686

</TABLE>

MACROMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

<TABLE>

<S>	<C>	<C>	<C>	<C>
Denominator:				
Weighted average number of common shares outstanding, basic	51,161	45,346	50,369	43,367
Effect of dilutive securities	5,291	--	6,256	8,198
Weighted average number of common shares outstanding, diluted	56,452	45,346	56,625	51,565
Diluted net income (loss) applicable to common stockholders per share	$ 0.23	$--	$ 0.62	$ 0.01

</TABLE>

The table below presents potentially dilutive securities that are excluded from the diluted net income per share calculation because their effects would be antidilutive (in thousands):

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Preferred stock	--	1,838	--	--
Stock options	365	8,103	119	50
Stock warrants	--	65	--	--
Restricted stock	--	23	--	--
Total	365	10,029	119	50

</TABLE>

6. COMPREHENSIVE INCOME

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

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Net income	$ 12,829	$ 1,272	$ 35,148	$ 3,224
Unrealized gain (loss) on securities	(117)	96	142	233
Comprehensive income	$ 12,712	$ 1,368	$ 35,290	$ 3,457

</TABLE>

7. MINORITY INTEREST

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At December 31, 2000 the Company had an approximate ownership of 56.97% in shockwave.com. Minority interest represents the preferred and common stockholders' proportionate share of the equity of shockwave.com. The results of our majority ownership in shockwave.com are included in Macromedia's consolidated financial statements. The non-controlling interest of $11.4 million is reflected in minority interest in the Condensed Consolidated Balance Sheets and the loss attributable to the non-controlling interest in shockwave.com for the three and nine months ended December 31, 2000 was $6.7 million and $15.3 million, respectively.

8. INCOME TAXES

The Company provides for income taxes during interim reporting periods based upon an estimate of the annual effective tax rate. Such an estimate reflects an effective tax rate lower than the federal statutory rate primarily due to the utilization of research and experimentation tax credits, and foreign operating results, which are taxed at rates lower than the U.S. statutory rate. The effective rate used for the three and nine months ended December 31, 2000 on operations was 22% and 24%, respectively.

9. SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

Macromedia has two operating segments: Software and shockwave.com. The Software segment develops Web-authoring software, software players and application server technologies that create Web site layout, graphics and rich media content for Internet users. shockwave.com designs, develops and markets aggregated content to provide online entertainment on the Web. The Company evaluates operating segment performance based on net revenues and total operating expenses of the segment. The operating segments' accounting policies are the same as those described in the summary of significant accounting policies in the Company's annual report on Form 10-K for the year ended March 31, 2000. The Company had intersegment transactions of $905,000 and $2.2 million for the three and nine months ended December 31, 2000, respectively, which represent royalty revenues paid by shockwave.com. These revenues are eliminated in the Company's consolidation process. The Company did not have any material intersegment transactions for the three or nine months ended December 31, 1999. At December 31, 1999 the Company did not allocate assets to shockwave.com and currently considers it impracticable to do so. Information about reported segment income or loss for the three and nine months ended December 31, 2000 and 1999 is as follows (in thousands):

Three Months Ended December 31, 2000	Software	shockwave-.com	TOTAL
Revenues	$ 98,995	$ 4,343	$103,338
Cost of revenues	9,102	635	9,737
Gross profit	89,893	3,708	93,601
Direct operating expenses	68,715	11,653	80,368
Acquisition related expenses and certain non-cash charges	710	1,691	2,401
Total operating income (loss)	$ 20,468	$ (9,636)	$ 10,832
Total assets	$402,038	$ 33,242	$435,280

Three Months Ended December 31, 1999	Software	shockwave-.com	TOTAL
Revenues	$ 61,626	$ 2,706	$ 64,332
Cost of revenues	6,678	175	6,853

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Gross profit	54,948	2,531	57,479
Direct operating expenses	41,259	6,881	48,140
Acquisition-related expenses and certain non-cash charges	6,810	--	6,810
Total operating income (loss)	$ 6,879	$ (4,350)	$ 2,529

</TABLE>

<TABLE>
<CAPTION>

Nine Months Ended December 31, 2000	Software	shockwave-.com	TOTAL
<S>	<C>	<C>	<C>
Revenues	$287,357	$ 13,166	$300,523
Cost of revenues	30,519	1,718	32,237
Gross profit	256,838	11,448	268,286
Direct operating expenses	195,251	36,141	231,392
Acquisition-related expenses and certain non-cash charges	6,652	5,580	12,232
Total operating income (loss)	$ 54,935	$(30,273)	$ 24,662

</TABLE>

<TABLE>
<CAPTION>

Nine Months Ended December 31, 1999	Software	shockwave-.com	TOTAL
<S>	<C>	<C>	<C>
Revenues	$169,538	$ 5,339	$174,877
Cost of revenues	17,732	804	18,536
Gross profit	151,806	4,535	156,341
Direct operating expenses	120,732	15,698	136,430
Acquisition related expenses and certain non-cash charges	13,229	--	13,229
Total operating income (loss)	$ 17,845	$(11,163)	$ 6,682

</TABLE>

A reconciliation of the totals reported for the combined operating segments to the applicable line items in the consolidated financial statements for the three and nine months ended December 31, 2000 and 1999 is as follows (in thousands):

<TABLE>
<CAPTION>

	Three Months Ended December 31, 2000	Three Months Ended December 31, 1999	Nine Months Ended December 31, 2000	Nine Months Ended December 31, 1999
<S>	<C>	<C>	<C>	<C>
Total operating income from operating segments..............	$ 10,832	$ 2,529	$ 24,662	$ 6,682
Loss on investment..............	(5,000)	--	(5,000)	--
Other income....................	3,927	1,793	11,491	4,184
Minority interest...............	6,727	--	15,336	--

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Income before taxes.............	$ 16,486	$ 4,322	$ 46,489	$ 10,866
	==========	==========	==========	==========

</TABLE>

10. COMMITMENTS AND CONTINGENCIES

Restricted Cash

We have non-current cash of approximately $9.1 million that is restricted as to its use. The restrictions on these funds concern security deposits on a lease of real property located in San Francisco that is currently under construction. 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 contract. The Company is committed to a significant portion of the construction costs surrounding this project.

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 Macromedia and five of its former or current officers and directors engaged in securities fraud in violation of California Corporations Code Sections 25400 and 25500 by seeking to inflate the value of Macromedia 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 the Company's 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 Macromedia common stock from April 18, 1996 through January 9, 1997. Trial has been set for November 2001.

The consolidated complaint seeks damages in unspecified amounts, as well as other forms of relief. We believe the complaint is without merit and intend to vigorously defend the action.

On August 10, 2000, a complaint entitled Adobe Systems, Inc. v. Macromedia, Inc. (Case No. 00-743-JJF) was filed in the United States District Court for the District of Delaware and on September 18, 2000, Adobe filed a first amended complaint in the same action. In the first amended complaint, Adobe alleges infringement of U.S. Patent No. 5,546,528 by tabbed palette features of certain Macromedia products and infringement of U.S. Patent No. 6,084,597 by image rendering features of Macromedia Dreamweaver and Macromedia Flash products. On September 27, 2000, Macromedia answered the first amended complaint by denying the allegations and filing counterclaims against Adobe for infringement of three Macromedia patents. In particular, Macromedia alleges infringement of U.S. Patent No. 5,467,443 by changing blended elements and automatic re-blending of elements features of Adobe Illustrator product and U.S. Patents Nos. 5,151,998 and 5,204,969 by visually displaying and editing sound waveforms features of Adobe Premiere product. On October 17, 2000, Adobe filed its answer denying the allegations in Macromedia's counterclaims. Each party is seeking to enforce its patents and to receive monetary damages for infringement of its patents. Further, each party is seeking a court declaration that it is not infringing the other party's patents and an award of attorneys fees.

11. SUBSEQUENT EVENTS

On January 14, 2001, the Company's consolidated subsidiary, shockwave.com, consummated its merger with AtomFilms, a privately held company, in a stock-for-stock transaction that was accounted for as a purchase business combination. Under the terms of the transaction, AtomFilms' shareholders received shares equal to 30% of shockwave.com's fully diluted equity at the closing. As a result of the transaction, the Company's ownership percentage in shockwave.com was approximately 34%. Immediately subsequent to the transaction, the Company no longer consolidated shockwave.com in its consolidated financial

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statements, but began accounting for its investment in shockwave.com and its proportionate ownership share of shockwave.com's results of operations using the equity method of accounting.

On December 15, 2000, the Company invested approximately $5 million in AtomFilms in the form of a convertible promissory note, which has been included in other assets in the accompanying condensed balance sheet. Subsequent to December 31, 2000, the Company invested an additional $10 million in the form of convertible promissory notes. The notes convert into equity upon the completion of shockwave.com's next round of financing. In addition, the Company has agreed with certain shockwave.com Series B shareholders that it will convert certain of its shockwave.com Series A preferred shares into common stock and transfer those shares to Series B shareholders, provided such Series B shareholders invest a specified amount in the next round of financing of shockwave.com, such that these Series B shareholders will have a percentage ownership in shockwave.com approximately equal to their percentage holdings in shockwave.com prior to the merger. AtomFilms markets and distributes high-quality short-form entertainment, with significant presence on major Internet sites, broadband servers, television, airlines, home-entertainment companies and handheld and wireless devices.

On January 16, 2001, the Company announced a definitive merger agreement to acquire all of the outstanding common stock, options and warrants of Allaire Corporation. If the Company's share price is greater than or equal to $15.00 per share two days prior to the Allaire shareholder special meeting, each Allaire Shareholder will receive 0.2 shares of the Company's Common Stock and $3.00 in cash for each Allaire share. If the Company's share price is less than $15.00 per share on that date, each Allaire shareholder will receive cash equal to $3.00 plus 0.2 of that closing price. As of January 12, 2001, Allaire had 27,604,931 shares of common stock outstanding and 11,664,087 shares of common stock subject to issuance under outstanding stock options. The transaction is to be accounted for as a purchase business combination and is subject to certain closing conditions, including regulatory approvals and the approval of the Allaire Corporation shareholders. Allaire Corporation is a leading provider of software for companies building their business on the Web. Allaire Corporation software includes Web application server, content management, profiling and personalization, and Java and wireless application development software.

MACROMEDIA, INC. AND SUBSIDIARIES

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.

RESULTS OF OPERATIONS

OVERVIEW

Macromedia has two operating segments: Software and shockwave.com. The Software segment develops web-authoring software, software players and application server technologies that create Web site layout, graphics and rich media content for Internet users. shockwave.com designs, develops and markets aggregated content to provide online entertainment on the Web. We evaluate operating segment performance based on net revenues and total operating expenses of the segment. The operating segments' accounting policies are the same as those described in the summary of accounting policies in the annual report on Form 10-K for the year ended March 31, 2000. For the three months ended December 31, 2000, the Software business' operating income before certain non-cash charges approximates $21.2 million, or 21% of revenues, whereas shockwave.com's operating losses before loss on investments and certain non-cash charges

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approximates $7.9 million or 183% of revenues. On January 14, 2001, the Company's consolidated subsidiary, shockwave.com, consummated its merger with AtomFilms. As a result of the transaction, the Company's ownership percentage in shockwave.com was approximately 34%. Immediately subsequent to the transaction, the Company will no longer consolidate shockwave.com in its consolidated financial statements or report shockwave.com as a separate operating segment.

The following table sets forth certain financial data as a percentage of revenues for the three months ended December 31, 2000 and 1999:

<TABLE>
<CAPTION>

	Consolidated		Software		shockwave.com	
	2000	1999	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	100%	100%	100%	100%	100%	100%
Cost of revenues	9	11	9	11	15	6
Gross profit	91	89	91	89	85	94
Operating expenses:						
Sales and marketing	38	42	37	38	74	125
Research and development	29	24	24	20	148	118
General and administrative	10	8	9	9	47	12
Acquisition-related expenses ..	--	10	--	10	--	--
Non-cash compensation	2	1	--	--	38	--
Amortization of intangibles ...	1	--	1	1	1	--
Total operating expenses ..	80	85	70	78	307	254
Operating income (loss)	11	4	21	11	(222)	(161)
Other income, net	4	3	4	3	2	--
Loss on investment	(5)	--	--	--	(115)	--
Minority interest	6	--	7	--	--	--
Income before income taxes	16	7	31	14	(335)	(161)
Provision (benefit) for income taxes	4	5	4	7	--	(42)
Net income (loss)	12	2	27	7	(335)	(119)

</TABLE>

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

Consolidated revenues have increased by $39.0 million or 61% to $103.3 million for the three months ended December 31, 2000 from $64.3 million for the three months ended December 31, 1999. Revenues generated by the Software segment have grown by $37.4 million, to $99.0 million for the current quarter from $61.6 million in the third quarter of fiscal year 2000. The majority of the increase is attributable to an increase in sales of the Macromedia Flash, Macromedia Dreamweaver, Macromedia Dreamweaver UltraDev and Macromedia Fireworks products. Revenue for shockwave.com increased by $1.6 million to $4.3 million in the third quarter of fiscal year 2001 from $2.7 million in the same period a year ago. The increase in shockwave.com revenues is due to an increase in advertising and sponsorship revenue resulting from a higher volume of advertising traffic and new revenue streams, mainly sponsorship revenues. For the nine months ended December 31, 2000 compared to December 31, 1999, consolidated revenues increased by $125.6 million or 72%, to $300.5 million from $174.9 million primarily due to increased sales from the Macromedia Flash, Macromedia Dreamweaver, Macromedia Dreamweaver UltraDev and Macromedia Fireworks products.

North American revenues have increased by $17.7 million to $56.9 million in the third quarter of fiscal year 2001 from $39.2 million in the third quarter of fiscal year 2000. International revenues increased by $21.3 million to $46.4 million when comparing the same time periods. The increase in international revenue is primarily due to growth in our Asia Pacific and Latin America regions and to product life-cycle timing. (See Risk Factors That May Affect Future Results of Operations -- Risks of International Operations for additional

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information.) The following table summarizes revenue by geography (in millions, except percentages):

<TABLE>
<CAPTION>

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2000	1999	% CHANGE	2000	1999	% CHANGE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
North America	$ 56.9	$ 39.2	45%	$173.7	$106.1	64%
% of total revenues	55%	61%		58%	61%	
International	$ 46.4	25.1	85%	126.8	68.8	84%
% of total revenues	45%	39%		42%	39%	
Total revenues...	$103.3	$ 64.3	61%	$300.5	$174.9	72%

</TABLE>

GROSS PROFIT. Gross profit on a consolidated basis increased by $36.1 million to $93.6 million during the three months ended December 31, 2000, from $57.5 million in the same period in fiscal year 2000, primarily due to increased revenues from our Software segment. Gross profit as a percentage of revenue for the Software segment for the three months ended December 31, 2000 increased to 91% compared to a gross margin of 89% for the three months ended December 31, 1999. The increase is primarily due to declining consulting expenses associated with a re-classification of personnel from providing consulting services to focusing on sales and marketing efforts. Gross profit as a percentage of revenues for shockwave.com was 85% for the three months ended December 31, 2000 compared to 94% for the same three months in fiscal year 2000. The decrease in the shockwave.com gross profit is primarily due to increased revenue sharing with content developers as well as inventory and order fulfillment charges associated with the opening of an on-line store. When comparing the nine months ended December 31, 2000 to December 31, 1999, gross profit on a consolidated basis increased $111.9 million or 72% to $268.3 million, consistent with revenue growth.

SALES AND MARKETING. Sales and marketing expenses on a consolidated basis have increased by $12.7 million to $39.7 million for the three months ended December 31, 2000. The Software segment's sales and marketing expenses increased by $12.9 million to $36.4 million whereas shockwave.com's sales and marketing expenses slightly declined year over year. The increase from the third quarter of fiscal year 2000 for the Software segment is primarily due to expenses related to headcount growth, increased advertising and promotional costs, information technology infrastructure costs, facilities charges due to the need for increased physical space to accommodate the headcount growth, business taxes based on increased headcount and is partially offset by a decrease in compensation expense due to a reduction in paid absence obligations for our holiday shutdown period.

Sales and marketing expenses for shockwave.com slightly declined in both absolute dollars and as a percentage of revenues when comparing the three months ended December 31, 2000 to the three months ended December 31, 1999. The decrease in absolute dollars is due to less advertising and promotional costs year over year. For the nine months ended December 31, 2000, consolidated sales and marketing expenses increased $41.9 million to $117.7 million primarily due to costs associated with headcount growth and increased facilities and information technology infrastructure costs.

RESEARCH AND DEVELOPMENT. Research and development expenses on a consolidated basis have increased by $14.2 million from $15.7 million in the third quarter of fiscal year 2000 to $29.9 million in the third quarter of fiscal year 2001. Research and development expenses for the Software segment have increased by $11.1 million during this time period to $23.5 million. The increase is attributable to headcount growth, increased information technology infrastructure costs, and increases in facilities charges to accommodate the headcount growth and is partially offset by a decrease in compensation expense due to a reduction in paid absence obligations for our holiday shutdown period. shockwave.com's research and development expenses have increased by $3.2 million to $6.4 million for the three months ended December 31, 2000. Research and development expenses for the shockwave.com segment have increased due to headcount growth and the resulting increases in compensation, and increased costs for the development of entertainment content. For the same reasons,

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research and development expenses have increased by $40.2 million to $84.2 million when comparing the consolidated results for the nine months ended December 31, 2000 to those for the nine months ended December 31, 1999.

GENERAL AND ADMINISTRATIVE. General and administrative expenses on a consolidated basis have increased by $5.2 million to $10.8 million for the three months ended December 31, 2000, from $5.6 million for the third quarter of fiscal 2000. General and administrative expenses for the Software segment have increased $3.5 million to $8.7 million when comparing the quarter ended December 31, 2000 to the quarter ended December 31, 1999. The increase is due primarily to headcount growth, information technology, increased charges for facilities, increased legal charges and is partially offset by a decrease in compensation expense due to a reduction in paid absence obligations for our holiday shutdown period. shockwave.com incurred $2.0 million in general and administrative expenses in the third quarter of fiscal year 2001 resulting from increased legal and accounting costs and other general administrative functions that the segment did not perform in fiscal year 2000. Comparing consolidated results for the nine months ended December 31, 2000 to the same time frame for fiscal year 2000, general and administrative expenses increased by $12.8 million to $29.4 million and remained consistent as a percentage of revenue year over year.

ACQUISITION-RELATED EXPENSES. During the quarter ended December 31, 2000, we incurred no acquisition related expenses. In the same period a year ago, we recorded $6.3 million in acquisition related expenses primarily due to expenses incurred in the acquisition of Andromedia, Inc. and the acquisition of certain technology rights from Time4, Inc. During the nine months ended December 31, 2000, we recorded acquisition expenses of $4.8 million, primarily comprised of expensed in-process research and development from the acquisition of Middlesoft, Inc. For the nine months ended December 31, 1999, we incurred expenses related to our Andromedia, Inc. and ESI Software, Inc. acquisitions, as well as expenses related to the acquisition of certain technology rights.

NON-CASH COMPENSATION. We recorded non-cash compensation charges of $1.8 million for the three months ended December 31, 2000, a $1.5 million increase from the same period in the prior year. The increase is primarily due to the continued amortization of the deferred compensation associated with granted shockwave.com options. shockwave.com issued options to employees that had, for accounting purposes, an exercise price less than the fair value of the underlying common stock at the date of grant. Additionally, shockwave.com issued warrants in connection with certain content development agreements entered into with non-employees.

AMORTIZATION OF INTANGIBLES. Amortization of intangible assets increased by $385,000 and by $800,000 when comparing the three and nine months ended December 31, 2000 to the same periods in 1999. Amortization of intangible assets consists primarily of goodwill and other intangibles resulting from purchase business combinations, as well as trademarks.

INTEREST AND INVESTMENT INCOME. Interest and investment income on a consolidated basis has increased $1.8 million to $3.7 million when comparing the third quarter of fiscal year 2001 to the same period in fiscal year 2000. Income has increased primarily due to higher returns realized as well as larger invested balances in fiscal year 2001.

LOSS ON INVESTMENT. During the third quarter ending December 31, 2000, shockwave.com recognized a loss of approximately $5.0 million on its investment in Stan Lee Media, a publicly traded company. The realized loss represented a write-off of the Company's carrying amount of its preferred stock investment in Stan Lee Media and was due to the investee's significant decline in common stock value, its inability to obtain additional private financing and suspension of its web operations. As of December 31, 2000, carrying amount of the Company's remaining investments approximate fair values.

PROVISION FOR INCOME TAXES. The provision for income taxes for the third quarter of fiscal year 2001 increased $607,000 when compared to the third fiscal quarter of 2000. The effective tax rate on operations for the current quarter's provision is 22%. The decrease in the effective tax rate for the current quarter reflects the impact of the utilization of research and experimentation tax credits and foreign operating results that were taxed at rates lower than the U.S. statutory rate for the third quarter of fiscal year 2001.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, we had cash, cash equivalents and short-term investments of $207.9 million. For the nine months ended December 31, 2000, cash provided by operating activities of $47.5 million was primarily attributable to net income. This was partially offset by a minority interest in shockwave.com

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and a change in current assets and current liabilities. Cash used in investing activities of $97.1 million was used primarily for the net increase in our short-term investments, infrastructure growth, and for the acquisition of Middlesoft, Inc. Cash provided by financing activities of $54.4 million is primarily from the exercise of common stock options and issuance of shockwave.com preferred stock. Collectively, the above activity contributed to a net increase of $4.9 million from the March 31, 2000 cash and cash equivalents balances. Working capital increased by $33.5 million from the March 31, 2000 balance of $182.2 million, to $215.7 million at December 31, 2000. During the first nine months of fiscal year 2001, we made investments in property and equipment of $46.1 million. We anticipate future capital expenditures of approximately $20.0 million for the remainder of fiscal year 2001.

We have non-current cash of approximately $9.1 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 December 31, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 133. In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities and requires Macromedia to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in the fair value of these instruments would be accounted for depending on the use of the derivative and whether it is designated and qualifies as an effective hedge under hedge accounting rules. In June 1999 the FASB issued SFAS 137, which defers the implementation of SFAS 133 and is effective for all quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138, which amends SFAS 133 with regards to specific hedging risks, foreign-currency-denominated assets and liabilities, and intercompany derivatives. Macromedia has not completed a detailed assessment of the impact, if any, of SFAS 133 on the consolidated results of operations and financial position.

SAB 101. In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB No. 101B to defer the effective date of implementation of SAB No. 101 until the fourth quarter of fiscal 2001. Macromedia does not expect the adoption of SAB 101 to have a material effect on its financial position or results of operations.

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.

INTENSE COMPETITION -- The markets for our products are highly competitive and 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. With respect to our Software business, competitors include, among others, Adobe Systems, Inc., Corel Corporation, and Microsoft Inc. As we compete with larger competitors such as Adobe across a broader range of product lines and different platforms, we may face increasing competition from such companies. In addition, shockwave.com competes with a number of other Internet community, gaming and entertainment sites.

DEPENDENCE ON THE GROWTH OF THE INTERNET AND THE VIABILITY OF WEB-BASED CUSTOMERS -- Our success and the demand for our products depend in large part on continued growth in the use of the Internet and the continued viability of our Web-based customers. Many of such Web-based companies who purchase licenses to our software products incur net losses from their operations and rely primarily

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on outside financing to fund their continued operations. The availability of such financing for non-profitable Web-based companies will be 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. Furthermore, our continued growth depends in part on the adoption of the Internet internationally as well as domestically. However, 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. Consequently, the continued growth of the market for our products is dependent on the continued viability of our Web-based customers and the improvements being made to the entire Internet infrastructure.

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 January 16, 2001, we announced a definitive merger agreement with Allaire Corporation, which merger remains subject to stockholder and regulatory approvals. 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, in the event that the merger with Allaire Corporation is consummated, such merger would 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 have acquired recently. Furthermore, during the second quarter of fiscal year 2001, Macromedia acquired Middlesoft, Inc. In connection with the acquisition of Middlesoft, Inc., we acquired technology that we must transition from development stages to commercial products with sales and profit levels that are consistent with our overall financial goals. There can be no assurance that we will be able to effectuate such transition. In the fiscal year 2000, Macromedia also acquired Andromedia, Inc. and ESI Software, Inc. 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, including the pending merger, 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. For all these reasons, any future acquisitions or failure to effectively integrate acquired companies could result in a material adverse effect on our results of operations.

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 short 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.

The success of our business is especially dependent upon the existence and future growth of the Internet as a business, entertainment and communications platform. Many critical issues concerning the commercial use of the Internet, such as security, remain unresolved and may affect the growth of Internet use, together with the software standards employed in such markets. A decline in the growth of the Internet or any inability by us to adapt to changes in the Internet or the technology used for operation of the Internet could have a material adverse effect on our results of operations.

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FLUCTUATIONS OF OPERATING RESULTS; PRODUCT INTRODUCTION DELAYS -- Our quarterly operating 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. We have in the past 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, expenses related to the expansion of shockwave.com, 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 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.

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, one distributor accounted for 29% and 28% of revenues for the three months ending December 31, 2000 and 1999, respectively. 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 December 31, 2000 we derived approximately 45% of our revenues from international sales. 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 the economies in Japan, Europe, Asia Pacific, and Latin America will continue in the foreseeable future due to 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 December 31, 2000, the notional principal of forward contracts outstanding amounted to $28.9 million. There can be no assurance that such contracts will adequately hedge our exposure to currency fluctuations.

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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 counties.

There can be no assurance that all issues related to the Euro conversion have been identified, and we may be at risk if 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.

MANAGEMENT OF GROWTH -- We have experienced and may continue to experience rapid growth, which has placed, and could continue to place, a significant strain on our managerial, financial and operational resources. Our workforce has grown more than 58% over the past year. We anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the ongoing improvement of our accounting and other internal management systems. We also will need to continue to expand, train, manage, retain and motivate our workforce. All of these endeavors will require substantial management effort and resources. In the future, we anticipate that we will need to continue the expansion of our facilities or relocate some or all of our employees or operations from time to time to support our growth. These relocations could result in temporary disruptions of our operations or a diversion of management's attention and resources. If we are unable to effectively manage expanded operations, our business, financial condition and results of operations could be materially and adversely affected.

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 fiscal quarter, 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.

INTELLECTUAL PROPERTY RIGHTS -- We rely on a combination of patents, copyrights, trade secrets, 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 copyright, trademark, trade secret and patent protection may not be available in every country in which our products are distributed.

Furthermore, 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.

MACROMEDIA INVESTMENTS -- Through Macromedia Ventures, we invest 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.

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

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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 2000 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 2000 Annual Report on Form 10-K.

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 Macromedia and five of its former or current officers and directors engaged in securities fraud in violation of California Corporations Code Sections 25400 and 25500 by seeking to inflate the value of Macromedia 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 the Company's 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 Macromedia common stock from April 18, 1996 through January 9, 1997. Trial has been set for November 2001.

The consolidated complaint seeks damages in unspecified amounts, as well as other forms of relief. We believe the complaint is without merit and intend to vigorously defend the action.

On August 10, 2000, a complaint entitled Adobe Systems, Inc. v. Macromedia, Inc. (Case No. 00-743-JJF) was filed in the United States District Court for the District of Delaware and on September 18, 2000, Adobe filed a first amended complaint in the same action. In the first amended complaint, Adobe alleges infringement of U.S. Patent No. 5,546,528 by tabbed palette features of certain Macromedia products and infringement of U.S. Patent No. 6,084,597 by image rendering features of Macromedia Dreamweaver and Macromedia Flash products. On September 27, 2000, Macromedia answered the first amended complaint by denying the allegations and filing counterclaims against Adobe for infringement of three Macromedia patents. In particular, Macromedia alleges infringement of U.S. Patent No. 5,467,443 by changing blended elements and automatic re-blending of elements features of Adobe Illustrator product and U.S. Patents Nos. 5,151,998 and 5,204,969 by visually displaying and editing sound waveforms features of Adobe Premiere product. On October 17, 2000, Adobe filed its answer denying the allegations in Macromedia's counterclaims. Each party is seeking to enforce its patents and to receive monetary damages for infringement of its patents. Further, each party is seeking a court declaration that it is not infringing the other party's patents and an award of attorneys fees.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

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

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(a) Exhibits

The following exhibits are filed herewith:

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT TITLE
2.01	Amended and Restated Agreement and Plan of Reorganization by and among Registrant, ESI Software, Inc. and Dynamo Acquisition Corp. dated July 8, 1999 as amended August 30, 1999. (a)
2.02	Amended and Restated Agreement and Plan of Reorganization by and among Registrant, Andromedia, Inc. and Peak Acquisition Corp. dated October 6, 1999 as amended November 23, 1999. (b)
2.03	Agreement and Plan of Reorganization dated December 14, 2000, by and among shockwave.com, Inc., a Delaware Corporation and Atom Corporation, a Washington Corporation. (r)
3.01	Registrant's Amended and Restated Certificate of Incorporation. (c)
3.02	Certificate of Amendment of Registrant's Amended and Restated Certificate of Incorporation. (d)
3.03	Certificate of Amendment of Registrant's Amended and Restated Certificate of Incorporation. (q)
3.04	Registrant's Bylaws. (e)
3.05	Amendment to Registrant's Bylaws effective October 15, 1993. (e)
10.01	1992 Equity Incentive Plan and related documents, as amended to date. (p)
10.02	1993 Directors Stock Option Plan and related documents, as amended to date. (f)
10.03	Non-Plan Form Agreements. (j)
10.04	Registrant's Form of Non-Plan Stock Option Grant. (l)
10.05	ESI Software, Inc. 1996 Equity Incentive Plan. (l)
10.06	Registrant's 1999 Stock Option Plan. (p)
10.07	Andromedia, Inc. 1996 Stock Option Plan. (m)
10.08	Andromedia, Inc. 1997 Stock Option Plan. (m)
10.09	Andromedia, Inc. 1999 Stock Option Plan. (m)
10.10	Middlesoft, Inc. 1999 Stock Option Plan. (p)
10.11	Form of Indemnification Agreement entered into by Registrant with its directors and executive officers. (e)
10.12	Twelfth Amendment to Lease Agreement by and between Registrant and Toda Development, Inc. dated November 26, 1996 and Thirteenth Amendment to Lease Agreement by and between Registrant and Toda Development, Inc. dated February 25, 1997 and Fourteenth Amendment to Lease Agreement by and between Registrant and Toda Development, Inc. dated February 25, 1997. (g)
10.13	Employment Agreement between the Registrant and Robert K. Burgess dated August 25, 1996. (h)
10.14	Loan Agreement between Registrant and Brian and Sharon Allum, dated July 15, 1997. (i)
10.15	Loan Agreement between Registrant and Steven A. and Nancy M. Elop, dated April 24, 1998. (k)
10.16	Lease Agreement by and between Registrant and Zoro LLC, dated April 15, 1999. (n)
10.17	First Amendment to Lease agreement by and between Registrant and Zoro LLC, dated July 1, 1999. (n)

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10.18	Lease Agreement by and between Registrant and Oelsner Commercial Properties, dated February 28, 2000. (n)

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EXHIBIT NUMBER	EXHIBIT TITLE
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10.19	Employment Agreement between the Registrant and Brian Allum dated July 22, 1997. (n)
10.20	Built-to-suit lease, dated April 20, 2000 between the Registrant, Kaufman Family Partnership, Ronald H. Kaufman and Barbara Kaufman. (o)

</TABLE>

(a) Incorporated by reference to the Registrant's Current Report on Form 8-K/A filed on October 26, 1999.

(b) Incorporated by reference to the Registrant's Current Report on Form 8-K/A filed February 14, 2000.

(c) Incorporated by reference to the Registrant's Registration Statement on Form S-8 (Registration Statement No. 33-89092).

(d) Incorporated by reference to the Registrant's Amendment No. 1 to Registration Statement on Form 8-A filed on October 5, 1995.

(e) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Registration Statement No. 33-70624).

(f) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on September 24, 1998 (Registration Statement No. 333-64141).

(g) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1997.

(h) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1996.

(i) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1997.

(j) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on October 31, 1997 (Registration Statement No. 333-39285).

(k) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998.

(l) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on October 18, 1999 (Registration Statement No. 333-89247).

(m) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on December 07, 1999 (Registration Statement No. 333-92233).

(n) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2000.

(o) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2000.

(p) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on August 17, 2000 (Registration Statement No. 333-44016).

(q) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000.

(r) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on January 26, 2001.

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(b) Reports on Form 8-K:

None.

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.

MACROMEDIA, INC.

Date: February 1, 2001

By: /s/ Elizabeth A. Nelson

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

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