



#### This 3DAdvisors Report Covers:

- ✓ **Insider Trading:** Insider Trading Behavior
- Accounting:** Quality of Earnings Issues
- Governance:** Corporate Governance Issues

## Insider Research Bulletin

February 4, 2005

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*Insider Research Bulletin* describes significant insider trading behavior that we have identified at the following companies and is a summary of the first step in our research process. The next step is that these same companies will undergo a review of accounting and governance behavior, and if we identify indicative behavior in one or both areas, then a "full 3DA research report" will be published on that company. Note: Inclusion of a company in this report by itself does not necessarily mean a full research report will be published.

Insider Research Bulletin is published periodically and exclusively for 3DA Research subscribers.

### Companies in this Bulletin

- ▶ American Eagle Outfitters, Inc. (NASDAQ:AEOS)
- ▶ Energizer Holdings Inc. (NYSE:ENR)
- ▶ Macromedia Inc. (NASDAQ: MACR)

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## Discussion of 3DAdvisors Findings

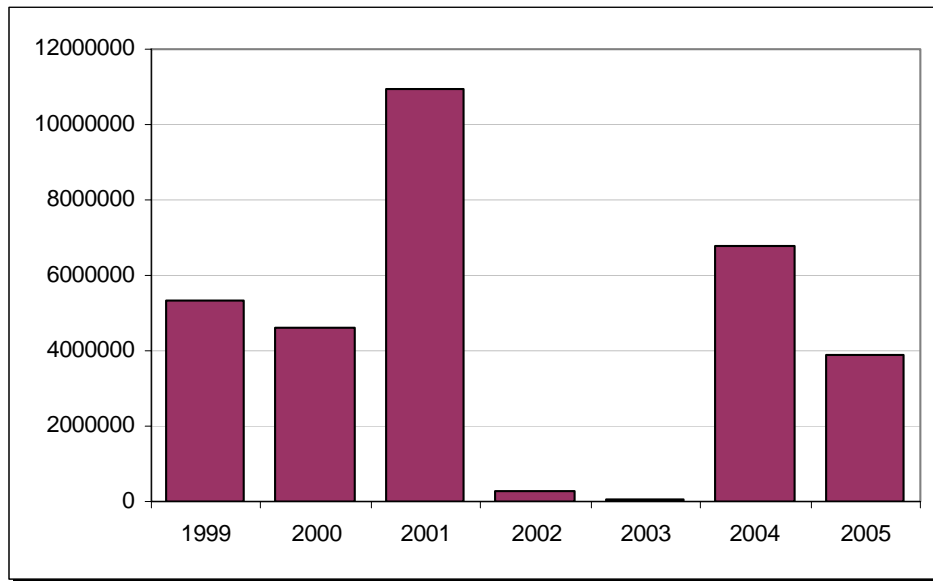
### American Eagle Outfitters, Inc. (NASDAQ:AEOS)

Our clients may have noticed that we have been drawn to a concentration of insider selling in certain specialty retailers in recent months with the most recent examples being **Aeropostale Inc. (NYSE:ARO)**, **BeBe Stores, Inc. (NASDAQ:BEBE)**, **Limited Brands (NYSE:LTD)**, **Ross Stores Inc. (NASDAQ:ROST)** and **Urban Outfitters Inc. (NASDAQ:URBN)**. We now have another to add to the list as the insiders at **American Eagle Outfitters, Inc. (NASDAQ:AEOS)**, whose regular selling we've been closely monitoring in recent quarters, are showing signs of having significantly reduced their holdings.

We do acknowledge that there probably isn't a hotter teen retailer out there at the moment, but the effects of steady insider selling into persistent stock price strength have finally reached the point where we feel compelled to advise our clients that AEOS insider selling should no longer be viewed as typical behavior. We are now seeing position reductions across the board, which wasn't evident in 2001, when insiders cashed out of

a total of 3.94 million shares between May and July just ahead of one of the steepest downturns in Company history. But now, after months of steady profit-taking, insiders have accelerated their pace. Just weeks before announcing that the Company would be rolling out a new retail concept targeting the late-20s to early 30s consumer, eleven insiders dumped 3,896,988 shares from January 7<sup>th</sup> to January 21<sup>st</sup>, or more than 50% of what insiders sold in all of 2004, at prices between \$47.86 and \$49.43.

**Figure 1.** Selling Volume by AEOS Insiders, 1999 through January 21, 2005. Source: AEOS SEC Filings.



The selling was led by American Eagle's largest shareholder, Chairman **Jay Schottenstein**, who has now sold 60% of his ownership stake over the past four years, including 1.13 million in January of 2005. Joining Schottenstein were CEO **James O'Donnell** and President **Roger Markfield**, both board members, who have executed their largest sales to date, dumping 58% and 26%, respectively, of their holdings since the 2004 proxy. But the position reductions don't end there. The table below lists eight of the recent sellers, six of whom are named executives, and the reductions resulting from their activity.

**Table 1.** Holdings Reductions by AEOS Insiders. Source: AEOS SEC Filings.

Insider	Holdings as of:				Reductions Since:	
	03/29/02	03/01/03	03/31/04	01/20/05	2003	2004
J. O'Donnell	179,457	359,457	659,457	280,000	22.1%	57.5%
R. Markfield	1,097,894	1,145,637	1,243,189	923,189	19.4%	25.7%
S. McGalla	--	--	53,702	9,227	--	82.8%
L. Weil	261,960	282,012	282,502	178,924	36.6%	36.7%
H. Landon	--	86,610	56,908	9,607	88.9%	83.1%
M. Leedy	115,426	139,933	61,001	21,000	85.0%	65.6%
J. Schottenstein	10,115,017	10,167,017	10,168,016	7,168,016	29.5%	29.5%
G. Schottenstein	10,489,659	10,489,659	10,065,355	7,194,655	31.4%	28.5%

While many of the governance issues at AEOS are known, the laundry list of issues still leaves us wondering who's really been calling the shots here. The Company has been run like it's had "controlled company" status, even though the Schottenstein clan and its affiliates no longer control a majority of the voting stock. It is disclosed in the 2004 proxy that the Schottenstein family "will have significant influence over any action requiring stockholder approval." Though it appears as if American Eagle has taken strides to reduce its exposure to potential future challenges to its practices, there are still issues that need to be addressed.

➡ **Board Independence:** The board is currently comprised of eleven members, only five of whom are independent. As recently as last year, the board included five directors associated with Retail Ventures Inc. (NYSE: RVI), a subsidiary of Schottenstein Stores Corp., including Schottenstein's brothers-in-law **Ari Deshe** and **Jon Diamond**. It has been reported that the Company will add two new board members at the 2005 shareholders meeting, following last year's departure of two dependent directors, an event the Company failed to make public in any filing or press release.

➡ **Executive Compensation:** Stock option and restricted stock awards are subjective and at the control of Schottenstein:

*"...based on a number of factors, including recommendations of the Chairman and the Compensation Committee's subjective perception of the individual's performance and historical and anticipated future contributions to the success of the Company. **The determination was not based on specific objective criteria and no specific weight was given to any of the factors considered.**"*

Additionally, in past years the Company has granted special option awards on top of the annual grants which are subject to accelerated vesting. These "performance" options were again at the discretion of the chairman. One such grant was awarded in 1999 with a vesting period of eight years. The options, however, became exercisable less than two years later without any disclosure on the acceleration trigger.

➡ **Related-Party Transactions:** AEOS claims to have a "strategic plan to eliminate" the Company's related party transactions and, indeed, has reduced its number of such relationships. The fact stands, however, that certain dealings continue to occur:

- The Schottenstein-Deshe-Diamond families, who own about 20% of AEOS common and have significant representation on the American Eagle board, own a private company, Schottenstein Stores Corp. (SSC) which includes a publicly-traded subsidiary, Retail Ventures Inc. (RVI). American Eagle has been selling end-of-season, overstock and irregular merchandise to Retail Ventures. The transactions, which have slowed significantly in 2004, totaled \$12.9 million in 2003.
- American Eagle had been leasing its corporate headquarters and distribution center from Linmar Realty, a subsidiary of Schottenstein Stores Corp until

AEOS purchased Linmar Realty from the Schottenstein entity for \$20 million in June of 2004.

- Schottenstein Stores Corp. continues to charge American Eagle for “various professional services provided to the Company, including certain real estate, travel and insurance services. AEOS paid about \$900,000 to SSC for such services during 2003 and about \$190,000 through nine months of F/Y 2004.

The relationship between American Eagle Outfitters and Schottenstein Stores indicates a proclivity towards board acquiescence to the interests of Jay Schottenstein and family. Though the board might adopt a majority independent structure this year, it's not readily apparent that Schottenstein's control over the Company will subside as a result. The recent insider sales could be an indication that those closest to the Company might be in agreement that the issue has reached its appreciation threshold.

- **James O'Donnell (63)** – CEO, Director. O'Donnell has held a variety of high-ranking positions at the Company since joining American Eagle back in 1999. But rather than lock in gains throughout the years as the issue returned value to shareholders, O'Donnell continued to build up his ownership position. In fact, his first sale didn't come until June 2004, when he sold 231,857 shares at \$29. But as the issue continued to climb to record highs, O'Donnell's selling not only intensified, but has now brought his holdings down to levels not seen since 2002. On January 19<sup>th</sup> and January 20<sup>th</sup> he exercised one option series with over five years remaining before expiration and sold the 327,600 shares at \$48. Since June, he has now cleared out a large portion of his vested options en route to **diversifying 58% of his actionable position** (common stock plus exercisable options).
- **Jay Schottenstein (49)** – Chairman. It's tough to gauge the selling of a company's largest shareholder, especially when he or she holds over 10 million shares. But Schottenstein's behavior isn't that difficult to assess. His largest sales came in 2001, when he distributed over 6 million shares into a short lived rally. Then, in an unusual move for someone with ample shares, he didn't sell again for nearly three years as the issue traded well off its highs. His behavior since early 2004 has been a different story. As the issue has steadily climbed to new all-time highs, Schottenstein distributed a total of 1.92 million shares, and then dumped an additional 1.13 million shares through the first three weeks of 2005. In total, he has now **shed 30% of his holdings** since March 2004, which marks his second largest one-year distribution since the issue began trading over ten years ago. It is apparent that Schottenstein has chosen to sell-off the shares which have been in his family for years. Since he hasn't been granted any options in the past five years, it is not likely that we will see him rebuild his position. What was once a 25% ownership stake just four years ago is now below 10%.
- **Roger Markfield (62)** – Vice Chairman, President. The pattern of an increased aggressiveness displayed by AEOS insiders in 2005 doesn't stop short of Company president Roger Markfield. On January 7<sup>th</sup> Markfield exercised nearly half of his vested options comprised of three series with expiration dates ranging between February 2008 and March 2013. This was the first time that we've seen him monetize such a large portion of his options, which translated to his largest distribution since

assuming his current position back in 1995. The sale of 500,000 shares at roughly \$49 totaled nearly as many shares as he sold between 1999 and 2003 and **dropped his holdings by 35%**. This is the first time since early 2000 that Markfield's ownership position dropped below one million shares.

- **Susan McGalla (39)** – Executive V.P., Chief Merchandising Officer. McGalla is another executive who had shown restraint with her activity over the past couple years. Since registering as a Section 16 insider back in August 2002, she had sold only 12,000 shares between 2002 and 2003, and then picked up her pace in March 2004, when she sold 37,222 shares acquired from options at \$24. Four months later, McGalla sold again, this time wiping out all but 400 shares of her common holdings with an 11,000-share sale. But with her holdings in decline, she once again tapped into her vested options on January 7<sup>th</sup>, exercising three non-expiring series (expiration dates: 08/09, 04/12, 09/12) and sold the newly-acquired 55,200 shares at roughly \$49. The sales throughout the past year have definitely taken a toll on McGalla's holdings, which are now **83% lighter** than they were last March. That the third-highest compensated Company executive, who has years to acquire shares, now holds less than 500 shares of stock is noteworthy.
- **Laura Weil (47)** – CFO. Weil is one of the longest tenured executives, serving as the chief financial officer since 1995. Throughout her term, she hasn't been shy with her selling, executing fourteen sales between 1999 and 2003. But we've noticed a change in her behavior, as her two largest sales have occurred since 3Q:04. After selling 40,000 shares on September 7<sup>th</sup> at \$36, she sold an additional 32,760 shares on January 13<sup>th</sup> at \$48, dropping her actionable position below 200,000 shares for the first time since 2000. Her distributions since September have **trimmed her holdings by 37%**, which is significant since there's been a noticeable drop-off in her option awards over the years. After receiving a grant for 100,000 options back in 2001, the only award she has received since was a 30,000-option grant in March 2003. Any further selling at this current pace will continue to deplete her actionable position, as she will only have access to 60,000 newly vested options throughout the next two years.

#### Energizer Holdings Inc. (NYSE:ENR)

If you think shares of Energizer have gotten ahead of themselves, you may not be alone. On January 28<sup>th</sup>, just three days after the Company caught the Street with a first quarter earnings surprise that boosted the issue 15%, Chairman **William Stiritz**, the Company's largest shareholder, entered into a forward-sale agreement to sell 750,000 shares to Credit Suisse First Boston Capital at an undisclosed price. It's an interesting coincidence that the very same day Stiritz pledged his shares, it was announced that Energizer's closest competitor, Gillette (NYSE: G), was getting bought by Proctor & Gamble (NYSE: PG) for \$55 billion. And this isn't the first industry consolidation of 2005: another ENR competitor in the battery segment of its business, Rayovac (NYSE: ROV), acquired United Industries on January 4<sup>th</sup>, which many predict will put pressure on Energizer to find a deal of their own. But Stiritz didn't stop there. On February 2<sup>nd</sup>, the Company issued a press release announcing that Stiritz pledged an additional 750,000 shares to Credit Suisse, effectively **reducing his holdings by 51%**.

Stiritz hasn't acted alone in paring back his Energizer holdings. Between October 1<sup>st</sup> and January 25<sup>th</sup>, three additional insiders, including two named executives, sold a total of 190,948 shares between \$45.25 and \$53.10. CFO **Daniel Sescлиеfer** and President, Energizer Battery **Joseph McClanathan** have sold 67% and 72% of their holdings, respectively, under the cover of 10b5-1 trading plans. But as if the appearance of such high reductions doesn't raise enough of a flag that these trading plans have been used for more than simple diversification, all three of the sellers (not Stiritz) sold on January 25<sup>th</sup>, the same day the Company reported earnings which gave the issue the largest one-day boost in the past two years.

But let's get back to Energizer's chairman, who's an insider that we have paid very close attention to over the years. In the past five years, he has been an influential director at Ball Corp. (NYSE: BLL), Reinsurance Group of America (NYSE: RGA), and May Department Stores (NYSE: MAY) to name a few. His trades at these companies have been few and far between, but the proficiency with which he executes his trades on both the buy and sell side has been near perfect to say the least. In fact, we highlighted a 1,000,000-share forward sale Stiritz executed at Ball in a November 30<sup>th</sup> *Insider Research Bulletin*. The chart below outlines all of his trades over the past ten years and shows just how effective he's been at either building or paring down his holdings at the most opportune times.

**Table 2.** William Stiritz Insider Trading Record. Source: Stiritz Section 16 filings with the SEC as a director at RAH, BALL, ENR and RGA

	Trade Dates	Shares	Holdings Change	Price	Price Change
<b>Buys</b>					
Ralcorp (RAH)	05/97 - 06/97	594,500	311%	\$11	82% in 3 months
Ball (BALL)	06/98 - 07/98	1,596,000	4806%	\$9	60% in 3 months
Energizer (ENR)	01/03 - 02/03	708,300	21%	\$24	88% in 12 months
<b>Sells</b>					
Reinsurance Grp. (RGA)	01/99 - 03/99	220,000	-40%	\$42	-65% in 12 months
Reinsurance Grp. (RGA)	11/00 - 12/00	290,200	-71%	\$37	34 months to get to \$40
Ball (BALL)	11/04	1,000,000	-90%	--	-5% in 3 months
Energizer (ENR)	01/05	1,500,000	-51%	--	--

- **William Stiritz (70)** – Chairman. As mentioned above, Stiritz has never been an aggressive trader at any of the companies he's been involved in. Instead, he has executed his few trades with a precision unlike just about any other insider we've tracked over the years. Immediately after the Company was spun off from Ralston in 2000, Stiritz purchased 890,500 shares in May 2000 at \$16. The acquisition paid off immediately, as the issue climbed to the mid \$20s after a few short months. Then, in January 2003 and February 2003, he picked up an additional 708,300 shares at prices between \$23 and \$25. His \$17.6 million investment is now worth \$41.7 million just two years later. After buying shares over the past four years and dedicating himself to building up the Company, we take it very seriously that Stiritz is now selling 51% of his stake through forward sales. We feel this behavior is even more revealing than his recent Ball activity due to his direct ties and closeness to the Company.

- **Daniel Sescliefer (42)** – Executive V.P., CFO. Sescliefer has been trading under the cover of a 10b5-1 trading plan since June 2004. But to say that his “pre-arranged” plan has followed the customary pattern of systematic distribution is a stretch. Sescliefer first sold 10,000 shares in June at \$45, and then sold another 10,000 in September at \$46. Then the pace begins to accelerate, as he sold a total 50,458 shares from October through December, which was then surpassed on January 25<sup>th</sup>, the day the stock jumped 14% on the earnings announcement, when he dumped 60,000 shares at \$50.50. Executing his largest-ever sale on the day of a blowout earnings report goes against the very spirit and intent of 10b5-1 trading plans. That the January 25<sup>th</sup> trade culminated of a three-month selling-spree that **shed 67% from his holdings** is even more egregious. Of the total 110,458 shares sold, 100,000 were acquired from the exercise of his only vested option which doesn’t expire until November 2010, while the remainder was sold out of his common holdings. Following the sale, Sescliefer holds a total of 55,565 shares in common stock and vested options, and will have 59,000 options vest by yearend (see Appendix A).
- **Joseph McClanathan (52)** - CEO, President, Energizer Battery. McClanathan’s first action after registering as an insider back in 2000 was buying up 22,000 shares at roughly \$22. He then began selling in August 2003, cashing in all the shares he purchased earlier and more at \$34. A month later he entered into a trading plan of his own, under which he sold a total of 61,859 shares between September and March 2004. McClanathan then sat on his shares for the next seven months, before he resumed selling under the 10b5-1 plan. Between October 1<sup>st</sup> and January 25<sup>th</sup>, McClanathan exercised his only vested option series which has over five years remaining before expiration, and sold the 75,000 shares as the issue climbed from \$46 to \$53, **reducing his actionable position by 72%**. Like Sescliefer, he managed to execute his most recent sale on the date of the earnings report. All that remains of the 161,000 shares he owned just over a year ago is 3,756 shares of common, which are tied up in his 401K, and 25,000 vested options (see Appendix A).

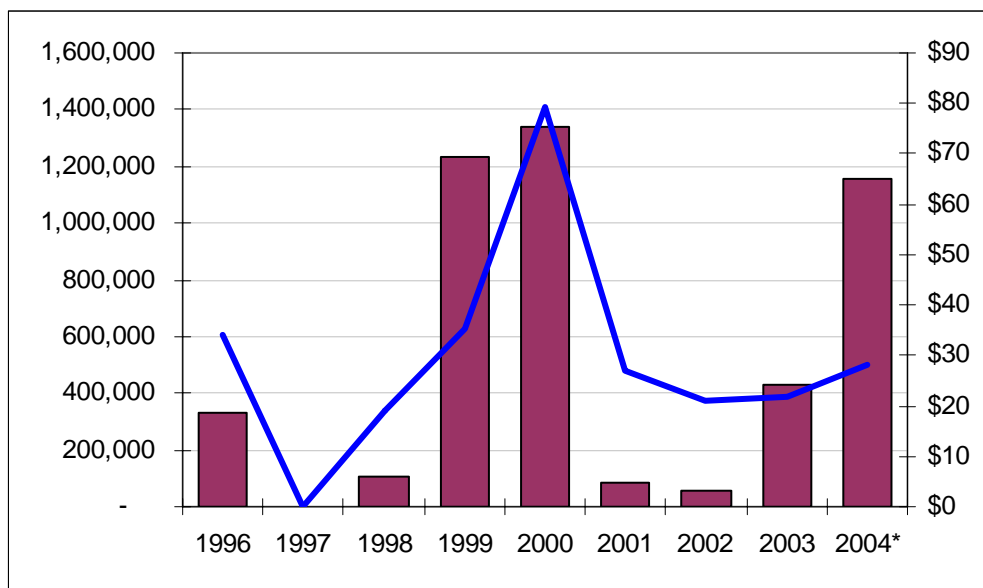
#### Macromedia Inc. (NASDAQ: MACR)

Generally it’s hard to fault a group of insiders for locking in gains after their stock, which has been trading for years far from its all-time highs, has finally hit a hot streak, racing to new two-year highs. However, we aren’t quick to write off what may appear as routine profit taking before taking a closer look. Such is the case at Macromedia, where eleven insiders sold a total of 864,842 shares from October 25<sup>th</sup> to January 26<sup>th</sup> between the prices of \$25.33 and \$33.26. Upon further analysis, the activity is not, in our opinion, driven purely by profit-taking motivation.

What immediately caught our attention in this case was the obvious pickup of selling in October 2004, as the issue, which had been trading between \$18 and \$25 over the prior 52 weeks, broke out of its range. Judging from past rounds of selling, MACR insiders don’t trust momentum over \$25, and they’ve rarely been wrong. Insiders sold more in October than they had in any prior month since the issue was trading at similar prices in September 2003, just before the Company revealed, to little fanfare, that it would acquire privately-held eHelp – the issue plunged 37% on the day of the announcement.

But the current round of selling didn't top out in October, in fact, that was just the start. November volume exceeded October, and now January represented the heaviest month of selling we've seen since February 2000, when the issue traded into the \$80s, then higher. Nevertheless, the point here is that while the stock has broken out of its range, it's nowhere near the highs it established over the past five years, yet insiders are selling at a more aggressive pace than they sold at when the issue traded at over 400% higher prices. The chart below shows the selling volume since 1996 and the average price that insiders executed their sales. As you can see, though the average selling price has trended higher since 2001, the volume has exceedingly outpaced the rate of price appreciation.

**Figure 2.** Shares Sold by Insiders (left scale and red bars) and Weighted Average Price of Shares Sold (right scale and blue line). Source: MACR SEC Filings.



\* Includes shares sold in 2005 through January 26, 2005 (335,000 shares).

But our interest in this insider behavior doesn't end with just the increasing volume. Digging deeper into each individual's trades reveals another pattern not evident in earlier years. Of the eleven recent sellers, six reduced their actionable positions (common stock and exercisable options) between 37% and 51%. Included in that group are some of the Company's highest ranking executives, such as CEO **Stephen Elop** and Chief Software Architect **Kevin Lynch**. Not only did Lynch sell a significant percentage of his holdings, but showed a sense of urgency to sell at these prices as he monetized eight different series of non-expiring options. And he wasn't alone; there were other key execs who tapped deep into their options holdings to cash out. This behavior might be early, as such insider concentrations at the highs have a tendency to be, but judging from the dramatic price appreciation and resulting price to earnings multiple (46), which now exceeds the industry average, one gets the feeling that insiders sense the issue has gotten ahead of itself.



Here are some of the more interesting sellers:

- **Stephen Elop (40)** – CEO, Director. Elop's selling since October is his largest round of sales since he joined the Company in 1998. This might not seem that egregious, but take into account he sold fewer shares in 2000 when the issue was trading at 400% higher prices. On October 26<sup>th</sup> and January 24<sup>th</sup> Elop sold a total of 120,000 shares at an average price of \$27.50, **dropping his ownership position by 46%**. But what's even more convincing is that he exercised a total of five non-expiring options series (expiration dates: 10/08, 9/09, 4/10, 2/12, 9/12) to acquire the shares to sell, which is something we've never seen him do in any prior round of distributions. This behavior is more interesting given his recent promotion to the chief executive position and addition to the board. Usually, newly-elevated insiders tend to hold for awhile. Elop's holdings are mostly tied up in options, as he only holds a total of 769 shares of common stock (see Appendix B).
- **Kevin Lynch (37)** – Executive V.P., Chief Software Architect. Judging by Lynch's recent selling, one might assume that he might be on his way out. Our call to the Company, however, confirms that he isn't going anywhere, but how else do you explain his recent abrupt behavior? Between November 1<sup>st</sup> and January 26<sup>th</sup> Lynch exercised **eight series** of options with expiration dates ranging between July 2006 and September 2012, and then sold the 195,000 shares at an average price just under \$30. Lynch's only prior selling came in 2000, just after he joined the executive ranks, when he sold a total of 70,000 shares between \$82 and \$92. Not only has he increased his volume at today's significantly lower prices, but he also has trimmed **37% of his actionable position** (common stock plus exercisable options) in the process.
- **Thomas Hale (35)** – Senior V.P., General Manager. Hale joined the Company in 1995, but was promoted to his current position in January 2004. It wasn't until then that he registered as a Section 16 insider and began filing his trades. Keep in mind though that Hale had been receiving options and therefore, has had the opportunity to build an ownership position. Hale has recently been exercising those options. In fact, he exercised six non-expiring series (expiration dates: 8/09, 2/10, 8/10, 1/11, 2/12, 9/12) from November 15<sup>th</sup> through December 2<sup>nd</sup> and immediately monetized the 71,134 shares at roughly \$29. The sale **trimmed his holdings by 51%**, leaving him with no common shares and roughly 70,000 vested options (see Appendix B).
- **Alan Ramadan (46)** – Executive V.P., Strategic Business Development. As shares of Macromedia have climbed, so too has the volume of Ramadan's sales. Between 2001 and May 2004, with the issue trading in the \$20s, Ramadan executed eight sales transactions totaling 99,000 shares. As the issue climbed into the upper end of its trading range in October, Ramadan picked up his pace. Between October 27<sup>th</sup> and December 3<sup>rd</sup>, at an average price of \$28, he sold 87,500 shares, nearly as many as he sold through the first five-and-a-half years of his tenure. Ramadan exercised two series of options with plenty of time remaining before expiration (expiration dates: 6/12, 9/12), and monetizing the shares **cut into his holdings by 45%** since he doesn't hold any common stock.
- **Robert Burgess (46)** – Chairman. With the exception of his sale in July 2004, Burgess' only other sale in the past four years took place in September 2003, just a month before the announced eHelp acquisition that dropped the issue 37% (slicing

about \$760 million from market capitalization). Prior to that, we saw him selling 135,000 shares back in late 2000 in the \$75 range. Now, with the stock climbing to two-year highs, Burgess has once again begun selling like yesteryear, though this time, he's selling at an average price far below what he accepted for his shares back at the highs. On October 26<sup>th</sup> and January 24<sup>th</sup>, Burgess sold a total of 200,000 shares at an average price of \$27. The two sales only **reduced his holdings by 15%**, but is a telling sign that he's not waiting around for the shares to reach earlier prices before he lightens his position.

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## Appendix A

### Option Vesting Schedules for Selected Energizer Holdings Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
<b>Joseph McClanathan, CEO, President. Common stock holdings: 3,756 shares (all held in 401K plan)</b>							
05/08/00	250,000	\$17.00	05/08/01	05/07/10	75,000	50,000	05/08/05
09/22/01	50,000	\$30.10	09/22/05	09/22/12	50,000	50,000	09/22/05, 09/22/06, 09/22/07
01/25/04	50,000	\$42.90	01/25/05	01/25/14	50,000	50,000	01/25/05, 01/25/06, 01/25/07, 01/25/08, 01/25/09
10/19/04	20,000	\$46.13	10/19/05	10/18/14	20,000	20,000	10/19/05, 10/19/06, 10/19/07, 10/19/08
<b>Daniel Sescleifer, EVP, CFO. Common stock holdings: 15,565 shares</b>							
11/19/00	200,000	\$21.06	11/19/01	11/19/10	80,000	40,000	11/19/05
09/22/01	50,000	\$30.10	09/22/05	09/22/12	50,000	50,000	09/22/05, 09/22/06, 09/22/07
10/19/04	10,000	\$46.13	10/19/05	10/18/14	10,000	10,000	10/19/05, 10/19/06, 10/19/07, 10/19/08



## Appendix B

Option Vesting Schedules for Selected Macromedia Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
<b>Robert Burgess, Chairman. Common stock holdings: 30,457 shares</b>							
07/12/97	1,000,000	\$7.78	07/12/98	07/12/06	13,824	0	Fully vested
04/30/98	125,000	\$14.93	04/30/99	04/30/08	125,000	0	Fully vested
09/10/99	250,000	\$28.00	09/10/00	08/10/09	250,000	0	Fully vested
04/18/00	500,000	\$15.99	10/18/02	04/18/10	500,000	0	Fully vested
02/21/02	250,000	\$13.39	02/21/03	02/21/12	16,181	15,624	5,208 vest per month
09/12/02	350,000	\$7.77	09/12/03	09/12/12	250,000	109,377	7,291 vest per month
<b>Stephen Elop, CEO, Director. Common stock holdings: 769 shares</b>							
09/10/99	67,000	\$15.93	09/10/00	08/10/09	10,713	0	Fully vested
04/18/00	100,000	\$15.99	10/18/02	04/18/10	93,787	0	Fully vested
02/21/02	100,000	\$13.39	02/21/03	02/21/12	42,429	25,000	2,083 vest per month
09/12/02	75,000	\$7.77	09/12/03	09/12/12	36,500	31,251	1,562 vest per month
01/19/04	50,000	\$19.73	01/19/05	01/19/14	50,000	37,500	1,041 vest per month
01/24/05	400,000	\$31.30	01/24/06	01/24/15	400,000	400,000	25% vest on 01/24/06, then 2.083% per month
<b>Thomas Hale, SVP, General Manager. Common stock holdings: 0 shares</b>							
08/23/00	40,000	\$15.99	08/23/01	08/23/10	23,125	0	Fully vested
01/22/01	35,000	\$15.99	01/22/02	01/22/11	1,875	0	Fully vested
09/12/02	75,000	\$7.77	09/13/03	09/12/12	65,000	31,245	1,563 vest per month
04/12/04	100,000	\$19.54	04/12/05	04/12/14	100,000	100,000	20,000 vest per year
<b>Kevin Lynch, EVP, Chief Software Architect. Common stock holdings: 10,376 shares</b>							
07/08/96	N/A	\$7.50	07/08/97	07/11/06	3,125	0	Fully vested
11/13/97	N/A	\$12.87	11/13/97	10/13/07	14,182	0	Fully vested



## Appendix B

Option Vesting Schedules for Selected Macromedia Inc. Insiders

Grant Date	Options	Price	Date Exercisable	Expiration Date	Remaining Options in Series	Unvested Options in Series	Vesting Dates of Remaining Options
05/01/98	N/A	\$14.87	05/01/98	01/01/08	80,000	0	Fully vested
09/28/98	N/A	\$12.93	09/28/98	09/28/08	50,000	0	Fully vested
09/10/99	100,000	\$28.00	08/10/00	08/10/09	100,000	0	Fully vested
04/18/00	200,000	\$15.99	10/18/02	04/18/10	200,000	0	Fully vested
02/21/02	50,000	\$13.39	02/21/03	02/21/12	50,000	29,103	419 vest per month
09/12/02	50,000	\$7.77	09/12/03	09/12/12	50,000	20,830	1,042 vest per month
<b>Alan Ramadan, EVP, Chief Marketing Officer. Common stock holdings: 0 shares</b>							
02/21/02	156,390	\$13.39	02/21/03	02/21/12	80,000	42,357	3,258 vest per month
06/28/02	150,000	\$8.04	06/28/03	06/28/12	62,500	53,126	3,124 vest per month
09/12/02	300,000	\$7.77	09/12/03	09/12/12	196,000	125,001	6,249 vest per month