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In a Flash, cellphones could be dynamic

Macromedia targets U.S. mobile market

By Jefferson Graham
USA TODAY

SAN FRANCISCO — Stephen Elop wants to talk. The CEO of software company Macromedia (MACR) has a lot to say, especially as it pertains to communication devices. His pockets brimming with cell phones from Asia, Elop displays them for a visitor, demonstrating the colorful animation, games and menu interfaces on the screens, unlike anything seen in this country.

Soon — if Elop has his way — cell phones here will become just as colorful and dynamic, thanks to Macromedia's Flash software. He predicts we'll spend hours a day with Flash on our phones, like we do now on the PC. "We'll have Flash in our pockets and purses, on our desks and hanging around our necks," he says.

Flash is a behind-the-scenes program currently installed on 98% of all computers, software originally designed to quickly display animation and games. You know Flash if you've seen any of the Internet political parodies that made the rounds last year, such as Jib Jab's *This Land is Your Land*, or original animation such as Warner Bros.' Looney Tunes online cartoons. Flash is also used to display video: Amazon, America Online and CNet use it on their Web sites. A new version of Flash, coming in the summer, promises to offer higher-resolution, DVD-like video quality for the Web.

The gospel of Flash

For now, Elop is preaching the gospel of Flash to handset manufacturers and carriers, because nabbing even a sliver of the huge mobile market could mean huge dividends for Macromedia.

The company has Flash on phones in Japan with carriers NTT DoCoMo and KDDI, plus manufacturers who work with Vodafone KK. Macromedia just made deals with No. 1 handset manufacturer Nokia and rival Samsung. Nokia expects to have a Flash phone out by the end of the year.



By Jack Gruber, USA TODAY

Go ahead, answer it: Macromedia CEO Stephen Elop holds a Flash-enabled Samsung phone. Elop foresees Americans using their cellphones for much more in the future.

Now, says Gene Munster, an analyst at securities firm Piper Jaffray, what Macromedia needs is a deal with a U.S. phone carrier, such as Cingular or Sprint, "and that will take the company to the next level."

Munster expects Macromedia to break through with a domestic carrier sometime in the next 12 months. When that happens, "They have a real opportunity to become a breakaway company," he says. "I see a real liftoff for them next year."

About 1.6 billion cell phones are in use worldwide, according to market tracker IDC, and sales are booming. IDC says 650 million cell phones were sold last year, and the market is expected to grow

About

Macromedia

► **Founded:** 1992.

► **Headquarters:** San Francisco, plus 20 offices worldwide.

► **Employees:** 1,500.

► **Best known for:** Creating professional design software for the Internet. Top seller: Flash MX, used to create colorful animation and video sites that can be viewed on the free Flash Player installed on 98% of all desktop PCs. Macromedia says the player has 550 million registered users. There are more than 1 million developers who work with Flash, Macromedia says.

► Other popular products:

Dreamweaver MX for designing professional Web sites and Shockwave, a free Internet platform to play Web games created in Macromedia's Director software.

► **Revenue:** \$370 million for fiscal 2004, up from \$337 million the prior year.

► **CEO:** Stephen Elop, 41, since January. A former chief operating officer, Elop commutes to Macromedia from Toronto, where he lives with his wife and five children, including triplets. Elop has been with Macromedia for seven years.

to 890 million by 2008. (Comparatively, 199 million PCs shipped in 2004, and the worldwide PC population is 700 million, IDC says.)

Today, the cell phone is a communication device, but several new models tout features such as instant messaging, games and the ability to listen to digital music and watch video clips. Such features are expected to become standard as cell phone models get much more powerful in coming years.

"Now that phones are becoming more like PCs, the opportunities are limitless," says IDC analyst Alex Slawsby.

Macromedia's strategy in spreading Flash into the PC universe was to give the Flash media software "player" away for free, while selling high-end, \$1,000-and-up software programs to developers to make content.

In mobile, Macromedia has a different, and potentially more lucrative, strategy. The company receives a royalty for every phone that uses Flash and charges 50 cents to \$2 a phone. The firm competes with Sun Microsystems' Java and Qualcomm's Brew in the mobile market. (Macromedia and USA TODAY have a partnership to produce an Internet-based news application at USATODAY.com.)

By using Flash, Macromedia tells its

clients, carriers will be able to sell more content to consumers, because the Flash-enabled phones are easier to navigate and menus more colorful.

Wall Street clearly thinks the message has resonance. The stock recently hit a two-year high of \$37.54 a share, fueled by the company's announcement that it expects to reap more than \$500 million in revenue for the fiscal year, up from 2004's \$370 million.

Elop was promoted to CEO from chief operating officer in January, stepping in for Rob Burgess, who remains as chairman. In his former role as COO, Elop spent most of his time globetrotting, evangelizing the power of Flash and mobile phones. As CEO, he's seen no reason to change that.

The father of five children, including triplets, he commutes from Canada to Macromedia's San Francisco headquarters, working Fridays from Toronto or wherever he happens to be. "I'm a traveling CEO," he says. "The mobile experience is so different, from region to region, you have to experience it firsthand."

Attractive network

While Macromedia is best known for Flash, it also dominates Web design

software with its high-end Dreamweaver MX program and has a fast-growing online-conferencing program called Breeze.

The company touts its network of more than 1 million programmers who earn their livings creating Web sites and applications in Flash software. That's what attracted Nokia to working with Macromedia, Nokia Vice President Lee Epting says.

"That's the value of the technology," she says. "All those developers out there are really comfortable with Flash and are already making content. It's a natural for them to move on to mobile."

Edmonton, Alberta, Flash developer Grant Skinner likes the idea of using Flash's interactivity to marry the phone with the Internet for instant communication. He foresees a time soon when a camera phone with embedded Flash software snaps a picture and instantly uploads it to the Internet, allowing for comments to be posted online and sent back to the phone.

"Right now, the technology is fairly new, and integration with the phone is rather limited," he says. "But there's a lot of exciting things that could be done in the next few years."