EMBARCADERO TECHNOLOGIES INC
Form 10-Q
May 14, 2002
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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 March 31, 2002.

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

For the transition period from ________ to ________

Commission File Number 000-30293

EMBARCADERO TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**68-0310015**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

425 MARKET STREET, SUITE 425
SAN FRANCISCO, CA 94105
(415) 834-3131
(Address of principal executive offices)

Indicate by check mark whether the registrant (1) 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 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. x Yes ¨ No

The number of shares outstanding of the Registrant s Common Stock as of March 31, 2002 was 27,224,397.

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PART I

FINANCIAL INFORMATION

ITE M 1. FINANCIAL STATEMENTS

EMBARCADERO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(unaudited)

	March 31, 2002	December 31, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,174	$ 23,371
Short-term investments	15,195	16,532
Trade accounts receivable, net	7,281	6,221
Prepaid expenses and other current assets	1,632	1,711
Total current assets	48,282	47,835
Property and equipment, net	4,160	3,766
Goodwill and other intangible assets, net	18,795	19,334
Deferred income taxes	4,914	4,914
Other assets	456	313
Total assets	$ 76,607	$ 76,162
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 3,293	$ 5,264
Deferred revenue	9,723	9,099
Deferred income taxes	2,317	2,317
Total current liabilities	15,333	16,680
Stockholders Equity:		
Common stock, $0.001 par value	27	27
Treasury stock	(1,781)	(1,781)
Additional paid-in capital	74,704	74,220
Accumulated other comprehensive income	92	116
Deferred stock-based compensation	(1,852)	(2,531)
Accumulated deficit	(9,916)	(10,569)
Total stockholders equity	61,274	59,482
Total liabilities and stockholders equity	$ 76,607	$ 76,162

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EMBARCADERO TECHNOLOGIES, INC.

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

	Three Months Ended March 31,	
	2002	**2001**
Revenues:		
License	$ 7,096	$ 9,148
Maintenance	5,406	4,543
Total revenues	12,502	13,691
Cost of revenues:		
License:		
License, other	129	173
Amortization of acquired technology	269	202
Total license	398	375
Maintenance:		
Maintenance, other	625	655
Non-cash stock-based compensation	1	4
Total maintenance	626	659
Total cost of revenues	1,024	1,034
Gross profit	11,478	12,657
Operating expenses:		
Research and development:		
Research and development, other	3,717	3,411
Non-cash stock-based compensation	13	45
Total research and development	3,730	3,456
Sales and marketing:		
Sales and marketing, other	4,625	4,822
Non-cash stock-based compensation	250	492
Total sales and marketing	4,875	5,314
General and administrative:		
General and administrative, other	924	949
Non-cash stock-based compensation	417	844
Total general and administrative	1,341	1,793

Amortization of goodwill and other intangible assets	385	1,405
Total operating expenses	10,331	11,968
Income from operations	1,147	689
Interest income	176	364
Other expenses		(160)
Expenses related to proposed public offering		(350)
Income before provision for income taxes and share in loss of joint venture	1,323	543
Provision for income taxes	(370)	(786)
Income (loss) before share in loss of joint venture	953	(243)
Share in loss of joint venture, net	(300)	
Net income (loss)	$ 653	$ (243)
Net income (loss) per share:		
Basic	$ 0.02	$ (0.01)
Diluted	$ 0.02	$ (0.01)
Weighted average shares used in per share calculation:		
Basic	27,132	27,013
Diluted	29,639	27,013

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EMBARCADERO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2002	**2001**
Cash Flows from Operating Activities:		
Net income (loss)	$ 653	$ (243)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	481	329
Provision for doubtful accounts	143	(59)
Amortization of goodwill and other intangible assets	699	1,607
Amortization of deferred stock-based compensation	679	1,385
Share in loss of joint venture	417	
Changes in assets and liabilities:		
Trade accounts receivable	(1,203)	660
Prepaid expenses and other current assets	19	1,747
Deferred income taxes, net		(179)
Accounts payable and accrued liabilities	29	(187)
Deferred revenue	624	581
Other assets		(100)
Net cash provided by operating activities	2,541	5,541
Cash Flows from Investing Activities:		
Sales and maturities of investments	1,337	
Purchase of property and equipment	(875)	(594)
Technology acquired and developed	(160)	(2,177)
Deferred payment in connection with acquisition of subsidiary	(2,000)	
Investment in joint venture	(500)	
Net cash used in investing activities	(2,198)	(2,771)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	484	261
Net cash provided by financing activities	484	261
Effect of exchange rate changes on cash	(24)	
Net increase in cash and cash equivalents	803	3,031
Cash and cash equivalents at beginning of period	23,371	34,745
Cash and cash equivalents at end of period	$ 24,174	$ 37,776

The accompanying notes are an integral part of these condensed consolidated financial statements.

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EMBARCADERO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 THE COMPANY AND BASIS OF PRESENTATION

Embarcadero Technologies, Inc. (with its subsidiaries, collectively referred to as the Company) was incorporated in California on July 23, 1993 and reincorporated in Delaware on February 15, 2000. The Company provides software products that enable organizations to effectively manage their database infrastructure. The Company is headquartered in San Francisco, California and has international operations in Toronto, Canada and Maidenhead, United Kingdom.

The Company markets its software and related maintenance services directly through telesales and field sales organizations in the United States, Canada and the United Kingdom, and indirectly through independent distributors in Australia, Latin America and Japan.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments, which, in the opinion of the Company, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are normal recurring adjustments. These financial statements have been prepared in accordance with generally accepted accounting principles related to interim financial statements and the applicable rules of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at December 31, 2001 was derived from audited financial statements, but it does not include all disclosures required by generally accepted accounting principles.

The financial statements and related disclosures have been prepared with the presumption that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these financial statements should be read in conjunction with the audited financial statements and the related notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2001, filed on March 26, 2002.

Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2002 or for any future period. Further, the preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts reported therein. A change in facts or circumstances surrounding the estimates could result in a change to the estimates and impact future operating results.

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EMBARCADERO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

NOTE 2 COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) consists of foreign currency translation adjustments during the period. For the three months ended March 31, 2002, other comprehensive loss amounted to approximately $24,000 and accumulated other comprehensive income was $92,000 at March 31, 2002. No such amounts existed as of March 31, 2001.

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended March 31,	
	2002	**2001**
	(unaudited)	
Net income (loss)	$ 653	$ (243)
Foreign currency translation adjustments	(24)	
Comprehensive income (loss)	$ 629	$ (243)

NOTE 3 EARNINGS PER SHARE

Basic net income (loss) per common share excludes the effect of potentially dilutive securities and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution of securities by including stock options in the weighted average number of common shares outstanding for a period, if dilutive. For the three months ended March 31, 2002, based on net income of $653,000 and weighted average share count of 27.1 million, net income per share, basic, was $0.02. For the same period, the inclusion of 2.5 million dilutive common stock options increased the weighted average share count to 29.6 million but did not change net income per share, as net income per share, diluted, was $0.02. Due to a loss in 2001, there was no effect of dilutive common stock option shares on earnings per share.

For the three months ended March 31, 2002 and 2001, anti-dilutive common stock options of 1.8 million and 3.9 million, respectively, were not included in the net income (loss) per share calculation.

NOTE 4 CHANGES IN ACCOUNTING FOR BUSINESS COMBINATIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 provides specific criteria for determining which intangible assets acquired in a business combination should be reported separately from goodwill. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, Intangible Assets. It changes the accounting for goodwill from an amortization method to an impairment only approach. This pronouncement also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed of.

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EMBARCADERO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

The Company adopted the provisions of SFAS No. 141 and SFAS No. 142 effective January 1, 2002. As of January 1, 2002, $2.1 million of intangible assets related to workforce, net of accumulated amortization of $1.4 million, were reclassified to goodwill. As a result, approximately $10.4 million of remaining goodwill, net will no longer be amortized but will be tested annually for impairment in accordance with the requirements of SFAS No. 142. The Company performed its annual impairment test in January 2002, showing no impairment of goodwill. As such, there was no write down of the goodwill balance.

As required by SFAS No. 142, the results for the prior year s quarter have not been restated. A reconciliation of reported net income (loss) and earnings (loss) per share as if SFAS No. 142 had been adopted is presented as follows:

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	
Net income (loss)	$ 653	$ (243)
Goodwill amortization		1,020
Adjusted net income	$ 653	$ 777
Basic and diluted earnings (loss) per share	$ 0.02	$ (0.01)
Goodwill amortization		0.03
Adjusted diluted earnings per share	$ 0.02	$ 0.02

NOTE 5 SEGMENT REPORTING

Operating segments are components of an enterprise about which separate financial information is available and is regularly evaluated by management, namely the chief decision maker of an organization, in order to make operating and resource allocation decisions. By this definition, Embarcadero operates in one reportable operating segment, the design, development, marketing, sales and support of software for database and application development and management.

The Company s geographic sales data is based on customer location as defined by the following regions: North America, United Kingdom and Other. The Company s wholly owned subsidiary, Embarcadero Europe Ltd., transacts all sales in Europe, the Middle East and Africa. Various distributors handle sales in regions outside Europe, the Middle East, Africa and North America.

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EMBARCADERO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Revenue and long-lived assets by geographic region are as follows (in thousands):

Geographic Region	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(unaudited)	
Revenues:		
North America	$ 9,849	$ 11,636
United Kingdom	1,019	1,111
Other	1,634	944
Total	$ 12,502	$ 13,691

	As of March 31, 2002	As of March 31, 2001
	(unaudited)	
Long lived assets:		
North America	$ 22,735	$ 22,940
United Kingdom	220	160
Total	$ 22,955	$ 23,100

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included in this Form 10-Q, and with our management s discussion and analysis included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001, filed on March 26, 2002.

Overview

We provide software products that enable organizations to effectively manage their database infrastructure. Our Database Administration, Performance Management, Data and Application Architecture and Data Integration products offer customers comprehensive solutions for managing the database life cycle, which is the process of creating, optimizing and managing key business applications and their underlying databases in response to evolving business requirements. By simplifying the management of the database life cycle, our products allow organizations to ensure the availability, performance and reliability of their critical business applications.

We were incorporated in California as Client Worx, Inc. in July 1993 and changed our name to Embarcadero Technologies, Inc. in October 1993. We reincorporated in Delaware in February 2000. At our inception, we focused on developing and marketing software for use with Sybase and Microsoft SQL Server databases. In December 1993, we introduced Rapid SQL for Sybase and Microsoft SQL Server database development. In July 1994, we introduced DBArtisan for the administration of Sybase and Microsoft SQL Server databases. In September 1996, we released ER/Studio, our database design solution, which was our first product to offer support for IBM DB2 Universal Database, Informix and Oracle, as well as Sybase and Microsoft SQL Server.

The success of ER/Studio s multi-vendor support led us to add support for other major databases to our other products. We added Oracle support to DBArtisan in April 1997 and to Rapid SQL in January 1998. We added support for IBM DB2 Universal Database to both products in mid-1998. In 1998, we also began to enhance our products with add-ons and companion products. In October 1998, we offered our first standalone companion product, ER/Studio Viewer, which complemented the ER/Studio product. In April 1999, we introduced DBArtisan Schema Manager as a standalone companion product and changed the product name to DBArtisan Change Manager in January 2000. In 2000, we introduced Embarcadero Job Scheduler, designed to simplify database administration by enabling database professionals to automate their scheduling tasks and manage them from a single, easy-to-use graphical console. Also in 2000, we introduced Embarcadero SQL Debugger and Embarcadero SQL Profiler add-ons to extend the functionality of Rapid SQL and DBArtisan.

During the fourth quarter of 2000, we completed three acquisitions: Embarcadero Europe Ltd., Advanced Software Technologies, Inc. and EngineeringPerformance, Inc. Embarcadero Europe Ltd. serves as our sales and marketing office for Europe, the Middle East and Africa. In connection with our acquisition of Advanced Software Technologies, Inc., we introduced GDPro (renamed Describe in 2001), an application design product.

During the first quarter of 2001, we introduced Embarcadero Performance Center and Embarcadero SQL Tuner, both of which are designed to improve the availability and performance of databases. We introduced Describe, the successor to GD Pro, which is used to design and document enterprise applications, in the second quarter of 2001. Two new products were released during the third quarter of 2001, Data Voyager, for publishing and managing test and reference data, and Repository for ER/Studio, for enabling collaborative database design among ER/Studio users. In the fourth quarter of 2001, we delivered DT/Studio**,** a java-based data integration product that can transform and move data from a number of disparate data sources to a wide variety of relational database targets.

Sources of Revenue and Revenue Recognition Policy

Revenues are primarily derived from software license fees and related maintenance contracts. Revenues from software license fees are recognized upon shipment, when terms are F.O.B. shipping point, provided that evidence of an arrangement exists, the fee is fixed or determinable and collection of the resulting receivable is probable. Evidence of an arrangement may be an order accompanied by pre-payment via check or credit card, a signed purchase order or an equivalent form of documentation from the customer. Maintenance contracts generally cover a one-year term paid for in advance, and revenues from maintenance contracts are recognized ratably over the contract term.

Most license orders have multiple obligations, both deliverable products and related maintenance, and revenues are allocated to each undelivered component of the contract based on objective evidence of its fair value, which is specific to the Company. We recognize revenues allocated when the criteria for revenue recognition set forth above are met. While some revenues are collected via credit card at the time an order is placed, customers are generally granted payment terms of net thirty days.

Products may be sold through resellers and distributors in the United States and certain international markets. Revenues from software license fees and maintenance contracts sold through resellers or distributors are recognized under the same criteria as those sold by the Company. Distributors purchase products to fulfill specific customer orders and generally do not hold inventory of the Company s products.

We market our software and related maintenance services directly through our telesales and field sales organizations in the United States, Canada and the United Kingdom, and indirectly through our distribution partners worldwide. We intend to expand our international sales activities in an effort to increase revenues from foreign sales.

There can be no assurance that our license and maintenance revenues, results of operations, cash flows from operations and financial condition will not be adversely affected in future periods as a result of continued downturns in global economic conditions and increased competitive pressures.

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage relationship of certain items from the Company s condensed consolidated statements of operations to total revenues:

	Three Months Ended March 31,	
	2002	**2001**
Revenues:		
License	56.8%	66.8%
Maintenance	43.2	33.2
Total revenues	100.0	100.0
Cost of revenues:		
License:		
License, other	1.0	1.3
Amortization of acquired technology	2.2	1.5
Total license	3.2	2.8
Maintenance:		
Maintenance, other	5.0	4.8
Non-cash stock-based compensation		
Total maintenance	5.0	4.8
Total cost of revenues	8.2	7.6
Gross profit	91.8	92.4
Operating expenses:		
Research and development:		
Research and development, other	29.7	24.9
Non-cash stock-based compensation	0.1	0.3
Total research and development	29.8	25.2
Sales and marketing:		
Sales and marketing, other	37.0	35.2
Non-cash stock-based compensation	2.0	3.6
Total sales and marketing	39.0	38.8
General and administrative:		
General and administrative, other	7.4	6.9
Non-cash stock-based compensation	3.3	6.2
Total general and administrative	10.7	13.1
Amortization of goodwill and other intangible assets	3.1	10.3

Total operating expenses	82.6	87.4
Income from operations	9.2	5.0
Interest income	1.4	2.7
Other expenses		(1.2)
Expenses related to proposed public offering		(2.6)
Income before provision for income taxes and share in loss of joint venture	10.6	3.9
Provision for income taxes	(3.0)	(5.7)
Income (loss) before share in loss of joint venture	7.6	(1.8)
Share in loss of joint venture, net	(2.4)	
Net income (loss)	5.2%	(1.8)%

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Three Months Ended March 31, 2002 and March 31, 2001

Revenues

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	
Revenues:		
License	$ 7,096	$ 9,148
Maintenance	5,406	4,543
Total revenues	$ 12,502	$ 13,691

Total Revenues. Total revenues were $12.5 million and $13.7 million for the three months ended March 31, 2002 and 2001, respectively, representing a decrease of 8.7% from 2001 to 2002.

License. License revenues were $7.1 million and $9.1 million for the three months ended March 31, 2002 and 2001, respectively, representing a decrease of 22.4% from 2001 to 2002. The decrease in new license revenues was due to unfavorable changes in macro-economic conditions and the resulting impact on information technology related spending.

Maintenance. Maintenance revenues were $5.4 million and $4.5 million for the three months ended March 31, 2002 and 2001 respectively, representing an increase of 19.0% from 2001 to 2002. The increase was due to the cumulative increase in the number of licenses sold and a corresponding increase in our customer base and maintenance renewals.

Cost of Revenues

	Three Months Ended March 31,	
	2002	2001
	(in thousands)	
Cost of revenues:		
License:		
License, other	$ 129	$ 173
Amortization of acquired technology	269	202
Total license	398	375
Maintenance:		
Maintenance, other	625	655
Non-cash stock-based compensation	1	4
Total maintenance	626	659
Total cost of revenues	$ 1,024	$ 1,034

License. Cost of license revenues consists primarily of amortization of acquired technology, royalties, product media and packaging, shipping fees, duplication expenses and amortization of capitalized research and development expenses. Cost of license revenues was $398,000 and $375,000 for the three months ended March 31, 2002 and 2001, respectively, representing an increase of 6.1% from 2001 to 2002. Excluding amortization of acquired technology, cost of license revenues decreased 25.4% from 2001 to 2002. The decrease in absolute dollars from 2001 to 2002 correlates to the decrease in license revenue. Cost of license revenues represented 5.6% and 4.1% of license revenues in the first three months of 2002 and 2001, respectively. Excluding amortization of acquired technology, cost of license, as a percentage of license revenue, was 1.8% and 1.9% in the first three months of 2002 and 2001, respectively. Cost of license revenues as a percentage of license revenues may vary in the future depending on the mix of internally developed versus externally licensed products and product components.

Maintenance. Cost of maintenance revenues consists primarily of customer support personnel and related expenses, including payroll, employee benefits and non-cash stock-based compensation. Cost of maintenance revenues was $626,000 and $659,000 for the three months ended March 31, 2002 and 2001, respectively, representing a decrease of 5.0% from 2001 to 2002. Cost of maintenance revenues represented 11.6% and 14.5% of maintenance revenues in the three months ended March 31, 2002 and 2001, respectively. The decrease in cost of maintenance as a percentage of related revenues from 2001 to 2002 was due to greater efficiencies of scale from the support organization.

Operating Expenses

Research and Development

	Three Months Ended March 31,	
	2002	**2001**
	(in thousands)	
Research and development:		
Research and development, other	$ 3,717	$ 3,411
Non-cash stock-based compensation	13	45
Total research and development	$ 3,730	$ 3,456

Research and development expenses consist primarily of personnel and related expenses, including payroll, employee benefits and non-cash stock-based compensation, as well as payments made to outside software development contractors. Research and development expenses were $3.7 million and $3.5 million for the three months ended March 31, 2002 and 2001, respectively, representing an increase of 7.9% from 2001 to 2002. As a percentage of total revenues, research and development expenses were 29.8% and 25.2% in the first three months of 2002 and 2001, respectively. The increase in absolute dollars and as a percentage of revenue from 2001 to 2002 was primarily due to an increase in research and development headcount and related expenses. We expect research and development expenses to increase in absolute dollars in future periods as additional development personnel are hired and as we expand our product development activities.

Sales and Marketing

	Three Months Ended March 31,	
	2002	**2001**
	(in thousands)	
Sales and marketing:		
Sales and marketing, other	$ 4,625	$ 4,822
Non-cash stock-based compensation	250	492
Total sales and marketing	$ 4,875	$ 5,314

Sales and marketing expenses consist primarily of salaries, commissions earned by sales personnel, non-cash stock-based compensation, trade shows, travel and other marketing communication costs, such as advertising and other marketing programs. Sales and marketing expenses were $4.9 million and $5.3 million for the three months ended March 31, 2002 and 2001, respectively, representing a decrease of 8.3% from 2000 to 2001. The decrease in absolute dollars from 2001 to 2002 was due to a reduction in discretionary marketing spending in 2002 due to the economic environment and in keeping with the lower license revenue in 2002 as compared to 2001. As a percentage of total revenues, sales and marketing expenses were 39.0% and 38.8% in the first three months of 2002 and 2001, respectively. Excluding non-cash stock-based compensation, as a percentage of total revenues, sales and marketing expenses were 37.0% and 35.2% in the first three months of 2002 and 2001, respectively. We plan to continue to invest resources to expand our selling efforts and to execute marketing programs that build the awareness and brand equity of our products. As a result of this, in addition to expected increases in commissions expense due to projected revenue growth, we expect sales and marketing expenses to increase in absolute dollars in future periods.

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General and Administrative

	Three Months Ended March 31,	
	2002	**2001**
	(in thousands)	
General and administrative:		
General and administrative, other	$ 924	$ 949
Non-cash stock-based compensation	417	844
Total general and administrative	$ 1,341	$ 1,793

General and administrative expenses consist primarily of non-cash stock-based compensation, salaries and related personnel expenses and general operating expenses. General and administrative expenses were $1.3 million and $1.8 million for the three months ended March 31, 2002 and 2001, respectively, representing a decrease of 25.2% from 2001 to 2002. As a percentage of total revenues, general and administrative expenses were 10.7% and 13.1% in the first three months of 2002 and 2001, respectively. Excluding non-cash stock based compensation, general and administrative expenses as a percentage of total revenues were 7.4% and 6.9% in the first three months of 2002 and 2001, respectively. The increase as a percentage of total revenues was due to the decrease in revenue in 2002; general and administrative expenses in absolute dollars, excluding non-cash stock-based compensation, were consistent year-to-year. We expect other general and administrative expenses to increase in absolute dollars in the future as we expand our administrative staff and facilities to support larger operations.

Amortization of Goodwill and Other Intangible Assets. In connection with the acquisitions of Advanced Software Technologies, Inc., EngineeringPerformance, Inc., and the remaining 56% of Embarcadero Europe Ltd., we recorded $21.4 million of goodwill and other intangible assets in the fourth quarter of 2000. The total amortization expense related to these costs was approximately $600,000 and $1.6 million in the first three months of 2002 and 2001, respectively. For the three months ended March 31, 2002 and 2001, approximately $200,000 of this amortization expense in each of these periods was recorded as cost of license revenue and the remaining $400,000 and $1.4 million, respectively, of expense was recorded as an operating expense. The decrease in amortization expense was due to adoption of SFAS No. 142, which required us to cease goodwill amortization except in cases of impairment (see discussion in Note 4 to the financial statements). Other intangible assets, those with identifiable lives, will continue to be amortized over their useful lives, ranging from 2 to 4 years.

Provision for Income Taxes. Provision for income taxes was $370,000 and $786,000 for the three months ended March 31, 2002 and 2001, respectively. The decrease in the provision for income taxes is due to an increase in projected tax credits for 2002 as well as the effects of a reduction in amortization of goodwill and deferred compensation expenses in 2002 compared to 2001.

Share in Loss of Joint Venture. In September 2001, we formed a joint venture with Aztec Software, Inc. (Aztec), a California corporation and wholly owned subsidiary of Aztec Software and Technology Services Limited, an Indian software development company publicly traded on the Bombay stock exchange. The joint venture was established to pursue new product initiatives that fall outside of our and Aztec s existing product offerings. In accordance with the terms of the agreement, Embarcadero and Aztec have each contributed $1.0 million to the venture. We account for this venture under the equity method of accounting. For our fifty percent share in the loss of the venture in the three months ended March 31, 2002, we recorded $300,000 (net of taxes of $117,000) as a loss from joint venture, net on our consolidated statement of operations. The future amount of income or loss recorded from the venture cannot currently be estimated. There can be no assurances that we will realize any income from our investment in this entity.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our business to date from cash generated by our operations and financings. In April 2000, we completed our initial public offering of common stock, generating net proceeds to us of approximately $43.0 million. As of March 31, 2002, we had cash, cash equivalents and short-term investments of $39.4 million.

Net cash provided by operating activities was $2.5 million and $5.5 million for the three months ended March 31, 2002 and 2001, respectively. The decrease from 2001 to 2002 was primarily due to changes in operating assets and liabilities and decreases in non-cash deferred stock-based compensation and amortization expenses, partially offset by an increase in net income and the share in loss of joint venture in 2002.

Net cash used in investing activities was $2.2 million and $2.8 million for the three months ended March 31, 2002 and 2001, respectively. In both quarters, cash used in investing activities was related to purchases of property and equipment. In the three months ended March 31, 2001, $2.2 million was used to acquire technology. In the three months ended March 31, 2002, a $2.0 million previously deferred payment was made in connection with an acquisition completed in 2000, $1.3 million, net was provided by sales and maturities of investments and $500,000 was invested in a joint venture.

Net cash provided by financing activities came from the exercise of stock options under the Company s stock option plan and was $484,000 and $261,000 in the three months ended March 31, 2002 and 2001, respectively.

We have a $2.0 million revolving credit facility with a bank that bears interest at the prime rate and expires on May 31, 2002. The credit facility requires that the Company maintain various quarterly financial covenants including covenants related to tangible net worth, total liabilities and profitability; we were in compliance with all covenants at March 31, 2002. The annual fee to maintain this credit facility is $5,000 and funds drawn from this credit facility can be used for general operating activities. We have not drawn on this credit facility; accordingly, as of March 31, 2002, we had no amounts outstanding under this credit facility.

We believe that our existing cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to finance our operations through at least the next 12 to 18 months. If we fail to generate cash flow from operations in the future due to an unexpected decline in revenues or due to a sustained increase in cash expenditures in excess of revenues generated, our cash balances may not be sufficient to fund continuing operations without obtaining additional financing. If additional financing is needed, there can be no assurance that such financing will be available to us on commercially reasonable terms, or at all.

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Factors That May Affect Future Results

In addition to other information in this report, the following factors should be considered carefully in evaluating the Company. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that we are unaware of or currently deem immaterial may also become important factors that may harm our business.

Our quarterly operating results may fluctuate in future periods, and, as a result, our stock price may fluctuate or decline.

Our growth rates may not be sustainable and you should not use our past performance to predict future results. We believe that quarter-to-quarter comparisons of our historical results of operations are not indicative of our future performance. Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, including the factors discussed below under the captions:

- We may be required to change our revenue recognition policies based on changing implementation guidelines and interpretations, which could cause our revenues and operating results to fluctuate unexpectedly;
- Large sales of our products and maintenance involve a lengthy sales cycle, which could cause delays in recognizing revenue or the failure to obtain revenue;
- The impact of changes in global economic conditions on our customers may cause us to fail to meet expectations, which would negatively impact the price of our stock;
- Our operating results would be harmed if the database industry continues in a downward cycle;
- We expect to incur increases in our operating expenses in the foreseeable future, which may affect our profitability;
- If our products do not perform as expected, we may lose customers, our costs will increase and revenues may be delayed or lost;
- Acquisitions of companies or technologies may result in disruptions to our business;
- We may have future non-recurring charges in the event of goodwill impairment; and
- If we are not able to enhance our existing products to adapt to rapid technological change, or we introduce new products that do not achieve market acceptance, our revenue and earnings may suffer and we may experience loss of market share.

Seasonal variations in orders for our products also contribute to fluctuations in our quarterly operating results. These fluctuations are likely to cause corresponding volatility in our stock price, particularly if our operating results vary from analysts expectations.

If sales of DBArtisan fall, our revenues and income may decline.

A large portion of our revenues currently comes from sales of our DBArtisan product. For the three months ended March 31, 2002 and the years ended December 31, 2001, 2000 and 1999, DBArtisan accounted for approximately 45.3%, 38.7%, 46.6% and 48.3%, respectively, of our domestic license revenues. We expect that sales of DBArtisan will continue to represent a substantial portion of our license revenues for the foreseeable future.

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In addition, many of our customers initiate a relationship with us by purchasing DBArtisan. If demand for DBArtisan declines due to competition, technological change or other factors, our revenues and income may decline significantly.

If we do not continue to add new customers, we will not be able to sustain or increase our revenues.

Our license arrangements do not generally provide for substantial ongoing license or maintenance payments. Therefore, our future revenue growth depends on our continued success in attracting new customers or expanding our relationships with existing customers. Our ability to attract new customers and expand our relationships with existing customers will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products and maintenance. Our failure to add new customers or to expand our relationships with existing customers would reduce our future revenues.

We may be required to change our revenue recognition policies based on changing implementation guidelines and interpretations, which may cause our revenues and operating results to fluctuate unexpectedly.

In recent years, software revenue recognition rules have been under heavy review and interpretation by various accounting authoritative and regulatory bodies, including the American Institute for Certified Public Accountants and the Financial Accounting Standards Board. These reviews and interpretations have resulted in significant changes in the practices and standards for recognizing revenues in software companies. The rapid pace of change in these standards could result in significantly different standards in the future. We may have to change our methods of revenue recognition to comply with new standards, and any such change could cause deferment of revenue recognized in current periods to subsequent periods or accelerated recognition of deferred revenue to current periods, either of which could cause shortfalls in meeting securities analysts and investors expectations in any period. Any such shortfalls could have an adverse impact on our stock price.

We invest heavily in research and development with no guarantee of return from the investments that we make.

We are nearing the end of a cycle of significant new product development. We have invested significant resources in the development of these new products; if our new products are not accepted in the marketplace, we could suffer a contraction of revenue growth and have limited return on the investments that we have made. In addition, we plan to continue to invest in research and development and could suffer the same effects from these future investments.

Large sales of our products and maintenance involve a lengthy sales cycle, which could cause delays in recognizing revenue or the failure to obtain revenue.

In the past two years, large sales of our products and maintenance to individual customers have increased. These large sales typically involve sales cycles between 6 and 12 months, which is considerably longer than our historical sales cycle. This lengthy sales cycle is due to the need to educate and convince prospective customers of the value of our products and to gain approval from a variety of constituencies within a prospective customer, including key management personnel. The timing of our revenues has become more difficult to forecast because of this lengthy sales cycle for large sales. We may expend substantial funds and effort to negotiate these sales with prospective customers but then be delayed in concluding, or be unable to conclude, sales of our products and maintenance. Any delay in, or failure to complete, sales in a particular period would reduce our revenues in that period as well as in subsequent periods over which revenues for the sale may be recognized. If our sales cycle unexpectedly lengthens in general or for one or more large sales, it could negatively affect the timing of our revenues and our revenue growth and may cause our revenues and operating results to vary significantly from period to period. If we were to experience a delay on a large order, it could harm our ability to meet our forecasts for a given period.

The impact of changes in global economic conditions on our customers may cause us to fail to meet expectations, which would negatively impact the price of our stock.

Our operating results can vary significantly based upon the impact of changes in global and domestic economic conditions on our customers. The domestic and economic environment in 2002 continues to be uncertain. The September 11, 2001 terrorist attacks in New York City, Washington, D.C. and Pennsylvania, and the continuing

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United States military response, has affected the economic environment. At the time of the attacks, capital investment by businesses, particularly investments in new technology, had been experiencing substantial weakness. This weakness was aggravated by the September 11, 2001 attacks and continues into 2002. Current economic and political uncertainty could result in further decline in new technology investments. These uncertainties could cause customers to defer or reconsider purchasing products or services if they experience a downturn in their business or if there is a further downturn in the general economy. Such events could have a material adverse effect on our business.

Our operating results would be harmed if the database industry continues in a downward cycle.

The markets into which we sell our products are cyclical and are subject to general economic conditions. The database industry has experienced a downturn due to declines in general economic conditions. For example, a number of companies that sell the database platforms that our products support, including Oracle Corporation, have reduced revenue and earnings expectations. In addition, we believe that the current economic downturn has had an impact on capital spending for database technology and related products.

We are uncertain as to how long and how deep the current downturn may be in the database market. Any continued or further slowdowns in the database market or in general economic conditions would likely result in a reduction in demand for our products and would harm our business.

If we cannot manage our expansion effectively, our rate of growth and income may decline.

We have recently experienced a period of expansion in our operations, both through internal growth as well as through acquisitions of companies in the United Kingdom, Colorado and Canada. This growth has placed, and will continue to place, a strain on our management, administrative, operational and financial infrastructure and we may not be able to effectively manage our growth in the future. To support our expanding operations, we have increased the number of our full-time employees from 105 as of December 31, 1999 to 268 as of December 31, 2000, 286 as of December 31, 2001 and 287 at March 31, 2002. We expect to hire additional employees to manage our expanding operations. Our ability to manage growth requires that we continue to improve our operational, financial and management controls and procedures. If we are unable to manage this growth effectively, our rate of growth and our income may decline.

We expect to incur increases in our operating expenses in the foreseeable future, which may affect our profitability.

We intend to increase our operating expenses for the foreseeable future as we continue to increase our sales and marketing, research and development activities and customer support operations. In connection with these expanded operations, we will need to increase our revenues. However, we will incur these increased expenses before we realize any increased revenues related to this spending. If these efforts do not increase revenues, our profitability may decline.

The expansion of our international operations exposes us to risks.

One aspect of our growth strategy is to expand our international operations. For example, in the fourth quarter of 2000, we expanded our sales and marketing capabilities by acquiring a company with operations in the United Kingdom. Also in 2000, we acquired a company with operations in Canada, which expanded our research and development capabilities. As a result, we could face a number of risks from our expanding international operations, including:

- staffing and managing foreign operations;
- increased financial accounting and reporting complexities;
- potentially adverse tax consequences;
- the loss of revenues and net income resulting from currency fluctuations;
- compliance with a wide variety of complex foreign laws and treaties;

- reduced protection for intellectual property rights in some countries;
- licenses, tariffs and other trade barriers;
- longer sales and payment cycles; and
- costs and difficulties of customizing products for foreign countries.

Further expansion of our international operations may require significant management attention and financial resources and may place burdens on our management, administrative, operational and financial infrastructure. Our possible investments in establishing facilities in other countries may not produce desired levels of revenue or profitability.

Our proprietary rights may be inadequately protected and infringement claims or independent development of competing technologies could harm our competitive position.

We rely on copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to establish and protect our proprietary rights. We also enter into confidentiality agreements with employees and consultants and attempt to restrict access to proprietary information on a need-to-know basis. Despite such precautions, unauthorized third parties may be able to copy aspects of our products or obtain and use information that we consider as proprietary.

We license our software products primarily under shrink-wrap licenses included as part of product packaging. Shrink-wrap licenses are not negotiated with or signed by individual licensees and purport to take effect upon the opening of the product package or downloading of the product from the Internet. These measures afford only limited protection. Policing unauthorized use of our products is difficult and we are unable to determine the extent to which piracy of our software exists. In addition, the laws of some foreign countries do not protect our proprietary rights as well as United States laws.

We may have to enter into litigation to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others with respect to our rights. Litigation is generally very expensive and can divert the attention of management from daily operations. Accordingly, any intellectual property litigation could disrupt our operations and harm our operating results.

We are not aware of any case in which we are infringing the proprietary rights of others. However, third parties may bring infringement claims against us. Any such claim is likely to be time consuming and costly to defend, could cause product delays and could force us to enter into unfavorable royalty or license agreements with third parties. A successful infringement claim against us could require us to enter into a license or royalty agreement with the claimant or develop alternative technology. However, we may not be able to negotiate favorable license or royalty agreements, if any, in connection with such claims and we may fail to develop alternative technology on a timely basis. Accordingly, a successful product infringement claim against us could harm our business and operating results.

If our products do not perform as expected, we may lose customers, our costs will increase and revenues may be delayed or lost.

Computer software such as ours often contains undetected errors and may contain design flaws. Errors may be found in current versions, new versions or enhancements of our products after we make commercial shipments. If our software contains undetected errors, performs unreliably, or if we otherwise fail to meet our customers expectations, we may suffer:

- loss of revenues, market share or customers;
- negative publicity and harm to our reputation;
- diversion of research and development and management resources;

- increased maintenance and warranty costs;
- legal actions by customers against us; and
- increased insurance costs.

Acquisitions of companies or technologies may result in disruptions to our business.

We may make strategic acquisitions of companies, products or technologies as necessary in order to implement our business strategy. If we make acquisitions and are unable to successfully integrate them with our existing operations, we may not receive the intended benefits of such acquisitions and the revenue and operating results of the combined company may decline. Any acquisition may temporarily disrupt our operations and divert management s attention from day-to-day operations. In addition, acquisitions may subject us to unanticipated liabilities or risks.

While we have financed our acquisitions to date primarily with working capital, we may incur debt or issue equity securities to finance future acquisitions. The issuance of equity securities for any acquisition could be substantially dilutive to our stockholders. In addition, our profitability may suffer due to acquisition-related expenses.

We may have future non-recurring charges in the event of goodwill impairment.

We adopted SFAS No. 142 on January 1, 2002 and, as a result, we have ceased amortization of goodwill. Going forward, we will be required to test our goodwill for impairment on an annual basis or in the event of a significant change in our business. We performed this test in January 2002 and determined that, at that time, there had been no impairment in goodwill. At March 31, 2002 our net goodwill totaled $10.3 million. In the future, if we determine that this goodwill has been impaired, we will be required to take a non-recurring charge to write down this asset, which would adversely affect our earnings.

If we are not able to enhance our existing products to adapt to rapid technological change, or we introduce new products that do not achieve market acceptance, our revenue and earnings may suffer and we may experience loss of market share.

The market for our products is characterized by rapid technological change, frequent product introductions and enhancements, uncertain product life cycles and changes in customer demands and industry standards. Our success depends on our ability to continue to:

- enhance our current products;
- introduce new products that keep pace with technological developments;
- satisfy increasingly complicated customer requirements;
- integrate our products with multiple database platforms; and
- modify our products as database platforms change.

However, due to the nature of computing environments and the performance demanded by customers for database management software, new products and product enhancements could require longer development and testing periods than we currently anticipate. Moreover, if we develop new products that do not achieve market acceptance, we may not be able to recoup development and marketing expenses, which could harm our operating results.

The introduction of new technologies and the emergence of new industry standards may render our existing products obsolete and unmarketable. Delays in the general availability of new releases or problems in the installation or implementation of new releases could harm our business and operating results. We may not be successful in developing and marketing, on a timely and cost-effective basis, new products or new product enhancements that

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respond to technological change, evolving industry standards or customer requirements. Our failure to do so would render our products obsolete and could harm our ability to compete. In addition, our products and product enhancements may not achieve market acceptance.

If we are not able to attract and retain qualified personnel, our business will not be able to grow.

Our success depends on the continued service of our executive officers and other key administrative, sales and marketing, research and development and support personnel. None of our executive officers or key employees is bound by an employment agreement for any specific term and we do not maintain any key person life insurance policies. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with us, our business could be seriously harmed.

Our business will not be able to grow if we cannot attract, retain and motivate qualified personnel. Despite the economic downturn, competition for qualified employees remains intense and we may not be able to attract, assimilate or retain highly qualified personnel in the future. There has in the past been and there may in the future be a shortage of personnel that possess the technical background necessary to sell, support and develop our products effectively. Some of our current employees and those that we seek to hire may be subject to non-competition or non-solicitation covenants that could further limit our ability to attract or retain qualified personnel.

We may lose market share and be required to reduce prices as a result of competition from our existing competitors, independent software vendors and manufacturers of compatible software.

The market for our products is highly competitive, dynamic and subject to rapidly changing technology. We compete primarily against other providers of application design and database management utilities, which include Computer Associates, Quest Software, BMC Software, Rational Software and other independent software vendors. Our products also compete with products offered by database software manufacturers, including Oracle, Microsoft, Sybase and IBM. Some of these competing products are provided at no charge to their customers. We expect that companies such as Oracle, Microsoft, Sybase and IBM will continue to develop and incorporate into their products applications which compete with our products and may take advantage of their substantial technical, financial, marketing and distribution resources in those efforts. We may not be able to compete effectively with those products or efforts, which could significantly harm our business and operating results.

In addition, if the market for application design and database management products continues to grow, some of our competitors may increase their focus on offering software directly competitive with ours, whether by internal development, external development or acquisition. Our competitors may also attempt to keep us from integrating our software with theirs, making it more difficult for our customers to adopt our software. If such increased competition were to result in resistance to integration of our software with the software of these competitors, our business would be harmed.

Further, if a single database platform were to gain a considerably larger share of the database market than other database platforms, we would lose our multi-platform competitive advantage and our sales would suffer. Many of our competitors have longer operating histories, substantially greater financial, technical, marketing and other resources, and greater name recognition than we do. They also may be able to respond more quickly than we can to changes in technology or customer requirements. Competition could seriously impede our ability to sell additional products on acceptable terms. Our competitors may:

- develop and market new technologies that render our products obsolete, unmarketable or otherwise less competitive;

- make strategic acquisitions or establish cooperative relationships among themselves or with other companies, thereby enhancing the functionality of their products; or

- establish or strengthen cooperative relationships with channel or strategic partners which limit our ability to sell or to co-market products through these channels.

Competitive pressures could reduce our market share, reduce customer orders, reduce gross margins or require us to reduce our prices, any of which would harm our operating results.

We are susceptible to business interruptions that could harm our business.

Our operations are vulnerable to damage or interruption from computer viruses, human error, natural disasters, telecommunications failures, intentional acts of vandalism and similar events. In particular, our corporate headquarters are located in San Francisco, which is known for seismic activity. Although we have a disaster recovery plan for critical data and business applications, this does not provide assurance that we would not suffer a business interruption. A significant business interruption would result in losses or damages incurred by us and would harm our business. Our business interruption insurance may not be adequate to compensate us for losses that might occur.

Insiders have substantial control over us, which could limit others ability to influence the outcome of key transactions.

Our executive officers and directors, in the aggregate, beneficially 34.3% of our outstanding common stock as of March 31, 2002. These stockholders, if acting together, can influence significantly all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions.

We expect the price of our common stock to remain volatile, making it difficult for our stockholders to predict the return on their investment.

Since our initial public offering, the market price of our common stock has fluctuated significantly in response to a number of factors, some of which are beyond our control, including:

- changes in market valuation of software and Internet companies;
- quarterly variations in our operating results;
- global and domestic economic conditions;
- changes in financial estimates by securities analysts;
- announcements that we or our competitors make related to significant contracts, acquisitions, capital commitments, strategic partnerships or product introductions or enhancements;
- additions or departures of key personnel;
- stock market price and volume fluctuations, which are particularly volatile among securities of software and Internet companies; and
- sales of significant amounts of our common stock or other securities in the open market.

The market for technology and Internet-related companies has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These fluctuations may adversely affect the trading price of our common stock, regardless of our actual operating performance.

Provisions of our charter and bylaws and Delaware law could deter takeover attempts that might be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and bylaws as well as Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. We are subject to the provisions of Delaware law, which restrict business combinations with interested stockholders, which may have the effect of inhibiting a non-negotiated merger or other business combinations.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market risk for changes in interest rates primarily relates to our investment portfolio, which at March 31, 2002 included fixed-income securities with a fair value of approximately $15.2 million. The values of these securities are likely to decline if interest rates increase. However, due to the short maturities of our investments, an immediate 10 percent change in interest rates is not expected to have a material effect on our near-term financial condition or results of operations.

Foreign Exchange Risk

Our operations are conducted primarily in the United States and are denominated in United States dollars. A small but growing portion of our sales originate through our European subsidiary and are denominated in Pounds Sterling. From time to time, we enter into forward exchange contracts to hedge our European balance sheet. Gains and losses on these contracts are generally recognized in the consolidated statement of operations at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on forward exchange contracts generally offset the related effect on the underlying items being hedged, use of these instruments is not expected to subject the Company to risks that would otherwise result from changes in currency exchange rates. We do not use derivative financial instruments for trading or speculative purposes. The Company did not enter into any forward exchange contacts in the three months ended March 31, 2002. Net foreign currency gain and loss did not have a material effect on our results of operations in the three months ended March 31, 2002 or 2001.

Forward exchange contracts are denominated in the same currency as the underlying transactions (i.e. Pounds Sterling), and the terms of the forward exchange contracts generally match the terms of the underlying transactions. The effect of an immediate 10 percent change in exchange rates on forward exchange contracts and the underlying hedged transactions is not expected to be material to our near-term financial condition or results of operations.

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PART II

OTHER INFORMATION

ITE M 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

None

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SIGNATURES

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

EMBARCADERO TECHNOLOGIES, INC.

By: /s/ RAJ SABHLOK

Raj Sabhlok
Chief Financial Officer and Senior Vice President of Corporate Development

Date: May 14, 2002