WIND RIVER SYSTEMS INC
Form 10-Q
June 11, 2007
Table of Contents

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 April 30, 2007

or

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

For the transition period from ______ to ______

Commission file number 001-33061

WIND RIVER SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-2873391**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

500 Wind River Way, Alameda, California 94501

(Address of principal executive offices, including zip code)

(510) 748-4100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). Yes ¨ No x

As of May 31, 2007, there were 85,680,049 shares of the Registrant s $0.001 par value common stock outstanding.

Table of Contents

WIND RIVER SYSTEMS, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2007

TABLE OF CONTENTS

Unless stated otherwise, references in this report to Wind River, we, our, us or the Company refer to Wind River Systems, Inc., a Delaware corporation, and its consolidated subsidiaries.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WIND RIVER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30, 2007	2006
Revenues, net:		
Product	$ 28,196	$ 26,843
Subscription	28,825	21,660
Service	21,028	16,473
Total revenues, net	78,049	64,976
Cost of revenues:		
Product	525	779
Subscription	4,488	4,002
Service	13,970	10,589
Amortization of purchased intangibles	585	133
Total cost of revenues	19,568	15,503
Gross profit	58,481	49,473
Operating expenses:		
Selling and marketing	33,423	27,619
Product development and engineering	19,881	17,549
General and administrative	10,347	8,113
Amortization of other intangibles	112	95
Total operating expenses	63,763	53,376
Loss from operations	(5,282)	(3,903)
Other income (expense):		
Interest income	2,146	1,957
Interest expense	(104)	(618)
Other expense, net	(101)	(88)
Total other income, net	1,941	1,251
Loss before income taxes	(3,341)	(2,652)

Provision for (benefit from) income taxes	1,210	(532)
Net loss	$ (4,551)	$ (2,120)
Net loss per share:		
Basic and diluted	$ (0.05)	$ (0.02)
Shares used in per share calculation:		
Basic and diluted	85,260	85,773

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

Table of Contents

WIND RIVER SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	April 30, 2007	January 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,055	$ 71,316
Short-term investments	26,754	38,959
Accounts receivable, net	63,534	74,763
Prepaid and other current assets	17,925	17,239
Total current assets	180,268	202,277
Investments	102,165	92,704
Property and equipment, net	75,335	74,997
Goodwill	114,624	108,354
Other intangibles, net	7,481	3,721
Other assets	16,410	16,512
Total assets	$ 496,283	$ 498,565
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,685	$ 7,131
Accrued and other current liabilities	14,530	15,892
Accrued compensation	20,289	20,093
Income taxes payable	121	1,376
Deferred revenues	114,633	112,161
Total current liabilities	156,258	156,653
Long-term deferred revenues	11,364	14,868
Other long-term liabilities	5,761	2,910
Total liabilities	173,383	174,431
Stockholders equity:		
Preferred stock, par value $0.001, 2,000 shares authorized, 1,250 designated as Series A Junior Participating, 750 undesignated; no shares issued and outstanding		
Common stock, par value $0.001, 325,000 shares authorized; 88,916 and 88,481 shares issued as of April 30, 2007 and January 31, 2007, respectively; 85,184 and 85,401 shares outstanding as of April 30, 2007 and January 31, 2007, respectively	89	88
Additional paid-in-capital	834,260	825,570
Treasury stock, 3,732 and 3,080 shares at cost as of April 30, 2007 and January 31, 2007, respectively	(52,769)	(46,233)
Accumulated other comprehensive income (loss)	636	(1,867)
Accumulated deficit	(459,316)	(453,424)
Total stockholders equity	322,900	324,134

Total liabilities and stockholders equity	$ 496,283	$ 498,565

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

Table of Contents

WIND RIVER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006
Cash flows from operating activities:		
Net loss	$ (4,551)	$ (2,120)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,049	2,566
Amortization of bond issuance costs		84
Stock-based compensation expense	5,337	5,368
401(k) common stock match	626	547
Realized loss from sales of available-for-sale securities, net	83	62
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	12,297	11,256
Accounts payable	(470)	(3,012)
Accrued liabilities	(1,384)	(1,163)
Accrued compensation	(419)	83
Income taxes payable	(947)	(1,543)
Deferred revenues	(2,715)	2,156
Other assets and liabilities	1,411	(1,050)
Net cash provided by operating activities	12,317	13,234
Cash flows from investing activities:		
Acquisitions of property and equipment	(2,489)	(1,594)
Acquisitions, net of cash acquired	(10,112)	(17,174)
Purchases of investments	(24,610)	(11,361)
Sales of investments	665	177
Maturities of investments	27,176	20,363
Net cash used in investing activities	(9,370)	(9,589)
Cash flows from financing activities:		
Issuance of common stock	2,728	2,840
Repurchase of common stock	(6,536)	(4,228)
Repayment of loan		(3)
Net cash used in financing activities	(3,808)	(1,391)
Effect of exchange rate changes on cash and cash equivalents	1,600	583
Net increase in cash and cash equivalents	739	2,837
Cash and cash equivalents at beginning of period	71,316	59,279
Cash and cash equivalents at end of period	$ 72,055	$ 62,116

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

Table of Contents

WIND RIVER SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1: The Company and Summary of Significant Accounting Policies

The Company. Wind River Systems, Inc. (Wind River or the Company) is a global leader in Device Software Optimization (DSO). Wind River s software is used to develop, run and manage devices faster, better, at lower cost and more reliably. Wind River s software and development tools are used to optimize the functionality of devices as varied as set-top boxes, automobile braking and navigation systems, mobile handsets, Internet routers, avionics control panels, and coronary pacemakers. Wind River offers customers DSO solutions to enhance product performance, standardize designs across projects and throughout the enterprise, reduce research and development costs and shorten product development cycles.

Wind River markets its products and services in North America, EMEA (comprising Europe, the Middle East and Africa), Japan and the Asia Pacific region, primarily through its own direct sales organization, which consists of sales persons and field engineers. Wind River also licenses distributors, primarily in international regions, to serve customers in regions not serviced by its direct sales force. Wind River was incorporated in California in February 1983 and reincorporated in Delaware in April 1993.

Basis of Presentation. Wind River has prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, Wind River believes that the disclosures are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in Wind River s Annual Report on Form 10-K for the fiscal year ended January 31, 2007 filed with the SEC on May 1, 2007.

Wind River believes that all necessary adjustments, which consist of normal recurring items, have been included in the accompanying consolidated financial statements to state fairly the results of the interim periods. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for Wind River s fiscal year ending January 31, 2008.

The condensed consolidated financial statements include the financial information of Wind River and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, estimates are used for, but not limited to, the accounting for stock-based compensation, the allowance for doubtful accounts, sales returns and other allowances, valuation of investments, goodwill and purchased intangibles, deferred tax assets and liabilities and income taxes and any associated valuation allowance or reserves, percentage of completion accounting, accrued compensation and other accruals, and the outcome of litigation and other contingencies. Wind River bases its estimates on historical experience and various other assumptions that are believed to be reasonable based on the specific circumstances. Wind River s management has discussed these estimates with the Audit Committee of the Board of Directors. These estimates and assumptions form the basis for making judgments about the carrying value of certain assets and liabilities. Actual results could differ from these estimates.

Recent Accounting Adoptions. On February 1, 2007, the Company adopted the consensus reached in Emerging Issues Task Force (EITF) Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). EITF 06-2 provides recognition guidance on the accrual of employees rights to compensated absences under a sabbatical or other similar benefit arrangement. Prior to the adoption of EITF 06-2, the Company recorded a liability for sabbatical leave upon employee vesting in the benefit, which occurred only at the end of a five-year service period. Under EITF 06-2, the Company accrues an estimated liability for sabbatical leave over the requisite five-year service period, as employee services are rendered. The adoption of EITF 06-2 resulted in a $1.3 million increase to accumulated deficit and accrued compensation and other long-term liabilities as of February 1, 2007.

On February 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not result in a material adjustment to accumulated deficit and decreased income taxes payable and other assets by $308,000 and $313,000, respectively, as of February 1, 2007. See Note 5, Income Taxes, for further information.

Recent Accounting Pronouncements. In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides accounting guidance on the definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 will be effective beginning in the first quarter of fiscal 2009. The Company is evaluating the impact that this statement will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective in the first quarter of fiscal 2009. The Company is evaluating the impact that this statement will have on its consolidated financial statements.

Note 2: Business Combinations, Goodwill and Intangible Assets

Acquisition of the RTLinux Business

On February 12, 2007, the Company acquired the intellectual property, including patents, copyrights, trademarks and associated product rights for the RTLinux business from Finite State Machine Labs, Inc. RTLinux is a commercially-available, patented, hard real-time Linux technology, which will broaden the Company s product offerings for its Linux-based device software platforms. Pursuant to the purchase agreement, the Company also acquired rights to future runtime revenue streams for assumed RTLinux contracts. The Company paid approximately $10.1 million, comprised of $9.8 million in cash consideration, plus direct acquisition costs. The purchase was accounted for as a taxable transaction and, in accordance with SFAS No. 141, *Business Combinations*, the total consideration was allocated to the intangible assets acquired and liabilities assumed, based on their estimated fair values.

The following table reflects the preliminary allocation of the total purchase price of $10.1 million as of the date of purchase (in thousands):

Core and developed technology	$ 3,900
Customer contracts and related relationships	200
Non-compete agreements	200
Trademarks	100
Goodwill	5,835
Deferred revenues	(123)
Total purchase price	$ 10,112

In performing the preliminary purchase price allocation of acquired intangible assets, Wind River considered its intention for the future use of the assets, analyses of historical financial performance, and estimates of the future performance of RTLinux, amongst other factors. Wind River used the income valuation approach in determining the fair values of the acquired intangible assets. The goodwill of $5.8 million represents Wind River s assigned value for the long-term potential of the integration of RTLinux into Wind River s overall Linux product strategy and is expected to be fully deductible for tax purposes. The estimated useful economic lives of the identifiable intangible assets acquired in the acquisition are three years for the developed and core technology and customer contracts and related relationships, two years for the non-compete agreements and five years for the trademarks. The final purchase price allocation will depend primarily upon the finalization of the valuation of acquired intangible assets.

The condensed consolidated financial statements include the operating results of the RTLinux business from the date of acquisition. Pro forma results of operations have not been presented because the effect of this acquisition was not material to the consolidated statement of operations, balance sheets, or cash flows of Wind River.

Acquisition of Interpeak AB

On March 20, 2006, Wind River acquired Interpeak AB, a privately held Swedish company, for approximately $18.6 million, comprised of $17.8 million in cash consideration, plus direct acquisition costs. For additional information, see Note 3, Goodwill and

Table of Contents

Purchased Intangibles, of the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2007.

Goodwill and Intangibles

The following table summarizes the Company s goodwill and other intangible assets (in thousands):

	January 31, 2007	April 30, 2007
		Gross Carrying
	Net	Amount