WIND RIVER SYSTEMS INC
Form 10-K
May 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

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 Act). Yes ¨ No x

As of July 31, 2006, the aggregate market value of the Registrant s common stock held by non-affiliates of the Registrant, based upon the closing price on the NASDAQ Market on July 31, 2006 was approximately $497,901,996. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of April 18, 2007, there were 85,114,383 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III of this Form 10-K is incorporated by reference to the definitive proxy statement for the Registrant s 2007 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after January 31, 2007.

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WIND RIVER SYSTEMS, INC.

ANNUAL REPORT ON FORM 10-K

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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.

Wind River, VxWorks, Tornado and Wind are registered trademarks of Wind River Systems, Inc., and Wind River Systems is the trademark of Wind River Systems, Inc. All other names mentioned are trademarks, registered trademarks or service marks of their respective companies or organizations.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Annual Report on Form 10-K, the words could, may, anticipate, believe, estimate, expect, intend, plan and variations of such words and similar expressions as they relate to our management or to Wind River are intended to identify these forward-looking statements. These forward-looking statements include, but are not limited to, statements related to our expected business, results of operations, future financial position, business strategy, including acceptance of our product lines and our use of an open-source strategy, the potential release of all or a portion of our valuation allowance associated with our deferred tax assets, our shift to an enterprise licensing model and the continued shift of our customers to our subscription-based enterprise license Wind River Platforms, our ability to increase our revenues, including deferred revenues, our cost of product, subscription and services, our financing plans and capital requirements, our investments, our expenses, including changes in selling and marketing and general and administrative expenses, our accounting for certain acquisitions, the effect of recent accounting pronouncements, forecasted trends relating to our sales or the markets in which we operate and similar matters and include statements based on current expectations, estimates, forecasts and projections about the economies and markets in which we operate and our beliefs and assumptions regarding these economies and markets.

These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated herein. Factors that could cause or contribute to such differences include, but are not limited to, the success of our implementation of our new and current products, business models and market strategies, the outcome of litigation to which we are a party and its impact on our business, the ability to address rapidly changing technology and markets and to deliver our products on a timely basis, the ability of our customers to sell products that include the Company s software, the impact of competitive products and pricing, weakness in the economy generally or in the technology sector specifically, the success of the Company s strategic relationships, the timing and outcome of actions and events relating to the Company s historical stock option granting practices and related accounting, potential governmental inquiries and private litigation, as well as the impact of other costs and other factors discussed under Part I, Item 1A, Risk Factors .

These forward-looking statements speak only as of the date this Annual Report on Form 10-K was filed and of information actually known at that time. We do not intend to update these forward-looking statements to reflect events or circumstances that occur after the filing of this Annual Report on Form 10-K or to reflect the occurrence or effect of anticipated events, except as required by law.

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PART I

ITEM 1. BUSINESS

General

Wind River was incorporated in California in February 1983 and reincorporated in Delaware in April 1993. Our mailing address and principal executive offices are located at 500 Wind River Way, Alameda, California 94501, and the telephone number at that location is 510-748-4100. Our website is www.windriver.com. Information posted on our website is not incorporated by reference into this Annual Report on Form 10-K.

The State of the Industry

As demands for connectivity, security, and mobility increase, devices across many industries are becoming more complex. In order to meet these needs, device manufacturers are designing more feature-rich products driven by smaller, more powerful microprocessors that require increasingly sophisticated software operating systems to run them.

Innovation exerts pressure on device manufacturers. Agile competitors are shrinking margins down their supply chain. As device functionality evolves, developers are being forced to increase the code size of their applications. As devices become more complex and the time required to adequately test them increases, the pressure to reach market quickly with competitively priced products grows. All these factors are addressed by commercial off-the-shelf (COTS) platform products, which include a range of components. These platforms cover the entire life cycle of a device, from development to distribution, helping drive the transformation of the old embedded systems industry into the Device Software Optimization (DSO) industry.

Device Software Optimization

Wind River is one of the global leaders in DSO. Our customers manufacture devices as varied as set-top boxes, automobile braking and navigation systems, mobile handsets, Internet routers, avionics control panels, and coronary pacemakers. They use our platforms to develop, run, and manage their products faster, better, at lower cost, and more reliably. Wind River software is currently deployed in over 350 million devices.

Wind River DSO solutions combine an open, Eclipse-based development suite, a choice of operating systems, industry-specific middleware, device management software and a set of validated hardware and software partner technologies to offer device manufacturers, scalable COTS software development platforms. These solutions enable device development and include the operating system distributed with the devices. Wind River DSO complements our product offerings with industry-leading technical support and education services. Our network of approximately 254 professional services engineers offers our customers assistance with design, migration, and project management. Because our solutions are based on open standards and promote enterprise-wide standardization, they allow companies to reuse compatible software components, and to move engineers more easily and cost-effectively between projects and sites.

We also offer a range of hardware-assisted debugging tools and hardware reference designs that customers can incorporate into their products or use in the development or prototype stage. Our Lab and Field Diagnostics software products extend Wind River s test tools across the entire device lifecycle, from product design through end of life. Our new Device Management product line, which combines an enterprise-class server backend with device-based capabilities for management, offers our customers and their customers more efficient and less expensive ways to support deployed devices, as well as the means to extend the revenue-generating life of their products. Going forward, we expect this to open new and underserved markets to Wind River.

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Device Software Systems

Device software is incorporated into a larger device and is used to control, monitor, or assist the operation of that device. As a result, device software systems are designed to provide an immediate response to external events, making reliability a key requirement for this class of software. Device software application development has evolved from a relatively modest part of building a device to a complex engineering effort. As more powerful microprocessors become available and decrease in price, device software is being used in a wider range of digital devices and new classes of products. Hardware innovations (such as multicore) make faster, more powerful, and more versatile devices possible, but they also require the more flexible and streamlined development platforms and practices that constitute DSO. A new generation of tools is required to develop and test these complex, often system-critical applications.

Products and Services

Wind River products and services help customers create, test, and support complex device software applications more quickly and economically, and with less risk than they would encounter creating such applications with internally developed or less well-integrated systems and tools. Our value proposition is to offer integrated, enterprise-wide device software development solutions, based on open standards and supported worldwide by a trusted vendor.

Wind River Platforms

Our primary product offering includes a variety of Wind River platforms, which we typically license using an enterprise (subscription) license model. Wind River platforms bundle our integrated development suite (Workbench), one or more operating systems, and industry-specific or market-specific middleware. In most cases, these subscription licenses also include downstream production rights, under which customers pay an aggregated per unit fee for the right to produce their products that incorporate our intellectual property.

Our Wind River platform products include:

- Either VxWorks, our proprietary real-time operating system, or the Linux open-source software operating system.
- Wind River Workbench, an integrated development suite that supports both VxWorks and Linux operating systems, and a wide range of processor architectures. Based on Eclipse, an open-source framework for developing integrated development environments, Workbench provides developers with a single, powerful, and extensible development environment for the entire development life cycle.
- Industry-specific or market-specific middleware tied closely to the device operating system. This middleware is used by the customer s unique application and provides the necessary networking, security, mobility, wireless and management protocols.
- Maintenance support.
- Access to a broad network of hardware and software partners.

Our Wind River platforms are:

Wind River General Purpose Platform, VxWorks Edition

This platform is designed to integrate VxWorks, our proprietary real-time operating system, with Workbench, our advanced development suite, and standardized middleware for networking, security, and management. Features of the platform include complete IPv6 Ready certified networking technologies, memory protection, significant POSIX compliance, and hardware support, including the latest multicore processors from leading semiconductor manufacturers. The platform provides a reliable foundation, so device manufacturers can focus on product

differentiation at the application level and bring products to market in a timely fashion.

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Wind River Platform for Network Equipment, VxWorks Edition

This platform is designed for the network infrastructure equipment market. It enables rapid development of reliable real-time devices for wireless infrastructure, broadband access, and data networking using an advanced operating system, development tools, and networking middleware. Platform for Network Equipment includes a suite of network management protocols, wireless software, security components, connectivity protocols, a high-performance router stack, and routing protocols.

Wind River Platform for Consumer Devices, VxWorks Edition

This platform is designed for the consumer device market. It enables our customers to leverage technologies commonly required in consumer products, such as scalability, industry-standard IPv6 functionality, security, connectivity, wireless, networking, graphics, device management, and Web services. Including our integrated, end-to-end development suite, Platform for Consumer Devices allows customers to accelerate the development life cycle without compromising software quality.

Wind River Platform for Automotive Devices, VxWorks Edition

This platform is designed for the development of automotive infotainment, telematics, and under-the-hood devices. Built on our development suite, this platform supports a variety of in-car network protocols and wireless network protocols.

Wind River Platform for Industrial Devices, VxWorks Edition

This platform provides our customers with foundation software to build reliable and efficient industrial automation, test and measurement, and medical devices. In addition to our integrated development suite, this platform includes protocols for industrial connectivity, secure networking, graphics, and device management middleware.

Wind River Platform for Safety Critical ARINC 653/Wind River Platform for Safety Critical DO-178B

Both versions of this platform were designed for the development of safety- and mission-critical devices, such as those used in the aerospace, industrial, and medical markets. The platform has been certified to meet the requirements of both DO-178B, the industry standard for certifying new aviation software, and IEC61508, an international standard for electronic safety-related systems. The ARINC 653 version combines Wind River s securely partitioned VxWorks 653 real-time operating system and our integrated development environment, enabling the user to accelerate the development, configuration, and debugging of safety-critical systems. The ARINC 653 version also offers complete ARINC 653-1 compliance (i.e., compliance with industry standards specifying the air transport avionics equipment and systems used by commercial aircraft worldwide). DO-178B, level A certification evidence is also available.

Wind River General Purpose Platform, Linux Edition

This platform is our base Linux distribution, and is targeted to a wide variety of applications in the industrial, aerospace, defense, medical, and other markets. The platform is available on a range of processors and architectures, including ARM, MIPS, XScale, PowerPC, and Intel-based architectures. It provides the foundation for all Wind River Linux platforms and is distributed with Wind River Workbench, as well as a set of open-source-based middleware applications for networking, file systems, security, and other applications.

Wind River Platform for Network Equipment, Linux Edition

This platform also targets the network infrastructure market, but is designed specifically for the needs of our telecommunications and networking customers. It is used for designing control and management plane software wireless network elements, enterprise routing and security, Voice over IP, and broadband access solutions. Platform for Network Equipment meets telecommunications industry standards expected of Carrier Grade Linux, including registration with The Linux Foundation (formerly the Open Source Development Lab or OSDL) Carrier Grade Linux specification 2.02, as well as registration with the Service Availability Forum s HPI and AIS interfaces.

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Wind River Platform for Consumer Devices, Linux Edition

This platform is designed for mobile handheld consumer devices, digital video, and digital imaging solutions. It supports the necessary standards defined by the Consumer Electronics Linux Forum (CELF) to deliver a foundation for mobile phones, set-top boxes, digital recorders, and other devices. It is designed for very small-footprint, battery-powered devices that require fast boot times. The platform supports the ARM and MIPS architectures.

A key focus for Wind River is to drive standardization across our platforms. Wind River Workbench is the common development environment that supports all Wind River platforms. We adopt standard programming models, interfaces, hardware, and technologies that span operating environments. For example, certain high levels of POSIX compliance in VxWorks enable enhanced code portability across operating systems, including Linux. POSIX is a standard that defines the application programming interfaces for software. We have adopted TIPC, the open-source Transparent Interprocess Communication protocol, as the common messaging protocol. This enables systems of any supported device operating system type to communicate and interoperate transparently. We also support management technologies common across VxWorks and Linux through standardization and portability.

Wind River Workbench

Wind River Workbench is our integrated development suite for designing, developing, debugging, and testing device software compatible on our VxWorks- or Linux-based platforms. Based on the open Eclipse framework, Workbench allows developers to take advantage of dozens of third-party plug-ins to provide additional software design, development, and testing capabilities. Workbench is designed to allow companies to standardize on a single development tools platform across projects and teams, optimizing device software development processes and significantly shortening time-to-market.

Device Management Products

Our Device Management products provide an infrastructure that allows engineers to develop self-documenting device software that can be remotely diagnosed and repaired in real time. The Device Management infrastructure facilitates cross-functional collaboration, enabling customers to recognize efficiencies and economies at each stage of the device lifecycle:

During design and development, developers use Wind River Workbench Diagnostics (a component of Wind River Field Diagnostics) to instrument and debug code using Sensorpoints.

During system integration, quality assurance and test, teams use Wind River Lab Diagnostics to exercise running software.

After deployment, support engineers use Wind River Field Diagnostics to remotely diagnose, repair, and update software.

Wind River Device Management enables original equipment manufacturers in the device field to improve device quality, minimize support costs, and extend the revenue-generating life of their products. Interoperable with Wind River Workbench, Device Management products complete and differentiate Wind River s COTS platform offerings from the offerings of other DSO providers.

Add-On Development Tools: On-Chip Debugging, Reference Boards, and Wind River Compiler

The on-chip debugging and compiler market is shifting from being dominated by stand-alone tool solutions to being characterized by solutions that are tightly integrated with semiconductor or embedded operating system offerings. This change provides an opportunity for Wind River to extend our market position in on-chip debugging and compiler solutions. Our comprehensive product line includes Wind River Workbench On-Chip

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Debugging Edition, the industry-leading Eclipse-based JTAG debugging environment, and associated hardware: Wind River ICE, Wind River Probe, and Wind River Trace. Our solution helps engineers debug complex 32-bit, 64-bit, and multicore processors.

In addition to providing on-chip debugging tools for the development environment, Wind River also offers a test and manufacturing solution that allows engineers to debug device problems on the manufacturing line and integrate on-chip debugging into test automation programs. This product uses the same Wind River ICE and Wind River Probe as in the development process, but is combined with a specific test and manufacturing software solution: the Wind River On-Chip Debugging API and Utility. Hardware reference boards are also available to assist in jump-starting development efforts. Wind River also offers high-performance, low-footprint, reliable, and flexible compiler technology that ships with our VxWorks platforms and is also available as a stand-alone offering.

Networking Technologies

Wind River networking technologies provide a common set of tools across operating system environments, including VxWorks and Wind River Linux. Based on intellectual property acquired from Interpeak AB, Wind River networking technologies include IPv6 Ready certified networking, as well as advanced wireless, security, and mobility technologies. These technologies enable customers to write device networking applications once, then leverage those applications across VxWorks and Wind River Linux platforms and versions with little or no modification.

Open-Source Strategy

Delivering open-source solutions is a key component of Wind River s DSO strategy. Our tools for building device software are based on the Eclipse framework, an open-source development tools project. This gives developers access to dozens of commercial and development plug-ins that enhance the software design, development, and testing capabilities of Workbench. Our strategy allows our customers to choose the best tools available, as well as redirect significant resources to development of brand-new technologies and tools, rather than devote them to the creation and maintenance of proprietary alternatives to existing products.

A growing part of our product portfolio relates to the open-source Linux operating system. Wind River offers products and services that support the Linux operating system. In January 2005, we shipped our first Linux platforms, General Purpose Platform and Platform for Network Equipment. In November 2005, we released updates of these Linux platforms and added a third, Platform for Consumer Devices. In 2006, we delivered two more major releases of our three Linux platforms, and we are now shipping our fifth generation of Linux platforms. Wind River is a leader in numerous open-source development projects, including The Linux Foundation (formerly OSDL) and the Eclipse Device Software Development Platform (DSDP) project. Our industry memberships include Eclipse, The Linux Foundation, the Consumer Electronics Availability Forum (CELF), the Service Availability Forum (SAF), the SCOPE Alliance, and the Communications Platform-Trade Association. Our Workbench development tools are distributed with our Linux platforms to provide a complete foundation for device development and deployment. In addition, we developed an expert Professional Services group to support customers building devices on Linux, and we created a strong Technical Support organization that serves our customers on a local basis around the world. This is a key benefit for Wind River customers designing new solutions with Linux.

In February 2007, Wind River made a strategic acquisition of Finite State Machine Labs (FSMLabs) RTLinux technology. This provides Wind River with a unique hard real-time technology that enables us to address the needs of new markets and new device solutions with Linux. This technology acquisition provided a distinct differentiator from other Linux vendors, as well as expanded choice for our customers. The RTLinux technology has been re-branded as Wind River Real-Time Core for Linux. It offers the ability to deliver real-time capabilities for solutions in our key markets, including aerospace and defense, telecommunications, automotive devices and consumer devices.

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The FSMLabs technology acquisition, along with the acquisition of Interpeak networking technology, offer our customers a choice between pure open-source solutions and optimized, high-performance middleware alternatives for networking, network management and real-time. This strategy of choice, rather than replacement, provides Wind River customers advantageous solutions for device software challenges.

Professional Services

To complement our software and hardware products, Wind River offers design services and technical support. These offerings help customers complete a product specification and design critical drivers, ports, and interfaces. We can also provide a complete design for the customer s product or application. These design services are offered on either a time-and-materials or fixed-price basis and may encompass a broad range of services, including project-managed custom hardware development, software development, and product integration. In addition, we offer customer education through our partners, who provide a series of formal technical courses designed to teach the basics of device software development and use of our tools, and effective use of our operating systems and middleware. We also provide worldwide maintenance and support for all Wind River products.

Licensing Models

We license our software using two primary licensing models: enterprise licensing and project-based perpetual licensing. Wind River platforms and our Workbench development suite are licensed primarily under enterprise licensing.

Our enterprise license model has been offered to customers since November 2002. This model provides our customers the rights to use Wind River products on a subscription-based development license that typically has a one-year term, although some subscriptions extend to periods greater than one year. Subscription-based enterprise licenses eliminate the more traditional project and site restrictions on the use of our products. At the end of the subscription period, the customer s right to develop using Wind River platforms or tools expires, unless renewed. Most subscription-based enterprise licenses: (i) have an initial term of one year, with optional annual renewals; (ii) include payment terms for the full cost of the annual subscription within 30 60 days after entering into the license agreement; and (iii) include rights to generate production licenses, for a separate fee, once a customer makes a commercial release of a device that incorporates our products. Certain customers may choose to enter into multiyear subscriptions with us. These agreements have generally included payment terms for the full cost of the multiyear subscription within 30 90 days after entering into the enterprise licensing agreement.

We also license our software under project-based perpetual licenses. With this model, our customers pay an up-front development license fee, plus an annual maintenance fee based on a fixed percentage of the list price of the licensed products. For device software products, the customer typically also pays a per-unit, per-project production license fee based on the number of copies of our operating system software included in each final manufactured device. The terms of the perpetual license for our software generally restrict the customer s use to a specific site, processor, and project, such as a line of printers or a digital camera; thus, any software licenses or prepaid production license fees can generally be used only on that specific project.

We anticipate that we will continue using both our subscription-based enterprise licensing and perpetual licensing models. However, the proportion of our business sold under the subscription-based enterprise license model is increasing, and we expect this trend to continue. We believe that the subscription-based enterprise licensing model allows us to:

- Deliver key technology integrated into market-specific platforms, with less restrictive terms that more closely match our customers needs.

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Expand opportunities with our strategic customers by offering a simpler and more cost-effective method of accessing our technology and services.

Better manage our business model within our strategic customer base and enable increased visibility into our earnings stream. Under our perpetual license model, we sell our products at the specific project level and deal primarily with the engineers leading and making decisions for individual projects. The strategy for our Wind River platform products is to seek enterprise-wide adoption. As a result, the customer s decision to adopt our products under the subscription-based enterprise licensing model is now more strategic, leading to longer sales lead times and ultimately more complex and time-consuming negotiations. Our success depends first on our ability to educate our current and potential customers about the value associated with our Wind River platform products and services; and second on our ability to negotiate and close transactions with these customers on mutually agreeable terms.

Because a significant portion of our business is sold under the subscription-based enterprise licensing model, our reported revenue in a quarter does not necessarily reflect the entire level of our business activity. Under the subscription business model, revenue is recognized ratably over the subscription. By contrast, under applicable accounting rules for a perpetual license the majority of license revenue is required to be recognized in the quarter in which the products are delivered, and a smaller amount relating to the fair value of maintenance to be deferred and recognized subsequently over the maintenance period. Therefore, an order for a subscription-based enterprise license will result in lower current quarter revenue than an equal-sized order for a perpetual license, but will result in faster growth in deferred revenue. We expect customers to continue to adopt our subscription-based enterprise licensing in the coming fiscal year, and this may impact the timing of our reported revenues. The mix of subscription orders and perpetual orders in any given quarter can vary, and may consequently also have an impact on that quarter s reported revenues.

Strategic Alliances

Wind River believes that having many strategic relationships with semiconductor vendors, circuit board manufacturers, system manufacturers, other software companies, and our customers is critical to our future success in the DSO marketplace. These relationships help us penetrate the value chain earlier in our market segments, drive innovation and standards across the industry, and better serve our customers overall needs. For instance, our corporate Wind River Partner Program supports the development of global alliances and fosters a community of third-party partners by allowing these companies to access our technology to develop and maintain a level of integration between our products and partner products.

We have strategic relationships with many of the major semiconductor and system manufacturers, including ARM Holdings plc, Broadcom Corporation, Freescale Semiconductor, Inc., IBM Corporation, Intel Corporation, MIPS Technologies, Inc., NEC Corporation, NXP B.V., RadiSys Corporation, Renesas, Inc., Sun Microsystems, Texas Instruments Incorporated, Toshiba Corporation, Xilinx, Inc., Motorola ECC, Raza Microelectronics, Inc., and Cavium Networks, among others. We work to optimize our technologies for certain of their architectures, processors, and board-level products, allowing us to use their sales channels to proliferate our products. The strategic alignment between Wind River and semiconductor vendors benefits customers on several fronts, including time-to-market, breadth of silicon support in Wind River platforms, and software optimizations that leverage advances in hardware.

Wind River has also developed a network of smaller software companies whose products integrate with our platform products to provide value-added capabilities. These partners provide additional development tools that integrate and plug into our development suites, as well as complementary protocols, middleware, and other technologies that operate with our VxWorks and Linux operating systems.

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Throughout 2006, we announced a series of partnerships with our commercial off-the-shelf (COTS) partners in support of the adoption of ATCA by telecommunications equipment manufactures. With partners Sun Microsystems, Kontron, Mercury Computer Systems, RadiSys Corporation and Motorola ECC, we have announced joint solutions that integrate Wind River s VxWorks and Linux platforms with COTS hardware to meet the needs of the next generation of networking architectures.

Customers

Our products have been deployed by a broad range of organizations, including companies in the following industries: networking (data, video and voice), consumer electronics, aerospace and defense, and industrial and automotive. Our customers include end-users, distributors, original equipment manufacturers, system integrators and value-added resellers.

Our major customers by revenue for fiscal year 2007 were Alcatel, Boeing Corporation, Lockheed Martin Corporation, Motorola, Inc., Raytheon Company, Nortel Networks Corporation, Northrop Grumman, Philips N.V., Red Digital Cinema Camera Company and Siemens AG. No single customer accounted for more than 10% of our revenues in any of the fiscal years ended January 31, 2007, 2006 or 2005.

Marketing, Sales, and Distribution

We market our products and services in North America, EMEA (comprising Europe, the Middle East and Africa), Japan and the Asia Pacific region, primarily through our own direct sales organization, which consists of salespeople, field application engineers, and support staff. Our direct sales force presents Wind River and our products for licensing to prospective customers, while application engineers provide technical pre-sale and post-sale support. As of January 31, 2007, we had 184 sales employees located throughout North America, 105 sales employees throughout EMEA, 38 sales employees in Japan and 54 sales employees in the Asia Pacific region. As of January 31, 2007, we had 148 employees in professional services, 76 employees in marketing and 106 employees in customer support.

Revenues from sales to customers outside of North America represented $128.8 million, $118.7 million and $106.8 million, or approximately 45% of total revenues for fiscal years 2007, 2006 and 2005, respectively. Prices for international customers for our Wind River platforms are generally quoted in United States Dollars, euros, British Pounds and Japanese Yen and are set globally. Prices for international customers for our perpetual licenses are generally quoted in local currencies or United States dollars and are based on the United States price list adjusted to reflect the higher cost of doing business outside the United States. International customers are normally invoiced in the currency in which they are quoted.

We have experienced, and expect to continue to experience, seasonality resulting primarily from customer buying patterns and product development cycles. We have generally experienced the strongest demand for our products in the fourth quarter of each fiscal year and the weakest demand in the first quarter of each fiscal year. (See Item 1A, Risk Factors Factors That May Affect Our Future Results or the Market Price of Our Stock Numerous factors may cause our total revenues and net income to fluctuate significantly from period to period. These fluctuations increase the difficulty of financial planning and forecasting and may result in decreases in our available cash and declines in the market price of our stock.)

Competition

The DSO industry is highly competitive and fragmented. Wind River s primary competition comes from the internal research and development departments of companies that develop device systems in-house. In many cases, companies that develop device systems in-house have already made significant investments of time and effort in developing their own internal systems. Historically, the advantages of shifting to a COTS solution have not been fully recognized, with the decision to shift typically made at the project level. Today, the increasing

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software complexity associated with devices is forcing a strategic change, as companies look to optimize their own device software development and bring devices to market faster and at lower cost. A number of in-house development projects have begun to use commercial device software based on open-source standards, such as the Linux operating system, as the first strategic step toward standardization.

In the Linux market, Wind River competes with Linux distributors such as MontaVista Software, Inc., LynuxWorks, Inc., TimeSys Corporation, and others, as well as indirectly with some enterprise Linux vendors such as Novell, Inc., and Red Hat, Inc., which, to a certain extent, also offer device software solutions. As we continue to see increased adoption of Linux in markets such as telecommunications, data communications, and mobile communications, we believe there will be more standardization of the development cycle based on open-source technologies, an initiative that is being driven by The Linux Foundation (formerly the Open Source Development Lab, or OSDL) to define a common industry specification and standardization for Carrier Grade Linux. This offers equipment manufacturers high availability of open-system architecture for core and edge applications. However, our competitive position may be affected if other embedded software solution vendors move to the middle ground and find new ways to be more open. This, as well as availability of source code, the ability to create and maintain intellectual property ownership, and the ability to compete on price with reduced upfront and production licensing options, could level the playing field with Linux.

Wind River also competes with independent and proprietary software vendors, including Microsoft Corporation, Mentor Graphics Corporation, ENEA OSE Systems AB, LynuxWorks, Inc., Green Hills Software, Inc., and QNX Software Systems, Ltd. (acquired by Harman International), as well as a number of other proprietary vendors that address one or more segments of the device system design process. Some of the companies that develop device systems in-house and some of these independent software vendors, such as Microsoft Corporation, may have significantly greater financial, technical, marketing, sales, and other resources and significantly greater name recognition than Wind River does.

We also believe that critical competitive factors in the industry are based on the way customers and potential customers manage their process of software development. Key drivers in device software development include managing limited internal resources, controlling costs, minimizing development time, and limiting risks. Therefore, reliability, performance, price, product availability, architecture support, and customer support may also represent competitive forces affecting our industry. We believe that we compete favorably with respect to each of these factors.

Product Development and Engineering

We believe that our success will continue to depend primarily on our ability to maintain and enhance our current product line, develop new products, maintain technological competitiveness and meet an ever-expanding range of customer and market requirements. As of January 31, 2007, our product development and engineering group included 386 full-time employees.

During fiscal years 2007, 2006, and 2005, product development and engineering expenses were $73.5 million, $65.6 million, and $59.2 million, respectively, excluding capitalized software development costs. For fiscal years 2007 and 2006, we did not have any capitalized software development costs related to development of software to be sold. During fiscal year 2005, we incurred product and development and engineering expenses in relation to software development projects related to development of software to be sold that qualified for capitalization of $1.5 million. In addition to our strategic relationships with semiconductor companies noted in Strategic Alliances above, we have entered into joint engineering programs with other key customers. Our gross research and development expenses in fiscal years 2007, 2006, and 2005 were offset by $319,000, $1.7 million, and $3.8 million, respectively, in funding from these programs.

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Proprietary Rights

Our success also depends heavily on our proprietary technology. To protect our proprietary rights, we rely on a combination of patent, copyright, trade secret, and trademark laws. As a part of our regular business processes, we generally enter into nondisclosure agreements with employees, consultants, distributors, customers, and corporate partners, as appropriate, and thereby limit access to and distribution of our software, documentation, and other proprietary information. Furthermore, our licensing agreements provide for protection of our intellectual property, both in terms of source-code-handling and underlying intellectual property ownership of modifications to Wind River code.

As we progress with our open-source strategy, we may increasingly rely on third-party open-source code that has been developed and made available for licensing under open-source license terms. Certain open-source licenses, such as the GNU General Public License (GPL) that applies to Linux and many other popular open-source products, generally permit anyone to copy, modify, and distribute the software, subject only to the restriction that any resulting or derivative work made available to the public be licensed under those same terms, instead of under our standard license terms. Therefore, as we incorporate our open-source strategy into our product development, although we will retain the copyright to the code that we develop ourselves, our most valuable intellectual property with respect to derivative works from these licenses may be our collection of trademarks.

Wind River is a registered trademark in the United States and other countries worldwide. We have used, registered, and/or applied to register specific trademarks and service marks to distinguish many of our products, technologies, and services from those of our competitors in the U.S. and in foreign countries and jurisdictions. We enforce our trademark, service mark, and trade name rights in the U.S. and abroad.

We have filed and obtained a number of patents and patent applications in the United States and abroad that relate to various aspects of our products and technology. As of January 31, 2007, we held 53 issued patents in the United States, none of which have expired. The expiration dates of these patents range from 2015 to 2023. While we believe that patent protection of our products is important, any patents obtained may not provide substantial protection or be of commercial benefit to us. It is also possible that their validity may be challenged. (See Item 1A, Risk Factors Factors That May Affect Our Future Results or the Market Price of Our Stock Patent, trademark or copyright infringement, trade secret misappropriation or product liability claims against us may result in costly litigation, cause product shipment delays or require us to expend significant resources. In addition, patent or copyright claims may require us to enter into royalty or licensing arrangements.)

Manufacturing

Our manufacturing operations consist of assembling, packaging, and shipping the software products and documentation needed to fulfill each order. Outside vendors provide tape and CD duplication, printing of documentation, and manufacturing of packaging materials. We also manufacture and assemble our hardware development tools at our facility in Canton, Massachusetts, and at certain subcontractor facilities.

Employees

As of January 31, 2007, we had 1,272 employees, including 457 in sales and marketing, 254 in professional services and support activities, 386 in product development and engineering, and 175 in management, operations, finance, and administration. Of these employees, 875 were located in North America and 397 were located outside of North America. None of our employees in North America is represented by a labor union or is subject to a collective bargaining agreement. We have never experienced a work stoppage. Our employees are vital to our success, and our key management, engineering, sales and other employees are difficult to replace. We generally do not have employment contracts with our key employees, other than our Chief Executive Officer and our Chief Financial Officer, or maintain key person life insurance on any of our employees. If we are unable to attract, assimilate, retain, or motivate highly qualified technical and sales employees in the future through

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competitive compensation and employment policies, our ability to develop and introduce competitive new products in a timely manner may suffer. (See Item 1A, Risk Factors Factors That May Affect Our Future Results or the Market Price of Our Stock If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.)

Executive Officers of the Registrant

The names of our executive officers, their ages as of April 18, 2007, and their positions are shown below:

Name	Age	Title
Kenneth R. Klein	47	Chairman of the Board, President and Chief Executive Officer
Ian R. Halifax	46	Senior Vice President of Finance and Administration, Chief Financial Officer and Secretary
Barry Mainz	43	Chief Operating Officer
John J. Bruggeman	45	Vice President of Worldwide Marketing and Chief Marketing Officer
Jane E. Bone	41	Chief Accounting Officer
Scot K. Morrison	44	Senior Vice President of Engineering
Vincent Rerolle	44	Vice President, Corporate Strategy and Development

Kenneth R. Klein has been a director of Wind River since July 2003. In January 2004, he became the Chairman of the Board, President and Chief Executive Officer of Wind River. Prior to joining Wind River, Mr. Klein was with Mercury Interactive Corporation, a software company focused on business technology optimization, where he served as Chief Operating Officer from January 2000 until December 2003. He also served at Mercury Interactive as a director from July 2000 until December 2003 and held management positions there from 1992 through 1999, including President of North American Operations and Vice President of North American Sales. Mr. Klein serves on the Board of Directors of Tumbleweed Communications Corp., a provider of messaging solutions, and is a director of several privately-held companies. Mr. Klein holds a BS degree in electrical engineering and biomedical engineering from the University of Southern California.

Ian R. Halifax joined Wind River as its Senior Vice President, Finance and Administration, Chief Financial Officer and Secretary in February 2007. From January 2005 until February of 2006, Mr. Halifax served as Chief Financial Officer of Micromuse Inc., a provider of business and service assurance solutions to telecommunications companies, financial organizations and governmental institutions worldwide. Following IBM Corporation s acquisition of Micromuse in February 2006, Mr. Halifax served as a transition executive in IBM s Tivoli Software unit until he joined Wind River. From October 1999 to January 2005, he was Chief Financial Officer and Secretary at Macrovision Corporation, a developer and licensor of copy protection, electronic licensing and digital rights management technologies. Mr. Halifax is a Certified Public Accountant and a Certified Management Accountant. He holds a BA degree in English and Related Literature from University of York in the United Kingdom and an MBA in Finance from Henley Management College, Oxfordshire, UK.

Barry Mainz was appointed our Chief Operating Officer in February 2007. Mr. Mainz joined Wind River in June 2005 as our Vice President, Worldwide Customer Service, and from July 2005, acted as the Company s Vice President, Worldwide Customer Operations. From 1999 until he joined Wind River, Mr. Mainz served as Vice President, Corporate Sales Division, for Mercury Interactive Corporation. Mr. Mainz holds a BA degree in Communications from San Francisco State University.

John J. Bruggeman joined Wind River in February 2004 and currently serves as Vice President of Worldwide Marketing and Chief Marketing Officer. From May 2002 until January 2004, Mr. Bruggeman was Vice President of Marketing at Mercury Interactive Corporation, a software company focused on business technology optimization. Mr. Bruggeman earned a BS degree in Statistics and Computer Science from San Jose State University and an MS degree in Mathematics from the University of Connecticut.

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Jane E. Bone has served as our Chief Accounting Officer since February 2007. Prior to her appointment as CAO, she served as the Company s Corporate Controller since 2000 and, in addition, as Vice President, Finance, since 2005. Ms. Bone joined Wind River as part of its acquisition in February 2000 of Integrated Systems, Inc., where she spent three years serving as the European and International Controller. She has also held positions in the United States and the United Kingdom at Deloitte Haskins & Sells and Coopers & Lybrand LLP. Ms. Bone earned a BS (Econ.) Hons. in Accounting degree in from University of Hull, United Kingdom.

Scot K. Morrison is Senior Vice President of Engineering at Wind River and has previously held other management positions at Wind River including Vice President and General Manager of several different business units. Mr. Morrison joined Wind River as part of its acquisition of Integrated Systems, Inc. in February 2000. Mr. Morrison earned his Bachelor of Applied Science degree in Engineering from the University of Toronto, as well as his master s degree at the Massachusetts Institute of Technology, specializing in control systems.

Vincent Rerolle joined Wind River in November 2006 as our Vice President of Corporate Development and Strategy, where he oversees mergers and acquisitions, strategic partnerships and alliances. From 2001 until he joined Wind River, Mr. Rerolle was Vice President of Corporate Development at Mercury Interactive Corporation, where he was responsible for mergers and acquisitions, business development and technology alliances. Mr. Rerolle has also held various management positions at Citadon, McKinsey, Vivendi and Sagem, in the United States, France and Australia. He holds a BS degree in engineering from ENST Paris and an MBA from INSEAD.

Financial Information about Segments and Geographic Areas

For financial information regarding segments and geographic areas, see Note 14, Segment and Geographic Information in the Notes to Consolidated Financial Statements, filed as part of this Annual Report.

Available Information

We file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC electronically. The public may read or copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is *http://www.sec.gov*.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the day of filing with the SEC on or through our website at *http://www.windriver.com* or by contacting the Investor Relations Department at our corporate offices by calling (866) 296-5361. We are not incorporating by reference in this Annual Report on Form 10-K any information from our website.

ITEM 1A. RISK FACTORS

Factors That May Affect Our Future Results or the Market Price of Our Stock

Our business faces significant risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations or have a negative impact on our stock price. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline.

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If we do not continue to address new and rapidly changing markets and increasingly complex technologies successfully, to deliver our products on a timely basis, and to offer products that are attractive to our customers, our revenues and operating results will decline.

The Device Software Optimization market is characterized by ongoing technological developments, evolving industry standards and rapid changes in customer requirements and product offerings in the device market. In addition, customers developing different types of devices require different product offerings, features and functionality. If we fail to continually update our existing products to keep them current with customer needs or to develop new or enhanced products to take advantage of new technologies, emerging standards and expanding customer requirements, our existing products could become obsolete and our financial performance would suffer. Also, we have from time to time experienced delays in the commercial release of new technologies, new products and enhancements of existing products. These delays are commonplace in the software industry due to the complexity and unpredictability of the development work required. If we fail to commercially release new products on a regular basis, our financial performance could suffer. We must effectively market and sell new product offerings to key customers, because once a customer has designed a product with a particular operating system, that customer typically is reluctant to change its supplier due to the significant related costs. If we cannot adapt or respond in a cost-effective and timely manner to new technologies and new customer requirements, or if the new products we develop are not attractive to our customers, sales of our products could decline.

Our mix of licensing models impacts the timing of our reported revenues; and our inability to accurately manage the volume of business expected for each licensing model could increase fluctuations in our revenue and financial results.

Because we license our development products primarily under two business models that recognize revenue differently, the rate of adoption of license models by our customers impacts the timing of our reported revenues. Under the enterprise license model, revenues are recognized ratably over the subscription period. By contrast, our traditional perpetual license requires a majority of license revenues to be recognized in the quarter in which the products are delivered and a much smaller amount relating to the fair value of the maintenance is deferred and recognized subsequently over the maintenance period. Therefore, an order for a subscription-based license will result in lower current-quarter revenue than an equal-sized order for a perpetual license. As a result, our reported revenues are affected by the selection of license model type by our customers. There is a risk that we will not be able to continue or increase our rate of adoption to both our subscription-based and perpetual-based license model, or that we may choose to focus our sales efforts and resources on particular, significant perpetual or subscription license opportunities that may or may not result in a sale. The impact on near-term and deferred revenues will continue to depend on the rate at which customers license products under our perpetual model or our enterprise license model. If we are unable to manage the rate of adoption of our license models by our customers at any time, our business, results of operations and financial condition would be negatively affected.

In addition, although our enterprise licenses represent a potential source of renewable license revenue, there is also a risk that new and transitioned customers will not renew their licenses at the end of the term. There is a further risk that the more complex and time consuming negotiations for enterprise licenses may affect our ability to close such transactions, and that customers who purchase enterprise licenses may spend less in the aggregate over the term of the enterprise license than if they had been required to purchase perpetual licenses. The impact on near-term and deferred revenues will continue to depend on the rate at which customers license products under our perpetual model or our enterprise license model. In addition, an increase in the number of subscription license renewals or multi-year terms may result in larger deferred revenues. To the extent that the subscription licensing rate is higher than we expect, we may experience a greater decline in near-term revenues, as well as an increase in deferred revenues.

Because a significant portion of our revenues continues to be derived from production licenses, we are dependent upon the ability of our customers to develop and penetrate new markets successfully.

Our production license revenues depend both upon our ability to successfully negotiate production license agreements with our customers and, in turn, upon our customers successful commercialization of their

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underlying products. In particular, we derive significant revenues from customers that develop products in highly competitive and technologically complex markets such as the Internet infrastructure, server and storage, digital consumer, aerospace and defense, industrial control and automotive markets. If these customers sell fewer products or otherwise face significant economic difficulties, our revenues will decline. We cannot control our customers product development or commercialization or predict their success. In addition, we depend on our customers to accurately report the use of their products in order for us to collect our revenues from production licenses. If our customers are not successful with their products or do not accurately report use of their products to us, our production license revenues may decline significantly.

We have adopted an open-source strategy and have released products based on open-source software that may not be successfully adopted or may not generate profits.

We offer products that are based on open-source software, including stand-alone development tool products for use with open-source software components and platform products that are distributed with open-source software components. We cannot be certain whether these or any future open-source product offerings will be successfully adopted by new and current customers. Characteristically, open-source software is subject to license terms requiring that the underlying source code be released to the general public, and the most significant open-source software licenses also extend that requirement to derivatives and modifications of the open-source software. Because access to source code can reveal internal software logic and other valuable trade secrets, and can enable end-users to independently make modifications to the software, some of our customers may resist incorporating open-source software into their own products. In addition, if the informal communities of independent third-party software programmers that develop and support open-source software fail to adequately further develop and enhance open-source technologies in a manner that continues to satisfy customer demand, the development and adoption of these technologies could be stifled and our products could become less competitive.

Additionally, even if our open-source products are adopted by our customers, they may not be profitable. Our open-source strategy requires us to develop and effectively market products and services to be used in connection with open-source software that is otherwise publicly available. There can be no assurance that our customers will determine that our open-source products offer a compelling value proposition, or they may decide they do not wish to be subject to license terms for open-source code themselves. Very few open-source software companies have been profitable, and we may not be able to generate profits on our Linux-based offerings.

While we pursue our open-source strategy, we simultaneously continue to offer proprietary software products to the marketplace. If the informal developer communities comprising the open-source software movement adopt a negative position toward our overall company strategy and as a result cease their support of open-source software that we distribute with our products, this disruption in our relationship with the open-source software community could adversely affect our ability to effectively provide open-source products. Alternatively, it is possible that these efforts to coexist with the open-source software movement could result in a decline in sales of our proprietary software either as a result of a diversion of internal resources or customer preference. Additionally, customers may defer orders in anticipation of our new products. If any of these events were to occur, our revenues and earnings could be adversely affected.

Our open-source products may subject us to increased legal risks.

As our products that are distributed with open-source software components are increasingly adopted (and as we expand our portfolio of products both through internal development and acquisition of technology, such as that acquired from Interpeak and FSMLabs), we face heightened legal risks that could affect our future ability to develop or sell our open-source products.

We distribute open-source software with (and in some cases incorporate open-source software into) our products, including certain open-source software components subject to the GNU General Public License (GPL).

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Distributing or combining open-source software with or into our products creates some risk that the GPL (or other applicable open-source software license) will be interpreted in a manner that could impose unanticipated conditions or restrictions on our products, including a requirement to disclose our own products in source code form. We take steps to ensure that proprietary software that we do not wish to disclose in source code form is not distributed or combined with open-source software in ways that would require such proprietary software to be made subject to an open-source software license. However, few courts have interpreted open-source software licenses, and the manner in which these licenses may be interpreted and enforced remains uncertain. With the growth in our professional services and engineering efforts related to open source software, we may become increasingly vulnerable to third-party allegations that our own development efforts or technology that we consider to be proprietary have resulted in allegedly infringing work or work that has unintentionally become subject to open-source obligations.

Our open-source strategy may also make us increasingly vulnerable to claims that our products infringe third-party intellectual property rights, as many of the open-source software components we may distribute with our products are developed by numerous independent parties over whom we exercise no supervision or control and who therefore may have engaged in infringing acts while developing the open-source software without our knowledge. This risk is further exacerbated by our lack of access to unpublished software patent applications. Defending claims of infringement, even claims without significant merit, can be expensive. An adverse legal decision affecting our intellectual property could materially harm our business.

In addition, the enforceability of the GPL and other open-source licenses may affect the success of our open-source business. The GPL states that any program licensed under it may be liberally copied, modified and distributed. The GPL is a subject of litigation in the case of The SCO Group, Inc. v. International Business Machines Corp., pending in the United States District Court for the District of Utah. It is possible that this court would hold the GPL to be unenforceable in that litigation, that the GPL or other open-source license could be found to be unenforceable in a separate legal challenge, or that someone could assert a claim for proprietary rights in a program developed and distributed under them. If an open-source license that applies to the licensing of components of our open-source products is found to be partially or completely unenforceable, or if there are claims of infringement, we could be required to obtain licenses from third parties in order to continue offering our products, reengineer our products, or discontinue the sale of our products in the event reengineering could not be accomplished on a timely basis. An adverse legal decision affecting our intellectual property could materially harm our business.

Uncertainty regarding the legal risks related to open-source software components could affect sales of our open-source products generally. Finally, as a result of legal concerns about open-source software, we are facing increased pressure from our customers to adopt additional indemnification or otherwise protect them from potential threats by third parties related to open-source software. We have, in limited circumstances, provided additional indemnification related to our open-source products. Our financial condition and results of operations may be adversely affected if we have to indemnify our customers from the liabilities posed by open-source software.

Numerous factors may cause our total revenues and net income to fluctuate significantly from period to period. These fluctuations increase the difficulty of financial planning and forecasting and may result in decreases in our available cash and declines in the market price of our stock.

A number of factors, many of which are outside our control, may cause or contribute to significant fluctuations in our total revenues and net income. These fluctuations make financial planning and forecasting more difficult. In addition, these fluctuations may result in unanticipated decreases in our available cash, which could negatively impact our operations. As discussed more fully below, these fluctuations also could increase the volatility of our stock price. Factors that may cause or contribute to fluctuations in our revenues and net income include:

- acceptance by our customers of our current and new product offerings;

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the number and timing of orders we receive, including disproportionately higher receipt and shipment of orders in the last month of the quarter;

changes in the length of our products sales cycles, which increase as our customers purchase decisions become more strategic and are made at higher management levels;

reductions in the number of engineering projects started by our customers due to their own difficult financial or economic conditions;

the impact of impairment charges arising from past acquisitions;

the success of our customers products from which we derive our production license revenues;

the mix of our revenues as between sales of products that have more upfront revenue, subscriptions that have more deferred revenues and services which have lower profit margins;

our ability to control our operating expenses, and fully realize the impact of the restructuring plans we have implemented;

our ability to continue to develop, introduce and ship competitive new products and product enhancements quickly;

possible deferrals of orders by customers in anticipation of new product introductions;

announcements, product introductions and price reductions by our competitors;

our ability to manage costs for fixed-price consulting agreements;

seasonal product purchases by our customers, which historically have been higher in our fourth fiscal quarter;

the impact of, and our ability to react to, natural disasters and/or events of terrorism;

the impact of, and our ability to react to business disruptions arising from or relating to internet or computer viruses service interruptions;

changes in business cycles that affect the markets in which we sell our products and services;

economic, political and other conditions in the United States and internationally;

foreign currency exchange rates;

the impact of changes to existing accounting pronouncements relating to income taxes; and

the impact of any stock-based compensation charges arising from the issuance of stock options, restricted stock, stock appreciation rights or any other stock-based awards.

One or more of the foregoing factors may cause our operating expenses to be disproportionately high or may cause our net revenues and net income to fluctuate significantly. Results from prior periods are thus not necessarily indicative of the results of future periods.

We face intense competition in the Device Software Optimization industry, which could decrease demand for our products or cause us to reduce our prices.

The Device Software Optimization industry is characterized by rapid change, new and complex technology and intense competition. Our ability to maintain our current market share depends upon our ability to satisfy customer requirements, enhance existing products and develop and introduce new products. Due to the complexity of the markets in which we operate, where our customers often develop device systems in-house, it is difficult to assess the impact of competition on our business and our related share of these markets. We have faced increasing competition in recent years as customers have decreased research and development budgets, sought to increase the value they receive from vendors, including us, attempted to leverage a more competitive

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bidding process when spending research and development budgets and/or deferred or canceled projects, in whole or in part. As a result, we believe that some customers have elected not to purchase our products and have chosen to undertake such development in-house, selected solutions they perceive to be less expensive or relied upon existing licenses from us rather than making new purchases. We expect the intensity of competition to increase in the future. Increased competitiveness may result in reductions in the prices of our products, royalties and services, lower-than-expected gross margins or loss of market share, any of which would harm our business.

Our primary competition comes from internal research and development departments of companies that develop device systems in-house. In many cases, companies that develop device systems in-house have already made significant investments of time and effort in developing their own internal systems, making acceptance of our products as a replacement more difficult. Additionally, many of these in-house departments may increasingly choose to use open-source software, such as the Linux operating system. We also compete with independent software vendors and, to a limited extent, with open-source software vendors. Some of the companies that develop device systems in-house and some of these independent software vendors, such as Microsoft Corporation, may have significantly greater financial, technical, marketing, sales and other resources and significantly greater name recognition than we do.

Demands for rapid change and the increasing complexity of the technology in our industry intensify the competition we face. In addition, our competitors may consolidate or establish strategic alliances to expand product offerings and resources or address new market segments. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion, sale and support of their products. These factors favor larger competitors that have the resources to develop new technologies or to respond more quickly with new product offerings or product enhancements. We may be unable to meet the pace of rapid development set by our competitors or may incur additional costs attempting to do so, which may cause declines in our operating results. Our competitors may foresee the course of market developments more accurately than we do and could in the future develop new technologies that compete with our products or even render our products obsolete, any of which could adversely affect our competitive position and therefore our operating results.

Patent, trademark or copyright infringement, trade secret misappropriation or product liability claims against us may result in costly litigation, cause product shipment delays or require us to expend significant resources. In addition, patent or copyright claims may require us to enter into royalty or licensing arrangements.

We occasionally receive communications from third parties alleging patent, trademark or copyright infringement, trade secret misappropriation or other intellectual property claims, and there is always the chance that third parties may assert infringement claims against us or against our customers under circumstances that might require us to provide indemnification. Adoption of our open-source strategy increases this risk in part because many of the open-source software components that we may incorporate into or distribute with our products are developed by numerous independent parties over whom we exercise no supervision or control. Additionally, because our products are increasingly used in applications, such as network infrastructure, transportation, medical and mission-critical business systems, in which the failure of the device system could cause property damage, personal injury or economic loss, we may face product liability claims.

Although our agreements with our customers contain provisions intended to limit our exposure to infringement and liability claims and generally do not provide for any indemnification for open-source materials, our agreements may not be effective in limiting our exposure in all circumstances. Any of these types of claims, with or without merit, could result in claims for indemnification by us or costly litigation, could require us to expend significant resources to develop non-infringing technology or remedy product defects, cause product shipment delays or require us to pay significant damages if the claims are successful. In the case of infringement of another party s intellectual property, we may be required to enter into royalty or licensing agreements; however, we cannot be certain that the necessary licenses will be available or that they can be obtained on

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commercially reasonable terms. If we are not successful in defending these claims or, with respect to infringement claims, were to fail to obtain royalty or licensing agreements in a timely manner and on reasonable terms, our business, financial condition and results of operations would be materially adversely affected.

The rights we rely upon to protect the intellectual property underlying our products may not be adequate, which could enable third parties to use our technology and reduce our ability to compete.

Our success depends significantly upon the proprietary technology contained in our products. We currently rely on a combination of patents, copyrights, trademarks, trade secret laws, and contractual provisions to establish and protect our intellectual property rights in our technology and products. We cannot be certain that the steps we take to protect our intellectual property will adequately protect our rights, that others will not independently develop or otherwise acquire equivalent or superior technology, or that we can maintain our technology as trade secrets. In addition, discovery and investigation of unauthorized use of our intellectual property is difficult. We expect software piracy, which is difficult to detect, to be a persistent problem, particularly in those foreign countries where the laws may not protect our intellectual property as fully as in the United States. Employees, consultants, and others who participate in the development of our products may breach their agreements with us regarding our intellectual property. We might not have adequate remedies for infringement or breach of our proprietary rights by third parties, employees or consultants. Further, we have in the past initiated, and in the future may initiate claims or litigation against third parties for infringement or breach of our proprietary rights or to establish the validity of our proprietary rights. As an example, as we continue to conduct development work relating to our open-source business, it is possible that our intellectual property rights in derivative works that we choose to develop under the GPL or other open-source licenses may be infringed, and that as a result we may need to bring our own claim against third parties. Whether or not such litigation is determined in our favor, such actions could result in significant expenses to us, divert the efforts of our technical and management personnel from productive tasks or cause product shipment delays.

The costs associated with acquisitions and investments could disrupt our business and harm our operating results.

We anticipate that, as part of our business strategy, we will continue to evaluate acquisition and investment opportunities in businesses, products and technologies that complement ours. These investments and acquisitions can be expensive and often require us to dedicate significant time and resources to the process. We have incurred significant costs in connection with acquisition transactions in prior fiscal years and may incur significant costs in connection with future transactions, whether or not they are consummated. Acquisitions involve additional risks including, among others, difficulties in integrating the operations, technologies, and products of the acquired companies; diverting management s attention from normal daily operations of the business; and potential difficulties in completing projects associated with in-process research and development. If we cannot successfully manage the integration of businesses we may acquire or are unable to realize the benefits of, or anticipated revenues from, our acquisitions, our business, financial condition and operating results could suffer.

If revenues associated with acquired businesses do not meet our original expectations, acquisitions may result in charges relating to impairment of acquired goodwill and purchased intangibles.

Our significant international business activities subject us to increased costs and economic risks.

We develop and sell a substantial percentage of our products internationally. Additionally, we have investments in, or have made acquisitions of, companies located outside the United States. Over the long term, we expect to continue to make investments to further support and expand our international operations and increase our direct sales force and distribution network in EMEA, Japan and Asia Pacific. Risks inherent in international operations include:

the imposition of governmental controls and regulatory requirements;

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the costs and risks of localizing products for foreign countries;

differences in business cultures and sales cycles;

differences in operation and sales support expenses;

unexpected changes in tariffs, import and export restrictions and other barriers and restrictions;

greater difficulty in accounts receivable collection;

restrictions on repatriation of earnings;

exposure to adverse movements in foreign currency exchange rates;

the burdens of complying with a variety of foreign laws;

difficulties in staffing and managing foreign subsidiaries and branch operations;

the costs and risks of operating in countries experiencing geopolitical conflict and/or terrorism;

the effect of our adoption of global pricing models;

difficulties in integrating products and operations from foreign acquisitions;

the impact of local health and political crises that prohibit or severely limit travel or other interaction with a local economic market;

exposure to local economic slowdowns; and

the need to guarantee credit instruments extended to support foreign operations.

Any of these events, regionally and as a whole, could reduce our international sales and increase our costs of doing business internationally and have a material adverse effect on our gross profit and net operating results.

If our strategic relationships are not successful, our product offerings, distribution and/or revenues may be adversely impacted.

We have many strategic relationships with semiconductor companies and customers. These strategic relationships are complex because some of the companies that are our strategic partners in certain business areas are also our competitors in other business areas. Our strategic partners may also have concurrent relationships with companies that provide open-source and in-house solutions, which may put pressure on our product development roadmaps, timelines and prices. If we are not successful in developing and maintaining these strategic relationships, our business

may be harmed. If our collaborative marketing and distribution agreements terminate or expire, the scope of our product offerings may be restricted, and the distribution of our products and our revenues may be adversely impacted.

The costs of software development can be high, and we may not realize revenues from our development efforts for a substantial period of time.

Introducing new products that rapidly address changing market demands requires a continued high level of investment in research and development. If we are required to undertake extensive capital outlays to address changes in the device software optimization market, we may be unable to realize revenue as soon as we may expect. The costs associated with software development are increasing, including the costs of acquiring or licensing new technologies. Our investment in new and existing market opportunities prior to our ability to generate revenue from these new opportunities, if we are able to capitalize on these opportunities at all, may adversely affect our operating results.

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Because certain of our customers provide products and services to U.S. Government agencies, as their supplier we may be subject to unique risks that could increase our costs and make revenue related to these customers more difficult to predict.

As a subcontractor to the U.S. Government, we must comply with and are affected by certain laws and regulations related to the award, administration and performance of U.S. Government contracts and other regulations particularly related to the aerospace and defense industry, such as export control regulations including International Trafficking in Arms regulations. In addition, under applicable regulations, various audit agencies of the U.S. government conduct regular audits of contractors compliance with a variety of U.S. government regulations and have the right to review retroactively the financial records under most U.S. government contracts. Further, as a U.S. Government subcontractor, we are subject to an increased risk of investigation, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not. This increases our internal procedures and costs, and as well we may face an increased risk of non-compliance as these processes and rules requirements involve separate processes that are outside our standard, commercial practices.

In addition, our contracts with customers providing products and services to the U.S. government are subject to uncertainty since their governmental contracts are subject to U.S. government appropriations that are changeable and determined on an annual basis. Also, the U.S. government has the right to modify, curtail or terminate customer contracts, which would result in corresponding changes to our contracts with our customers. Some of our contracts are subject to contract accounting, which requires judgment relative to assessing risk, estimating contract revenues and costs and making assumptions regarding scheduling and technical issues. Because of these risks, it is difficult to predict anticipated future revenues attributable to government related subcontracts. If we do not effectively manage these risks, our operating results could be materially negatively impacted.

If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

Our success depends to a significant degree upon the continued contributions of key management, engineering, sales and other personnel, many of whom would be difficult to replace. We believe our future success will also depend, in large part, upon our ability to attract and retain highly skilled managerial, engineering, sales and other personnel, and on the ability of management to operate effectively, both individually and as a group, in geographically disparate locations. In addition, our past reductions in force could potentially make attracting and retaining qualified employees more difficult in the future. The loss of the services of any of our key employees, the inability to attract or retain qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could delay the development and introduction of, and negatively affect our ability to sell our products.

In addition, companies in the software industry whose employees accept positions with competitors may claim that their competitors have engaged in unfair hiring practices or that there will be inappropriate disclosure of confidential or proprietary information. We may be subject to such claims in the future as we seek to hire additional qualified personnel. Such claims could result in material litigation. As a result, we could incur substantial costs in defending against these claims, regardless of their merits, and be subject to additional restrictions if any such litigation is not resolved in our favor.

Changes to existing accounting pronouncements or taxation rules or practices may cause adverse revenue fluctuations and affect our results of operations or how we conduct our business.

On February 1, 2006, we adopted FASB Statement No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) and are now required to measure and record compensation costs for all stock-based compensation, including our stock options and employee stock purchase plan, at fair value. The adoption of SFAS 123R has had and will continue to have a material adverse impact on our gross profit, income (loss) from operations, net

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income (loss), and our net income (loss) per share by decreasing our income or creating a loss by the additional amount of such stock compensation charges. Also, a change in any other accounting pronouncements or taxation rules or practices can have a significant effect on our results and may even affect our reporting of transactions completed before the change is effective. Other new accounting pronouncements or taxation rules and varying interpretations of accounting pronouncements or taxation practice have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

The complexity of accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could materially affect our financial results for a given period.

Although we use standardized agreements designed to meet current revenue recognition criteria under generally accepted accounting principles, we must often negotiate and revise terms and conditions of these standardized agreements, particularly in multi-element license and services transactions. As our transactions have increased in complexity, particularly with the sale of larger, multi-element transactions, negotiation of mutually acceptable terms and conditions may require us to defer recognition of revenue on such licenses. We believe that we are in compliance with Statement of Position 97-2, Software Revenue Recognition, as amended; however, more complex, multi-element transactions require additional accounting analysis to account for them accurately. Errors in such analysis in any period could lead to unanticipated changes in our revenue accounting practices and may affect the timing of revenue recognition, which could adversely affect our financial results for any given period. If we discover that we have interpreted and applied revenue recognition rules differently than prescribed by generally accepted accounting principles in the U.S., we could be required to devote significant management resources, and incur the expense associated with an audit, restatement or other examination of our financial statements.

Business interruptions could adversely affect our business.

Wind River s operations and the operations of its vendors and customers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure and other events beyond our control. For example, a substantial portion of Wind River s facilities, including our corporate headquarters, is located near major earthquake faults. In the event of a major earthquake, we could experience business interruptions, destruction of facilities and loss of life. We do not carry earthquake insurance and we have not set aside funds or reserves to cover such potential earthquake-related losses. In the event that a material business interruption occurs that affects Wind River or our vendors or customers, shipments could be delayed and our business and financial results could be harmed.

Our common stock price is subject to volatility.

In recent years, the stock markets in general and the shares of technology companies in particular have experienced extreme price fluctuations. These recent price fluctuations are not necessarily proportionate to the operating performance of the companies affected. Our stock price has similarly experienced significant volatility. As reported on The NASDAQ Global Select Market, during the fiscal year 2007, our stock had an intra-day high sales price of $15.71 and an intra-day low sales price of $7.85, and during fiscal year 2006, our stock had an intra-day high sales price of $17.68 and an intra-day low sales price of $11.04. In some of our past fiscal quarters, we experienced shortfalls in revenue and earnings from levels expected by securities analysts and investors, which have had an immediate and significant adverse effect on the trading price of our common stock. These factors relating to the fluctuations in our revenues and net income may continue to affect our stock price. Comments by, or changes in estimates from, securities analysts as well as significant developments involving our competitors or our industry could also affect our stock price.

In addition, the market price of our common stock is affected by the stock performance of other technology companies generally, as well as companies in our industry and our customers in particular. Other broad market

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and industry factors may negatively affect our operating results or cause our stock price to decline, as may general political or economic conditions in the United States and globally, such as recessions, or interest rate or currency fluctuations. In particular, the stock market may be adversely impacted, or experience unusual volatility, as a result of the outbreak of armed conflict or hostilities involving the United States or incidences of terrorism in, or directed at, the United States or its allies.

Provisions in our charter documents, customer agreements, and Delaware law could prevent or delay a change in control of Wind River, which could hinder stockholders ability to receive a premium for our stock.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or consolidation that a stockholder may consider favorable. These provisions include:

authorizing the issuance of preferred stock without stockholder approval;

limiting the persons who may call special meetings of stockholders;

prohibiting stockholder actions by written consent; and

requiring super-majority voting to effect amendments to certain provisions of Wind River s certificate of incorporation and bylaws.

Certain provisions of Delaware law also may discourage, delay, or prevent someone from acquiring or merging with us, and our agreements with certain of our customers require that we give prior notice of a change of control. Our various anti-takeover provisions could prevent or delay a change in control of the Company, which could hinder stockholders ability to receive a premium for our stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our corporate headquarters in Alameda, California. The campus provides approximately 273,000 square feet of office space. We also lease a number of sales, services, customer training, manufacturing, and research and development offices for current use consisting of approximately 331,000 square feet in various locations in North America, EMEA, Japan and the Asia Pacific region. We believe that our facilities are adequate to meet our current and anticipated business needs.

ITEM 3. LEGAL PROCEEDINGS

Derivative Litigation

Between September 8, 2006 and November 15, 2006, three separate stockholder derivative complaints were filed in the Superior Court of the State of California, Alameda County, against various officers and directors of the Company and naming the Company as a nominal defendant. On December 20, 2006, the Court consolidated these actions and appointed co-lead counsel. On February 21, 2007, co-lead counsel filed a consolidated and amended complaint (Case Number RG06288009) that asserts causes of action for accounting; breach of fiduciary duty; restitution/unjust enrichment; rescission; and violation of California Corporations Code § 25402. On February 9, 2007, a fourth, substantially identical purported shareholder derivative complaint (Case Number RG07310636) was filed in the Superior Court of the State of California, Alameda County. The Court has scheduled a status conference for June 21, 2007 to determine whether to consolidate this fourth action with the previously-consolidated actions described above and whether, if the fourth action is consolidated, to appoint additional co-lead counsel in the consolidated action. The Company is due to respond to the complaint in the consolidated actions and the complaint in Case Number

RG07310636 on May 11, 2007.

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The Court has not set a trial date in either action, and discovery has not commenced. While there can be no assurance as to the ultimate disposition of these actions, the Company does not believe that their resolution will have a material adverse effect on its financial position, results of operations or cash flows.

Other Litigation

From time to time, we are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of patents and other intellectual property rights and employee claims. Management believes the outcome of our outstanding legal proceedings, claims and litigation will not have a material adverse effect on our business, results of operations, cash flows or financial condition. However, such matters involve complex questions of fact and law and could involve significant costs and the diversion of resources to defend. Additionally, the results of litigation are inherently uncertain, and an adverse outcome is at least reasonably possible.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our common stock is traded on The NASDAQ Global Select Market under the symbol WIND. As of April 18, 2007, there were approximately 606 stockholders of record of our common stock. The following table sets forth the intra-day low and high sales prices of our common stock on the NASDAQ Global Select Market for the quarters indicated:

	Low	High
Fiscal 2006		
First quarter ended April 30, 2005	$ 12.51	$ 16.34
Second quarter ended July 31, 2005	12.73	17.68
Third quarter ended October 31, 2005	11.04	17.60
Fourth quarter ended January 31, 2006	12.16	16.00
Fiscal 2007		
First quarter ended April 30, 2006	$ 11.09	$ 15.71
Second quarter ended July 31, 2006	7.85	11.56
Third quarter ended October 31, 2006	7.95	11.51
Fourth quarter ended January 31, 2007	9.65	11.94

Dividend Policy

We have not paid cash dividends on our common stock to date. We presently intend to retain all of our earnings for use in our business and, therefore, do not anticipate paying dividends on our common stock within the foreseeable future.

Issuer Purchases of Equity Securities

We did not repurchase any of our common stock during the quarter ended January 31, 2007.

In June 2002, the Board of Directors authorized a stock repurchase program (the 2002 Repurchase Plan) to enable us to acquire up to $30.0 million of our outstanding common stock in the open market or through negotiated transactions for a period of two years. The Board of Directors extended the stock repurchase program for an additional two years in June 2004, and in June 2006, the Board extended the program to allow for the repurchase of the remaining balance of the $30.0 million authorized plan. Since the inception of the plan in fiscal 2003 through fiscal 2007, we repurchased 2.8 million shares at an aggregate purchase price of $23.9 million. Repurchased shares were recorded as treasury stock on a last-in, first-out basis. All repurchases were made on The NASDAQ Global Select Market at prevailing open market prices using existing cash, cash equivalents and investment balances. As of January 31, 2007, $6.5 million of our outstanding common stock remained available for repurchase under the 2002 Repurchase Plan. From March 29, 2007 through April 13, 2007, we repurchased 652,000 shares of our common stock for a total cost of $6.5 million and an average price of $10.03 per share. As a result of these repurchases, we completed the 2002 Repurchase Plan.

In conjunction with the 2002 Repurchase Plan, the Board of Directors authorized the transfer of up to 300,000 shares of common stock from treasury stock each year for replenishment of the Employee Stock Purchase Plan (ESPP). The authorization is effective for five years, commencing in 2003. During each of the fiscal years 2007, 2006 and 2005, the 2002 Repurchase Plan provided 300,000 shares for issuance to employees under the ESPP.

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Equity Compensation Plan Information

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under our existing equity compensation plans as of January 31, 2007. The table does not include information with respect to shares subject to outstanding options granted under equity compensation plans assumed by Wind River in connection with acquisitions of the companies that originally granted those options. Footnote (1) to the table sets forth the total number of shares of our common stock issuable upon the exercise of those assumed options as of January 31, 2007, and the weighted average exercise price of those options. No additional options may be granted under those assumed plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plan approved by security holders	10,477,789(1)	$ 11.74	3,946,923
Equity compensation plan not approved by security holders	5,501,568	$ 9.33	
Total	15,979,357	$ 10.91	3,946,923

(1) Excludes outstanding options to purchase an aggregate of 312,915 shares with a weighted average exercise price of $12.40, which were assumed by Wind River in connection with the acquisitions of AudeSi Technologies Inc., Embedded Support Tools Corporation, Integrated Systems, Inc., and Rapid Logic, Inc.

The equity compensation plans not approved by security holders generally have the same features as those approved by security holders. For further details regarding Wind River s equity compensation plans, see Note 11, Stock-Based Compensation Plans in Notes to Consolidated Financial Statements filed as part of this Annual Report.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and with the Consolidated Financial Statements presented in Item 8 of this Annual Report on Form 10-K.

	Years Ended January 31,				
	2007	2006	2005	2004 As Restated (4)	2003 As Restated (4)
	(In thousands, except per share data)				
STATEMENT OF OPERATIONS					
Net revenues	$ 285,298	$ 266,323	$ 235,400	$ 204,119	$ 249,121
Income (loss) from operations	(5,377)	23,885	12,681	(25,231)	(98,994)(3)
Net income (loss)	573(1)	29,295(2)	8,165	(24,960)	(107,382)
Net income (loss) per share:					
Basic	0.01	0.35	0.10	(0.31)	(1.36)
Diluted	0.01	0.33	0.09	(0.31)	(1.36)

	2007	2006	January 31, 2005	2004	2003
			(In thousands)		
BALANCE SHEET					
Working capital	$ 45,624	$ 19,290	$ 13,413	$ 27,220	$ 29,430
Total assets	498,565	483,244	452,254	502,552	490,454
Convertible subordinated notes, excluding current portion, and other long-term obligations (5)	2,898	2,420	76,543	191,468	151,019
Stockholders equity	324,134	303,447	255,945	233,016	251,925

(1) Net income and net income per share include stock-based compensation expense of $22.5 million related to the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, on February 1, 2006 and restricted stock awards issued in the Interpeak acquisition. See Note 10, Common Stock, and Note 11, Stock-based Compensation Plans, in the Notes to Consolidated Financial Statements filed as part of this Annual Report for further details. Also included in net income and net income per share is the release of certain international deferred tax valuation allowances totaling approximately $2.8 million.

(2) Net income and net income per share include the release of certain international deferred tax valuation allowances of $6.8 million.

(3) Loss from operations includes amortization of purchased and other intangibles of $10.5 million, impairment of purchased intangibles of $4.3 million and restructuring costs of $32.7 million.

(4) Net loss and net loss per share include stock-based compensation expense of $396,000 and $518,000, net of tax, for fiscal year 2004 and 2003, respectively, related to the voluntary review of the Company s historical stock option granting practices and the related accounting. See Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements filed as part of this Annual Report for further details.

(5) See Note 7, Convertible Subordinated Notes and Other Borrowings, in the Notes to Consolidated Financial Statements filed as part of this Annual Report for further details.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Operating and Financial Summary

Wind River is a global leader in Device Software Optimization. Our software is used to develop and run devices better, faster, at a lower cost and more reliably. Our software and development tools are used to optimize the functionality of devices as diverse as digital imaging products, automobile braking systems, Internet routers, avionics control panels and factory automation equipment. Wind River offers customers Device Software Optimization solutions to enhance product performance, standardize designs across projects and throughout the enterprise, reduce research and development costs and shorten product development cycles.

Key Operating and Financial Metrics

Members of our senior management team regularly review key operating and financial metrics such as net revenues, earnings per share, operating cash flows and net change in deferred revenues. These metrics allow management to monitor the robustness and profitability of our business and to evaluate any necessary areas for investment or, in contrast, for improved efficiencies and effectiveness.

How We Earn Our Revenues

We earn our revenues from the license and sale of our products and from providing services related to our products. Our software products are licensed to our customers for their development use under either a subscription license or a perpetual license. Customers who purchase a subscription license, also referred to as an enterprise license, are charged per term, typically, an annual fee, renewable at the election of the customer. Customers who purchase a perpetual license are generally charged a one-time, up-front fee. Once development is completed, whether under a subscription license or a perpetual license, we also generally charge our customers a production license fee for every copy of our product included in the final, manufactured device. Customers either report their usage on a quarterly basis or purchase a block of production licenses in advance of use. We also earn revenue for support and maintenance services for our products, which includes telephone support and provision of updates. For products licensed under a perpetual license, support and maintenance may be purchased for a separate fee. For products licensed under a subscription license, support and maintenance is included in the per-term fee, and includes upgrades. In addition, we also charge customers for other services related to our products, such as training and professional services. Our training services are generally purchased for a fixed fee, while our professional services are available on both a time-and-materials and fixed price contract basis. Our professional services are designed to assist our customers with the design and development of a completed device or application.

Our product revenues are comprised of revenues from perpetual licenses, the revenues that we receive for all production licenses, whether related to development under a perpetual license or a subscription license, and hardware revenues. Our subscription revenues are derived from revenues from our subscription licenses, not related to production fees, and includes support and maintenance provided to these customers. Our services revenues are derived from our professional services revenues and training, as well as revenues for support and maintenance of our products under perpetual licenses.

Summarized below is a tabular representation of the components of our revenue categories:

	Subscription		**Product Type Professional**		**Training/**
Revenue Category	**License**	**Perpetual License**	**Services**	**Maintenance**	**Education**
Product Revenues	Production licenses (royalties)	Perpetual license fees and production licenses	N/A	N/A	N/A
Subscription Revenues	Subscription fees	N/A	N/A	Maintenance for subscription licenses	Education credits
Service Revenues	Additional education credits	N/A	Professional services	Maintenance for perpetual licenses	Training related to perpetual licenses

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Our Licensing Models

We license our software using two primary licensing models, subscription-based enterprise licensing and project-based perpetual licensing. Our Wind River Platforms and Workbench Integrated Development Suite are primarily licensed under enterprise licensing.

Our subscription-based enterprise license model has been offered to customers since November 2002. This model includes subscription-based development licenses that are typically one year in duration, although some licenses extend to periods greater than one year. Subscription-based enterprise licenses eliminate the more traditional project and site restrictions on the use of our products. At the end of the subscription period, the customer s right to develop using Wind River Platforms or tools expires unless renewed. Most subscription-based enterprise licenses (i) have an initial duration of one year, with optional annual renewals, (ii) include payment terms for the full cost of the annual subscription within 30-60 days after entering into the enterprise license agreement and (iii) include production license reporting once a customer makes a commercial release of a device that incorporates our products. During fiscal 2007, 2006 and 2005, some customers entered into multi-year license agreements with us. These agreements generally included payment terms for the full cost of the multi-year subscription within 30-90 days after entering into the enterprise licensing agreement.

We also license our software under project-based perpetual licenses. Under this model, our customers pay an up-front, development license fee together with an annual maintenance fee that is based on a fixed percentage of the total licensing fees. For device software products, the customer typically also pays an additional per-unit, per-project production-license fee based on the number of copies of our operating system software that are included in final manufactured devices. The terms of the perpetual license for our software restrict the customer s use to a specific project, such as a line of printers or digital cameras and, as a result, any software licenses or prepaid production license fees can generally only be used on that specific project.

Under our perpetual license model, we sell our products at the specific project level and are dealing primarily with the engineers leading and making decisions for individual projects. The strategy for our Wind River Platform products is to seek enterprise-wide adoption. As a result, the customer s decision to adopt our products is more strategic, leading to longer sales lead times and ultimately more complex and time consuming negotiations. Our success is therefore dependent upon our ability to first educate our current and potential customers of the value associated with our Wind River Platform products and services and, secondly, our ability to negotiate and close such transactions with these customers on terms which are mutually agreeable.

Due to the fact that a significant portion of our business is sold under the subscription-based enterprise licensing model, our reported revenue in a given quarter does not necessarily reflect our level of business activity. Under the subscription-based enterprise license model, revenue is recognized ratably over the subscription period. By contrast, under applicable accounting rules for a perpetual license, the majority of license revenue is required to be recognized in the quarter in which the products are delivered and a much smaller amount relating to the fair value of maintenance to be deferred and recognized subsequently over the maintenance period. Therefore, an order for an enterprise license will result in lower current-quarter revenue than an equal-sized order for a perpetual license, but will result in increased deferred revenue compared to the perpetual license. We expect customers to continue to migrate from perpetual licensing to enterprise licensing in the current year and this may impact the timing of our reported revenues. The mix of enterprise licensing orders and perpetual orders in any given quarter can vary and may consequently also have an impact on that quarter s reported revenues.

Recent Operating Results

During fiscal 2007, we continued to grow revenue and deferred revenue while improving our cash flow from operations. Growth in revenue and deferred revenue was primarily driven by an increase in our subscription-based enterprise licensing business arising from additional focus on our Device Software Optimization strategy and an improvement in the overall economy.

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Our total revenues were $285.3 million in fiscal 2007 compared to $266.3 million in fiscal 2006, an increase of $19.0 million or 7% and increased by $30.9 million or 13% in fiscal 2006 over revenues of $235.4 million in fiscal 2005. Our net income was $573,000 or $0.01 per fully diluted share in fiscal 2007. Our net income in fiscal 2006 was $29.3 million or $0.33 per fully diluted share and our net income in fiscal 2005 was $8.2 million, or $0.09 per fully diluted share.

Our total deferred revenue has increased by 29% to $127.0 million at January 31, 2007 from $98.3 million at January 31, 2006, and by 27% at January 31, 2006 from $77.1 million at January 31, 2005, primarily as a result of continued increases in sales of our subscription-based enterprise license products. Short-term deferred revenues have increased by 33% to $112.2 million at January 31, 2007 from $84.5 million at January 31, 2006. Of the total deferred revenue balance at January 31, 2007, $14.9 million relates to deferred revenue classified as long-term. This deferred revenue relates to the portion of multi-year contracts that is due to be recognized as revenue in a time period greater than one year from the balance sheet date.

We generated cash flows from operations of $55.7 million in fiscal 2007 compared to $49.3 million in fiscal 2006 and $40.4 million in fiscal 2005. During fiscal 2007, we settled the $42.2 million remaining balance of our 3.75% convertible subordinated notes on the maturity date using existing cash, cash equivalents and investment funds. In fiscal 2007, we also repurchased 1.5 million shares of our common stock for an aggregate market price of $13.9 million.

We adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) beginning February 1, 2006. Accordingly, during the fiscal year 2007, we recorded stock-based compensation expense for awards granted prior to, but not yet vested, as of February 1, 2006, as if the fair value method required for pro forma disclosure under SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), were in effect for expense recognition purposes, adjusted for estimated forfeitures. For stock-based awards granted after February 1, 2006, we have recognized compensation expense based on the estimated grant date fair value method using the Black-Scholes valuation model. For all awards, we have continued to recognize compensation expense using a straight-line amortization method. As SFAS 123R requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for fiscal year 2007 has been reduced for estimated forfeitures. When estimating forfeitures, we consider historic termination behavior.

We calculated the fair value of each option award on the date of grant under the Black-Scholes option pricing model using certain assumptions. The computation of expected volatility for fiscal year 2007 is based on a combination of historical and market-based implied volatility from traded options on our common stock. Prior to fiscal year 2007, the computation of expected volatility was based on historical volatility. The computation of expected lives for fiscal year 2007, 2006 and 2005 was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The ranges provided for fiscal year 2007 result from the behavior patterns of separate groups of employees that have similar historical experience. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

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The following table summarizes the stock-based compensation expense recognized for stock options, our employee stock purchase plan and restricted stock awards (in thousands):

	Years Ended January 31,		
	2007	2006	2005
Cost of revenues	$ 2,322	$	$
Selling and marketing expenses	5,648		
Product development and engineering expenses (1)	5,405		
General and administrative expenses	9,122		
Total stock-based compensation expense	$ 22,497	$	$

(1) For fiscal year 2007, stock-based compensation expense of $2.1 million, consisting of restricted stock awards issued in the Interpeak acquisition, is included within product development and engineering expenses.

Impact of Stock Option Review

In May 2006, the Audit Committee of the Board of Directors commenced a voluntary review of our historical stock option granting practices and the related accounting. Subsequently, in September 2006, the Board of Directors appointed a Special Committee, comprised of a subset of the Audit Committee, which engaged independent legal counsel and accounting consultants to assist the Special Committee in its review. The review covered the timing and pr