WIND RIVER SYSTEMS INC
Form 10-K
April 01, 2009
Table of Contents

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, 2009

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)

(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 $0.001 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. x

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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, 2008, 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 Global Select Market on July 31, 2008 was approximately $812,505,183. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% 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 March 20, 2009, there were 76,590,522 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 2009 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after January 31, 2009.

Table of Contents

WIND RIVER SYSTEMS, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED JANUARY 31, 2009

TABLE OF CONTENTS

Table of Contents

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

Wind River, VxWorks, 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 business models, our ability to increase our revenues, including deferred revenues, our ability to grow our Linux business, the mix of licensing models adopted by our customers, our ability to increase our services backlog, our cost of product, subscription and services, savings related to our reorganization plan, our financing plans and capital requirements, our investments, our impairment losses on investments, intangible assets and goodwill, our expenses, including changes in selling and marketing, product development and engineering and general and administrative expenses, our restructuring charges, the potential release of all or a portion of our valuation allowance associated with our U.S. deferred tax assets, our accounting for certain acquisitions, the effect of recent accounting pronouncements ,the likelihood of realization of deferred tax assets, the potential effect of litigation against us, forecasted trends relating to our sales or the markets in which we operate or are targeting 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, continuing or worsening weakness in the economy generally or in the technology sector specifically, the ability of our customers to sell products that include our software, the degree of success of our new and current products, business models and market strategies, our ability to achieve our targeted mix of product and services business, our ability to address rapidly changing technology and markets and to deliver our products on a timely basis, our ability to grow our Linux business, the impact of competitive products and pricing, the success of our strategic relationships, the financial stability of our customers, our ability to integrate successfully recent acquisitions and to negotiate, complete and integrate future strategic transactions on favorable terms, the costs of litigation and the impact of other costs and the 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 by us 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.

Table of Contents

PART I

ITEM 1. BUSINESS

General

Wind River is a global leader in Device Software Optimization (DSO). We develop, market and sell operating systems, middleware and software development tools that allow our customers to develop, run, and manage their device products faster, better, at lower cost and more reliably. We offer our customers a choice of leading real-time, proprietary operating systems and open-source, commercial-grade Linux operating systems. We also offer our comprehensive, Eclipse-based Workbench software development suite that allows our customers to manage the design, development, debugging and testing of their device software systems, as well as leading device test solutions that allow our customers to test, diagnose and resolve defects in device software. Our customers manufacture devices as varied as set-top boxes, in-vehicle infotainment systems, mobile handsets, Internet routers, avionics control panels and coronary pacemakers. Our operating systems are currently deployed in millions of devices. Our business is diversified by geography and vertical markets. We have global sales presence with operations in four regional groups North America, EMEA (comprising Europe, the Middle East and Africa), Japan and the Asia Pacific region. We categorize our customer base by vertical market Aerospace and Defense; Consumer including Mobile; Industrial and Automotive including Medical; and Networking Equipment.

As demand for connectivity, security, mobility and multicore processing increases, 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. At the same time, device manufacturers are facing mounting pressures to bring new products to market more quickly and with more competitive pricing. To respond to these challenges, device manufacturers are increasingly adopting commercial, off-the-shelf (COTS) device operating systems and related DSO solutions and technologies.

Wind River s DSO solutions combine an open, Eclipse-based suite of software development tools, a choice of proprietary and open-source operating systems and industry-specific middleware to offer device manufacturers scalable COTS software development platforms. We complement our platform product offerings with a set of validated hardware and software partner technologies and device test solutions, as well as industry-leading technical support and professional services to assist customers with project design and management.

We are also investing in the development and delivery of broad multicore software solutions. The rapid proliferation of multicore processors is causing a significant disruption in the device market. The advent of true parallel execution of software is increasing the complexity of both porting and developing applications for multicore processors and is changing the way device manufacturers write software and configure their systems. To address these challenges, we offer a Multicore Software solution that is a comprehensive development environment, supported by our VxWorks and Wind River Linux operating systems, broad multicore software design configurations, including symmetric multiprocessing (SMP) and asymmetric multiprocessing (AMP), virtualization, and optimization tools.

At the beginning of fiscal year 2009, we reorganized our operations into four product divisions: VxWorks, Linux, Tools and Device Test. As a result of this reorganization, we have been reporting our results of operations for each of the following reportable segments since the beginning of our 2009 fiscal year:

VxWorks. This segment reports the results of operations of our VxWorks product division, which develops, markets and sells our proprietary VxWorks real-time operating system and related products and services.

Linux. This segment reports the results of operations of our Linux product division, which develops, markets and sells our open-source-based, commercial-grade Linux operating systems and related products and services.

Table of Contents

Non-Core Products and Design Services. Due to the current revenue and income contributions of these products and services, we are reporting separately in this segment our results of operations of our pSOS real-time operating system, which was acquired from Integrated Systems, Inc. in fiscal 2001, certain other non-core products and turn-key product design services.

All Other. This segment reports the results of operations of non-platform sales of our Tools product division and our Device Test product division on a combined basis.

Detailed financial information about each of the reportable segments listed above can be found in Note 13 Segment and Geographic Information to the notes to consolidated financial statements filed as part of this Annual Report on Form 10-K.

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.

Device Software

Device operating systems are embedded in electronic devices to control the operation of a device and to facilitate the execution of higher-level application software. Device operating systems generally require high reliability, real-time response, fast boot-times, small memory footprints and low power consumption.

Device software application development has evolved from a relatively small part of building a device to a larger, more complex engineering effort. As more powerful microprocessors become available and decrease in price, device software is being used in a wider range of products. Hardware innovations, such as multicore processors, make faster, more powerful and more versatile devices possible, but they also require more functionality from operating systems and development tools.

Device developers face many challenges. They must differentiate their devices in an increasingly crowded marketplace, increasingly through software rather than hardware. They must integrate multiple technologies, tools and solutions from multiple sources and work with dispersed teams, which often results in enormous complexity. They must reduce time-to-market without sacrificing quality, cut development costs without risking project deadlines and incorporate new technologies and features to respond to rapidly changing customer demands. With internal software development efforts, device developers may have greater control over their software systems, but costs and complexity often escalate, quality can deteriorate and time-to-market can lengthen. In some cases, device manufacturers have to employ many developers to develop tools internally that are commercially available. In other cases, device manufacturers have to support dozens of different operating systems across multiple product lines.

The DSO industry arose to address these challenges faced by device developers. Device software solutions help customers streamline the software development process, making it simpler and more economical for device developers to build products with new capabilities. COTS DSO solutions free valuable developer resources to focus on differentiation instead of core platform development, maintenance and stabilization. They enable creation of differentiated devices, reduce time-to-market, reduce tools investments and facilitate standardization across projects and enterprises. We believe that device developers are increasingly shifting away from internally-developed device software systems toward well-integrated, commercial solutions from trusted suppliers. We believe this movement has been accelerating recently as more companies build more devices with more features and more software content than ever before.

Table of Contents

Our Strategy

Our objectives are to strengthen our leadership position in the DSO industry and to increase our revenue and profitability. To achieve these objectives, we are pursuing the following strategic initiatives:

Investing in targeted growth product areas: We are focusing engineering, sales, and marketing resources in certain targeted growth product areas, including Linux platforms, Multiple Independent Levels of Security (MILS) solutions in the aerospace and defense industry and multiprocessing capabilities.

Driving profitability of established products: We are focusing on generating increased returns from our more established products, including our VxWorks solutions, our on-chip debugging tools and our other general purpose development tools.

Focusing operations: Since the beginning of our fiscal year 2009, our operations have been structured among four product divisions: VxWorks, Linux, Tools, and Device Test. We complement our product offerings in each of these divisions by offering strategic professional services to our customers. This organizational structure was designed to help us focus on new technology and market opportunities, to become more nimble and agile with our customers and partners and to drive and measure returns on our investments.

Targeting growth vertical markets: We are concentrating increased sales and marketing efforts in targeted growth vertical markets, including aerospace and defense (especially MILS), network equipment, mobile handsets, industrial, in-vehicle infotainment, mobile Internet devices and digital living. We are also actively evaluating opportunities for acquisitions in growth markets. During fiscal year 2009, we had significant design wins in many of these markets and, in particular, in the mobile handset and in-vehicle infotainment markets.

Leveraging alliances with key partners: We are continually seeking to establish relationships with key hardware and software partners in order to develop, promote and sell products and services to new customers or through new distribution channels. We are also playing increasingly important roles in several industry consortia and standards-setting bodies, particularly in the open-source industry, in order to promote technology standardization and adoption.

Our Solutions

Our solutions focus on:

Our proprietary, real-time VxWorks operating systems;

Our open-source-based, commercial-grade Linux operating systems;

Our Workbench software development tools; and

Our device test solutions.

In addition, we continue to sell certain non-core products and turn-key product design services.

VxWorks Products

We offer a series of platform products based on our proprietary VxWorks real-time operating system (RTOS). Our VxWorks platforms are complete, flexible, optimized COTS development and run-time platforms. The platforms provide a powerful, scalable development and debugging environment built on open standards and industry-leading tools, the industry s most trusted commercial-grade RTOS and tightly integrated run-time technologies. Our VxWorks platforms are particularly well suited for embedded applications that require small memory footprints, real-time performance, safety or mission-critical reliability and high levels of security. Wind River s latest VxWorks platforms further advance multicore support by introducing asymmetric multiprocessing in addition to symmetric processing. This will enable multicore processors to deliver high performance, lower

Table of Contents

costs, lower power consumption and faster time-to-market. In addition, we have integrated a portfolio of Advanced Networking Technologies into our VxWorks platforms. These technologies provide advanced networking protocols, security, wireless, and mobility capabilities for markets such as wireless infrastructure, network infrastructure and consumer devices.

Our VxWorks platforms include the following:

Wind River General Purpose Platform, VxWorks Edition: This platform integrates VxWorks, our proprietary RTOS, with Workbench, our advanced development suite, and standardized middleware for networking, security, and management. This platform includes multicore support (SMP and AMP), complete IPv6 ready certified networking technologies, memory protection, POSIX compliance, and extensive 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 innovative and robust products to market in a cost-effective and timely fashion. The platform is used for devices in aerospace and defense, networking, industrial, medical, small-footprint consumer and automotive markets.

Wind River Platform for Automotive Devices, VxWorks Edition: This platform is designed for the development of applications that require high reliability, low power consumption and a small memory footprint. Target devices include both vehicle and security control systems (power train, engine, ABS, crash and airbag sensors and window/door entry systems) and in-vehicle systems (digital dashboard displays, navigation systems, telematics systems, radios and entertainment systems).

Wind River Platform for Consumer Devices, VxWorks Edition: This platform offers a fast-boot, small-footprint run-time environment that is suitable for memory-constrained devices. Target devices for this platform include print and digital imaging, mobile handheld, voice-over-IP (VoIP), and broadband access devices.

Wind River Platform for Industrial Devices, VxWorks Edition: This platform provides industrial device manufacturers with essential multimedia and connectivity run-time technologies, including drivers and protocols for connected devices on the factory floor, wireless peripherals, and other devices within the network infrastructure. Target devices include industrial automation, building automation, medical equipment, transportation and test and measurement devices.

Wind River Platform for Network Equipment, VxWorks Edition: This platform enables customers to rapidly create, test, deploy, maintain, and manage high-quality network infrastructure devices. The platform offers an extensive suite of security protocols to protect network data and is suited for wireless infrastructure, enterprise network, core networking, network edge, 4G wireless infrastructure (e.g., WiMAX, LTE) and broadband access devices.

VxWorks 653: This platform delivers the stringent foundation aerospace and defense companies need to address the safety and security requirements of mission-critical applications, as well as the portability and reusability requirements of noncritical applications. The platform offers complete ARINC 653 Part 1, Supplement 2 compliance, networking and DO-178B certification evidence.

Wind River Platforms for Safety Critical Devices: VxWorks 61508 and VxWorks DO-178B are designed for the development of safety-and mission-critical devices, such as those used in the avionics, industrial and medical markets. These platforms have been certified to meet the requirements of, respectively, IEC 61508 an international standard for industrial safety and DO-178B Level A the industry standard for certifying new aviation software.

In February 2009, we acquired all of the outstanding shares of Tilcon Software Limited, a privately held company based in Ottawa, Canada that focuses on providing embedded graphics solutions. With this acquisition, we acquired proprietary embedded graphical user interfaces that will enhance the value of our VxWorks and Wind River Linux software platforms across multiple device types and target vertical markets. This acquisition will be reported as part of the VxWorks reportable segment.

7

Table of Contents

Linux Products

We have been offering platform products based on the Linux open-source operating system for more than four years. For device manufacturers who adopt Linux, Wind River offers a commercial grade Linux platform that provides the benefits of open source innovation combined with commercial grade integration, testing and support. Customers across a variety of industries who understand the complexity and cost of developing their own Linux solution view Wind River s Linux as a commercially supported and tested open source offering that allows them to select, build, integrate, debug, test and support multiple system packages and components from among the many available options. Wind River s open source products provide an alternative to our customers for the significant internal development resources required to package and support a Linux platform across an enterprise, to monitor and integrate patches to the Linux kernel and related subsystems and packages and to deploy updates.

Until the introduction of Wind River Linux 3.0 in March 2009, we had been offering a series of different Linux platform products, each of which was aimed at different industries and device types such as consumer devices or networking equipment. With our latest release of Wind River Linux 3.0, we consolidated our Linux platforms and we now offer customers a single flexible Linux offering with multiple alternative profiles for creating customized devices. These profiles provide customers with well-known, tested and validated combinations of components to jump-start their projects. With the creation of a single offering with multiple profiles, customers in various industries can procure one Linux distribution that can be used to create many types of devices. Wind River Linux offers sophisticated multicore features such as virtualization based on KVM (Kernel-based Virtual Machine) and multicore offload, allowing customers to utilize the potential of modern multicore hardware. Wind River Linux also offers the choice of several kernel profile options for a number of different architectures, including ARM, MIPS, XScale, PowerPC, SPARC and Intel-based architectures.

Wind River Linux includes the following:

Wind River Linux (**Standard Profile):** Wind River Linux is targeted at a wide variety of applications in network equipment, consumer devices, industrial, aerospace and defense, medical, and other markets. It is available for the most popular architectures, processors and reference hardware used in device software development today. Wind River Linux is a pervasive, profile-rich commercial-grade solution based on pristine source, fully tested and validated Linux implementations. We complement our core Linux operating system offering with a strong proprietary middleware portfolio, including Wind River Real-Time Core for Linux, which enables application developers to rapidly develop and deploy devices that require the hard real-time capabilities necessary for high-performance deterministic responsiveness. Wind River Linux is distributed with Wind River Workbench, an integrated, Eclipse-based development suite, as well as a broad set of open source based middleware applications for networking, file systems, security and other applications.

Wind River Linux (**CGL Kernel Profiles):** We offer carrier grade Linux (CGL) profiles that are designed specifically for the needs of our telecommunications and networking customers. These profiles are well suited for developing system control and data plane software in wireless infrastructure systems, fixed-mobile convergence (FMC) elements and multiservice switches. Wind River Linux meets the stringent telecommunications industry standards expected of Carrier Grade Linux, including registration with the Linux Foundation Carrier Grade Linux specification 2.02, as well as registration with the SA Forum s Hardware Platform Interface (HPI) and Application Interface Specification (AIS). In 2008, Wind River was the first commercial Linux provider to register CGL 4.0 compliance with the Linux Foundation.

Wind River Linux (**Small Kernel Profiles):** We also offer small kernel profiles that are aimed at mobile handheld consumer devices, digital video devices and digital imaging devices and other footprint sensitive solutions. These profiles are intended for small footprint, battery-powered devices that require fast boot times. These profiles support 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.

Table of Contents

Tools and Common Technologies

Wind River Workbench is our integrated development suite for developing, testing, and optimizing device software that runs on our VxWorks or Linux-based platforms. Workbench integrates a set of purpose-built developer tools that simplify and accelerate the creation of device software applications for those platforms. Based on the industry-standard open Eclipse framework, Workbench enables developers to be productive immediately and to take advantage of dozens of third-party plug-ins to provide additional software design, analysis, and lifecycle management 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 reducing time-to-market.

With the emergence of powerful new multicore systems-on-a-chip (SOCs), device developers face new complexities in the software development lifecycle; complexities that introduce risk in achieving time-to-market and software performance objectives. Wind River Workbench provides a rich set of multicore-aware tools that allow customers to efficiently develop for multicore-based devices, providing timesaving capabilities for configuration, build, debug, and simulation. Our comprehensive product line includes Wind River Workbench, On-Chip Debugging Edition, our high-performance, cost-effective JTAG debugging solution with associated hardware connection options: Wind River ICE 2, Wind River Probe, and Wind River Trace 2. Wind River ICE 2 and Wind River Trace 2 are new products that offer scalable, non-intrusive system-level debug and analysis capabilities for optimizing device software on multicore SOCs.

In addition to providing on-chip debugging tools for the development environment, Wind River also offers a test and manufacturing solution that allows for the integration of on-chip debugging into test automation programs. This product uses Wind River ICE 2 and Wind River Probe combined with a custom test and manufacturing software solution: the Wind River On-Chip Debugging API and Utility.

Device Test Solutions

Our device test solutions enable our customers to improve device quality, reduce the testing cycle time, and deliver product to market faster, cheaper and with higher quality. They allow quality assurance (QA) and development engineers to collaborate and remotely diagnose and repair in real time, enabling customers to realize efficiencies and economies at the testing stage of the device life cycle and beyond:

During design and development, developers can use Wind River Workbench Diagnostics to instrument and debug code using Sensorpoints.

During system integration, quality assurance and testing, teams can use Wind River Test Management to manage the testing cycle. Wind River Test Management is a scalable, distributed testing framework that links device software development and QA teams in an intelligent, collaborative workflow. It enables teams to efficiently deploy tests, perform fact-based analysis and rapidly resolve issues encountered throughout the testing phase. This streamlines the testing effort and creates a repeatable process that reduces risk.

Non-Core Products and Design Services

We continue to sell certain non-core products and turn-key product design services, including our pSOS real-time operating system. pSOS was developed by Integrated Systems, Inc., which we acquired in fiscal year 2001. We continue to derive production license revenue in connection with sales by our customers of devices that incorporate the pSOS operating system.

Table of Contents

Professional Services

To complement our software and hardware products, Wind River offers professional technical consulting design and educational services. We also provide complete outsourced design services for customers products or applications. 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.

As market and industry conditions change rapidly, our professional services are becoming an increasingly important driver of product sales. We have performed an increasing number of services-led engagements with our customers, as some customers opt to retain us to provide professional services to them in order to develop and/or prove a concept in advance of licensing our software solutions from us. Also, in the in-vehicle infotainment and mobile device industries, we have witnessed the formation of industry consortia focused on the development and broad adoption of open-source reference platforms or middleware stacks, including the GENIVI Alliance, the Open Handset Alliance, the LiMo Foundation and Moblin. To help customers in these industries to best leverage these open source initiatives, our professional services team offers system integration and support services combined with our broad software and hardware ecosystem to enrich customer device development and accelerate their time to market.

Our customer education team delivers a series of formal technical courses designed to teach the basics of device software development and effective use of our tools, operating systems and middleware. We also provide worldwide maintenance and support for all Wind River products.

Our revenue from professional services was $59.2 million in fiscal year 2009, representing approximately 16% of our revenue for the year. As of January 31, 2009, we had an aggregate services backlog of approximately $22.4 million. Services backlog is an operating measure that represents contractual commitments for our professional services that are not yet billed or delivered. Although we expect that most of our services backlog will be billed and delivered within the next 12 months, service contracts are subject to change or termination, and management does not believe that services backlog, as of any particular date, is a reliable indicator of future performance. Our services backlog is not recorded on our balance sheet and is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements, and the concept of backlog is not defined in the accounting literature, making comparisons with other companies difficult and potentially misleading.

Over the last few years, we have expanded our professional services capabilities through the acquisition of MIZI Research Inc. in October 2008 and S.C. Comsys S.R.L. in August 2007. These acquisitions have expanded the geographic footprint and vertical focus of our professional services organization in lower cost regions.

Licensing Models

We offer our customers the ability to license our products under the following types of licensing models:

Subscription License Model: Some of our customers license our products on a subscription basis, which provides the customer with development rights to our products and standard support and maintenance services for an all-inclusive fee. A subscription typically has a one-year term, with optional annual renewals. Certain customers choose to enter into multiyear subscriptions with us.

Perpetual License with Maintenance Model: Some of our customers license our products on a perpetual basis, which provides the customer with perpetual development rights to use our products for an up-front development license fee. Customers can purchase support and maintenance services for these products on an annual, renewable basis.

Term License with Maintenance Model: In fiscal year 2009, we began to offer our customers the option to purchase a term license with maintenance. Under this model, customers are able to enter into

Table of Contents

renewable, limited-term licenses with us, which provide them with development rights to use Wind River products for a limited term rather than on a perpetual basis. License terms are typically two to three years, but can be longer in some cases. These customers also can purchase support and maintenance on an annual, renewable basis.

For our proprietary software components, we also typically receive production license fees in connection with the reproduction and distribution by our customers of software components that are included in each final, manufactured device by the customer.

Strategic Alliances, Industry Consortia and Open-source Community Participation

Wind River engages with semiconductor vendors, circuit board manufacturers, system manufacturers, other software companies and customers to promote our success in the device software marketplace. These relationships help us drive innovation and standards across industry sectors and aggregate the supply chain in vertical markets to deploy cohesive and complete solutions. For example, our alliance with Intel in the in-vehicle infotainment market segment has allowed us to promote the development of standards in this industry and to deliver integrated solutions to major customers in this market segment. We have achieved similar success with our alliances in the mobile handset space. For example, we have generated several opportunities to provide professional services and software solutions to mobile handset manufacturers as a result of our membership in the Open Handset Alliance (OHA).

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

Wind River has also developed a partner network of software companies whose products integrate with our operating system platforms to provide value-added capabilities. Software partners also 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. We work with these companies to develop broader ecosystem solutions and deliver more complete software solutions to customers in our targeted vertical markets.

We have a series of strategic relationships with COTS partners in support of the adoption of the Advanced Telecommunications Computing Architecture (ATCA) by telecommunications equipment manufacturers. With Sun Microsystems, Kontron, Mercury Computer Systems, RadiSys Corporation and Emerson Network Power, 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 equipment.

We are playing an increasingly active and important role in open-source development projects and industry consortia. We have been a leader in the Eclipse Device Software Development Platform (DSDP) project for several years. We are a member of the Linux Foundation (formerly the Open-source Development Lab, or OSDL), the LiMo Foundation (LiMo), the Open Handset Alliance, Moblin, the Service Availability Forum (SA Forum), the OpenSaF Foundation, the SCOPE Alliance, the Communications Platform-Trade Association, AUTOSAR and the GENIVI Alliance. Among other things, these organizations are striving to reduce industry fragmentation by defining common standards and protocols. For example, the LiMo Foundation and the OHA intend to create a standard Linux distribution for mobile handset OEMs. The GENIVI Alliance was recently

Table of Contents

established by leading automobile manufacturers and suppliers to drive the development and broad adoption of an open source in-vehicle infotainment reference platform.

As part of our open-source strategy and product development, we expect to become increasingly involved in licensing source code that we develop under open-source licenses. We believe the open-source community, our customers and our products will benefit from our increased role in contributing software back to the open-source projects upon which we rely for software that is distributed with our products. In addition, we expect to work more closely with partners and consortia to develop, proliferate and maintain open-source code.

Customers

Our solutions have been deployed by a broad range of organizations, including companies in networking (data, video, and voice), consumer electronics, aerospace and defense, mobile handsets, industrial, medical and automotive. Our customers include end users, distributors, OEMs and ODMs, system integrators and value-added resellers.

Our major customers by revenue for fiscal year 2009 included Alcatel-Lucent, Boeing Corporation, LM Ericsson Telephone Company, Finmeccanica, Intel Corporation, Lockheed Martin Corporation, Motorola Inc., Nortel Networks Corporation, Northrop Grumman Corporation and Raytheon Company. No single customer accounted for more than 10% of our revenue in any of the fiscal years ending January 31, 2009, 2008, or 2007.

Marketing, Sales, and Distribution

We market our products and services in North America, EMEA (Europe, the Middle East, and Africa), Japan, and the Asia Pacific region, primarily through our own direct sales organization, which consists of sales persons, field engineers and support staff. We also market and sell our products through a network of distributors and resellers, primarily in international regions, to serve customers in regions not serviced by our direct sales force.

Our direct sales force presents Wind River and our products for licensing to prospective customers, while engineers provide technical presale and post-sale support. As of January 31, 2009, we had 195 sales employees located throughout North America, 114 sales employees throughout EMEA, 45 sales employees in Japan and 65 sales employees in the Asia Pacific region. As of January 31, 2009, we had 302 employees in professional services, 67 employees in marketing and 114 employees in customer support.

Revenue from sales to customers outside of North America represented $173.3 million, $149.6 million and $128.8 million for fiscal year 2009, 2008, and 2007, respectively, or approximately 48% of total revenue for fiscal 2009, 46% of total revenue for fiscal 2008 and 45% of total revenue for fiscal 2007. Prices for international customers for our platforms are generally quoted in U.S. 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 U.S. 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 volatility resulting primarily from customer buying patterns and product development cycles. (See Item 1A, Risk Factors Factors That May Affect Our Future Results or the Market Price of Our Stock).

Competition

The DSO industry is highly competitive and fragmented. Our primary competition comes from the internal research and development departments of companies that develop device systems in-house. In many cases,

Table of Contents

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 COTS solutions have not been fully appreciated, with software system decisions typically being made at the project level. Today, the increasing complexity associated with device software is forcing companies to reconsider their in-house development strategies, as companies look to optimize their own device software development efforts and to bring devices to market faster and at lower cost. We believe that an increasing number of in-house development projects are shifting towards COTS solutions as a first strategic step toward standardization.

The principal competitive factors in the DSO industry include:

- reliability;
- performance, including boot-times and response times;
- size, including memory footprint;
- product features and functionality;
- development complexity and time-to-market;
- price;
- availability of integrated development tools;
- ability to create and maintain intellectual property ownership;
- support for multiple semiconductor architectures and processors;
- interoperability with middleware systems;
- support for emerging industry and customer standards and protocols;
- levels of training, technical services and customer support; and
- levels of indemnification for potential intellectual property infringement claims.

We believe that we compete favorably with respect to each of these factors. We offer both our leading real-time, proprietary VxWorks operating systems that are particularly well-suited for device applications that require reliable, real-time performance, small memory footprints and proprietary systems, as well as our commercial-grade Linux operating systems that are well-suited for consumer device applications and other open-source-based systems. We complement both of these types of operating systems with our integrated, Eclipse-based Workbench software

development suite. In addition, we offer device test solutions and expert technical support and professional services.

In the market for Linux operating systems and tools, Wind River competes with Linux distributions that are freely available from the open-source community, as well as commercial Linux distributors such as MontaVista Software Inc., LynuxWorks Inc., TimeSys Corporation and others.

Wind River also competes with independent software vendors in the market for proprietary operating systems and tools, including Microsoft 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 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 our competitors, such as Microsoft Corporation, may have significantly greater financial, technical, marketing, sales and other resources and significantly greater name recognition than does Wind River.

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

Table of Contents

range of customer and market requirements. As of January 31, 2009, our product development and engineering group included 550 full-time employees in various locations around the world, including 173 employees in China.

During fiscal years 2009, 2008 and 2007, product development and engineering expenses were $83.9 million, $81.4 million and $73.5 million, respectively, excluding capitalized software development costs. For fiscal years 2009, 2008 and 2007, we did not have any capitalized software development costs related to development of software to be sold. In addition to our strategic relationships with semiconductor companies noted in Strategic Alliances, Industry Consortia and Open-Source Community Participation above, we have entered into joint engineering programs with other key customers. Our gross research and development expenses in fiscal years 2008 and 2007 were offset by $322,000 and $319,000, respectively, in funding from these programs. We did not have any funding from these programs in fiscal year 2009.

Proprietary Rights

Our success 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 our open-source business grows, 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, with respect to our open-source-based products, although we will retain the copyright to the source code that we develop ourselves, our most valuable intellectual property with respect to derivative works governed by the GPL or similar 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, 2009, we held 66 issued patents in the United States, none of which has expired. The expiration dates of these patents range from 2015 to 2025. 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).

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.

Table of Contents

Employees

As of January 31, 2009, we had 1,673 employees, including 486 in sales and marketing, 454 in professional services and support activities, 550 in product development and engineering and 183 in management, operations, finance, and administration. Of these employees, 912 were located in North America and 761 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. Many of our employees in foreign jurisdictions are represented by works councils or unions that are often required by local labor laws. 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 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).

Executive Officers of the Registrant

The names of our executive officers, their ages as of March 31, 2009 and their positions are shown below:

Name	Age	Title
Kenneth R. Klein	49	Chairman of the Board, President and Chief Executive Officer
Ian R. Halifax	48	Senior Vice President of Finance and Administration, Chief Financial Officer and Secretary
Damian Artt	45	Senior Vice President, Worldwide Sales and Services
Jane E. Bone	43	Chief Accounting Officer
John J. Bruggeman	47	Chief Marketing Officer
Barry Mainz	45	Chief Operating Officer
Scot K. Morrison	46	Senior Vice President and General Manager, VxWorks Division
Vincent Rerolle	46	Senior Vice President and General Manager, Linux Division

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 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 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.

Damian Artt was appointed Wind River s Vice President of Worldwide Sales and Services in February 2007 and Senior Vice President of Worldwide Sales and Services in January 2009. Mr. Artt joined Wind River in 2004

Table of Contents

as our Vice President of Worldwide Services. Prior to joining Wind River, Mr. Artt spent eleven years at Cadence Design Systems, a software company, in various sales leadership positions. Mr. Artt has a degree in Electrical Engineering from Queen s University in Belfast, Northern Ireland.

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 from University of Hull, United Kingdom.

John J. Bruggeman joined Wind River in February 2004 and currently serves as 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.

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 Operations. From 1999 until he joined Wind River, Mr. Mainz served as Vice President, Corporate Sales Division, for Mercury Interactive Corporation. Mr. Mainz has also held various sales leadership positions at Sun Microsystems, Inc., Seagate Technology and Weitek Corporation. Mr. Mainz holds a BA degree in Communications from San Francisco State University.

Scot K. Morrison was appointed Senior Vice President and General Manager, VxWorks Division in February 2008. He previously held other management positions at Wind River including Senior Vice President of Engineering and 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 was responsible for mergers and acquisitions, strategic partnerships and alliances, and he was appointed Senior Vice President and General Manager, Linux Division in February 2008. 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 13, Segment and Geographic Information, in the notes to consolidated financial statements, filed as part of this Annual Report on Form 10-K.

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.

Table of Contents

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.

Continuing or worsening weakness in general economic conditions and other geopolitical factors may adversely affect our operating results and financial condition.

Our results of operations are dependent to a large extent upon the state of the global economy. We have experienced over recent quarters, and expect to continue to encounter, a number of industry and market risks and uncertainties that limit our market visibility and, consequently, our ability to predict future revenue, profitability and general financial performance, and that could create variability in our results of operations. Continuing or worsening weakness in economic conditions in North America, EMEA, Japan or the Asia Pacific region could adversely affect our customers and our results of operations and financial condition. Challenging economic conditions may decrease our customers demand for our products and services, including decreasing demand for our multi-year term licenses, or impair the ability of our customers to sell products incorporating our software or to pay for products and services they have purchased. As a result, our revenues could be unpredictable and may decrease and reserves for doubtful accounts and write-offs of accounts receivable may also be unpredictable and increase.

In order to reduce our operating costs in this challenging economic environment, we have adopted certain cost cutting measures in order to reduce employee benefits and compensation costs, including implementing a reduction in our workforce. If general economic conditions remain weak or worsen, we may be required to further reduce our workforce or take additional cost saving measures. We cannot predict whether any of the cost reduction measures that we have or may in the future undertake will be sufficient. In addition, further cost reduction measures could disrupt the productivity of our continuing workforce, or limit our ability to invest in research and development, marketing and other valuable business investments at levels we believe are beneficial to the long-term health of our business. If we are unable to effectively manage our costs and investments, our business, cash position and operating results may suffer.

In addition, geopolitical factors such as terrorist activities, armed conflict or global health conditions that adversely affect the global economy may adversely affect our operating results and financial condition.

We may incur impairments to goodwill or long-lived assets.

We review our long-lived assets, including goodwill and other intangible assets, for impairment annually in the second quarter or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

Significant negative industry or economic trends, including a significant decline in the market price of our common stock, reduced estimates of future cash flows for our reporting units or disruptions to our business could lead to an impairment charge of our long-lived assets, including goodwill and other intangible assets. If our stock

Table of Contents

price decreases to the point where our fair value, as determined by our market capitalization, is less than our book value, this too could indicate a potential impairment and we may be required to record an impairment charge in that period. In fiscal 2009, we incurred a non-cash goodwill and other intangibles impairment charge of $12.3 million related to our Device Test business as a result of economic conditions and a rebalancing in our strategic product portfolio related to our Device Test reporting unit. See Note 2, Acquisitions, Goodwill and Purchased Intangibles in the notes to consolidated financial statements filed as part of this Annual Report on Form 10-K for further information regarding the impairment charge related to our Device Test business.

Furthermore, we maintain an investment portfolio of various holdings, types, and maturities. These investments are subject to general credit, liquidity, market and interest rate risks, which may be exacerbated by unusual events that have affected global financial markets. If the global credit market continues to deteriorate, our investment portfolio may be further affected and our investments may experience other-than-temporary declines in fair value, requiring an additional impairment charge that could adversely impact our financial results. In fiscal 2009 and 2008, we recorded other-than-temporary impairments associated with our investment portfolio totaling $1.4 million and $368,000, respectively. See Note 3, Certain Balance Sheet Components and Note 4, Financial Instruments in the notes to consolidated financial statements filed as part of this Annual Report on Form 10-K for further information regarding the impairment of our investments.

Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from results. Additionally, if our analysis results in an impairment to our goodwill, we may be required to record a charge to earnings in our financial statements during a period in which such impairment is determined to exist, which may negatively impact our results of operations.

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 and timely 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.

If we do not select the right areas for investment or the right vertical markets in which to concentrate our sales and marketing efforts or if we are not successful in implementing or developing new business initiatives or if new business initiatives adversely affect our other businesses, our financial performance could suffer.

We regularly evaluate new products, technologies, business models and strategic business initiatives. For example, in response to growing customer interest in open-source software solutions, we began offering

Table of Contents

open-source products and services in 2005 and our open-source business has become an increasingly important part of our business. In addition, at the beginning of fiscal year 2009, we adopted a strategic plan to focus increased engineering, sales and marketing resources in certain targeted growth product areas, including Linux platforms, Multiple Independent Levels of Security (MILS), aerospace and defense security solutions and multiprocessing capabilities. Investments in new business areas or strategic business initiatives can be expensive and time consuming and can divert management attention and internal resources away from other business opportunities. If we do not select the right areas for investment or if we are not successful in implementing or developing new business initiatives or if new business initiatives adversely affect our other businesses, our financial performance could suffer.

In addition, we regularly target certain vertical markets in which we concentrate increased sales and marketing efforts. We are now concentrating increased sales and marketing efforts in certain targeted growth vertical markets, including aerospace and defense (especially MILS), network equipment, mobile handsets, industrial, in-vehicle infotainment, mobile Internet devices, and digital living. Many of these markets have experienced and may continue to experience rapid technological changes and industry consolidations and other disruptions. If we do not select the right vertical markets in which to concentrate our sales and marketing efforts or if these markets change or fail to grow as we anticipate or if we are not successful in licensing our products to customers in these targeted markets, our financial performance could suffer.

If we fail to grow our open-source business, our revenues and operating results could decline or could fail to grow. As our Linux products compete with open-source software that is available publicly at little or no cost, and open source services can be performed by others, there can be no assurance that our customers will determine that our open-source products and services offer a compelling value proposition or that we will be successful in licensing our Linux products, or selling our open source services, on profitable terms.

Our Linux business, including our Linux products and our open source software development services, have become an increasingly important part of our business as Linux has been increasingly adopted by device manufacturers for more device applications. We anticipate that our Linux business will be the fastest-growing part of our business in the near future. If we fail to grow our Linux business, our revenues and operating results could decline or could fail to grow as much as we anticipate, and could result in an impairment of goodwill and long-lived assets in that reportable segment.

We cannot be certain whether any of our current or future open-source product offerings will be successfully adopted by new or current customers. In addition, even if our open-source products are adopted by our customers, they may not be profitable. Our open-source products compete with, among other things, open-source software that is otherwise publicly available for little or no cost. There can be no assurance that our customers will determine that our open-source products offer a compelling value proposition or that we will be successful in licensing our products on profitable terms. Very few open-source software companies have been profitable. To date, our open-source-based business has not been profitable, and we may not be able to generate profits in this business in the future.

As part of our open-source strategy, we are investing in and promoting the efforts of various industry consortia and standard setting organizations, and expect that industry consolidation in support of these specific standards and software will position us well to benefit from market convergence on the standards and software that we support, in respect of both our open source product and services offerings. However, there can be no assurance that the consortia or standards organizations in which we choose to participate will be adopted by the marketplace, and if they are not we may have diverted our resources away from alternative strategies and software development that may instead become the marketplace leaders. Our strategy also anticipates that we will work closely with hardware and software partners to increase the adoption of our Linux-based products, and that we may also benefit from the development or distribution efforts these partners may provide related to our open-source products. If we are not able to successfully motivate our partners to support our open-source product development and distribution efforts, our products and services may not be adopted downstream by shared customers.

Table of Contents

While we attempt to grow our open-source-based business, we simultaneously continue to offer our proprietary software products to the marketplace. It is possible that our efforts to grow our open-source business could result in a decline in sales of our proprietary software either as a result of a diversion of internal resources or customer preference. If such sales declines were to occur, our revenues and earnings could be adversely affected.

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

As our products and services 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 may face increased legal risks that could affect our future ability to develop or sell our open-source products.

The language of the open-source licenses that govern software we distribute with our products and services is at times ambiguous, which creates vulnerability to third-party allegations of non-compliance with terms of applicable open-source licenses. For instance, we distribute open-source software with (and in some cases incorporate open-source software into) our products and services, including certain open-source software components subject to the GPL. Distributing or combining open-source software with or into our products and services 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 and services, including a requirement to disclose our proprietary code 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 have resulted in infringing work or work that has unintentionally become subject to open-source obligations. As we grow and develop our open-source strategy and business, we may also become subject to challenges that other aspects of our business model or strategy do not comply with applicable open-source licenses. Even if no legal pronouncement is made, if the informal developer communities comprising the open-source software movement adopt a negative position toward our business or development efforts, they may cease their support of our company and this disruption in our relationship with the open-source software community could adversely affect our ability to effectively market and sell open-source products.

Our open-source strategy may also make us increasingly vulnerable to claims that our products and services infringe third-party intellectual property rights, as many of the open-source software components we may distribute with our products and services 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, it is possible that a court could hold the GPL to be unenforceable through a 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 or the terms upon which we license our products could materially harm our business.

Table of Contents

Uncertainty regarding the legal risks related to open-source software components could affect sales of our open-source products and services generally. Some of our potential customers may be reluctant to incorporate open-source software into their own products if they perceive significant risks that their own software systems could become subject to GPL licensing terms.

Also, as a vendor of software intended to be embedded into Linux-based devices, we may be subject to claims based on actions by our customers or device end users in their use of open-source code received from us. For instance, if our customers develop and distribute software received from us in a manner that violates GPL licensing terms or infringes third party intellectual property rights, we may be subject to legal claims under such theories as contributory infringement, inducing infringement or vicarious liability.

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 the past agreed to indemnify certain of our customers against certain potential liabilities associated with our open-source products and services and we may decide to revise or expand our indemnification policies and practices in the future to address customer requirements. Our financial condition and results of operations may be adversely affected if we have to indemnify our customers for the liabilities posed by open-source software.

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

Because we license our development products under business models that recognize revenue differently, the rate of adoption of license models by our customers impacts the timing of our reported revenues. Under our subscription license model, revenues are recognized ratably over the subscription period. By contrast, our perpetual and term license models require a majority of license revenues to be recognized in the quarter in which the products are delivered and a smaller amount relating to the fair value of the maintenance is deferred and recognized subsequently over the maintenance period. An order for a subscription-based license will result in lower current-quarter revenue than an equal-sized order for a perpetual or term license. As a result, our reported revenues are affected by the selection of license model type by our customers. In addition, our ability to recognize revenues can be deferred when a transaction includes multiple elements. There is a risk that we will not be able to continue or increase our rate of adoption of our subscription-based, perpetual-based or term-based license models, or that we may choose to focus our sales efforts and resources on particular, significant perpetual, term or subscription license opportunities that may or may not result in a sale. Although we have experienced an increase in the adoption of our term license model in the past year, the adoption of the term license model may not continue to increase at the same rate in the future either due to the current macroeconomic environment or otherwise. The impact on revenues and deferred revenues will continue to depend on the rate at which customers license products under our perpetual, term or subscription license models or under multiple element arrangements. 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 subscription licenses represent a potential source of renewable license revenue, there is also a risk that customers will not renew their licenses at the end of the subscription term. There is a further risk that the more complex and time consuming negotiations required for subscription licenses may affect our ability to close such transactions, and that customers who purchase subscription licenses may spend less in the aggregate over the term of the subscription license than if they had been required to purchase perpetual licenses. 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 larger decline in revenues, as well as an increase in deferred revenues.

Table of Contents

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 underlying products. As our open-source business grows, we may not be able to rely on receiving per unit fees from our customers. For our open-source business, we may instead need to rely on other fees to compensate for the production license fees that we have traditionally received for our proprietary products. Also, 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, particularly in the current global economic recession, our revenues will decline. In addition, if customers elect to purchase fewer up-front production licenses and buyout block purchases and choose instead to pay quarterly in-arrears, this may impact our revenues in certain quarters. We cannot control our customers product development or commercialization or predict their success. In addition, we depend upon our customers to accurately report the use of their products in order for us to collect our revenues from production licenses. Our license compliance group also works with our customers to ensure accurate reporting and payment of fees. Revenue from our license compliance activity fluctuates from quarter to quarter. 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.

Demand for, and delivery of, our professional services is increasingly important to our business, and if we are not successful at managing this aspect of our business, our revenues and financial results will be negatively impacted.

Demand for our professional services has been increasing over time, and in particular reflects increased interest and demand for our open source development services, services related to open source industry-related alliances and consortia, and services engagements that lead to related product licensing revenue. This has also led to an increase in the past year in the number of larger, services engagements based on fixed price services contracts. In order to meet expected demand for our services, in recent years we have expanded our professional services capabilities by adding personnel in growth vertical markets and lower cost regions through the acquisition of MIZI Research, Inc. and S.C Comsys S.R.L. If the demand for our services does not continue to grow due to a challenging macroeconomic environment, or if we do not have the expertise, capacity or optimized business models required to meet the quickly evolving demands of key growth vertical markets and open source software and standards development, our revenues and financial results will be negatively impacted. In addition, our financial results may be impacted if due to a decrease in demand we are unable to fully utilize our professional services headcount or if we are forced to accept services engagements with lower profit margins.

Revenues from service engagements are generally recognized when the contracted services are performed and contracted future revenue from services engagements is included in deferred revenue and/or services backlog. Services backlog is not recorded on our consolidated balance sheets. In addition, the relative size of our services revenues as compared to our other revenues can affect our operating margins and earnings as we typically realize smaller gross margins on earnings generated from services engagements than earnings derived from licenses of our software solutions.

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

Table of Contents

could negatively impact our operations. As discussed more fully below, these fluctuations also could increase the volatility of our stock price. We have experienced over recent quarters, and expect to continue to encounter, a number of industry and market risks and uncertainties that limit our market visibility and, consequently, our ability to predict future revenue, profitability and general financial performance, and that could create variability in our results of operations. 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;
- 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;
- the financial condition of our customers, which could result in a lower demand for our products and services;

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 service interruptions or computer viruses;

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; 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.

Table of Contents

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 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, 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.

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

We develop and sell a substantial percentage of our products internationally. For fiscal years ended January 31, 2009 and 2008, revenues from international sales were $173.3 million, or 48% of total revenues, and $149.6 million, or 46% of total revenues, respectively. 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 the Asia Pacific region. In particular, we intend to increase significantly our engineering and professional services resources in China, Korea, Romania and Canada. Risks inherent in international operations include:

- the imposition of governmental controls and regulatory requirements;
- the costs and risks of localizing products for foreign countries;
- differences in business cultures and sales cycles;

Table of Contents

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;

other increased costs of doing business;

restrictions on repatriation of earnings;

exposure to adverse movements in foreign currency exchange rates;

the costs and difficulties associated with complying with a variety of foreign laws and domestic laws applicable to foreign operations, including the U.S. Foreign Corrupt Practices Act;

difficulties in operating our business in compliance with local labor laws;

difficulties in staffing and managing foreign subsidiaries and branch operations;

increased risks of intellectual property infringement and less stringent intellectual property protection laws;

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.

Patent, trademark or copyright infringement, trade secret misappropriation, product liability or professional 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. Growth of our open-source business 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 or professional liability claims. For example, we are defendants in a suit filed by RED.Com, Inc. (RED) relating to certain design services that we provided to RED. For additional information regarding this lawsuit, see Part I, ITEM 3, Legal Proceedings.

Although our agreements with our customers contain provisions intended to limit our exposure to infringement and liability claims, 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

Table of Contents

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 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 upon which we rely to protect the intellectual property underlying our products may not be adequate, which could enable third parties to use our technology without our permission and reduce our ability to compete.

Our success with our proprietary products depends significantly upon the intellectual property rights embodied 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 that 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. The risks that we face may increase as we conduct more research and development activities in China, Korea, Romania, Israel and other foreign countries. 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. 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. For example, in October 2008, we acquired 99% of the outstanding shares of MIZI Research, Inc., a privately held Korean company, and, in February 2009, we acquired all of the outstanding shares of Tilcon Software Limited, a privately held Canadian company. 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.

Table of Contents

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, circuit board manufacturers, system manufacturers, other software companies, customers and others. In addition, we are playing an increasingly active and important role in open-source development projects and industry consortia. These strategic relationships and industry consortia are complex. Some of the companies that are our strategic partners in certain business areas or industry consortia are also our competitors in some business areas. Our strategic partners may also have concurrent relationships with other companies that provide open-source, proprietary or 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.

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 Traffic 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 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.

Table of Contents

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 upon the ability of management to operate effectively, both individually and as a group, in geographically disparate locations. In addition, reductions in force or reductions in employee benefits 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.

A change in any accounting pronouncements, such as the adoption of Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*, effective in the first quarter of fiscal 2010, 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. 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. For example, 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.

Our operations and the operations of our 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 our 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

Table of Contents

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 us 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 fiscal year 2009, our stock had an intra-day high sales price of $12.99 and an intra-day low sales price of $6.07. 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 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. Over the past six months, the U.S. and international stock market indices have experienced significant declines, and these general market trends have adversely impacted the trading price of our common stock. Furthermore, 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 378,000 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.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

As summarized more fully below, from time to time, we may be subject to a variety of claims or lawsuits or be involved in a variety of investigations or proceedings, including claims relating to alleged infringement of patents or other intellectual property rights, contractual disputes, employee claims and other claims that arise in the ordinary course of our business. We believe that 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.

RED.Com, Inc. Litigation

On November 14, 2008, RED.Com, Inc. (doing business as RED Digital Camera) (RED) filed a complaint against us in the Superior Court of the State of California, Santa Clara County. The complaint asserts causes of action against us for fraud in the inducement, breach of contract and negligent representation in connection with a services agreement entered into between RED and us in January 2006, pursuant to which we performed certain design services related to RED s RED ONE digital cinema camera. RED s complaint seeks compensatory damages in an amount to be proven at trial, as well as punitive damages and attorneys fees and costs. On January 2, 2009, we filed an answer to RED s complaint. We believe that RED s complaint is without merit and intend to defend this matter vigorously. On January 2, 2009, we filed a cross-complaint against RED asserting causes of action for (i) breach of contract in connection with RED s failure to pay outstanding invoices and (ii) for breach of contract and conversion/trespass to chattels in connection with RED s unauthorized distribution of our VxWorks operating system to end users. Discovery has commenced. A trial date has not been set.

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 of our officers and directors and naming us 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 entitled *Castronovo v. Berger, et al.* (Case Number RG07310636) was filed in the Superior Court of the State of California, Alameda County. We filed demurrers to the complaints in the consolidated actions and the complaint in the *Castronovo* action. On July 17, 2007, subsequent to the filing of those demurrers, the Court approved a stipulation of the parties consolidating the Castronovo action with the three previously filed actions, thereby obviating any ruling on the our demurrer to the complaint in the Castronovo action.

On April 2, 2008, the parties executed a Stipulation of Settlement incorporating the terms of a settlement. The settlement involved certain corporate governance changes and a payment of $750,000 by us to plaintiffs counsel for attorneys fees and expenses. On August 1, 2008, the Court entered an order approving the settlement, awarding $750,000 to plaintiffs counsel for their attorneys fees and expenses and dismissing the litigation with prejudice. There were no objections to the settlement and the deadline for any appeal of the settlement has expired. We accrued the $750,000 fee award during fiscal year 2008 and the award was paid during the third quarter of fiscal year 2009.

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

None.

Table of Contents

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 March 20, 2009, there were approximately 564 stockholders of record of our common stock. As of March 20, 2009, the closing price of our common stock as quoted on the NASDAQ Global Select Market was $6.35. 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 2009		
First quarter ended April 30, 2008	$ 6.07	$ 8.92
Second quarter ended July 31, 2008	7.92	12.16
Third quarter ended October 31, 2008	7.01	12.99
Fourth quarter ended January 31, 2009	6.36	9.41
Fiscal 2008		
First quarter ended April 30, 2007	$ 9.35	$ 11.28
Second quarter ended July 31, 2007	9.51	11.40
Third quarter ended October 31, 2007	8.71	12.65
Fourth quarter ended January 31, 2008	7.88	13.42

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

In June 2007, the Board of Directors authorized a stock repurchase program to enable us to purchase up to an aggregate of $50.0 million in shares of our common stock. We did not repurchase any of our common stock under this repurchase program during fiscal 2008. We completed this repurchase program during the first quarter of fiscal 2009.

In April and June 2008, the Board of Directors approved additional stock repurchase programs that authorized us to repurchase up to an aggregate of $100.0 million in shares of our common stock.

During fiscal 2009, we repurchased 13.0 million shares for a total cost of $105.3 million and an average of $8.12 per share inclusive of broker commissions under these stock repurchase programs. Repurchases under the Board of Directors approved plans are exclusive of shares repurchased from employees to satisfy tax withholding obligations upon the vesting of restricted stock units. We did not repurchase any of our common stock during the quarter ended January 31, 2009. As of January 31, 2009, approximately $45.0 million remained available for repurchases under our stock repurchase programs.

Table of Contents

Performance Measurement Comparison

The graph below compares the cumulative total stockholder return of an investment of $100 (and the reinvestment of any dividends thereafter) on January 31, 2004 in (i) our common stock, (ii) the NASDAQ Composite Index and (iii) the NASDAQ Computer & Data Processing Index. We have never paid cash dividends on our common stock. Total return is based on historical results and is not intended to indicate future performance.

The following graph and related information shall not be deemed soliciting material or be deemed to be filed with the SEC, nor shall such information be incorporated by reference into any future filing, except to the extent that we specifically incorporate it by reference into such filing.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Wind River Systems, Inc., The NASDAQ Composite Index

And The NASDAQ Computer & Data Processing Index

*$100 invested on 1/31/04 in stock or index, including reinvestment of dividends.

Fiscal year ending January 31.

	January 31,					
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Wind River Systems, Inc.	$ 100.00	$ 149.76	$ 159.67	$ 118.38	$ 100.12	95.11
NASDAQ Composite index	$ 100.00	$ 101.08	$ 114.61	$ 124.99	$ 120.39	73.10
NASDAQ Computer & Data Processing index	$ 100.00	$ 107.60	$ 119.42	$ 133.40	$ 135.91	83.71

Table of Contents

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,				
	2009	2008	2007	2006	2005
	(In thousands, except per share data)				
STATEMENT OF OPERATIONS					
Net revenues	$ 359,664	$ 328,631	$ 285,298	$ 266,323	$ 235,400
Income (loss) from operations	6,693	(7,963)	(5,377)	23,885	12,681
Net income (loss)	10,704(1)(3)(4)	(2,358)(2)(3)	573(3)(4)	29,295(4)	8,165
Net income (loss) per share:					
Basic	0.14	(0.03)	0.01	0.35	0.10
Diluted	0.13	(0.03)	0.01	0.33	0.09

	January 31,				
	2009	2008	2007	2006	2005
	(In thousands)				