

WIND RIVER SYSTEMS INC
Form 10-Q
June 14, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2002

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 0-21342

WIND RIVER SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	94-2873391
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
500 Wind River Way, Alameda, California 94501	
(Address of principal executive offices, including zip code)	

(510) 748-4100

(Registrant's telephone number, including area code)

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

As of May 31, 2002, there were 79,000,837 shares of the registrant's common stock outstanding.

**WIND RIVER SYSTEMS, INC.
FORM 10-Q
FOR THE QUARTER ENDED APRIL 30, 2002**

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WIND RIVER SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30,	
	2002	2001
Revenues, net:		
Products	\$ 43,725	\$ 73,670
Services	22,634	36,522
Total revenues	66,359	110,192
Cost of revenues:		
Products	5,473	6,957
Services	13,988	18,180
Total cost of revenues	19,461	25,137

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	Three Months Ended April 30,	
	2002	2002
Gross profit	46,898	85,055
Operating expenses:		
Selling and marketing	33,815	44,422
Product development and engineering	20,622	25,307
General and administrative	9,284	10,044
Amortization of goodwill and purchased intangibles	2,123	31,486
Total operating expenses	65,844	111,259
Loss from operations	(18,946)	(26,204)
Other income (expense):		
Interest income	3,963	5,182
Interest expense	(1,528)	(1,750)
Other expense	(1,037)	(867)
Total other income	1,398	2,565
Loss before provision for income taxes	(17,548)	(23,639)
Provision for income taxes	500	1,202
Net loss	\$ (18,048)	\$ (24,841)
Net loss per share:		
Basic and diluted	\$ (0.23)	\$ (0.32)
Shares used in per share calculation:		
Basic and diluted	78,767	76,785

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

WIND RIVER SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	April 30, 2002	January 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,688	\$ 131,067
Short-term investments	33,981	22,364
Accounts receivable, net	46,872	61,109

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	April 30, 2002	January 31, 2002
Prepaid and other current assets	15,089	18,404
Total current assets	171,630	232,944
Investments	163,590	123,136
Property and equipment, net	56,277	59,804
Intangibles, net	106,339	108,409
Other assets	19,401	19,644
Restricted cash	63,683	63,683
Total assets	\$ 580,920	\$ 607,620
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,726	\$ 7,191
Line of credit	12,905	14,988
Accrued liabilities	16,673	19,346
Accrued restructuring cost	4,156	5,243
Accrued compensation	17,360	17,575
Income taxes payable	6,166	7,485
Deferred revenue	31,683	34,656
Total current liabilities	93,669	106,484
Other long-term liabilities	2,764	2,995
Convertible subordinated debt	150,000	150,000
Total liabilities	246,433	259,479
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, par value \$0.001, 325,000 shares authorized; 80,228 and 79,863 shares issued at April 30, 2002 and January 31, 2002, respectively; 78,951 and 78,586 shares outstanding at April 30, 2002 and January 31, 2002, respectively	81	80
Additional paid-in-capital	741,594	737,595
Loan to stockholder	(1,920)	(1,893)
Treasury stock (1,277 shares), at cost	(29,488)	(29,488)
Accumulated other comprehensive loss	(4,344)	(4,765)
Accumulated deficit	(371,436)	(353,388)
Total stockholders' equity	334,487	348,141
Total liabilities and stockholders' equity	\$ 580,920	\$ 607,620

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

WIND RIVER SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended April 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$ (18,048)	\$ (24,841)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation and amortization	8,062	36,266
Non-cash compensation, including 401(k) match	757	868
Interest on loan to stockholder	(27)	(25)
Deferred income taxes	69	(1,586)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable, net	14,237	7,069
Prepaid and other assets	3,247	468
Accounts payable	(2,465)	(5,144)
Accrued restructuring cost	(1,087)	
Accrued liabilities	(2,673)	2,315
Accrued compensation	(215)	(2,161)
Income taxes payable	(1,346)	1,909
Deferred revenue	(2,973)	(10,138)
Net cash (used in) provided by operating activities	(2,462)	5,000
Cash flows from investing activities:		
Acquisition of property and equipment	(2,420)	(6,468)
Purchase of investments	(101,110)	(63,725)
Sales of investments	37,458	66,197
Maturities of investments	11,346	14,904
Acquisitions, net of cash acquired		(16,373)
Loan to Berkeley Software Design, Inc.		(7,495)
Restricted cash		(778)
Net cash used in investing activities	(54,726)	(13,738)
Cash flows from financing activities:		
Issuance of common stock	3,270	4,149
Borrowings (repayments) of line of credit	(2,083)	1,314
Net cash provided by financing activities	1,187	5,463
Effect of exchange rate changes on cash and cash equivalents	622	(1,813)

	Three Months Ended April 30,	
	<hr/>	
Net decrease in cash and cash equivalents	(55,379)	(5,088)
Cash and cash equivalents at beginning of period	131,067	92,431
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Cash and cash equivalents at end of period	\$ 75,688	\$ 87,343
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**WIND RIVER SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Note 1: Basis of Presentation

The accompanying condensed consolidated financial statements and related notes of Wind River Systems, Inc. ("Wind River") are unaudited. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of the financial position as of April 30, 2002 and January 31, 2002, the results of operations for the three months ended April 30, 2002 and 2001, and cash flows for the three months ended April 30, 2002 and 2001 have been included. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Wind River's Annual Report on Form 10-K for the fiscal year ended January 31, 2002 filed with the Securities and Exchange Commission ("2002 Form 10-K"). The results of operations for the three months ended April 30, 2002 are not necessarily indicative of results to be expected for the entire fiscal year, which ends on January 31, 2003, or for any future period.

In accordance with the rules and regulations of the Securities and Exchange Commission, unaudited condensed consolidated financial statements may omit or condense certain information and disclosures normally required for a complete set of financial statements prepared in accordance with generally accepted accounting principles ("GAAP"). Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The consolidated balance sheet at January 31, 2002 was derived from audited financial statements, but does not include all disclosures required by GAAP. Wind River believes that the notes to the condensed consolidated financial statements contain disclosures adequate to make the information presented not misleading.

The condensed consolidated financial statements include the financial information of Wind River and its subsidiaries. All significant inter-company accounts and transactions have been eliminated. Wind River has a reporting year ending January 31 while, through December 31, 2001, its international subsidiaries (outside of North America) had reporting years ending December 31; thus, the condensed consolidated financial statements for the three months ended April 30, 2001 include such subsidiaries' results for the three months ended March 31, 2001. Effective January 31, 2002, all of Wind River's international subsidiaries (outside of North America) changed their reporting year-ends from December 31 to January 31; thus, the condensed consolidated financial statements for the three months ended April 30, 2002 include such subsidiaries' results for the three months ended April 30, 2002.

Certain amounts have been reclassified to conform to the current period's presentation.

Note 2: Acquisitions

Wind River has completed a number of acquisitions accounted for as purchase transactions. The condensed consolidated financial statements include the operating results of each business from the date of acquisition. The purchase price for each acquisition is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of the estimated fair values on the effective date of the acquisition.

On April 18, 2001, Wind River purchased certain identified software products, including an operating system for digital signal processors from Eonic. The total purchase price of \$15.6 million consisted of \$15.0 million in cash and approximately \$642,000 in acquisition related costs. Pro forma results of this purchase have not been presented because the effects were not material to the condensed consolidated financial statements of Wind River.

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Refer to Note 3 of Notes to Consolidated Financial Statements in Wind River's 2002 Form 10-K for further details of acquisitions completed during the fiscal years ended January 31, 2002 and 2001.

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The allocation of the purchase price for acquisitions completed in fiscal 2002 and 2001 are summarized below:

Acquisitions										
	Tele- networks	BSDI	Eonic	Rapid Logic	ICESoft	AudeSi	Embedded Support Tools	Software Development Systems	Other	Total
Fiscal year acquired	2002	2002	2002	2001	2001	2001	2001	2000	Other	Total
(In thousands)										
Completed technology	\$ 1,425	\$ 2,600	\$ 2,370	\$ 5,350	\$ 750	\$ 1,100	\$ 15,150	\$ 6,500	\$ 655	\$ 35,900
Trademark		420		550			650	1,800		3,420
Customer base	925	390	940	1,100						3,355
Non-compete agreement			560					1,000		1,560
Other intangibles	525									525
Workforce		2,000	320	3,900	400	850	5,650	2,900		16,020
OEM Relationships								2,800		2,800
Goodwill	2,354	18,073	11,344	45,128	23,561	49,330	311,743	20,118	8,964	490,615
Total goodwill and purchased intangibles	5,229	23,483	15,534	56,028	24,711	51,280	333,193	35,118	9,619	554,195
In-process research and development	350			3,250	100	1,000	3,700	6,300		14,700
Net tangible assets acquired			108	2,260	225	871	3,206	3,317		9,987
Net liabilities assumed	(14)	(90)								(104)
Deferred tax liability				(4,087)	(431)	(731)	(8,043)	(4,800)		(18,092)
Total purchase price	\$ 5,565	\$ 23,393	\$ 15,642	\$ 57,451	\$ 24,605	\$ 52,420	\$ 332,056	\$ 39,935	\$ 9,619	\$ 560,686
Amortization Period	4 years	4 years	4 years	4 years	4 years	4 years	4 years	2-5 years	2-5 years	

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The subsequent accumulated amortization, disposition, impairment and net book value of goodwill and purchased intangibles are summarized below:

Acquisitions										
	Tele- networks	BSDI	Eonic	Rapid Logic	ICESoft	AudeSi	Embedded Support Tools	Software Development Systems	Other	Total
(In thousands)										
Total at acquisition										
Goodwill	\$ 2,354	\$ 20,073	\$ 11,664	\$ 49,028	\$ 23,961	\$ 50,180	\$ 317,393	\$ 23,018	\$ 8,964	\$ 506,635
Purchased intangibles	2,875	3,410	3,870	7,000	750	1,100	15,800	12,100	655	47,560

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Acquisitions

	5,229	23,483	15,534	56,028	24,711	51,280	333,193	35,118	9,619	554,195
Disposition as of January 31, 2002										
Goodwill		215			3,062					3,277
Purchased Technology					468					468
		215			3,530					3,745
Impairment as of January 31, 2002										