A FACT-BASED DISCUSSION
Ken Klein Keynote
Worldwide User Conference 2006

One year ago, I stood on this stage to talk about Device Software Optimization (DSO).

I'm happy to announce that DSO continues to expand, fundamentally changing the way we all do business.

Lucky for us.

Devices are *not* going to get simpler.
Consumers are *not* going to accept less secure, less connected, less reliable devices, no matter how low your price point is or how many colors your product comes in.

Development deadlines are *not* going to get longer and more leisurely.

The economic pressures you face are *not* going to go away.

And neither is the competition—
For your market niche, if you're a company.

For your job, if you're an engineer.

This is our world.

And DSO is our way of surviving and succeeding in it.

Device Software Optimization is built on four simple, immutable tenets.

One. Standardization—across projects, the enterprise, the industry and the planet.

Two. Open standards and open source—the power of integration, the force of many minds.

Three. Global best practices—world class services, support, and customer education.

Four. The ecosystem—hardware and software partnerships that provide development-ready technology platforms.

That's it. That's DSO.

Of course I'm pleased that many of our competitors want to be DSO companies, too.

But it makes me crazy when they redefine DSO so it matches their product lines.

DSO is not an elephant for six blind men to describe in different ways.

It's a business choice that more and more top electronics companies are making every day.

Companies like Ford, Northrup Grumman, Nortel, Philips, Boeing are choosing to become DSO companies based on rigorous cost-benefit analysis and plain common sense.

Our DSO customers' investment in Wind River represents many-seat, multi-year engagements that start around a million dollars.

These customers are making such large investments because they know it will result in reduced costs and increased productivity.

First, let's look at productivity gains.

One of our larger customers, a network equipment manufacturer, began to standardize their development on Workbench over a year ago.

When it was time to evaluate the experience and choose to renew their seats or not, they turned to Forrester Consulting to independently assess the value of Workbench and DSO to their business.

Forrester's report estimated the Return on Investment to be 22%, with payback achievable in 24 months.

Additionally, the report concluded: "The most immediate benefits of Workbench are in the area of developer productivity, which is created by the code navigation, static debugging, and the analysis capabilities of the product."

The customer renewed.

Boeing, a mammoth aerospace company with a mega-million dollar, multiyear DoD contract recently chose Wind River as their DSO supplier.

Boeing's decision was influenced by our dual operating system capability, our reputation for corporate staying power, and first-rate technical support.

But it was also driven by an ROI analysis of the value of our Personalized Learning Program approach to developer education.

For the study, all members of a ten member engineering team were pre-tested to identify their proficiency using Wind River technologies.

Based on the results, each team member had a personalized curriculum—the developer who was already familiar with a topic was not redundantly trained—none of their precious, expensive time was wasted on classes they didn't need.

This alone was predicted to increase short term productivity by 20%. When engineers were retested following training, their scores rose by 40%.

That's the power of DSO.

In fact, Vijay Sankaran, a Manager of Enterprise Technology at Ford Motor Company, believes that standardization on DSO is so important that it will enable Ford to deliver in-vehicle content in "the most rapid, efficient manner possible."

What's more, a recent article by consulting firm McKinsey & Company concludes that (quote):

"The maturity of software architectures has a big effect on productivity."

They go on to say that using a mature software development platform can increase productivity up to two and a half times.

This is the kind of metric that leads customers to standardize their development on the most proven, most reliable platform they can find.

That's why Wind River customer and Nortel Vice President, Michael Langlois, calls DSO "fundamental to Nortel's future plans."

Over in Europe, both Stoll and Bosch Rexroth have signed multi-year deals standardizing their entire development on Wind River technologies.
Stoll manufactures best in breed knitting machines.

Bosch Rexroth, as you probably know, creates control equipment for automotive manufacturers.

Both companies are in the industrial automation business.

Both of them trust VxWorks.

They trust Wind River. Conservative as their business values must necessarily be, both of them are now DSO companies.

They clearly understand that standardizing on a powerful DSO vendor can bring immediate benefits like reduced cost, reduced risk, and increased productivity.

Now let's look at how DSO reduces cost.

Xerox is a terrific example of a company that has come to realize they need a comprehensive DSO strategy.

Historically, Xerox developed most, if not all, of their OS and foundational software internally.

As competitive factors changed, their market position in Imaging and Document Management suffered.

They needed to focus on reducing overall development costs and increasing their agility in response to market demands.

They made a technology decision to begin developing on Linux for devices where Linux was the right fit.

As such, Linux became the next-generation platform for much of their in-house development.

But Xerox was too canny to try to roll their own Linux.

They sought out a DSO provider with a DSO solution that could span Linux and RTOS device software development.

Xerox chose Wind River as their DSO vendor.

The ability to standardize on development and runtime platforms independent of operating systems is proving to be a powerful attractor for some of the world's most savvy and prestigious electronics companies.

So, what else is a DSO customer looking for?

Motorola, for example, builds a WiMax modem that uses Linux for the controller and Wind River's proprietary operating system, VxWorks, for the modem cards.

With a DSO solution, they can standardize development and leverage the economies of portable middleware.

Not only does this make dollars and cents sense, it frees developers to invest their talents at the application level—the level where product differentiation truly happens.

If you want more numbers and more anecdotal evidence of the power of DSO, I invite you to talk among yourselves this week.
Ask each other those hard questions. Ask our content presenters and our partners.

Many of you here today are already DSO developers. If you're not, and aspire for phenomenal results, here's what Wind River has done and will continue to do to ensure your future success.

Over the past year, we launched our commercial-grade Linux platforms. We went from 0% to double digit Linux market share in under twelve months, and plan to be the market leader by the end of this year.

From no Linux offerings to more than two hundred Linux customers.

We've found an equitable and valuable way to sell a Linux-based product.

I like to think we've taken the risk out of Linux for device software development.

And I'd like to thank the members of our Board of Advisors—executives from Intel, Lockheed Martin, Motorola and Nortel, Samsung, Siemens and more-- who came from all over the world to be here with us today.

A year ago, this group gave us important insights into what commercial-grade Linux should be.

We listened. We acted.

And we thank you for your input.

At the same time and equally important, we released version 6.2 of the world's most widely used, most reliable real time operating system, VxWorks.

This VxWorks is secure.

It's scalable.

We've made it easy to customize to the demands of your device.

We've made it easy to migrate from previous releases.

Our industry-specific development platforms all come in VxWorks editions.

VxWorks 6.3 is coming in June.

Wind River Platform for Aerospace and Defense leads the safe and secure industry, in both market share and extreme reliability.

Not only have our platforms achieved the highest levels of certification, our XML-based COTS certification technology is a revolutionary solution to the certification of system changes and upgrades.

Twenty eight percent of Wind River's revenue came from the Aerospace and Defense sector in fiscal 2006. Clearly our investments in A&D are paying off.

With Wind River Workbench, our end-to-end, development suite based on the open Eclipse framework, we've successfully productized the tenets of DSO.

- o Companies can use Workbench everywhere, for every phase of every project, independent of operating system, hardware, or programming language.

- o Developers can plug virtually any open source, in house, proprietary or third party tool into Workbench.

- o With the TIPC protocol built in, developers can easily use Workbench to develop multi-core applications.

With the release of Wind River Diagnostics and Unit Tester as Workbench plug ins, we now offer our customers the chance to bring their code to a whole new level of quality.

Our recent acquisition of Interpeak enabled Wind River to add standard, portable security, networking, and messaging capabilities to our runtime platforms.

We purchased an exceptional middleware stack with great performance and a small footprint that will be certifiable to the strictest security and safety standards.

The middleware stack also has an abstraction layer that allows it work across multiple operating systems, including VxWorks and Linux.

Now, not only can our customers standardize products at the middleware level, they can build faster, better devices with less code.

Understanding that down-time costs, we've brought our technical support to a level of rigor and responsiveness that's unparalleled in the device software industry.

At our strategic accounts, customer satisfaction is better than 88%.
Across all our accounts, around the world, we have achieved 80% satisfaction.
Anything over 80 percent is considered world-class.

You hated our whole licensing infrastructure.

Well, we listened to you, and we fixed it.

Operationally, it's much easier to purchase, install, update and manage your Wind River software licenses today than it was a year ago.

You can do it all online.

Fiscally, we gave you choices.
Our subscription licensing model was the hit of the 2005-2006 season.

Our subscription business grew by 51% this year.

This is clearly flexibility our customers want and need.

Wind River has taken a leadership role in most of the significant open source standards bodies, consortia, and forums in our field today.

We are Strategic members of Eclipse, and leaders of the device Software development platform project.

We chair committees at the Open Source Development Laboratory and the Multicore Council.

We are active in the Service Availability Forum, the Consumer Electronics Linux Forum, the TIPC Consortium, Kernel.org, and many others.

We leverage the work of these seminal organizations, and we give back.

We have continued to work with our strategic and platform partners to provide our customers comprehensive, integrated, and supported COTS solutions.

No other DSO company has a better partner ecosystem.

Many of our partners are with us this week. I salute you.
Obviously, we had a busy year at Wind River.

Where did it all net out?

I already told you about the traction our subscription license model achieved.

You should also know that it gave us twenty-seven percent growth in deferred revenue, and a deferred revenue balance of $98M.

We once again outperformed the market, growing revenue 13% year over year, to $266M.

Our cash flow from operations was $49M in Fiscal 2006.

Diluted earnings per share more than tripled—growing from 9 cents to 33 cents year over year.

Those are the kind of numbers that warm a CEO's heart.

They mean we're operationally sound, fiscally responsible, and pointed in the right direction.

They're the kind of numbers that will let us do even more for you in the year to come.

They fund R&D—at a level that exceeds the annual revenue of many of our competitors.

They help us hire more, better engineers, and to give more back to the open source communities to which we belong.

Now, let's look ahead.

In my experience, success begets success.

The accomplishments of the year past have laid a solid foundation. They've energized Wind River.

Here's how we aim to use that energy:

- One. Without strong vision, the future is no more than a sequel to the past.

  At Wind River we have been working hard to envision and to create the future of the DSO industry.

  What's more, I have created an Innovation Council which is even now engaged in that work.

- Two. Our customers.

  Customers are the keystone of our business.

  Satisfying them is our mission.

  This year we put that mission into overdrive.

  You come first at Wind River.

  This is not rhetoric.

  It's products.

  It's programs.

  It's priorities.

  This year, the focus is on satisfying you.

- Three. Partnerships.

  This will be a year of building new relationships and strengthening those we already have with our software partners, our semiconductor partners, and our services partners.

  Our partners are not accessories. They are an essential part of our value proposition.

- Four. Vision manifests as product.

  Expect more new product from Wind River this year.

  Expect to see our Linux, VxWorks, and Workbench product lines extend to serve an ever broader spectrum of device software development activities, across a wider swath of the device lifecycle.

  - Expect to see Wind River middleware that offers cross-platform functionality.
  - Expect our platforms and partner ecosystem to target the mobile handheld market.
  - Expect us to aggressively apply our product vision in each of our vertical markets—Aerospace and Defense, Network Equipment, Automotive, Consumer, Industrial.
- Five. Look for more acquisitions.

One of the rewards of good fiscal management is cash flow, which brings the ability to buy and build the technologies you need.

This is a tenet of DSO we'll be taking very seriously this year.

And be assured, we'll buy the very best technology available to meet our customers' needs.

Finally, profoundly, starting today—
Wind River's DSO solution grows beyond device development, beyond device runtimes, to the management of devices once they're deployed and in the field.

It's a CEO's prerogative to announce those innovations that are going to change the face of an industry.

I believe Device Software Management is one of those innovations.

I believe it is going to fundamentally change how we conceive of the value and the life span of our products.

Today, I am proud to announce the launch of the Wind River Management Suite.

You'll hear much more about it tomorrow.

But you heard it here first.

Remember this, if you hunger for great results, I urge you to embrace DSO.

I urge you to standardize your development efforts and drive best practices.

Take full advantage of the options Wind River Platforms provide--both VxWorks and Linux.

Leverage partner ecosystems—including both hardware and software suppliers.

And utilize our professional services and training, the best in the business.

Please enjoy your week here in Orlando and the riches this user conference provides.

We created it for you.

Thank you.