

SolarWinds, Inc.
Form 424B1
November 13, 2009
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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-162661
Registration No. 333-163078

Prospectus

12,000,000 Shares

Common Stock

The selling stockholders identified in this prospectus, including entities affiliated with certain members of our board of directors, are selling all of the shares of common stock offered hereby and will receive all of the proceeds from this offering. We will not receive any proceeds from the sale of shares of common stock from this offering.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol SWI. On November 12, 2009, the last reported sale price of our common stock on the NYSE was \$19.28 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 11.

	Per Share	Total
Public offering price	\$ 18.75	\$ 225,000,000
Underwriting discounts and commissions	\$ 0.84375	\$ 10,125,000
Proceeds to the selling stockholders, before expenses	\$ 17.90625	\$ 214,875,000

To the extent the underwriters sell more than 12,000,000 shares of common stock, the selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to 1,800,000 additional shares of common stock, at the offering price less the underwriting discounts and commissions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares against payment in New York, New York on November 18, 2009.

J.P. Morgan

Goldman, Sachs & Co.

Morgan Stanley

Jefferies & Company

Thomas Weisel Partners LLC

FBR Capital Markets

November 12, 2009

Pacific Crest Securities

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You should rely only on the information contained in this prospectus or in any free writing prospectus prepared by or on behalf of us and delivered or made available to you. Neither we nor the selling stockholders have authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in a jurisdiction outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. Before deciding whether to buy shares of our common stock, you should read this summary and the more detailed information in this prospectus, including our consolidated financial statements and related notes and the discussion of the risks of investing in our common stock in the section entitled Risk Factors.

SolarWinds, Inc.

We are a leading provider of powerful yet easy-to-use enterprise-class network management software designed by network professionals for network professionals. Our offerings range from individual software tools to more comprehensive software products, solve problems faced every day by network professionals and help to enable efficient and effective network management. All of our products are ready-to-use, featuring intuitive and easily customizable user interfaces and built-in workflows. Our products can be downloaded directly from our websites and installed and configured by our end-users in a matter of hours. We design our software to meet the requirements of networks and implementations of varying sizes and levels of complexity, ranging from a single device to over 100,000 installed devices.

According to an April 2009 report published by IDC, in 2007 and 2008, we were one of the top ten network performance and operations management vendors based on market share. IDC estimates that worldwide revenue for network performance and operations management grew 10.7% from 2007 to 2008 while our revenue during the same period grew 50.9%, which was the highest revenue growth rate among the top ten vendors. We have increased the number of our customers from over 28,000 as of June 30, 2006 to over 88,000 as of September 30, 2009. Our customers include small and mid-size businesses, enterprises, including more than 425 of the Fortune 500 companies, and local, state and federal government entities that have purchased one or more of our products. We have an active, loyal end-user community that is built from our customers and over one million registered end-users who have downloaded our free tools. We seek to expand, and generate loyalty from, our customer base and our end-user community by providing a variety of free tools for network professionals, by hosting our online community website, thwack, and through other marketing programs.

As a core part of our strategy, we have developed a differentiated business model for marketing and selling high volumes of low-priced, downloadable, enterprise-class software directly to network professionals and other IT professionals. We design our Internet-based marketing programs to drive visitors to our websites in order to generate large volumes of highly qualified leads. Our inside sales force uses a disciplined, transaction-oriented process to convert these leads into paying customers at a level of productivity that is much higher than is typically achieved with a traditional direct sales force. We offer our products at compelling prices. Our average license transaction in each of 2007, 2008 and the nine months ended September 30, 2009 was less than \$7,000 compared to hundreds of thousands of dollars for many competing products. Our business model allows us to support rapid growth in our business at high operating margins while offering our products at low prices.

For the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009, we generated revenue of \$38.2 million, \$61.7 million, \$93.1 million and \$83.5 million, respectively. In the same periods, we had operating income of \$25.4 million, \$30.9 million, \$42.0 million and \$36.9 million and Adjusted EBITDA of \$27.1 million, \$35.4 million, \$48.4 million and \$44.1 million, respectively. We believe Adjusted EBITDA is useful to investors in evaluating our operating performance. Our management uses Adjusted EBITDA in its management and assessment of our business, and our lenders use Adjusted EBITDA in the key operational covenants in our credit agreements. Adjusted EBITDA should not be considered as an alternative to net income, which is the most directly comparable financial measure calculated in accordance with accounting

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principles generally accepted in the United States, or GAAP, or any other measure of financial performance calculated in accordance with GAAP. The following table presents a reconciliation of Adjusted EBITDA to net income:

Reconciliation of Adjusted EBITDA to Net Income (in thousands)	Year Ended December 31,			Nine Months Ended September 30, (unaudited)	
	2006	2007	2008	2008	2009
Net income	\$ 9,591	\$ 13,607	\$ 22,305	\$ 16,665	\$ 22,961
Interest expense, net	10,235	9,707	8,011	6,035	3,434
Income tax expense	5,596	7,524	10,717	7,956	10,415
Depreciation	124	580	1,106	814	1,049
Amortization		205	330	248	578
Stock-based compensation expense	1,515	3,810	5,920	4,303	5,628
Adjusted EBITDA	\$ 27,061	\$ 35,433	\$ 48,389	\$ 36,021	\$ 44,065

For further discussion regarding Adjusted EBITDA, see footnote 2 to the table in Summary Consolidated Financial Information included elsewhere in this prospectus.

Industry Background

Businesses, governments and other organizations of all sizes increasingly rely on data networks to execute their operations, facilitate their internal and external communications and transact business with their customers and partners, and these networks are growing in size and complexity. These factors have made network management, which includes performance monitoring, provisioning, administration and optimization, increasingly critical to the success of these organizations.

Traditionally, large organizations have deployed complex and expensive software products, called IT management frameworks, that provide centralized and unified management of entire IT systems, including networks, servers and applications. Most of these frameworks are designed for, and marketed and sold to, chief information officers, who are responsible for managing a wide variety of IT issues, rather than to the network professionals, who are responsible for the daily management of networks. As a result, frameworks have not been optimized to solve the problems faced by these network professionals and often fail to address network management requirements effectively.

Limitations of existing IT management frameworks include the fact that they are:

Expensive and Difficult to Implement. Most frameworks are sold at high prices, fail to offer an affordable entry-level option and require costly professional services to deploy.

Difficult to Use, Maintain and Customize. Most frameworks require significant training to use, cannot be easily configured to end-users' preferences and require a specialized staff to maintain.

Inflexible and Difficult to Scale. Most frameworks are highly complex software platforms that are designed for enterprise implementations. As a result, customers typically cannot start with a small or simple deployment and easily increase their capacity or add features as their networks grow and their needs expand.

Impractical for Small and Mid-Size Organizations. Because of their cost and complexity, most frameworks are impractical for small and mid-size organizations.

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Market Opportunity

There is currently a large and mature market for network management software. Gartner, Inc., a market research firm, estimates that worldwide software revenue for managing networks and the availability and performance of networks and systems will grow from \$4.33 billion in 2009 to \$5.93 billion in 2013.⁽¹⁾ We believe that a substantial portion of this spending is concentrated in enterprises and represents purchases of IT management frameworks.

We also believe there is a broader market opportunity for cost-effective, easy-to-use and scalable software offerings, such as ours, that address the day-to-day problems of network professionals in enterprises with more than 1,000 employees and small and mid-size companies with 50 to 1,000 employees, as well as in local, state and federal government entities. Many of our current enterprise customers have installed an IT management framework product, but have also purchased our products in order to address better and more directly the specific needs of the network professional. Small and mid-size companies have typically had to rely on point products to address their network management needs, but these products, unlike ours, generally do not solve a broad range of network management issues and cannot scale as networks grow or become more complex.

In a study we commissioned in February 2009, Compass Intelligence Research estimated there were currently more than 35,000 enterprises and more than 1.6 million small and mid-size companies worldwide. In addition, they estimated that the largest enterprises in the world have an average of approximately ten departments that purchase as separate entities. Based on a review of our customers, their implementations of our current products and our current prices, we estimate that the average license expenditures for our current products that are generally necessary to address the needs of network professionals in small and mid-size companies, in enterprises and in the departments of the largest enterprises range from \$22,000 to \$203,000, respectively.

Our Solution

Our software offerings include enterprise-class network management products, entry-level network monitoring products and a wide range of software tools for network professionals. These offerings enable easy and effective network management and are:

Focused on the Needs of Network Professionals. Our products are designed by network professionals for network professionals and typically enable them to identify and solve network performance and availability issues more efficiently and effectively than with alternative products and to improve the performance and availability of their networks quickly and easily.

Easy to Find and Evaluate. We offer through our websites free, downloadable, full-featured evaluations of our software products, allowing customers to implement and use our products to manage their own networks prior to purchase.

Cost-Effective to Purchase and Install. We offer our software at prices significantly lower than those of competing framework products, and our customers can install and configure our software in a matter of hours.

Easy to Use and Maintain. Our software has intuitive user interfaces and built-in workflows and does not require significant effort or dedicated staff to maintain.

Scalable and Flexible. Our customers are able to buy only the capacity they need and expand that capacity as their networks grow. In addition, our software is flexible and extensible, allowing our customers to customize our products and to add modules and other products as their needs expand.

⁽¹⁾ Gartner, Inc. Forecast: Enterprise Software Markets Worldwide, 2008-2013, 3Q09 Update by Fabrizio Biscotti, Rene Millman et al., dated September 15, 2009. See Special Note Regarding Forward-Looking Statements and Industry Data for information regarding the industry data used in this prospectus.

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Our Business Model

As a core part of our strategy, we utilize a differentiated business model for providing enterprise-class software to network professionals and other IT professionals within organizations of all sizes worldwide. We currently provide products for network professionals, but we believe that our model is applicable to all IT professionals, including storage administrators, systems administrators, application managers, security administrators and web administrators. We designed our business model to sell high volumes of low-priced, downloadable software, and to be low cost, scalable and efficient. The key differentiating elements of our business model include:

Downloadable Enterprise-Class Software. Our software is downloadable from the Internet and can be installed and used by our customers in a self-service manner without the need for professional services or complicated installation procedures. This allows our customers to begin using our software almost immediately and enables us to pursue follow-on sales more quickly.

Customer and Community-Driven Approach. We have an active, loyal community built from our customers and over one million registered end-users who have downloaded our free tools. We believe this community promotes the usage of our software and provides us with a readily accessible pool of qualified leads for sales of current and future products and with valuable insights to help direct our product development efforts.

Compelling Pricing. We sell our software products at prices significantly lower than those of frameworks. As a result, IT professionals in large organizations generally can purchase our software with minimal internal approvals, and our software is more affordable for smaller customers.

Scalable Marketing Model. We operate a scalable marketing model that is targeted at the end-users of our products and designed to create awareness of our brand and products. This allows us to drive large numbers of potential customers to our websites and to create significant volumes of highly qualified leads, all at a low cost.

High-Volume, Transaction-Oriented Sales Model. Our inside sales model supports a high volume of predictable and repeatable low-touch transactions at a small average transaction size, and we sell the vast majority of our software with standard online contract terms. We believe this model reduces the length of our sales cycles and results in a higher level of sales force productivity.

Highly Efficient Product Development Process. We develop our software using distinct development teams, each dedicated to specific products, and emphasize rapid and iterative development cycles. Our approach actively involves our customers, which helps us to develop high quality products that are responsive to our customers' needs.

Metrics-Driven Management and Culture. We have developed proprietary systems and processes that enable us to monitor and manage the results of our business. Our emphasis on specific operational and financial metrics and high activity levels instills a culture of accountability and performance measurement and helps us to achieve visibility and consistency of execution in our business.

Our Growth Strategy

Our objective is to extend our market leadership by providing network professionals and other IT professionals with enterprise-class software that solves their specific needs. The following are key elements of our growth strategy:

continue to add new customers in North America;

expand our business in international markets;

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cross-sell and up-sell existing products into our growing customer base;

selectively expand our product portfolio; and

pursue strategic acquisitions of complementary products that can be sold using our business model.

Risk Factors

Our business is subject to a number of risks that you should understand before making an investment decision. These risks are discussed more fully in the section entitled "Risk Factors" following this prospectus summary. Some of these risks are:

our quarterly operating results are subject to fluctuations, which could cause our stock price to decline;

our actual operating results may differ significantly from our guidance and from analysts' expectations;

current uncertain economic conditions could adversely affect our operating results;

if we are unable to generate a sufficient volume of sales leads through our websites, word of mouth or customer references, our revenue would decrease and our operating results would suffer;

if we are unable to attract new customers or to sell additional products to our existing customers, our revenue growth will be adversely affected and our net income could decrease; and

if we are not able to integrate future acquisitions successfully, our operating results and prospects could be harmed.

Corporate Information

We incorporated in the State of Oklahoma in 1999 and reincorporated in the State of Delaware in 2008. Our executive offices are located at 3711 South MoPac Expressway, Building Two, Austin, Texas 78746, and our telephone number is (512) 682-9300. Our website address is www.solarwinds.com. The information on, or that can be accessed through, our website is not part of this prospectus.

In this prospectus, we, us and our refer to SolarWinds, Inc. and its subsidiaries.

The marks SolarWinds, ipMonitor, Orion, LANsurveyor, thwack and SolarFlk and our logo are our registered trademarks, and the marks CatTools, Engineer's Toolset, Kiwi, Kiwi CatTool and Kiwi Syslog are our trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

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The Offering

Common stock offered by selling stockholders	12,000,000 shares
Over-allotment option offered by selling stockholders	1,800,000 shares
Common stock to be outstanding after this offering	65,081,061 shares

Use of proceeds	The selling stockholders, including entities affiliated with certain members of our board of directors, will sell all of the shares sold in this offering. We will not receive any proceeds from the sale of shares by the selling stockholders. Any proceeds received by us in connection with the exercise of an option to purchase shares of our common stock by a selling stockholder in connection with this offering will be used for general corporate purposes.
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Symbol on the NYSE	SWI
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The shares of common stock to be outstanding after this offering are based on 65,081,061 shares of our common stock outstanding as of September 30, 2009 and exclude:

12,072,658 shares of our common stock issuable upon the exercise of options outstanding as of September 30, 2009 (including 270,000 shares of our common stock that we expect to be sold in this offering by a selling stockholder upon the exercise of a vested option with an exercise price of \$2.69 per share at the closing of this offering), with a weighted average exercise price of \$4.50 per share; and

5,046,287 shares of our common stock reserved for future issuance under our 2008 Stock Plan.

Unless otherwise noted, the information in this prospectus reflects a 3-for-1 split of our common stock and preferred stock effected in January 2008 and assumes:

no exercise of the underwriters' option to purchase additional shares; and

no exercise of options outstanding as of September 30, 2009.

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We have derived the following consolidated statement of income data for the years ended December 31, 2006, 2007 and 2008 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the following consolidated statement of income data for the nine months ended September 30, 2008 and 2009 and the actual consolidated balance sheet data as of September 30, 2009 from our unaudited consolidated financial statements included elsewhere in this prospectus. You should read this information together with our consolidated financial statements and related notes and the information under **Selected Consolidated Financial Data** and **Management's Discussion and Analysis of Financial Condition and Results of Operations**. Our historical results are not necessarily indicative of our results to be expected in any future period.

Consolidated Statement of Income Data: (in thousands, except per share data)	Year Ended December 31,			Nine Months Ended	
	2006	2007	2008	September 30,	2009
				(unaudited)	
Revenue:					
License	\$ 23,676	\$ 39,525	\$ 55,461	\$ 41,545	\$ 44,777
Maintenance and other	14,558	22,210	37,674	26,693	38,690
Total revenue	38,234	61,735	93,135	68,238	83,467
Cost of revenue (1)	490	2,253	3,588	2,606	3,585
Gross profit	37,744	59,482	89,547	65,632	79,882
Operating expenses:					
Sales and marketing (1)	3,504	12,909	22,664	16,198	21,690
Research and development (1)	2,341	5,899	8,452	6,249	8,167
General and administrative (1)	6,477	9,763	16,464	12,486	13,127
Total operating expenses	12,322	28,571	47,580	34,933	42,984
Operating income	25,422	30,911	41,967	30,699	36,898
Other income (expense):					
Interest income	447	528	528	400	225
Interest expense	(10,682)	(10,235)	(8,539)	(6,435)	(3,659)
Other expense		(73)	(934)	(43)	(88)
Total other expense	(10,235)	(9,780)	(8,945)	(6,078)	(3,522)
Income before income taxes	15,187	21,131	33,022	24,621	33,376
Income tax expense	5,596	7,524	10,717	7,956	10,415
Net income	9,591	13,607	22,305	16,665	22,961
Amount allocated to participating preferred stockholders	(4,791)	(6,681)	(10,922)	(8,161)	
Net income available to common stockholders	\$ 4,800	\$ 6,926	\$ 11,383	\$ 8,504	\$ 22,961
Basic earnings per share available to common stockholders	\$ 0.18	\$ 0.25	\$ 0.40	\$ 0.30	\$ 0.50
Diluted earnings per share available to common stockholders	\$ 0.18	\$ 0.24	\$ 0.35	\$ 0.26	\$ 0.44
Shares used in computation of basic earnings per share available to common stockholders	27,014	27,969	28,137	28,130	46,183
Shares used in computation of diluted earnings per share available to common stockholders	54,055	56,030	32,652	32,410	51,801

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Pro forma earnings per share (unaudited)		
Basic	\$ 0.40	\$ 0.38
Diluted	\$ 0.37	\$ 0.35
Weighted average number of shares used in pro forma computation (unaudited)		
Basic	55,137	59,981
Diluted	59,652	65,599

Other Financial Data:

Adjusted EBITDA (2)	\$ 27,061	\$ 35,433	\$ 48,389	\$ 36,021	\$ 44,065
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(1) Includes stock-based compensation expense as follows:

(in thousands)

Cost of revenue	\$	\$ 39	\$ 63	\$ 46	\$ 52
Sales and marketing	334	1,213	1,593	1,179	1,435
Research and development	190	467	755	563	818
General and administrative	991	2,091	3,509	2,515	3,323
	\$ 1,515	\$ 3,810	\$ 5,920	\$ 4,303	\$ 5,628

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- (2) We anticipate that our investor and analyst presentations will include Adjusted EBITDA, which we define as net income plus net interest expense, income tax expense (benefit), depreciation and amortization, and stock-based compensation expense, and which is a financial measure that is not calculated in accordance with GAAP. The table below provides a reconciliation of this non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA in the same manner as we do. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

We believe Adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

Adjusted EBITDA is widely used by investors to measure a company's operating performance without regard to items, such as interest expense, income tax expense, depreciation and amortization, and stock-based compensation expense, that can vary substantially from company to company depending upon their financing and accounting methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies;

we adopted the authoritative guidance for share-based payments on January 1, 2006 and recorded stock-based compensation expense of approximately \$1.5 million, \$3.8 million and \$5.9 million for the years ended December 31, 2006, 2007 and 2008, respectively, and \$4.3 million and \$5.6 million for the nine months ended September 30, 2008 and 2009, respectively. Prior to January 1, 2006, we accounted for stock-based compensation using the intrinsic value method under previously issued guidance, which resulted in zero stock-based compensation expense. By comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating results without the additional variations caused by stock-based compensation expense, which is not comparable from year to year due to changes in accounting treatment and is a non-cash expense that is not a key measure of our operations; and

our lenders believed Adjusted EBITDA was the appropriate performance measure for the key operational covenants in our credit agreements. These key operational covenants require us to maintain a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio as of the last day of each fiscal quarter. Each of these ratios uses Adjusted EBITDA in its calculation. The interest coverage ratio is calculated as a ratio of Adjusted EBITDA for the trailing four quarters to cash interest expense for the trailing four quarters. To be in compliance, our interest coverage ratio had to be at least 3.5 to 1.0 as of September 30, 2009 and must be at least 3.5 to 1.0 as of the last day of each fiscal quarter thereafter. The leverage ratio is calculated as a ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. Our leverage ratio as of September 30, 2009 could not be more than 2.8 to 1.0, and this maximum ratio decreases over time to 2.1 to 1.0 as of December 31, 2011. We were in compliance with each of these key operational and financial covenants as of September 30, 2009. We believe these are key operational covenants because the failure to comply with these covenants would be an event of default under our credit agreements that would likely result in the acceleration of our indebtedness or an unfavorable amendment to the terms of the credit agreements. This acceleration would and any such amendment might adversely affect our liquidity and financial condition.

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Our management uses Adjusted EBITDA:

as a measure of operating performance, because it does not include the impact of items not directly resulting from our core operations;

for planning purposes, including the preparation of our annual operating budget;

to allocate resources to enhance the financial performance of our business;

to evaluate the effectiveness of our business strategies; and

in communications with our board of directors concerning our financial performance.

We understand that, although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect interest expense or interest income;

Adjusted EBITDA does not reflect cash requirements for income taxes;

although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for these replacements; and

other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measure, for each of the periods indicated.

Reconciliation of Adjusted EBITDA to Net Income (in thousands)	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009 (unaudited)

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Net income	\$ 9,591	\$ 13,607	\$ 22,305	\$ 16,665	\$ 22,961
Interest expense, net	10,235	9,707	8,011	6,035	3,434
Income tax expense	5,596	7,524	10,717	7,956	10,415
Depreciation	124	580	1,106	814	1,049
Amortization		205	330	248	578
Stock-based compensation expense	1,515	3,810	5,920	4,303	5,628
Adjusted EBITDA	\$ 27,061	\$ 35,433	\$ 48,389	\$ 36,021	\$ 44,065

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The following table presents consolidated balance sheet data as of September 30, 2009 and reflects an earnout payable of \$20.0 million that we expect to make to our original stockholders in November 2009, as further described under Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. Upon payment of the earnout, our cash and cash equivalents will decrease by the amount of the earnout payment.

(in thousands)	Consolidated Balance Sheet Data:	As of September 30, 2009
Cash and cash equivalents		\$ 125,805
Working capital		83,745
Deferred revenue		36,750
Total assets		177,285
Long-term obligations		46,149
Total stockholders' equity		65,858

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below as well as the other information contained in this prospectus before deciding to purchase any shares of our common stock. These risks could harm our business, operating results, financial condition and prospects. In addition, the trading price of our common stock could decline due to any of these risks and you might lose all or part of your investment.

Risks Related to Our Business and Industry

Our quarterly revenue and operating results have fluctuated in the past and may fluctuate in the future due to a number of factors. As a result, we may fail to meet or exceed the expectations of securities analysts or investors, which could cause our stock price to decline.

We believe our quarterly revenue and operating results may vary significantly in the future. As a result, you should not rely on the results of any one quarter as an indication of future performance and period-to-period comparisons of our revenue and operating results may not be meaningful.

Our quarterly results of operations may fluctuate as a result of a variety of factors, including, but not limited to, those listed below, many of which are outside of our control:

occasional large customer orders, including in particular those placed by the U.S. federal government;

our inability to increase sales to existing customers and to attract new customers;

the timing and success of new product introductions by us or our competitors;

changes in our pricing policies or those of our competitors;

higher marketing expenditures in an attempt to generate growing numbers of sales leads;

the mix of our direct and indirect sales;

the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;

the timing of revenue and expenses related to the development or acquisition of technologies, products or businesses;

potential goodwill and intangible asset impairment charges and amortization associated with acquired businesses;

the loss of our relationship with the distributor that helps us fulfill most sales orders from the U.S. federal government;

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potential foreign exchange gains and losses related to expenses and sales denominated in currencies other than the functional currency of an associated entity; and

general economic, industry and market conditions that impact expenditures for network management software in the United States and other countries where we sell our software.

Fluctuations in our quarterly operating results might lead analysts to change their models for valuing our common stock. As a result, our stock price could decline rapidly and we could face costly securities class action suits or other unanticipated issues.

Our actual operating results may differ significantly from our operating results guidance.

From time to time, we may release operating results guidance in our quarterly earnings releases, quarterly earnings conference calls, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, will be based on

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projections prepared by our management. Neither our independent registered public accounting firm nor any other independent expert or outside party will compile or examine the projections and, accordingly, no such person will express any opinion or any other form of assurance with respect thereto.

These projections will be based upon a number of assumptions and estimates that, while presented with numerical specificity, will be inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which will be beyond our control, and will also be based upon specific assumptions with respect to future business decisions, some of which will change. We intend to state possible outcomes as high and low ranges, which will be intended to provide a sensitivity analysis as variables are changed but will not be intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by analysts.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance will only be an estimate of what management believes is realizable as of the date of release. Actual results will vary from our guidance, and the variations may be material. In light of the foregoing, investors are urged not to rely upon, or otherwise consider, our guidance in making an investment decision regarding our common stock.

Any failure to implement our operating strategy successfully or the occurrence of any of the events or circumstances set forth under Risk Factors in this prospectus could result in our actual operating results being different from our guidance, and those differences might be adverse and material.

Current uncertain economic conditions could adversely affect our operating results.

Current market conditions are uncertain and challenging. While current conditions seem to have improved, global economies have been in a recession as a result of a multitude of factors, including, but not limited to, turmoil in the credit and financial markets, declines in gross domestic product, increases in unemployment and volatility in commodity prices and worldwide stock markets. During these challenging and uncertain economic times, customers may reduce or delay technology purchases, including purchases of our software products. Our typically-short sales cycle may increase if purchasing decisions are delayed as a result of uncertain information technology budgets, contract negotiations become more protracted or customers institute additional internal approvals for software purchases. Uncertain and challenging economic conditions could result in reductions in sales of our products, longer sales cycles, difficulties in collecting accounts receivable or delayed payments, slower adoption of new technologies and increased price competition. Any of these events would likely harm our business, financial condition, operating results and cash flows.

If we are unable to generate significant volumes of sales leads from Internet search engines and marketing campaigns, traffic to our websites and our revenue may decrease.

We generate many of our sales leads through visits to our websites by potential end-users interested in purchasing or downloading evaluations of our products. Many of these potential end-users find our websites by searching for network management and monitoring products through Internet search engines, such as Yahoo! and Google. A critical factor in attracting potential customers to our websites is how prominently our websites are displayed in response to search inquiries. If we are listed less prominently or fail to appear in search result listings for any reason, visits to our websites by customers and potential customers could decline significantly. We may not be able to replace this traffic and, if we attempt to replace this traffic, we may be required to increase our sales and marketing expenses, which may not be offset by additional revenue and could adversely affect our operating results.

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We also generate leads through various marketing activities such as targeted email campaigns, attending networking-based trade shows and hosting webinars on network management issues. If we fail to generate a sufficient volume of leads from these activities, our revenue could decrease and our operating results could suffer.

If we are unable to attract new customers or to sell additional products to our existing customers, our revenue growth will be adversely affected and our net income could decrease.

To increase our revenue, we must regularly add new customers or sell additional products to existing customers. We expect to incur significant additional expenses in expanding our sales and development personnel and our international operations in order to achieve revenue growth. We may be unable to maintain or increase traffic to our websites and our marketing efforts may be unsuccessful in generating evaluation downloads, resulting in fewer sales leads. We may fail to identify growth opportunities for our current products, and we may misinterpret the market for new products and technologies. If we fail to attract new customers or our new product introductions or acquisitions are not successful, we may be unable to grow our revenue and our operating results may be adversely affected.

If we are not able to integrate future acquisitions successfully, our operating results and prospects could be harmed.

In 2007 and 2008, we acquired new technology, know-how and products through our acquisition of Neon Software, Inc. and substantially all of the assets, including technology, know-how and products, and liabilities, of IPMonitor Corporation and Trilenium Investments Limited. We expect to continue making smaller acquisitions of these types and possibly larger acquisitions as well. The success of our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions and, if necessary, to obtain satisfactory debt or equity financing to fund those acquisitions. Mergers and acquisitions are inherently risky, and any mergers and acquisitions we complete may not be successful. Any mergers and acquisitions we do would involve numerous risks, including the following:

difficulties in integrating and managing the operations, technologies and products of the companies we acquire;

diversion of our management's attention from normal daily operations of our business;

our inability to maintain the key business relationships and the reputations of the businesses we acquire;

uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;

our dependence on unfamiliar affiliates and partners of the companies we acquire;

insufficient revenue to offset our increased expenses associated with acquisitions;

our responsibility for the liabilities of the businesses we acquire;

our inability to maintain internal standards, controls, procedures and policies; and

potential loss of key employees of the companies we acquire.

We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us. If we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders will likely experience ownership dilution, and if we

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finance future acquisitions with debt funding, we will incur interest expense and may have to comply with financing covenants or secure that debt obligation with our assets.

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Our operating income and net income could continue to decline as a percentage of revenue as we make further expenditures to expand our operations in order to support additional growth in our business.

As a percentage of revenue, our operating income was 66.5%, 50.1%, 45.1% and 44.2% and our net income was 25.1%, 22.0%, 23.9% and 27.5% for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009, respectively. We incurred income tax expense of \$5.6 million, \$7.5 million, \$10.7 million and \$10.4 million for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009, respectively. We also incurred interest expense of \$10.7 million, \$10.2 million, \$8.5 million and \$3.7 million for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009, respectively, related to our outstanding debt incurred in December 2005. In addition, we incurred stock-based compensation expense of \$1.5 million, \$3.8 million, \$5.9 million and \$5.6 million for the years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009, respectively. Since June 30, 2006, we have made significant investments in new financial and operating systems, hired substantial numbers of new sales and marketing, research and development and general and administrative personnel, invested in new facilities and opened or acquired our operations outside the United States in order to expand our business. We intend to make additional investments in systems and personnel and to continue to expand our operations to support anticipated future growth in our business. We also expect to incur additional operating costs as a public reporting company. As a result of these factors, our operating income and net income could decline as a percentage of revenue relative to our prior annual periods.

Our business depends on customers renewing their annual maintenance contracts. Any decline in maintenance renewals could harm our future operating results.

We sell each of our products pursuant to a perpetual license, which ordinarily includes one year of maintenance as part of the initial price. Our customers have no obligation to renew their maintenance agreements after the expiration of this initial period, and they may not renew maintenance agreements. We may be unable to predict future customer renewal rates accurately. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our products, the prices of our products, the prices of products and services offered by our competitors or reductions in our customers' spending levels. If our customers do not renew their maintenance arrangements or if they renew them on less favorable terms, our revenue may decline and our business will suffer. A substantial portion of our quarterly maintenance revenue is attributable to maintenance agreements entered into during previous quarters. As a result, if there is a decline in renewed maintenance agreements in any one quarter, only a small portion of the decline will be reflected in our maintenance revenue recognized in that quarter and the rest will be reflected in our maintenance revenue recognized in the following four quarters or more.

Failure to expand our sales operations effectively could harm our ability to increase our customer base and achieve broader market acceptance of our products.

Increasing our customer base and achieving broader market acceptance of our products will depend on our ability to expand our sales operations effectively. We are substantially dependent on our inside direct sales force, and to a significantly lesser extent certain resellers and distributors, to obtain new customers. We plan to continue to expand our inside direct sales force both domestically and internationally. Our ability to achieve significant growth in revenue in the future will depend on our success in recruiting, training and retaining sufficient numbers of inside direct sales personnel, and on the productivity of those personnel. Our recent and planned personnel additions may not become as productive as we would like, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do or plan to do business. Our operating results will be seriously harmed if these expansion efforts do not generate a corresponding significant increase in revenue.

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If we are unable to enhance existing products, particularly our Orion family of products, or to develop or acquire new products that respond to rapidly changing customer requirements, technological developments or evolving industry standards, our long-term revenue growth will be harmed.

The market for our products is characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. Our long-term growth depends on our ability to enhance and improve our existing products and to introduce or acquire new products that respond to these demands. The success of any enhancement or new product depends on a number of factors, including its timely completion, introduction and market acceptance. New products that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. Additionally, our existing and prospective customers may develop their own competing technologies, purchase competitive products or services or engage third-party providers. If we are unable to develop or acquire enhancements to, and new features for, our existing products or acceptable new products that keep pace with rapid technological developments, our products may become obsolete, less marketable and less competitive, and our business will be harmed.

In 2008, we opened a facility in the Czech Republic for research and development activities and have expanded that facility rapidly. We also outsource a portion of the coding and testing of our products and product enhancements to two Eastern European contract development vendors. We believe that performing research and development in our facility in the Czech Republic and supplementing these activities with our contract development vendors enhance the efficiency and cost-effectiveness of our product development. If we experience problems with our workforce or facilities in the Czech Republic, we may not be able to develop new products or enhance existing products in an alternate manner that may be equally or less efficient and cost-effective.

We depend significantly on our Orion family of products, which are our enterprise-class network management products. Our Orion family of products represented a substantial majority of our revenue in each of 2007, 2008 and the nine months ended September 30, 2009. If we are unable to add products and develop enhancements to our Orion family that are satisfactory to our customers, or if our customers purchase or develop their own competing products and technologies causing a reduction in demand for our Orion family of products, our operating results will be harmed.

We depend on the U.S. federal government for a meaningful portion of our sales and fulfill most of these sales through one distributor. Any reductions in sales to the U.S. federal government as a result of the loss of this distributor or any other reason could harm our growth.

A meaningful portion of our sales are to a number of different departments of the U.S. federal government. A substantial majority of these sales are made through one distributor. Any factors that cause a decline in government expenditures generally or government IT expenditures in particular could cause our revenue to grow less rapidly or even to decline. Also, since in some cases we are unable to fulfill orders from the U.S. government directly, the loss of this distributor, which is entitled under certain circumstances to terminate our contract with it, would cause at least a temporary inability to fulfill certain orders from the government until we were able to find and qualify a suitable alternative. This, in turn, would cause revenue to be delayed and could cause sales to be lost.

If we fail to develop our brand cost-effectively, our financial condition and operating results might suffer.

We believe that developing and maintaining awareness and integrity of our brand in a cost-effective manner are important to achieving widespread acceptance of our existing and future products and are important elements in attracting new customers. We believe that the importance of brand recognition will increase as competition in our market further intensifies. Successful promotion of our brand will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products at competitive prices. We intend to increase our expenditures on brand promotion. Brand promotion activities may not yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in building our brand. We also rely

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on our customer base and community of end-users in a variety of ways, including to give us feedback on our products and to provide user-based support to our other customers. If we fail to promote and maintain our brand successfully or to maintain loyalty among our customers and our end-user community, or we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new customers or retain our existing customers and our financial condition and results of operations could be harmed.

We operate in a highly competitive market, which could make it difficult for us to acquire and retain customers.

The market for network management solutions is intensely competitive. Competition in our market is based primarily on the level of difficulty in installing, using and maintaining solutions; total cost of ownership, including product price and implementation and support costs; professional services implementation; product performance, functionality, flexibility, scalability and interoperability; brand and reputation; distribution channels; vertical markets or industries; and financial resources of the vendor. We often compete to sell our products against existing products or systems that our potential customers have already made significant expenditures to install. Many of our actual and potential competitors enjoy substantial competitive advantages over us, such as greater name recognition, more comprehensive and varied products and services, and substantially greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. Given their larger size, greater resources and existing customer relationships, our competitors may be able to compete and respond more effectively than we can to new or changing opportunities, technologies, standards or customer requirements.

We face competition from both traditional, larger software vendors offering enterprise-wide software frameworks and services and smaller companies offering point solutions for specific network management issues. We also compete with network equipment vendors and systems management solution providers whose products and services address network management requirements. Our principal competitors vary depending on the product we offer and include Hewlett Packard, IBM, CA and several smaller vendors.

Some of our competitors have made acquisitions or entered into strategic relationships with one another to offer a more comprehensive product than they individually had offered. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry and as companies enter into partnerships or are acquired. Companies and alliances resulting from these possible consolidations and partnerships may create more compelling product offerings and be able to offer more attractive pricing, making it more difficult for us to compete effectively. In addition, continued industry consolidation may adversely impact customers' perceptions of the viability of small and medium-sized technology companies and consequently their willingness to purchase from those companies.

Competition could result in increased pricing pressure, reduced operating margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results and financial condition.

We rely on our management team and need additional personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.

Our success and future growth depend on the skills, working relationships and continued services of our management team. The loss of either our Chief Executive Officer or our President could adversely affect our business. In 2008, our Chief Executive Officer underwent back surgery that temporarily prevented him from performing his duties. He has experienced some recent complications from the surgery and will need further surgery and possibly other treatments that could prevent him from performing his duties, potentially for an extended period of time. We maintain key person insurance for our Chief Executive Officer and are in the process of obtaining key person insurance for our President. If we continue to grow as we anticipate, we may elect to supplement our management team. Any failure to integrate effectively additional members of our

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management team could adversely affect our operating results. Our future success also will depend on our ability to attract, retain and motivate highly skilled product architects and sales, technical support and product development personnel in the United States and internationally. Competition for these types of personnel is intense, particularly in the software industry. All of our employees, except for some of our international employees, work for us on an at-will basis. As a result, we may be unable to attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, our financial performance may suffer.

We have substantially expanded our overall business, customer base, headcount and operations in recent periods both domestically and internationally. In addition, during 2007, we made substantial investments in our information systems and significantly expanded our operations outside the United States, including an expansion of our sales operations in Europe, the Middle East and Africa and the establishment of our international headquarters in Cork, Ireland. In 2008, we opened and rapidly expanded a development center in the Czech Republic and an international sales and support center in Singapore. We also acquired development personnel in New Zealand in 2008. We increased the number of our customers, which we define as individuals or entities, including distributors or resellers, that have purchased one or more of our products under a unique customer identification number since our inception in 1999, from over 28,000 customers as of June 30, 2006 to over 88,000 customers as of September 30, 2009. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to manage our growth successfully, our operating results will suffer.

We rely on third parties for financial and operational services essential to our ability to manage our business. A failure or disruption in these services would materially and adversely affect our ability to manage our business effectively.

Currently, we use NetSuite to manage our order management and financial processes and salesforce.com to track our sales and marketing efforts. We believe the availability of these services is particularly essential to the management of our high-volume, transaction-oriented business model. As we expand our operations and sales efforts, we expect to utilize additional systems and service providers that may also be essential to managing our business. Although the systems and services that we require are typically available from a number of providers, it is time consuming and costly to qualify and implement these relationships. Therefore, if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add additional systems and services, our ability to manage our business would suffer.

Because our long-term success depends on our ability to increase sales of our products to customers located outside of the United States, our business will be susceptible to risks associated with international operations.

We have international operations in the Republic of Ireland, the Czech Republic, Singapore and New Zealand, which we established or acquired in 2007 and 2008. Our limited experience in operating our business outside the United States increases the risk that our current and future international expansion efforts may not be successful. In particular, our business model may not be successful in particular countries or regions outside the United States for reasons that we currently are unable to anticipate. In addition, conducting international operations subjects us to risks that we have not generally faced in the United States. These include:

fluctuations in currency exchange rates;

unexpected changes in foreign regulatory requirements;

difficulties in managing the staffing of international operations;

potentially adverse tax consequences, including the complexities of foreign value added tax systems, restrictions on the repatriation of earnings and changes in tax rates;

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dependence on resellers and distributors to increase customer acquisition;

the burdens of complying with a wide variety of foreign laws and different legal standards;

increased financial accounting and reporting burdens and complexities;

political, social and economic instability abroad;

terrorist attacks and security concerns in general; and

reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international business and, consequently, our operating results.

Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish, acquire or integrate operations in other countries will produce desired levels of revenue or profitability.

Material defects or errors in our products could harm our reputation, result in significant costs to us and impair our ability to sell our products.

Software products are inherently complex and often contain defects and errors when first introduced. Any defects in our products could result in:

lost or delayed market acceptance and sales of our products;

a reduction in maintenance renewals;

diversion of development resources; and

injury to our reputation and our brand.

The costs incurred in correcting or remediating the impact of defects or errors in our products may be substantial and could adversely affect our operating results.

If a third party asserts that we are infringing its intellectual property, we could be subjected to costly and time-consuming litigation or expensive licenses, and our business might be harmed.

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and from time to time may receive, letters claiming that our products infringe or may infringe the patents or other intellectual property rights of others. As we face increasing competition, the possibility of intellectual property rights claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use. Additionally, we have licensed from other parties proprietary technology covered by patents, and these patents may be challenged, invalidated or circumvented. These types of claims could harm our relationships with our customers, might deter future customers from acquiring our products or could expose us to litigation with respect to these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in that litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named as a party. Any of these results could harm our brand and

operating results.

Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming, expensive to litigate or settle, and divert management resources and attention. As a result of any successful intellectual property rights claim against us or our customers, we might have to pay damages or stop using technology found to be in violation of a third party's rights, which could prevent us from offering our products to our customers. We could also have to seek a license for the technology, which might not be available on reasonable terms, might significantly increase our cost of revenue or might require us to restrict our business

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activities in one or more respects. The technology also might not be available for license to us at all. As a result, we could also be required to develop alternative non-infringing technology, which could require significant effort and expense.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to acquired technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

The success of our business depends on our ability to protect and enforce our intellectual property rights.

We rely on a combination of copyright, trademark, trade dress, unfair competition and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. These laws, procedures and restrictions provide only limited protection. We currently have no patents, and no patents may issue with respect to our current patent applications. Any future patents issued to us may be challenged, invalidated or circumvented, may not provide sufficiently broad protection or may not prove to be enforceable in actions against alleged infringers.

We endeavor to enter into agreements with our employees and contractors and with parties with which we do business in order to limit access to and disclosure of our proprietary information. We cannot be certain that the steps we have taken will prevent unauthorized use or reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. The enforcement of our intellectual property rights also depends on our legal actions against these infringers being successful, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, trademark, trade dress, copyright and trade secret protection may not be available in every country in which our products are available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving.

One of our former employees has sued us and our founder. An adverse outcome or protracted litigation even if we prevail could require us to pay damages and royalties and subject us to other remedies and incur significant litigation fees and expenses.

On November 26, 2007, a former employee brought a lawsuit in Oklahoma State Court asserting a number of claims against us and Donald C. Yonce, our founder and a current member of our board of directors. The former employee claims that he is a co-author and that he is, therefore, co-owner of all of our major software products, which he claims he assisted in developing while an employee of our company. The former employee makes this claim despite the fact that he signed an agreement with us which provides that we are the exclusive owner of all copyrights and other intellectual property relating to work performed by the former employee while employed by us. He also claims that Donald C. Yonce made certain oral promises to him regarding future potential compensation at our company prior to our recapitalization in December 2005 in the event of a sale of our company, and further alleges violations of Oklahoma labor protection laws. The former employee is seeking half of the profits from sales of our software products of which he claims to be a co-author and co-owner, as well as punitive damages and unspecified other legal and equitable relief. We have asserted counterclaims against the former employee. We have agreed to indemnify Mr. Yonce from these claims pursuant to a stock purchase agreement entered into in 2005 between Mr. Yonce, us and certain stockholders who are parties to that agreement. Even if we prevail in the litigation, we have incurred litigation fees and expenses and could incur significant additional litigation fees and expenses. Because this lawsuit is at an early stage, it is not possible to predict the outcome of the litigation. Although we believe we have meritorious defenses, an adverse outcome in this litigation could materially and adversely affect us, requiring us to pay damages or royalties or subjecting us to other remedies.

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If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investor views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are in the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors addressing this assessment. Both we and our independent auditors will be testing our internal controls in connection with the audit of our financial statements for the year ending December 31, 2010 and, as part of that testing, identifying areas for further attention and improvement. If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.

A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements 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 in which we conduct our business.

Our costs and demands upon management may continue to increase as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.

We have incurred significant legal, accounting, investor relations and other expenses as a public company that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and the NYSE. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically over the past several years. These rules and regulations have increased our legal and financial compliance costs substantially and have made some activities more time-consuming and costly. We are unable currently to estimate these future costs with any degree of certainty. As a public company, it is more expensive for us to obtain director and officer liability insurance.

We may be subject to regulation of our advertising and customer solicitation or to other newly adopted laws and regulations, which could harm our business.

As part of our product download process and during our sales process, most of our customers agree to receive emails and other communications from us. However, we may be subject to restrictions on our ability to communicate with these customers through email and phone calls. Several jurisdictions have proposed or adopted privacy-related laws that restrict or prohibit unsolicited email or spam. These laws may impose significant monetary penalties for violations and complex and often burdensome requirements in connection with sending commercial email. Depending on how they are interpreted, these laws may impose burdens on our email marketing practices. If any of those challenges is successful, our business may become subject to state laws and regulations that further restrict our email marketing practices. The scope of those regulations is unpredictable. Compliance with laws and regulations of different jurisdictions imposing different standards and requirements is

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very burdensome for businesses like ours. We offer products to customers in multiple states and foreign jurisdictions. Our business efficiencies and economies of scale depend on generally uniform product offerings and uniform treatment of customers across all jurisdictions in which we operate. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose an added cost to our business and increased liability for compliance deficiencies. In addition, laws or regulations that could harm our business could be adopted, or reinterpreted so as to affect our activities, by the U.S. government, state governments, regulatory agencies or by foreign governments or agencies. Violations or new interpretations of these laws or regulations may result in penalties or damage our reputation or could increase our costs or make our products less attractive.

If we fail to protect confidential information against security breaches, or if our customers or potential customers are reluctant to use our websites because of privacy concerns, we might face additional costs and activity in our websites could decline.

Some of our customers pay for our products with credit cards. During the purchasing process and in connection with evaluations of our software, either third-party providers or we collect and use personally identifiable information, such as credit card numbers, email addresses and phone numbers. This information could be compromised or accessed as a result of misappropriation or security breaches, and we could be subject to liability as a result. Our policies concerning the collection, use and disclosure of personally identifiable information are described on our websites. We could be subject to legal claims, government action or harm to our reputation if our third-party service providers or we fail to comply or are seen as failing to comply with our policies concerning personally identifiable information or if our policies are inadequate. Concern among prospective customers regarding our use of personal information collected on our websites could keep prospective customers from purchasing our products.

Our servers and those of our third-party service providers are vulnerable to computer viruses or physical or electronic break-ins. Industry-wide incidents or incidents with respect to our websites, including misappropriation of third-party information, security breaches, or changes in industry standards, regulations or laws, could deter people from using the Internet or our websites to conduct transactions that involve the transmission of confidential information, which could harm our business.

The laws of some states and countries require businesses that maintain personal information about their residents in electronic databases to implement reasonable measures to keep that information secure. In addition, under the laws of some states and countries, if there is a breach of our computer systems and we know or suspect that unencrypted personal customer information has been stolen, we are required to inform any customers whose information was stolen, which could harm our reputation and business. Other states and countries have enacted different and often contradictory requirements for protecting personal information collected and maintained electronically. Compliance with numerous and contradictory requirements of the different states and countries is particularly difficult for an online business such as ours that collects personal information from customers in multiple jurisdictions. Failure to comply with these laws could result in legal liability. In addition, we could suffer adverse publicity and loss of consumer confidence were it known that we did not take adequate measures to assure the confidentiality of the personally identifiable information that our customers had given to us. This could result in a loss of customers and revenue that could jeopardize our success. We may not be successful in avoiding potential liability or disruption of business resulting from the failure to comply with these laws. If we were required to pay any significant amount of money in satisfaction of claims under these new laws, or any similar laws enacted by other jurisdictions, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any of these laws, our business, operating results and financial condition could be adversely affected. Further, complying with the applicable notice requirements in the event of a security breach could result in significant costs.

Our business and financial performance could be negatively impacted by changes in tax laws or regulations.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. On May 11, 2009, the United States Department of the Treasury released the General Explanations of the

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Administration's Fiscal Year 2010 Revenue Proposals, or Greenbook, which contains a high-level outline of international tax proposals for fiscal year 2010. These proposals and other such enactments could adversely affect our domestic and international business operations, and our business and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. These events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our customers to pay fines and/or penalties and interest for past amounts deemed to be due. If we raise our product and maintenance prices to offset the costs of these changes, existing customers may elect not to renew their maintenance arrangements and potential customers may elect not to purchase our products. Additionally, new, changed, modified or newly interpreted or applied tax laws could increase our customers' and our compliance, operating and other costs, as well as the costs of our products. Further, these events could decrease the capital we have available to operate our business. Any or all of these events could adversely impact our business and financial performance.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or our failure to comply with regulations could harm our operating results.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially reducing demand for our products. In addition, taxation of products and services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services and product offerings, which could harm our business and operating results.

Our debt obligations contain restrictions that impact our business and expose us to risks that could adversely affect our liquidity and financial condition.

At September 30, 2009, we had approximately \$44.1 million of outstanding indebtedness under our December 2005 credit facilities, and our interest expense in 2007, 2008 and the nine months ended September 30, 2009 was approximately \$10.2 million, \$8.5 million and \$3.7 million, respectively. Our credit facilities contain various covenants that will continue to be operative so long as our credit facilities remain outstanding. The covenants, among other things, limit our and certain of our subsidiaries' abilities to:

incur additional indebtedness or guarantee indebtedness of others;

create additional liens on our assets;

pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock;

make investments, including acquisitions;

make capital expenditures;

enter into mergers or consolidations or sell assets;

sell our subsidiaries;

engage in sale and leaseback transactions; and

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enter into transactions with affiliates.

Our credit facilities also contain numerous affirmative covenants. In addition, we are required under each of our credit facilities to continue to comply with an interest coverage ratio and a leverage ratio. Further, the obligations under our credit facilities will continue to be subject to mandatory prepayment in certain

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circumstances, including upon certain asset sales or receipt of condemnation proceeds, upon certain issuances of equity securities or debt, and, in the case of our senior credit facility, annually, with a portion of our excess cash flow. Even if we comply with all of the applicable covenants, the restrictions on the conduct of our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that may be beneficial to the business. Even if our credit facilities are terminated, any additional debt that we incur in the future could subject us to similar or additional covenants.

If we are unable to generate sufficient cash flow or otherwise maintain or obtain the funds necessary to make required payments under our credit facilities, or if we fail to comply with the various requirements of our indebtedness, we could default under our credit facilities. Any such default that is not cured or waived could result in an acceleration of the credit facilities, an increase in the applicable interest rates under the credit facilities, and a requirement that our subsidiaries that have guaranteed the credit facilities pay the obligations in full, and would permit the lenders to exercise remedies with respect to all of the collateral that is securing the credit facilities, including substantially all of our and our subsidiary guarantors' assets. Thus, any such default could have a material adverse effect on our liquidity and financial condition.

Risks Related to the Offering and the Ownership of Our Common Stock

Our stock price may be volatile and may be less than the value of your investment.

The market price of our common stock has been and could be subject to wide fluctuations in response to, among other things, the factors described in this "Risk Factors" section or otherwise, and other factors beyond our control, such as fluctuations in the valuations of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes and international currency fluctuations, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have become subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

The continued concentration of our capital stock ownership with insiders upon completion of this offering will limit your ability to influence corporate matters.

We anticipate that our executive officers, directors, current 5% or greater stockholders and entities affiliated with them will together beneficially own approximately 58.6% of our common stock after this offering. This concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, these stockholders, acting together, will be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales

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could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon completion of this offering, we will have 65,081,061 outstanding shares of common stock, assuming no exercise of outstanding options after September 30, 2009, including the option to be exercised by a selling stockholder at the closing of this offering. The shares sold in this offering, including any additional shares sold upon exercise of the underwriters' option to purchase additional shares, and the shares sold in and since our initial public offering, or IPO, will be immediately tradable without restriction, except for any shares purchased by our affiliates as defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. Of the remaining shares:

124,655 shares will be eligible for sale upon the expiration of lock-up agreements on November 15, 2009, subject in some cases to volume and other restrictions of Rule 144 under the Securities Act; and

38,931,486 shares will be eligible for sale upon the expiration of lock-up agreements 90 days after the date of this prospectus, subject in some cases to volume and other restrictions of Rule 144 under the Securities Act.

The lock-up periods may each be extended in certain cases for up to 34 additional days under certain circumstances where we announce or pre-announce earnings or a material event occurs within approximately 17 days prior to, or approximately 16 days after, the termination of the lock-up period. The representatives of the underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Following this offering, holders of a majority of the shares of our common stock will be entitled to rights with respect to the registration of these shares under the Securities Act. See Description of Capital Stock Registration Rights. If we register their shares of common stock following the expiration of the lock-up agreements, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

In addition, we have registered 17,945,189 shares of common stock that have been issued or reserved for future issuance under our stock incentive plans. Of these shares, 7,195,720 shares were available upon the exercise of outstanding vested options as of September 30, 2009, excluding the option to purchase 270,000 shares to be exercised and sold at the closing of this offering by a selling stockholder. Approximately 1,485,119 shares and 5,710,601 shares will be eligible for sale upon the exercise of these vested options after November 15, 2009 and the expiration of the 90-day lock-up period for this offering, respectively.

In May 2009, all of our executive officers entered into stock selling plans in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and our insider trading policy. Under these plans, an aggregate of 1,806,453 shares may be sold from December 2009 through December 2010, including an aggregate of 366,477 shares that may be sold prior to the expiration of the 90-day lock-up period commencing on the date of this prospectus and further described under Shares Eligible for Future Sale.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

a classified board of directors with three-year staggered terms;

not providing for cumulative voting in the election of directors;

authorizing the board to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;

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prohibiting stockholder action by written consent; and

requiring advance notification of stockholder nominations and proposals.

These and other provisions in our amended and restated certificate of incorporation and our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions. See Description of Capital Stock Preferred Stock and Description of Capital Stock Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws.

If securities analysts do not continue to publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

We believe that the trading price for our common stock will be affected by research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who may elect to cover us downgrade their evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

We do not intend to pay dividends on our common stock.

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Compensation Discussion and Analysis. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in Risk Factors and elsewhere in this prospectus. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

This prospectus also contains estimates and other information concerning our industry, including market size and growth rates, that are based on industry publications, surveys and forecasts, including those generated by Compass Intelligence Research, IDC and reports published by Gartner, Inc. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. Although we believe the information in these industry publications, surveys and forecasts is reliable, we have not independently verified the accuracy or completeness of the information. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in Risk Factors.

The Gartner report described herein (the Gartner Report) represents data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc., that are not representations of fact. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report are subject to change without notice.

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The primary purpose of this offering is to provide liquidity for the selling stockholders, including entities affiliated with certain members of our board of directors. The selling stockholders will receive all of the proceeds from this offering, and we will not receive any proceeds from the sale of shares in this offering. Any proceeds received by us in connection with the exercise of an option to purchase shares of our common stock by a selling stockholder in connection with this offering will be used for general corporate purposes.

MARKET PRICE OF COMMON STOCK

Our common stock has been listed on the NYSE under the symbol SWI since May 20, 2009. Prior to that date, there was no public trading market for our common stock. Our IPO was priced at \$12.50 per share on May 19, 2009. The following table sets forth for the periods indicated the high and low sale prices per share of our common stock as reported on the NYSE:

	Low	High
Year Ending December 31, 2009		
Second Quarter (beginning May 20, 2009)	\$ 12.70	\$ 16.82
Third Quarter	\$ 14.75	\$ 24.25
Fourth Quarter (through November 12, 2009)	\$ 16.90	\$ 23.62

On November 12, 2009, the last reported sale price of our common stock on the NYSE was \$19.28 per share and, as of September 30, 2009, there were approximately 29 holders of record of our common stock.

DIVIDEND POLICY

We do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings will be used for the operation and growth of our business. Any future determination to pay dividends on our common stock would be subject to the discretion of our board of directors and would depend upon various factors, including our results of operations, financial condition and liquidity requirements, restrictions that may be imposed by applicable law and our contracts, and other factors deemed relevant by our board of directors. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.

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The following table sets forth our consolidated cash and cash equivalents and capitalization as of September 30, 2009:

(in thousands)	As of September 30, 2009
Cash and cash equivalents	\$ 125,805
Long-term obligations, including current portion (excluding deferred revenue)	\$ 44,463
Stockholders' equity:	
Preferred stock, \$0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding	65
Common stock, \$0.001 par value: 123,000,000 shares authorized, 65,081,061 shares issued and outstanding	106,230
Additional paid-in capital	36
Accumulated other comprehensive income	(40,473)
Accumulated deficit	65,858
Total stockholders' equity	65,858
Total capitalization	\$ 110,321

The number of shares of common stock issued and outstanding in the table is as of September 30, 2009 and excludes:

12,072,658 shares of our common stock issuable upon exercise of options outstanding as of September 30, 2009 (including 270,000 shares of our common stock that we expect to be sold in this offering by a selling stockholder upon the exercise of a vested option with an exercise price of \$2.69 per share at the closing of this offering), with a weighted average exercise price of \$4.50 per share; and

5,046,287 shares of our common stock reserved for future issuance under our 2008 Stock Plan.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

We have derived the following consolidated statement of income data for 2006, 2007 and 2008 and consolidated balance sheet data as of December 31, 2007 and 2008 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the following consolidated statement of income data for 2004 and 2005 and consolidated balance sheet data as of December 31, 2004, 2005 and 2006 from our audited consolidated financial statements not included in this prospectus. We have derived the following consolidated statement of income data for the nine months ended September 30, 2008 and 2009 and consolidated balance sheet data as of September 30, 2009 from our unaudited consolidated financial statements included elsewhere in this prospectus. You should read the consolidated financial data set forth below in conjunction with our consolidated financial statements and related notes and the information under Management's Discussion and Analysis of Financial Condition and Results of Operations. Our historical results are not necessarily indicative of our results to be expected in any future period.

Consolidated Statement of Income Data: (in thousands, except per share data)	Year Ended December 31,					Nine Months	
	2004	2005	2006	2007	2008	Ended September 30,	2009
						2008	2009
							(unaudited)
Revenue:							
License	\$ 13,783	\$ 18,400	\$ 23,676	\$ 39,525	\$ 55,461	\$ 41,545	\$ 44,777
Maintenance and other	7,640	9,502	14,558	22,210	37,674	26,693	38,690
Total revenue	21,423	27,902	38,234	61,735	93,135	68,238	83,467
Cost of revenue (1)	186	257	490	2,253	3,588	2,606	3,585
Gross profit	21,237	27,645	37,744	59,482	89,547	65,632	79,882
Operating expenses:							
Sales and marketing (1)	848	1,140	3,504	12,909	22,664	16,198	21,690
Research and development (1)	860	930	2,341	5,899	8,452	6,249	8,167
General and administrative (1)	566	973	6,477	9,763	16,464	12,486	13,127
Recapitalization expenses (2)		1,612					
Total operating expenses	2,274	4,655	12,322	28,571	47,580	34,933	42,984
Operating income	18,963	22,990	25,422	30,911	41,967	30,699	36,898
Other income (expense):							
Interest income	2	4	447	528	528	400	225
Interest expense	(4)	(474)	(10,682)	(10,235)	(8,539)	(6,435)	(3,659)
Other expense				(73)	(934)	(43)	(88)
Total other expense	(2)	(470)	(10,235)	(9,780)	(8,945)	(6,078)	(3,522)
Income before income taxes	18,961	22,520	15,187	21,131	33,022	24,621	33,376
Income tax expense (benefit)		(751)	5,596	7,524	10,717	7,956	10,415
Net income	18,961	23,271	9,591	13,607	22,305	16,665	22,961
Amount allocated to participating preferred stockholders		(4,642)	(4,791)	(6,681)	(10,922)	(8,161)	
Net income available to common stockholders	\$ 18,961	\$ 18,629	\$ 4,800	\$ 6,926	\$ 11,383	\$ 8,504	\$ 22,961
Basic earnings per share available to common stockholders	\$ 6,320	\$ 13.95	\$ 0.18	\$ 0.25	\$ 0.40	\$ 0.30	\$ 0.50
Diluted earnings per share available to common stockholders	\$ 6,320	\$ 8.73	\$ 0.18	\$ 0.24	\$ 0.35	\$ 0.26	\$ 0.44
Shares used in computation of basic earnings per share available to common stockholders (3)	3	1,335	27,014	27,969	28,137	28,130	46,183

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Shares used in computation of diluted earnings per share available to common stockholders (3)	3	2,667	54,055	56,030	32,652	32,410	51,801
Pro forma earnings per share (unaudited)							
Basic					\$ 0.40		\$ 0.38
Diluted					\$ 0.37		\$ 0.35
Weighted average number of shares used in pro forma computation (unaudited)							
Basic					55,137		59,981
Diluted					59,652		65,599
Other Data:							
Adjusted EBITDA (4)	\$ 19,020	\$ 23,026	\$ 27,061	\$ 35,433	\$ 48,389	\$ 36,021	\$ 44,065

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Consolidated Balance Sheet Data: (in thousands)	2004	2005	December 31,			September 30,
			2006	2007	2008	2009 (unaudited)
Cash and cash equivalents	\$ 137	\$ 828	\$ 9,342	\$ 19,303	\$ 40,566	\$ 125,805
Working capital (deficit)	(1,605)	(631)	1,676	6,130	16,393	83,745
Deferred revenue	4,416	7,531	8,353	17,092	27,162	36,750
Total assets	3,082	9,864	21,072	49,262	86,907	177,285
Long-term obligations and convertible preferred stock		110,027	102,909	101,987	95,379	46,149
Total stockholders' equity (deficit)	(1,813)	(108,822)	(96,298)	(78,534)	(48,555)	65,858

- (1) Includes stock-based compensation expense as follows:

(in thousands)	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009 (unaudited)
Cost of revenue	\$	\$ 39	\$ 63	\$ 46	\$ 52
Sales and marketing	334	1,213	1,593	1,179	1,435
Research and development	190	467	755	563	818
General and administrative	991	2,091	3,509	2,515	3,323
	\$ 1,515	\$ 3,810	\$ 5,920	\$ 4,303	\$ 5,628

- (2) In December 2005, a group of investors led by Bain Capital Ventures and Insight Venture Partners purchased a 67.8% interest in us from our original stockholders. This transaction was accomplished through a recapitalization of the company. Costs associated with effecting the recapitalization, comprised primarily of consulting fees to certain of our stockholders and legal and accounting fees, were expensed in the 2005 consolidated statement of income.
- (3) The number of shares of outstanding stock increased significantly as a result of our December 2005 recapitalization. The effect of the recapitalization was only minimally reflected in the 2005 shares used in the computation of basic and diluted earnings per share available to common stockholders due to the weighted average nature of the calculation. There was no impact of stock options in our earnings per share calculations in 2004, and there was only a minimal impact in 2005.
- (4) We anticipate that our investor and analyst presentations will include Adjusted EBITDA, which we define as net income plus net interest expense, income tax expense (benefit), depreciation and amortization, and stock-based compensation expense, and which is a financial measure that is not calculated in accordance with GAAP. The table below provides a reconciliation of this non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA in the same manner as we do. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reason we consider them appropriate.

We believe Adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

Adjusted EBITDA is widely used by investors to measure a company's operating performance without regard to items, such as interest expense, income tax expense, depreciation and amortization, and stock-based compensation expense, that can vary substantially from company to company depending upon their financing and accounting methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

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securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies;

we adopted the authoritative guidance for share-based payments on January 1, 2006 and recorded stock-based compensation expense of approximately \$1.5 million, \$3.8 million and \$5.9 million for the years ended December 31, 2006, 2007 and 2008, respectively, and \$4.3 million and \$5.6 million for the nine months ended September 30, 2008 and 2009, respectively. Prior to January 1, 2006, we accounted for stock-based compensation using the intrinsic value method under previously issued guidance, which resulted in zero stock-based compensation expense. By comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating results without the additional variations caused by stock-based compensation expense, which is not comparable from year to year due to changes in accounting treatment and is a non-cash expense that is not a key measure of our operations; and

our lenders believed Adjusted EBITDA was the appropriate performance measure for the key operational covenants in our credit agreements. These key operational covenants require us to maintain a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio as of the last day of each fiscal quarter. Each of these ratios uses Adjusted EBITDA in its calculation. The interest coverage ratio is calculated as a ratio of Adjusted EBITDA for the trailing four quarters to cash interest expense for the trailing four quarters. To be in compliance, our interest coverage ratio had to be at least 3.5 to 1.0 as of September 30, 2009 and must be at least 3.5 to 1.0 as of the last day of each fiscal quarter thereafter. The leverage ratio is calculated as a ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. Our leverage ratio as of September 30, 2009 could not be more than 2.8 to 1.0, and this maximum ratio decreases over time to 2.1 to 1.0 as of December 31, 2011. We were in compliance with each of these key operational covenants as of September 30, 2009. We believe these are key operational and financial covenants because the failure to comply with these covenants would be an event of default under our credit agreements that would likely result in the acceleration of our indebtedness or an unfavorable amendment to the terms of the credit agreements. This acceleration would and any such amendment might adversely affect our liquidity and financial condition.

Our management uses Adjusted EBITDA:

as a measure of operating performance, because it does not include the impact of items not directly resulting from our core operations;

for planning purposes, including the preparation of our annual operating budget;

to allocate resources to enhance the financial performance of our business;

to evaluate the effectiveness of our business strategies; and

in communications with our board of directors concerning our financial performance.

We understand that, although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;

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Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect interest expense or interest income;

Adjusted EBITDA does not reflect cash requirements for income taxes;

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although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for these replacements; and

other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measure, for each of the periods indicated.

Reconciliation of Adjusted EBITDA to Net Income (in thousands)	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008 (unaudited)	2009 (unaudited)
Net income	\$ 9,591	\$ 13,607	\$ 22,305	\$ 16,665	\$ 22,961
Interest expense, net	10,235	9,707	8,011	6,035	3,434
Income tax expense	5,596	7,524	10,717	7,956	10,415
Depreciation	124	580	1,106	814	1,049
Amortization		205	330	248	578
Stock-based compensation expense	1,515	3,810	5,920	4,303	5,628
Adjusted EBITDA	\$ 27,061	\$ 35,433	\$ 48,389	\$ 36,021	\$ 44,065

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.

Overview

We are a leading provider of powerful yet easy-to-use enterprise-class network management software designed by network professionals for network professionals. Our offerings range from individual software tools to more comprehensive software products, solve problems faced every day by network professionals and help to enable efficient and effective network management. We design our software to meet the requirements of networks and implementations of varying sizes and levels of complexity. We currently have customers that use our software to manage networks ranging from a single device to over 100,000 installed devices. Our products are easy to find, evaluate, use and maintain.

In 1999, we were formed and introduced the first version of one of our core products, Engineer's Toolset. Until December 2005, we were owned by our original stockholders and employed a simple business model designed to minimize expenses and maximize cash flow. We focused our marketing efforts almost exclusively on optimizing our placement in search engine listings, which we attempted to influence through changing the content on our website, and on direct email lead generation programs to the registered end-users of our software products. We did not engage in any proactive advertising, branding or lead generation programs, and thus had minimal marketing expense. By employing a self service model in which our software was downloaded by engineers who came to our website, we kept sales expense low as well. Our relatively small historical investment in sales and marketing and research and development allowed us to be profitable in every year since inception and to generate income before income taxes in excess of 80% of revenue from 2003 through 2005. Despite our low levels of expenditures, by 2005 we had grown our revenue to \$27.9 million and had introduced a suite of software products, including our current flagship product, Orion Network Performance Monitor, as well as Orion Network Configuration Manager, formerly known as Cirrus Configuration Manager.

In 2005, our founder decided to explore alternatives in order to grow our business more rapidly than had been possible under our historical model. In December 2005, investors led by Bain Capital Ventures and Insight Venture Partners acquired an aggregate of 67.8% of our outstanding capital stock from our original stockholders and we recapitalized our company. As a result, we incurred \$110.0 million of long-term debt, \$44.1 million of which remained outstanding at September 30, 2009. In the second half of 2006, we hired most of our current management team. This new management team began to implement changes to our business model that were designed to accelerate the growth of our revenue. These changes included expanding our suite of products, refining our product development process, creating sales and marketing organizations, and building administrative infrastructure to manage our business.

Since 2007, we have continued to build and refine our business model, making significant investments in people, systems and infrastructure. We continue to embrace certain elements of our founder's model, including providing downloadable enterprise-class software designed for network professionals, focusing on our customer base and end-user community, and offering compelling pricing. In addition, we now employ a highly efficient product development process, a scalable marketing model and a high volume, transaction-oriented inside sales model that have allowed us to drive and support rapid growth in our business at high operating margins while offering our products at prices that are typically significantly lower than those of our competitors. Our revenue grew from \$38.2 million in 2006 to \$61.7 million in 2007, \$93.1 million in 2008 and \$83.5 million for the nine

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months ended September 30, 2009 and our operating income grew from \$25.4 million in 2006 to \$30.9 million in 2007, \$42.0 million in 2008 and \$36.9 million for the nine months ended September 30, 2009. Our average transaction size for new license sales in each of 2007, 2008 and the nine months ended September 30, 2009 was less than \$7,000 compared to hundreds of thousands of dollars for many competing products. We manage our business with a culture and systems that are focused on metrics and helping us to achieve a high level of visibility and consistency in our execution.

We have also sought to expand our product offerings through three acquisitions. In April 2007, we acquired ipMonitor, our entry-level network monitoring product, by purchasing substantially all of the assets and liabilities of IPMonitor Corporation, or IPMonitor. In May 2007, we acquired our LANsurveyor product and various underlying technologies by purchasing all of the outstanding stock of Neon Software, Inc., or Neon. In December 2008, we acquired our Kiwi Syslog Server and Kiwi CatTools products by purchasing substantially all of the assets and liabilities of Trilenium Investments Limited, or Trilenium. We paid \$5.9 million, \$3.75 million and \$7.2 million, respectively, in connection with these acquisitions, resulting in the recording of purchased intangible assets and goodwill on our balance sheet, and amortization of certain of these assets in our statements of income. We made additional payments during 2008 of \$0.8 million and \$0.5 million upon achievement of the two development milestones related to the Neon acquisition. We anticipate making selective additional acquisitions of companies with products that complement our business model.

To increase our international sales, we have expanded international operations by building a direct sales force and contracting with resellers overseas. We established operations in Cork, Ireland in 2007 to serve as our international headquarters, opened a sales and support operation in Singapore in 2008 and established a research and development facility in the Czech Republic in 2008.

In May 2009, we completed our IPO, in which we issued and sold 9,000,000 shares of our common stock at a price of \$12.50 per share. We raised a total of \$112.5 million in gross proceeds from the offering, or approximately \$100.5 million in net proceeds after deducting underwriting discounts and commissions of \$7.9 million and other offering costs of \$4.1 million.

Through December 13, 2005, we operated as a Subchapter S corporation. As a consequence, all of our earnings were recorded on the personal tax returns of our original stockholders and we were not a tax-paying entity. Accordingly, we had no federal or state income tax expense through that date. Since December 13, 2005, we have been a Subchapter C corporation and thus have recorded income tax expense.

Key Business Metrics

We designed our business model to sell high volumes of low-priced, downloadable, enterprise-class software to our customers and to be low cost, scalable and efficient. We review a number of key business metrics to help us monitor the performance of our business model and to identify trends affecting our business. The measures that we believe are the primary indicators of our quarterly and annual performance are as follows:

Average Transaction Size for New License Sales. We focus our sales, marketing and research and development efforts on network professionals and other IT professionals in organizations of all sizes, with the goal of driving purchases of our software by these network and other IT professionals in very short sales cycles with minimal levels of approval. In addition, many of our customers make small initial purchases of our software to manage specific components of their networks and then make additional purchases over time to expand the use of the product that they purchased or to buy additional software products from us. We measure the average transaction size for new license sales on a frequent basis as an indicator of the success of these efforts and to ensure the effectiveness of our marketing and sales model.

Adjusted EBITDA. Our management uses Adjusted EBITDA to measure our performance. Because Adjusted EBITDA excludes certain non-cash expenses such as depreciation, amortization and stock-based compensation, we believe that this measure provides us with additional useful information to measure and understand our

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performance on a consistent basis, particularly with respect to changes in performance from period to period. We use Adjusted EBITDA in the preparation of our budgets and to measure and monitor our performance. Adjusted EBITDA is not determined in accordance with GAAP and is not a substitute for or superior to financial measures determined in accordance with GAAP. For further discussion regarding Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see footnote 4 to the table in Selected Consolidated Financial Data included elsewhere in this prospectus.

Revenue Growth. Beginning in the middle of 2006 with the hiring of our current executive management team, we have employed a differentiated business model for marketing and selling high volumes of enterprise-class software, which is focused on rapid revenue growth at high Adjusted EBITDA margins. We regularly review our revenue growth to measure our success.

Opportunities and Trends

Businesses, governments and other organizations are increasingly relying on data networks to execute their operations, facilitate their internal and external communications and transact business with their customers and partners, and these networks are generally growing in size and complexity. We believe that the increasing challenges of network management and the limitations of existing offerings present a market opportunity for our products. We expect our revenue to continue to grow as we capitalize on this market opportunity.

We believe that the recent economic conditions have caused some customers, particularly small businesses, to be more cautious about their purchases of technology and other related items. However, we believe that small businesses will be less cautious in the future and we intend to capitalize on this opportunity. We also believe that the recent economic conditions offer us an opportunity to market and sell our products to mid-size businesses and enterprise customers at compelling prices compared to the prices of many competing products. We expect to increase the number of sales transactions to larger customers and customers in the U.S. federal government, which tend to have larger transaction sizes. In the third quarter of 2009, we executed a larger number of sales transactions in amounts from \$10,000 to \$50,000 than in previous quarters.

We have rapidly evolved and expanded our business since the middle of 2006. This expansion has included hiring most of our senior management team, moving our corporate headquarters to Austin, Texas and building infrastructure to support our business. This evolution has resulted in our significantly expanding our direct inside sales presence in the United States, entering into an outsourced development relationship in Eastern Europe in late 2006, creating a direct sales and support presence in Europe through establishment of our international headquarters in Cork, Ireland in the third quarter of 2007, establishing a research and development facility in the Czech Republic in 2008, entering into a second outsourced development relationship in Eastern Europe in 2008 and opening an international sales and support operation in Singapore in 2008. We have also expanded through three acquisitions in April and May 2007 and December 2008, two of which were international. These investments in and changes to our business have allowed us to accelerate our revenue growth significantly while maintaining high operating margins. We believe that we have an opportunity to grow our business internationally and intend to continue to invest in our international business to take advantage of this opportunity.

We expect to continue to invest for the