

SolarWinds, Inc.  
Form S-1/A  
March 06, 2009  
Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on March 6, 2009

Registration No. 333-149851

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

Amendment No. 6

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

**SolarWinds, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

**7372**  
(Primary Standard Industrial

**73-1559348**  
(I.R.S. Employer

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(Incorporation or organization)

(Classification Code Number)

(Identification Number)

**SolarWinds, Inc.**

**3711 South MoPac Expressway**

**Building Two**

**Austin, Texas 78746**

**(512) 682.9300**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

**Kevin B. Thompson**

**President, Chief Operating Officer**

**and Chief Financial Officer**

**SolarWinds, Inc.**

**3711 South MoPac Expressway**

**Building Two**

**Austin, Texas 78746**

**(512) 682.9300**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Austin, Texas 78746

(650) 988.8500

(512) 338.5400

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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

Large accelerated filer "      Accelerated filer "      Non-accelerated filer       Smaller reporting company "

(Do not check if a smaller reporting company)

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**Index to Financial Statements**

**The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and neither we nor the selling stockholders are soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED MARCH 6, 2009**

**Prospectus**

*Shares*

*Common Stock*

This is an initial public offering of shares of common stock by SolarWinds, Inc. SolarWinds is selling \_\_\_\_\_ shares of common stock. The selling stockholders identified in this prospectus are selling an additional \_\_\_\_\_ shares of common stock. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders. The estimated initial public offering price is between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

We have applied for a listing of our common stock on the New York Stock Exchange under the symbol SWI.

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

	<b>Per Share</b>	<b>Total</b>
Initial public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to SolarWinds, before expenses	\$	\$
Proceeds to the selling stockholders, before expenses	\$	\$

To the extent the underwriters sell more than \_\_\_\_\_ shares of common stock, we have granted the underwriters an option for a period of 30 days to purchase up to \_\_\_\_\_ additional shares of common stock, at the initial public 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 \_\_\_\_\_, 2009.

**J.P. Morgan**

**Goldman, Sachs & Co.**

**Morgan Stanley**

**Jefferies & Company**

**Pacific Crest Securities**  
, 2009

**Thomas Weisel Partners LLC**

**Table of Contents****Index to Financial Statements****TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	11
<u>Special Note Regarding Forward-Looking Statements and Industry Data</u>	25
<u>Use of Proceeds</u>	26
<u>Dividend Policy</u>	26
<u>Capitalization</u>	27
<u>Dilution</u>	29
<u>Selected Consolidated Financial Data</u>	30
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Business</u>	60
<u>Management</u>	72
<u>Compensation Discussion and Analysis</u>	79
<u>Executive Compensation</u>	87
<u>Certain Relationships and Related Party Transactions</u>	103
<u>Principal and Selling Stockholders</u>	110
<u>Description of Capital Stock</u>	114
<u>Shares Eligible for Future Sale</u>	118
<u>Material United States Federal Income Tax Consequences to Non-U.S. Holders</u>	120
<u>Underwriting</u>	123
<u>Legal Matters</u>	129
<u>Experts</u>	129
<u>Where You Can Find More Information</u>	129
<u>Index to Consolidated Financial Statements</u>	F-1

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. We and 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.

Until \_\_\_\_\_, 2009, all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotment or subscriptions.

**Table of Contents**

**Index to Financial Statements**

**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.

Through December 31, 2008, over 80,000 customers within small and mid-size businesses, enterprises, including more than 400 of the Fortune 500 companies, and local, state and federal government entities had 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 2007 and 2008 was less than \$6,000 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, we generated revenue of \$38.2 million, \$61.7 million and \$93.1 million, respectively. In the same periods, we had operating income of \$25.4 million, \$30.9 million and \$42.0 million and Adjusted EBITDA of \$27.1 million, \$35.4 million and \$48.4 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 lender uses 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 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:

**Table of Contents****Index to Financial Statements**

Reconciliation of Adjusted EBITDA to Net Income	Year Ended December 31,		
	2006	2007	2008
<i>(in thousands)</i>			
Net income	\$ 9,591	\$ 13,607	\$ 22,305
Interest expense, net	10,235	9,707	8,011
Income tax expense	5,596	7,524	10,717
Depreciation and amortization	124	785	1,436
Stock-based compensation expense	1,515	3,810	5,920
Adjusted EBITDA	\$ 27,061	\$ 35,433	\$ 48,389

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 are not 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.



## **Table of Contents**

### **Index to Financial Statements**

#### **Market Opportunity**

There is currently a large and mature market for network management software. Gartner, Inc., a market research firm, estimates that spending on software for managing networks and the availability and performance of networks and systems will grow from \$4.97 billion in 2009 to \$5.55 billion in 2012.<sup>(1)</sup> 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, Compass Intelligence Research estimated there are currently more than 35,000 enterprises and more than 1.6 million small and mid-size companies worldwide. In addition, they estimated that more than 5,000 of 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 \$19,000 to \$190,000, 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)

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Gartner, Inc. Forecast: Enterprise Software Markets Worldwide, 2007-2012, 4Q08 Update by Fabrizio Biscotti et al., dated December 9, 2008. See Special Note Regarding Forward-Looking Statements and Industry Data for information regarding the industry data used in this prospectus.

## **Table of Contents**

### **Index to Financial Statements**

#### **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 database 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:

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continue to add new customers in North America;

expand our business in international markets;

**Table of Contents**

**Index to Financial Statements**

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 operating income could continue to decline as a percentage of our revenue;

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

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 will decrease;

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

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

our business depends on customers renewing their annual maintenance contracts and any decline in maintenance renewals would harm our future operating results.

**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](http://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 SolarPnk are our registered trademarks, and the marks CatTools, Engineer's Toolset, Kiwi, Kiwi CatTool and Kiwi Syslog and our logo are our trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.



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no exercise of options outstanding as of December 31, 2008; and

the filing of our amended and restated certificate of incorporation, which will occur immediately upon the consummation of this offering.

**Table of Contents****Index to Financial Statements****Summary Consolidated Financial Information**

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. 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.

<b>Consolidated Statement of Income Data:</b> (in thousands, except per share data)	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Revenue:</b>			
License	\$ 23,676	\$ 39,525	\$ 55,461
Maintenance and other	14,558	22,210	37,674
<b>Total revenue</b>	<b>38,234</b>	<b>61,735</b>	<b>93,135</b>
Cost of revenue (1)	490	2,253	3,588
<b>Gross profit</b>	<b>37,744</b>	<b>59,482</b>	<b>89,547</b>
<b>Operating expenses:</b>			
Sales and marketing (1)	3,504	12,909	22,664
Research and development (1)	2,341	5,899	8,452
General and administrative (1)	6,477	9,763	16,464
<b>Total operating expenses</b>	<b>12,322</b>	<b>28,571</b>	<b>47,580</b>
<b>Operating income</b>	<b>25,422</b>	<b>30,911</b>	<b>41,967</b>
<b>Other income (expense):</b>			
Interest income	447	528	528
Interest expense	(10,682)	(10,235)	(8,539)
Foreign exchange loss		(73)	(934)
<b>Total other expense</b>	<b>(10,235)</b>	<b>(9,780)</b>	<b>(8,945)</b>
<b>Income before income taxes</b>	<b>15,187</b>	<b>21,131</b>	<b>33,022</b>
Income tax expense	5,596	7,524	10,717
<b>Net income</b>	<b>9,591</b>	<b>13,607</b>	<b>22,305</b>
Amount allocated to participating preferred stockholders	(4,791)	(6,681)	(10,922)
Net income available to common stockholders	\$ 4,800	\$ 6,926	\$ 11,383
Basic earnings per share available to common stockholders	\$ 0.18	\$ 0.25	\$ 0.40
Diluted earnings per share available to common stockholders	\$ 0.18	\$ 0.24	\$ 0.35
Shares used in computation of basic earnings per share available to common stockholders	27,014	27,969	28,137
Shares used in computation of diluted earnings per share available to common stockholders	54,055	56,030	32,652
Pro forma earnings per share (unaudited)			



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Basic			\$ 0.40
Diluted			\$ 0.37
Weighted average number of shares used in pro forma computation (unaudited)			
Basic			55,137
Diluted			59,652

**Other Financial Data:**

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

**(in thousands)**

Cost of revenue	\$	\$ 39	\$ 63
Sales and marketing	334	1,213	1,593
Research and development	190	467	755
General and administrative	991	2,091	3,509
	\$ 1,515	\$ 3,810	\$ 5,920

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**Table of Contents**

**Index to Financial Statements**

- (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 Statement of Financial Accounting Standards, or SFAS, No. 123(R), *Share-Based Payment*, 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. Prior to January 1, 2006, we accounted for stock-based compensation using the intrinsic value method under Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, 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 defined to be the 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 December 31, 2008 and must be at least 3.5 to 1.0 as of the last day of each fiscal quarter thereafter. The leverage ratio is defined to be the ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. Our leverage ratio as of December 31, 2008 could not be more than 3.1 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 December 31, 2008. 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.

**Table of Contents**

**Index to Financial Statements**

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	Year Ended December 31,		
	2006	2007	2008

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(in thousands)

Net income	\$ 9,591	\$ 13,607	\$ 22,305
Interest expense, net	10,235	9,707	8,011
Income tax expense	5,596	7,524	10,717
Depreciation and amortization	124	785	1,436
Stock-based compensation expense	1,515	3,810	5,920
Adjusted EBITDA	\$ 27,061	\$ 35,433	\$ 48,389

**Table of Contents****Index to Financial Statements**

The following table presents consolidated balance sheet data as of December 31, 2008 on:

an actual basis;

a pro forma basis to reflect the conversion of all outstanding shares of our convertible preferred stock into 27,000,003 shares of our common stock upon the closing of this offering; and

a pro forma as adjusted basis to reflect (i) our receipt of the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses and (ii) the application of the net proceeds from this offering as described under Use of Proceeds.

(in thousands)	Consolidated Balance Sheet Data:	December 31, 2008		
		Actual	Pro Forma (unaudited)	Pro Forma As Adjusted
Cash and cash equivalents		\$ 40,566	\$ 40,566	\$
Working capital		16,393	16,393	
Deferred revenue		27,162	27,162	
Total assets		86,907	86,907	
Long-term obligations and convertible preferred stock		95,379	95,352	
Total stockholders' deficit		(48,555)	(48,528)	

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**Table of Contents**

**Index to Financial Statements**

**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**

*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% and 45.1% and our net income was 25.1%, 22.0% and 23.9% for the years ended December 31, 2006, 2007 and 2008, respectively. In December 2005, we converted from a Subchapter S corporation to a Subchapter C corporation. We incurred income tax expense of \$5.6 million, \$7.5 million and \$10.7 million for the years ended December 31, 2006, 2007 and 2008, respectively. We also incurred \$10.7 million, \$10.2 million and \$8.5 million in interest expense for the years ended December 31, 2006, 2007 and 2008, 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 and \$5.9 million for the years ended December 31, 2006, 2007 and 2008, 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 expanded our operations outside the United States in order to manage and expand our business more effectively. 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 upon the completion of this offering. As a result of these factors, our operating income and net income could decline as a percentage of revenue relative to our prior periods at least through 2009.

*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 additional 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;

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

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

**Table of Contents**

**Index to Financial Statements**

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

the loss of our relationships with the two principal resellers that help us fulfill most sales orders from the U.S. government;

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.

***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 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.

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 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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**Table of Contents**

**Index to Financial Statements**

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.

***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.

***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.

We depend significantly on our Orion family of products, which are our enterprise-class network management products. Our Orion family of products represented a majority of our revenue in 2007 and 2008. 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 two resellers. Any reductions in sales to the U.S. federal government as a result of the loss of these resellers or any other reason could harm our growth.***

In 2008, approximately 13% of our sales was to a number of different departments of the U.S. federal government. A substantial majority of these sales were made through two of our resellers. 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 our current resellers, which are entitled under certain circumstances to terminate our contracts with them, would cause at least a temporary inability to fulfill 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.

**Table of Contents**

**Index to Financial Statements**

*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, BMC, Cisco 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 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. We increased our total number of employees from 36 as of June 30, 2006 to 254 as of December 31, 2008. In addition, during this same period, 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 a sales and support center in Cork, Ireland. In 2008, we opened a development center in the Czech Republic and an international sales and support center in Singapore. We also acquired a development center 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 80,000 customers as of December 31, 2008. 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.

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**Table of Contents**

**Index to Financial Statements**

***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 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 one-year 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.

***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.

***Our business model is dependent upon efficient and cost-effective product development. Failure to manage our product development efforts outside the United States effectively could harm our ability to release new products rapidly and adversely affect our revenue and operating results.***

Our success depends on our ability to enhance current products and to develop new products rapidly and cost effectively. 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 our 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, our business could be harmed while we develop our products in an alternate manner that may be less efficient and cost-effective. In addition, if our contract development vendors terminate their relationships with us or experience problems with their facilities or workforce, or if for any other reason we are unable to maintain our relationship with our contract development vendors, our business could suffer due to a delay in our product release schedules while we either hire software developers and expand our facility in the Czech Republic or find alternative contract development resources.

***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

**Table of Contents**

**Index to Financial Statements**

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;

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.

***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. 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. All of our employees work for us on an at-will basis. Competition for these types of personnel is intense, particularly in the software industry. 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 maintain key person insurance for our Chief Executive Officer and intend to obtain key person insurance for our President prior to this offering.

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

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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. 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;

**Table of Contents**

**Index to Financial Statements**

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 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.

***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

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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

**Table of Contents**

**Index to Financial Statements**

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 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 any 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 unspecified 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. In April 2008, Mr. Yonce requested that we indemnify him 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. We have denied this request although we have agreed to pay his legal fees. Even if we prevail in the litigation, we could incur significant litigation fees and expenses. Because this lawsuit is in its initial stage, it is not possible to predict the



**Table of Contents**

**Index to Financial Statements**

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.

***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.

***We will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.***

As a public company, we will incur significant legal, accounting, investor relations and other expenses 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 New York Stock Exchange, or NYSE. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically over the past several years. We expect these rules and regulations to increase our legal and financial compliance costs substantially and to make some activities more time-consuming and costly. We are unable currently to estimate these costs with any degree of certainty. We also expect that, as a public company, it will be more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

***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

**Table of Contents**

**Index to Financial Statements**

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 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

**Table of Contents**

**Index to Financial Statements**

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 sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Those 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 December 31, 2008, we had approximately \$101.1 million of outstanding indebtedness under our December 2005 credit facilities, and our interest expense in 2007 and 2008 was approximately \$10.2 million and \$8.5 million, respectively. We expect to utilize proceeds from this offering to repay a significant portion or all of these obligations. However, if we do not raise sufficient funds in connection with the offering, these credit facilities may remain outstanding.

Our credit facilities contain various covenants that will continue to be operative if 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;