SolarWinds, Inc.
Form S-1/A
May 19, 2009
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As filed with the Securities and Exchange Commission on May 19, 2009

Registration No. 333-149851

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 9

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SolarWinds, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**7372**	**73-1559348**
(State or other jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

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**

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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 x (Do not check if a smaller reporting company)	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.

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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 MAY 19, 2009

Prospectus

12,116,279 Shares

Common Stock

This is an initial public offering of shares of common stock by SolarWinds, Inc. SolarWinds is selling 9,000,000 shares of common stock. The selling stockholders identified in this prospectus, including certain of our officers and directors, are selling an additional 3,116,279 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 $9.50 and $11.50 per share.

Our common stock has been authorized for listing 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.

	Per Share	Total
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 12,116,279 shares of common stock, the selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to 1,817,441 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 **Thomas Weisel Partners LLC** **Ladenburg Thalmann & Co. Inc.**

, 2009

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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. 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.

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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 80,000 as of March 31, 2009. Our customers include small and mid-size businesses, enterprises, including more than 400 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 three months ended March 31, 2009 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 and the three months ended March 31, 2009, we generated revenue of $38.2 million, $61.7 million, $93.1 million and $24.1 million, respectively. In the same periods, we had operating income of $25.4 million, $30.9 million, $42.0 million and $10.0 million and Adjusted EBITDA of $27.1 million, $35.4 million, $48.4 million and $12.1 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, 2006	2007	2008	Three Months Ended March 31, 2008 (unaudited)	2009
Net income	$ 9,591	$ 13,607	$ 22,305	$ 4,150	$ 5,988
Interest expense, net	10,235	9,707	8,011	2,531	1,372
Income tax expense	5,596	7,524	10,717	2,133	2,598
Depreciation	124	580	1,106	267	304
Amortization		205	330	81	189
Stock-based compensation expense	1,515	3,810	5,920	1,234	1,668
Adjusted EBITDA	$ 27,061	$ 35,433	$ 48,389	$ 10,396	$ 12,119

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 $4.78 billion in 2009 to $5.70 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, 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 $21,000 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, 1Q09 Update by Fabrizio Biscotti, Rene Millman et al., dated March 16, 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 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:

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 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. 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 SolarInk® are our registered trademarks, and the marks CatTools, Engineer s Toolset, Kiwi, Kiwi CatTools 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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The Offering

Common stock offered by us	9,000,000 shares
Common stock offered by selling stockholders	3,116,279 shares
Over-allotment option offered by selling stockholders	1,817,441 shares
Common stock to be outstanding after this offering	64,186,348 shares
Use of proceeds	We intend to use the net proceeds from this offering to repay a portion of our outstanding long-term indebtedness of $93.9 million as of March 31, 2009 as required by our credit facilities, to pay an earnout payment of up to $20.0 million to our original stockholders and for general corporate purposes, including working capital. We also may use a portion of the net proceeds to acquire complementary businesses, products, services or technologies. We will not receive any proceeds from the sale of shares by the selling stockholders.
Symbol on the New York Stock Exchange	SWI

The shares of common stock to be outstanding after this offering are based on 55,186,348 shares of our common stock outstanding as of March 31, 2009 and exclude:

- 12,102,901 shares of our common stock issuable upon the exercise of options outstanding under our 2005 Stock Plan as of March 31, 2009 (including 445,722 shares of our common stock that we expect to be sold in this offering by certain selling stockholders upon the exercise of vested options at the closing of this offering), with a weighted average exercise price of $3.92 per share; and
- 5,910,757 shares of our common stock reserved for future issuance under our 2008 Stock Plan, which will become effective in connection with this offering (including 2,410,757 shares of common stock reserved, as of March 31, 2009, for future issuance under our 2005 Stock Plan, which shares will be added to the shares reserved under our 2008 Stock Plan upon the effectiveness of the 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;
- the conversion of each outstanding share of preferred stock into one share of common stock upon the closing of this offering;

no exercise of options outstanding as of March 31, 2009; and

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

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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. We have derived the following consolidated statement of income data for the three months ended March 31, 2008 and 2009 and the actual consolidated balance sheet data as of March 31, 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, 2006	2007	2008	Three Months Ended March 31, 2008 (unaudited)	2009 (unaudited)
Revenue:					
License	$ 23,676	$ 39,525	$ 55,461	$ 12,450	$ 12,541
Maintenance and other	14,558	22,210	37,674	7,946	11,534
Total revenue	38,234	61,735	93,135	20,396	24,075
Cost of revenue (1)	490	2,253	3,588	819	1,129
Gross profit	37,744	59,482	89,547	19,577	22,946
Operating expenses:					
Sales and marketing (1)	3,504	12,909	22,664	4,538	6,700
Research and development (1)	2,341	5,899	8,452	1,920	2,426
General and administrative (1)	6,477	9,763	16,464	4,172	3,865
Total operating expenses	12,322	28,571	47,580	10,630	12,991
Operating income	25,422	30,911	41,967	8,947	9,955
Other income (expense):					
Interest income	447	528	528	150	79
Interest expense	(10,682)	(10,235)	(8,539)	(2,681)	(1,451)
Other income (expense)		(73)	(934)	(133)	3
Total other expense	(10,235)	(9,780)	(8,945)	(2,664)	(1,369)
Income before income taxes	15,187	21,131	33,022	6,283	8,586
Income tax expense	5,596	7,524	10,717	2,133	2,598
Net income	9,591	13,607	22,305	4,150	5,988
Amount allocated to participating preferred stockholders	(4,791)	(6,681)	(10,922)	(2,034)	(2,930)
Net income available to common stockholders	$ 4,800	$ 6,926	$ 11,383	$ 2,116	$ 3,058
Basic earnings per share available to common stockholders	$ 0.18	$ 0.25	$ 0.40	$ 0.08	$ 0.11
Diluted earnings per share available to common stockholders	$ 0.18	$ 0.24	$ 0.35	$ 0.07	$ 0.09
Shares used in computation of basic earnings per share available to common stockholders	27,014	27,969	28,137	28,097	28,180

Shares used in computation of diluted earnings per share available to common stockholders	54,055	56,030	32,652	57,788	33,518
Pro forma earnings per share (unaudited)					
Basic			$ 0.40		$ 0.11
Diluted			$ 0.37		$ 0.10
Weighted average number of shares used in pro forma computation (unaudited)					
Basic			55,137		55,180
Diluted			59,652		60,518
Other Financial Data:					
Adjusted EBITDA (2)	$ 27,061	$ 35,433	$ 48,389	$ 10,396	$ 12,119

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

(in thousands)					
Cost of revenue	$	$ 39	$ 63	$ 14	$ 17
Sales and marketing	334	1,213	1,593	373	428
Research and development	190	467	755	181	224
General and administrative	991	2,091	3,509	666	999
	$ 1,515	$ 3,810	$ 5,920	$ 1,234	$ 1,668

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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 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, and $1.2 million and $1.7 million for the three months ended March 31, 2008 and 2009, 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 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 March 31, 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 March 31, 2009 could not be more than 3.0 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 March 31, 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.

	Year Ended December 31,	Three Months Ended March 31,

Reconciliation of Adjusted EBITDA to Net Income (in thousands)	**2006**	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Net income	$ 9,591	$ 13,607	$ 22,305	$ 4,150	$ 5,988
Interest expense, net	10,235	9,707	8,011	2,531	1,372
Income tax expense	5,596	7,524	10,717	2,133	2,598
Depreciation	124	580	1,106	267	304
Amortization		205	330	81	189
Stock-based compensation expense	1,515	3,810	5,920	1,234	1,668
Adjusted EBITDA	$ 27,061	$ 35,433	$ 48,389	$ 10,396	$ 12,119

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The following table presents consolidated balance sheet data as of March 31, 2009 on:

- an actual basis;

- a pro forma basis after giving effect to (i) 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 (ii) the accrual of an assumed earnout payment of $10.0 million in accordance with an agreement with our original stockholders; and

- a pro forma as adjusted basis to give further effect to (i) our receipt of the net proceeds from our sale of 9,000,000 shares of common stock in this offering at an assumed initial public offering price of $10.50 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, (ii) the application of approximately $42.0 million of proceeds of the offering to repay a portion of our indebtedness, (iii) an adjustment to debt issuance costs and (iv) the application of $10.0 million of proceeds of this offering to pay the accrued earnout in accordance with an agreement with our original stockholders.

	March 31, 2009		
Consolidated Balance Sheet Data:	**Actual**	**Pro Forma**	**Pro Forma As Adjusted**
(in thousands)		**(unaudited)**	
Cash and cash equivalents	$ 47,206	$ 47,206	$ 79,201
Working capital	23,788	13,788	55,931
Deferred revenue	29,019	29,019	29,019
Total assets	91,369	91,369	120,781
Long-term obligations and convertible preferred stock	95,619	95,592	53,597
Total stockholders equity (deficit)	(41,001)	(50,974)	30,582

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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

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 41.3% and our net income was 25.1%, 22.0%, 23.9% and 24.9% for the years ended December 31, 2006, 2007 and 2008 and the three months ended March 31, 2009, respectively. We incurred income tax expense of $5.6 million, $7.5 million, $10.7 million and $2.6 million for the years ended December 31, 2006, 2007 and 2008 and the three months ended March 31, 2009, respectively. We also incurred interest expense of $10.7 million, $10.2 million, $8.5 million and $1.5 million for the years ended December 31, 2006, 2007 and 2008 and the three months ended March 31, 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 $1.7 million for the years ended December 31, 2006, 2007 and 2008 and the three months ended March 31, 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 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 annual 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;

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;

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

- the loss of our relationships with the distributor and reseller 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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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 substantial majority of our revenue in each of 2007, 2008 and the three months ended March 31, 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 and one reseller. 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 one distributor and one reseller. 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 distributor or reseller, 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.

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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 268 as of March 31, 2009. 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 a sales and support center 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 80,000 customers as of March 31, 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.

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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.

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 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

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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