

SolarWinds, Inc.
Form S-1/A
November 05, 2009
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As filed with the Securities and Exchange Commission on November 5, 2009

Registration No. 333-162661

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

Amendment No. 1

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
incorporation or organization)

7372
(Primary Standard Industrial
Classification Code Number)
SolarWinds, Inc.

73-1559348
(I.R.S. Employer
Identification Number)

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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

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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 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.

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The information in this prospectus is not complete and may be changed. The selling stockholders may not 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 the selling stockholders are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 5, 2009

Prospectus

10,000,000 Shares

Common Stock

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

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol SWI. On November 4, 2009, the last reported sale price of our common stock on the NYSE was \$17.53 per share.

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

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to the selling stockholders, before expenses	\$	\$

To the extent the underwriters sell more than 10,000,000 shares of common stock, the selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to 1,500,000 additional shares of common stock, at the offering price less the underwriting discounts and commissions.

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

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

J.P. Morgan

Goldman, Sachs & Co.

Morgan Stanley

Jefferies & Company

Thomas Weisel Partners LLC

FBR Capital Markets

Pacific Crest Securities

, 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. The selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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

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PROSPECTUS SUMMARY

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

SolarWinds, Inc.

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

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

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

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

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

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

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

Industry Background

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

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

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

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

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

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

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

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Market Opportunity

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

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

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

Our Solution

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

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

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

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

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

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

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

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Our Business Model

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

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

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

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

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

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

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

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

Our Growth Strategy

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

continue to add new customers in North America;

expand our business in international markets;

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

selectively expand our product portfolio; and

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

Risk Factors

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

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

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

current uncertain economic conditions could adversely affect our operating results;

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

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

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

Corporate Information

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

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

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

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The Offering

Common stock offered by selling stockholders	10,000,000 shares
Over-allotment option offered by selling stockholders	1,500,000 shares
Common stock to be outstanding after this offering	65,081,061 shares

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

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

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

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

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

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

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

Consolidated Statement of Income Data: (in thousands, except per share data)	Year Ended December 31,			Nine Months Ended	
	2006	2007	2008	September 30, 2008	2009 (unaudited)
Revenue:					
License	\$ 23,676	\$ 39,525	\$ 55,461	\$ 41,545	\$ 44,777
Maintenance and other	14,558	22,210	37,674	26,693	38,690
Total revenue	38,234	61,735	93,135	68,238	83,467
Cost of revenue (1)	490	2,253	3,588	2,606	3,585
Gross profit	37,744	59,482	89,547	65,632	79,882
Operating expenses:					
Sales and marketing (1)	3,504	12,909	22,664	16,198	21,690
Research and development (1)	2,341	5,899	8,452	6,249	8,167
General and administrative (1)	6,477	9,763	16,464	12,486	13,127
Total operating expenses	12,322	28,571	47,580	34,933	42,984
Operating income	25,422	30,911	41,967	30,699	