

SolarWinds, Inc.
Form 10-Q
November 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-34358

SOLARWINDS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of)

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

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incorporation or organization)

3711 S. MoPac Expressway

Identification No.)

Building Two

Austin, Texas 78746

(512) 682.9300

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On November 3, 2011, 73,094,950 shares of common stock, par value \$0.001 per share, were outstanding.

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SOLARWINDS, INC.

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Safe Harbor Cautionary Statement

This quarterly report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The statements contained in this quarterly report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Such statements may be signified by terms such as anticipates, believes, could, continues, seeks, estimates, expects, intends, may, hopes, potential, predicts, projects, should, will, would or similar expressions and the negatives of those terms. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those summarized under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the year ended December 31, 2010 and our quarterly reports on Forms 10-Q. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this quarterly report on Form 10-Q. Except as required by law, we do not intend, and undertake no obligation to revise or update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****SolarWinds, Inc.****Condensed Consolidated Balance Sheets****(In thousands, except share and per share information)****(Unaudited)**

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 135,823	\$ 142,003
Short-term investments	27,625	
Accounts receivable, net of allowances of \$250 and \$201 as of September 30, 2011 and December 31, 2010, respectively	28,476	20,255
Income tax receivable	1,776	10,350
Deferred taxes	322	261
Other current assets	3,071	3,210
Total current assets	197,093	176,079
Property and equipment, net	7,053	6,702
Long-term investments	2,329	
Deferred taxes	4,357	4,099
Goodwill	79,798	40,424
Intangible assets and other, net	41,252	20,173
Total assets	\$ 331,882	\$ 247,477
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,499	\$ 2,150
Accrued liabilities	8,330	8,588
Accrued earnout	2,543	4,000
Income taxes payable	574	555
Current portion of deferred revenue	69,589	52,583
Total current liabilities	83,535	67,876
Long-term liabilities:		
Deferred revenue, net of current portion	3,381	3,175
Other long-term liabilities	1,546	817
Total liabilities	88,462	71,868
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.001 par value: 123,000,000 shares authorized and 73,042,747 and 71,658,808 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	73	72
Additional paid-in capital	187,750	165,972

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Accumulated other comprehensive loss	(1,065)	(1,256)
Accumulated earnings	56,662	10,821
Total stockholders' equity	243,420	175,609
Total liabilities and stockholders' equity	\$ 331,882	\$ 247,477

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SolarWinds, Inc.****Condensed Consolidated Statements of Income****(In thousands, except per share information)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue:				
License	\$ 25,522	\$ 20,850	\$ 66,971	\$ 55,735
Maintenance and other	28,426	20,304	75,778	55,252
Total revenue	53,948	41,154	142,749	110,987
Cost of license revenue	1,337	490	2,911	1,307
Cost of maintenance and other revenue	2,201	1,547	5,680	4,349
Gross profit	50,410	39,117	134,158	105,331
Operating expenses:				
Sales and marketing	14,193	10,993	38,698	31,930
Research and development	5,568	4,054	15,640	11,505
General and administrative	6,996	5,860	19,983	18,106
Accrued earnout gain	(1,600)		(1,600)	
Total operating expenses	25,157	20,907	72,721	61,541
Operating income	25,253	18,210	61,437	43,790
Other income (expense):				
Interest income	89	35	214	135
Interest expense				(1,146)
Other income (expense)	537	(174)	21	37
Total other income (expense)	626	(139)	235	(974)
Income before income taxes	25,879	18,071	61,672	42,816
Income tax expense	4,991	5,912	15,523	13,384
Net income	\$ 20,888	\$ 12,159	\$ 46,149	\$ 29,432
Net income per share:				
Basic earnings per share	\$ 0.29	\$ 0.18	\$ 0.63	\$ 0.43
Diluted earnings per share	\$ 0.28	\$ 0.17	\$ 0.62	\$ 0.40
Weighted shares used to compute net income per share:				
Shares used in computation of basic earnings per share	72,947	68,668	72,677	68,052
Shares used in computation of diluted earnings per share	74,457	72,511	74,269	72,832

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SolarWinds, Inc.****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 46,149	\$ 29,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,723	3,896
Provision for doubtful accounts	86	134
Stock-based compensation expense	8,084	8,954
Accrued earnout gain	(1,600)	
Deferred taxes	36	409
Excess tax benefit from stock-based compensation	(5,132)	(17,367)
Other non-cash expenses	359	679
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(8,262)	(8,844)
Income taxes receivable	(25)	30
Prepaid income taxes		4,675
Prepaid and other current assets	389	(430)
Accounts payable	338	(1,362)
Accrued liabilities		