

SolarWinds, Inc.  
Form 10-Q  
October 27, 2009  
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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, 2009

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**73-1559348**  
(I.R.S. Employer  
Identification No.)

**3711 S. MoPac Expressway**

**Building Two**

**Austin, Texas 78746**

**(512) 682.9300**

(Address and telephone number of principal executive offices)

Indicate by check mark whether 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

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date.

On October 23, 2009, 65,081,061 shares of common stock, par value \$0.001 per share, were outstanding.

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

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 125,805	\$ 40,566
Accounts receivable, net of allowances of \$187 and \$117 as of September 30, 2009 and December 31, 2008, respectively	20,964	13,722
Income tax receivable	104	728
Deferred taxes	49	40
Other current assets	2,101	1,420
Total current assets	149,023	56,476
Property and equipment, net	5,910	5,178
Debt issuance costs, net	450	1,101
Deferred taxes	2,019	1,847
Goodwill	15,791	15,745
Intangible assets and other, net	4,092	6,560
Total assets	\$ 177,285	\$ 86,907
<b>Liabilities, convertible preferred stock and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 2,202	\$ 1,471
Accrued liabilities	5,614	3,284
Accrued interest payable	574	2,011
Dividend payable	20,000	
Income taxes payable	1,808	201
Current portion of deferred revenue	35,064	25,930
Current portion of capital lease obligations	16	25
Current portion of long-term debt		7,161
Total current liabilities	65,278	40,083
Long-term liabilities:		
Deferred revenue, net of current portion	1,686	1,232
Capital lease obligations, net of current portion		10
Other long-term liabilities	366	188
Long-term debt, net of current portion	44,097	93,922
Total long-term liabilities	46,149	95,352

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Total liabilities	111,427	135,435
<b>Commitments and contingencies (Note 10)</b>		
Convertible preferred stock, \$0.001 par value: no shares authorized, issued or outstanding as of September 30, 2009 and 46,551,618 shares authorized and 27,000,003 shares issued and outstanding as of December 31, 2008		27
<b>Stockholders' equity (deficit):</b>		
Common stock, \$0.001 par value: 123,000,000 shares authorized and 65,081,061 and 28,166,656 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	65	28
Additional paid-in capital	106,230	15,166
Accumulated other comprehensive income (loss)	36	(315)
Accumulated deficit	(40,473)	(63,434)
<b>Total stockholders' equity (deficit)</b>	<b>65,858</b>	<b>(48,555)</b>
<b>Total liabilities, convertible preferred stock and stockholders' equity (deficit)</b>	<b>\$ 177,285</b>	<b>\$ 86,907</b>

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 for per share information)****(unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenue:</b>				
License	\$ 17,638	\$ 16,070	\$ 44,777	\$ 41,545
Maintenance and other	14,712	10,095	38,690	26,693
Total revenue	32,350	26,165	83,467	68,238
Cost of license revenue	153	61	458	191
Cost of maintenance and other revenue (1)	1,110	879	3,127	2,415
<b>Gross profit</b>	<b>31,087</b>	<b>25,225</b>	<b>79,882</b>	<b>65,632</b>
<b>Operating expenses:</b>				
Sales and marketing (1)	7,765	6,522	21,690	16,198
Research and development (1)	2,986	2,339	8,167	6,249
General and administrative (1)	5,150	4,527	13,127	12,486
Total operating expenses	15,901	13,388	42,984	34,933
<b>Operating income</b>	<b>15,186</b>	<b>11,837</b>	<b>36,898</b>	<b>30,699</b>
<b>Other income (expense):</b>				
Interest income	93	140	225	400
Interest expense	(668)	(1,896)	(3,659)	(6,435)
Other income (expense)	(82)	84	(88)	(43)
Total other expense	(657)	(1,672)	(3,522)	(6,078)
<b>Income before income taxes</b>	<b>14,529</b>	<b>10,165</b>	<b>33,376</b>	<b>24,621</b>
Income tax expense	4,374	2,878	10,415	7,956
<b>Net income</b>	<b>10,155</b>	<b>7,287</b>	<b>22,961</b>	<b>16,665</b>
Amount allocated to participating preferred stockholders		(3,567)		(8,161)
Net income available to common stockholders	\$ 10,155	\$ 3,720	\$ 22,961	\$ 8,504
<b>Net income available to common stockholders per share:</b>				
Basic earnings per share available to common stockholders	\$ 0.16	\$ 0.13	\$ 0.50	\$ 0.30
Diluted earnings per share available to common stockholders	\$ 0.14	\$ 0.11	\$ 0.44	\$ 0.26
<b>Weighted shares used to compute net income available to common stockholders per share:</b>				

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Shares used in computation of basic earnings per share available to common stockholders	65,045	28,153	46,183	28,130
Shares used in computation of diluted earnings per share available to common stockholders	71,794	33,407	51,801	32,410

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

<b>(in thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Cost of maintenance revenue	\$ 18	\$ 17	\$ 52	\$ 46
Sales and marketing	541	416	1,435	1,179
Research and development	303	193	818	563
General and administrative	1,213	1,021		