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

Index to Financial Statements

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

Registration No. 333-149851

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 6

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

SolarWinds, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**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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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.

Table of Contents

Index to Financial Statements

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

SUBJECT TO COMPLETION, DATED MARCH 6, 2009

Prospectus

Shares

Common Stock

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

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

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

	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 shares of common stock, we have granted the underwriters an option for a period of 30 days to purchase up to additional shares of common stock, at the initial public offering price less the underwriting discounts and commissions.

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

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

J.P. Morgan	**Goldman, Sachs & Co.**	**Morgan Stanley**
Jefferies & Company	**Pacific Crest Securities**	**Thomas Weisel Partners LLC**

, 2009

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus or in any free writing prospectus prepared by or on behalf of us and delivered or made available to you. Neither we nor the selling stockholders have authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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

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

Table of Contents

Index to Financial Statements

PROSPECTUS SUMMARY

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

SolarWinds, Inc.

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

Through December 31, 2008, over 80,000 customers within small and mid-size businesses, enterprises, including more than 400 of the Fortune 500 companies, and local, state and federal government entities had purchased one or more of our products. We have an active, loyal end-user community that is built from our customers and over one million registered end-users who have downloaded our free tools. We seek to expand, and generate loyalty from, our customer base and our end-user community by providing a variety of free tools for network professionals, by hosting our online community website, Thwack, and through other marketing programs.

As a core part of our strategy, we have developed a differentiated business model for marketing and selling high volumes of low-priced, downloadable, enterprise-class software directly to network professionals and other IT professionals. We design our Internet-based marketing programs to drive visitors to our websites in order to generate large volumes of highly qualified leads. Our inside sales force uses a disciplined, transaction-oriented process to convert these leads into paying customers at a level of productivity that is much higher than is typically achieved with a traditional direct sales force. We offer our products at compelling prices. Our average license transaction in 2007 and 2008 was less than $6,000 compared to hundreds of thousands of dollars for many competing products. Our business model allows us to support rapid growth in our business at high operating margins while offering our products at low prices.

For the years ended December 31, 2006, 2007 and 2008, we generated revenue of $38.2 million, $61.7 million and $93.1 million, respectively. In the same periods, we had operating income of $25.4 million, $30.9 million and $42.0 million and Adjusted EBITDA of $27.1 million, $35.4 million and $48.4 million, respectively. We believe Adjusted EBITDA is useful to investors in evaluating our operating performance. Our management uses Adjusted EBITDA in its management and assessment of our business, and our lender uses Adjusted EBITDA in the key operational covenants in our credit agreements. Adjusted EBITDA should not be considered as an alternative to net income, which is the most directly comparable financial measure calculated in accordance with accounting principles generally accepted in the United States, or GAAP, or any other measure of financial performance calculated in accordance with GAAP. The following table presents a reconciliation of Adjusted EBITDA to net income:

Table of Contents

Index to Financial Statements

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

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

Industry Background

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

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

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

- *Expensive and Difficult to Implement*. Most frameworks are sold at high prices, fail to offer an affordable entry-level option and require costly professional services to deploy.
- *Difficult to Use, Maintain and Customize*. Most frameworks require significant training to use, cannot be easily configured to end-users preferences and require a specialized staff to maintain.
- *Inflexible and Difficult to Scale*. Most frameworks are highly complex software platforms that are designed for enterprise implementations. As a result, customers typically cannot start with a small or simple deployment and easily increase their capacity or add features as their networks grow and their needs expand.
- *Impractical for Small and Mid-Size Organizations*. Because of their cost and complexity, most frameworks are impractical for small and mid-size organizations.

Table of Contents

Index to Financial Statements

Market Opportunity

There is currently a large and mature market for network management software. Gartner, Inc., a market research firm, estimates that spending on software for managing networks and the availability and performance of networks and systems will grow from $4.97 billion in 2009 to $5.55 billion in 2012.[(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 $19,000 to $190,000, respectively.

Our Solution

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

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

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

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

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

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

(1)

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

Table of Contents

Index to Financial Statements

Our Business Model

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

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

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

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

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

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

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

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

Our Growth Strategy

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

continue to add new customers in North America;

expand our business in international markets;

Table of Contents

Index to Financial Statements

- cross-sell and up-sell existing products into our growing customer base;
- selectively expand our product portfolio; and
- pursue strategic acquisitions of complementary products that can be sold using our business model.

Risk Factors

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

- our operating income could continue to decline as a percentage of our revenue;
- our quarterly operating results are subject to fluctuations, which could cause our stock price to decline;
- if we are unable to attract new customers or to sell additional products to our existing customers, our revenue growth will be adversely affected and our net income will decrease;
- if we fail to generate a sufficient volume of sales leads through our websites or through word of mouth, our revenue would decrease and our operating results would suffer;
- our long-term success depends on our ability to increase sales of our products to customers located outside of the United States and our business will be susceptible to risks associated with international operations; and
- our business depends on customers renewing their annual maintenance contracts and any decline in maintenance renewals would harm our future operating results.

Corporate Information

We incorporated in the State of Oklahoma in 1999 and reincorporated in the State of Delaware in 2008. Our executive offices are located at 3711 South MoPac Expressway, Building Two, Austin, Texas 78746, and our telephone number is (512) 682-9300. Our website address is www.solarwinds.com. 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.

Table of Contents

Index to Financial Statements

The Offering

Common stock offered by us	shares
Common stock offered by selling stockholders	shares
Over-allotment option	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds from this offering to repay a significant portion or all of our outstanding long-term indebtedness of $101.1 million as of December 31, 2008, 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.
Proposed symbol on the New York Stock Exchange	SWI

The shares of common stock to be outstanding after this offering are based on 55,166,659 shares of our common stock outstanding as of December 31, 2008 and exclude:

- 12,004,001 shares of our common stock issuable upon the exercise of options outstanding under our 2005 Stock Plan as of December 31, 2008, with a weighted average exercise price of $3.82 per share; and
- 6,029,346 shares of our common stock reserved for future issuance under our 2008 Stock Plan, which will become effective in connection with this offering (including 2,529,346 shares of common stock reserved, as of December 31, 2008, 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 December 31, 2008; and

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

Table of Contents

Index to Financial Statements

Summary Consolidated Financial Information

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

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

Basic			$ 0.40
Diluted			$ 0.37
Weighted average number of shares used in pro forma computation (unaudited)			
Basic			55,137
Diluted			59,652
Other Financial Data:			
Adjusted EBITDA (2)	$ 27,061	$ 35,433	$ 48,389

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

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

7

Table of Contents

Index to Financial Statements

(2) We anticipate that our investor and analyst presentations will include Adjusted EBITDA, which we define as net income plus net interest expense, income tax expense (benefit), depreciation and amortization, and stock-based compensation expense, and which is a financial measure that is not calculated in accordance with GAAP. The table below provides a reconciliation of this non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA in the same manner as we do. We prepare Adjusted EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate our adjustments and the reasons we consider them appropriate.

We believe Adjusted EBITDA is useful to investors in evaluating our operating performance for the following reasons:

- Adjusted EBITDA is widely used by investors to measure a company s operating performance without regard to items, such as interest expense, income tax expense, depreciation and amortization, and stock-based compensation expense, that can vary substantially from company to company depending upon their financing and accounting methods, the book value of their assets, their capital structures and the method by which their assets were acquired;

- securities analysts use Adjusted EBITDA as a supplemental measure to evaluate the overall operating performance of companies;

- we adopted Statement of Financial Accounting Standards, or SFAS, No. 123(R), *Share-Based Payment*, on January 1, 2006 and recorded stock-based compensation expense of approximately $1.5 million, $3.8 million and $5.9 million for the years ended December 31, 2006, 2007 and 2008, respectively. Prior to January 1, 2006, we accounted for stock-based compensation using the intrinsic value method under Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, which resulted in zero stock-based compensation expense. By comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating results without the additional variations caused by stock-based compensation expense, which is not comparable from year to year due to changes in accounting treatment and is a non-cash expense that is not a key measure of our operations; and

- our lenders believed Adjusted EBITDA was the appropriate performance measure for the key operational covenants in our credit agreements. These key operational covenants require us to maintain a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio as of the last day of each fiscal quarter. Each of these ratios uses Adjusted EBITDA in its calculation. The interest coverage ratio is defined to be the ratio of Adjusted EBITDA for the trailing four quarters to cash interest expense for the trailing four quarters. To be in compliance, our interest coverage ratio had to be at least 3.5 to 1.0 as of December 31, 2008 and must be at least 3.5 to 1.0 as of the last day of each fiscal quarter thereafter. The leverage ratio is defined to be the ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. Our leverage ratio as of December 31, 2008 could not be more than 3.1 to 1.0, and this maximum ratio decreases over time to 2.1 to 1.0 as of December 31, 2011. We were in compliance with each of these key operational covenants as of December 31, 2008. We believe these are key operational covenants because the failure to comply with these covenants would be an event of default under our credit agreements that would likely result in the acceleration of our indebtedness or an unfavorable amendment to the terms of the credit agreements. This acceleration would and any such amendment might adversely affect our liquidity and financial condition.

Table of Contents

Index to Financial Statements

Our management uses Adjusted EBITDA:

- as a measure of operating performance, because it does not include the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our annual operating budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies; and
- in communications with our board of directors concerning our financial performance.

We understand that, although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or other contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect interest expense or interest income;
- Adjusted EBITDA does not reflect cash requirements for income taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for these replacements; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

The following table presents a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measure, for each of the periods indicated.

	Year Ended December 31,		
Reconciliation of Adjusted EBITDA to Net Income	**2006**	**2007**	**2008**

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

9

Table of Contents

Index to Financial Statements

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

- an actual basis;
- a pro forma basis to reflect the conversion of all outstanding shares of our convertible preferred stock into 27,000,003 shares of our common stock upon the closing of this offering; and
- a pro forma as adjusted basis to reflect (i) our receipt of the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses and (ii) the application of the net proceeds from this offering as described under Use of Proceeds.

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

Table of Contents

Index to Financial Statements

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below as well as the other information contained in this prospectus before deciding to purchase any shares of our common stock. These risks could harm our business, operating results, financial condition and prospects. In addition, the trading price of our common stock could decline due to any of these risks and you might lose all or part of your investment.

Risks Related to Our Business

Our operating income and net income could continue to decline as a percentage of revenue as we make further expenditures to expand our operations in order to support additional growth in our business.

As a percentage of revenue, our operating income was 66.5%, 50.1% and 45.1% and our net income was 25.1%, 22.0% and 23.9% for the years ended December 31, 2006, 2007 and 2008, respectively. In December 2005, we converted from a Subchapter S corporation to a Subchapter C corporation. We incurred income tax expense of $5.6 million, $7.5 million and $10.7 million for the years ended December 31, 2006, 2007 and 2008, respectively. We also incurred $10.7 million, $10.2 million and $8.5 million in interest expense for the years ended December 31, 2006, 2007 and 2008, respectively, related to our outstanding debt incurred in December 2005. In addition, we incurred stock-based compensation expense of $1.5 million, $3.8 million and $5.9 million for the years ended December 31, 2006, 2007 and 2008, respectively. Since June 30, 2006, we have made significant investments in new financial and operating systems, hired substantial numbers of new sales and marketing, research and development and general and administrative personnel, invested in new facilities and expanded our operations outside the United States in order to manage and expand our business more effectively. We intend to make additional investments in systems and personnel and to continue to expand our operations to support anticipated future growth in our business. We also expect to incur additional operating costs as a public reporting company upon the completion of this offering. As a result of these factors, our operating income and net income could decline as a percentage of revenue relative to our prior periods at least through 2009.

Our quarterly revenue and operating results have fluctuated in the past and may fluctuate in the future due to a number of factors. As a result, we may fail to meet or exceed the expectations of securities analysts or investors, which could cause our stock price to decline.

We believe our quarterly revenue and operating results may vary significantly in the future. As a result, you should not rely on the results of any one quarter as an indication of future performance and period-to-period comparisons of our revenue and operating results may not be meaningful.

Our quarterly results of operations may fluctuate as a result of a variety of additional factors, including, but not limited to, those listed below, many of which are outside of our control:

- occasional large customer orders, including in particular those placed by the U.S. federal government;
- our inability to increase sales to existing customers and to attract new customers;
- the timing and success of new product introductions by us or our competitors;
- changes in our pricing policies or those of our competitors;
- increasing marketing expenditures in an attempt to generate growing numbers of sales leads;

the mix of our direct and indirect sales;

the amount and timing of operating expenses and capital expenditures related to the expansion of our operations and infrastructure;

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

Table of Contents

Index to Financial Statements

- potential goodwill and intangible asset impairment charges and amortization associated with acquired businesses;
- the loss of our relationships with the two principal resellers that help us fulfill most sales orders from the U.S. government;
- potential foreign exchange gains and losses related to expenses and sales denominated in currencies other than the functional currency of an associated entity; and
- general economic, industry and market conditions that impact expenditures for network management software in the United States and other countries where we sell our software.

Fluctuations in our quarterly operating results might lead analysts to change their models for valuing our common stock. As a result, our stock price could decline rapidly and we could face costly securities class action suits or other unanticipated issues.

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

To increase our revenue, we must regularly add new customers or sell additional products to existing customers. We expect to incur significant additional expenses in expanding our sales and development personnel and our international operations in order to achieve revenue growth. We may be unable to maintain or increase traffic to our websites and our marketing efforts may be unsuccessful in generating evaluation downloads, resulting in fewer sales leads. We may fail to identify growth opportunities for our current products, and we may misinterpret the market for new products and technologies. If we fail to attract new customers or our new product introductions or acquisitions are not successful, we may be unable to grow our revenue and our operating results may be adversely affected.

If we are unable to generate significant volumes of sales leads from Internet search engines and marketing campaigns, traffic to our websites and our revenue may decrease.

We generate many of our sales leads through visits to our websites by potential end-users interested in purchasing or downloading evaluations of our products. Many of these potential end-users find our websites by searching for network management and monitoring products through Internet search engines, such as Yahoo! and Google. A critical factor in attracting potential customers to our websites is how prominently our websites are displayed in response to search inquiries. If we are listed less prominently or fail to appear in search result listings for any reason, visits to our websites by customers and potential customers could decline significantly. We may not be able to replace this traffic and, if we attempt to replace this traffic, we may be required to increase our sales and marketing expenses, which may not be offset by additional revenue and could adversely affect our operating results.

We also generate leads through various marketing activities such as targeted email campaigns, attending networking-based trade shows and hosting webinars on network management issues. If we fail to generate a sufficient volume of leads from these activities, our revenue could decrease and our operating results could suffer.

If we fail to develop our brand cost-effectively, our financial condition and operating results might suffer.

We believe that developing and maintaining awareness and integrity of our brand in a cost-effective manner are important to achieving widespread acceptance of our existing and future products and are important elements in attracting new customers. We believe that the importance of brand recognition will increase as competition in our market further intensifies. Successful promotion of our brand will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and useful products at competitive prices. We intend to increase our expenditures on brand promotion. Brand promotion activities may not yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in building our brand. We also rely

Table of Contents

Index to Financial Statements

on our customer base and community of end-users in a variety of ways, including to give us feedback on our products and to provide user-based support to our other customers. If we fail to promote and maintain our brand successfully or to maintain loyalty among our customers and our end-user community, or we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new customers or retain our existing customers and our financial condition and results of operations could be harmed.

Failure to expand our sales operations effectively could harm our ability to increase our customer base and achieve broader market acceptance of our products.

Increasing our customer base and achieving broader market acceptance of our products will depend on our ability to expand our sales operations effectively. We are substantially dependent on our inside direct sales force, and to a significantly lesser extent certain resellers and distributors, to obtain new customers. We plan to continue to expand our inside direct sales force both domestically and internationally. Our ability to achieve significant growth in revenue in the future will depend on our success in recruiting, training and retaining sufficient numbers of inside direct sales personnel, and on the productivity of those personnel. Our recent and planned personnel additions may not become as productive as we would like, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do or plan to do business. Our operating results will be seriously harmed if these expansion efforts do not generate a corresponding significant increase in revenue.

If we are unable to enhance existing products, particularly our Orion family of products, or to develop or acquire new products that respond to rapidly changing customer requirements, technological developments or evolving industry standards, our long-term revenue growth will be harmed.

The market for our products is characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. Our long-term growth depends on our ability to enhance and improve our existing products and to introduce or acquire new products that respond to these demands. The success of any enhancement or new product depends on a number of factors, including its timely completion, introduction and market acceptance. New products that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. Additionally, our existing and prospective customers may develop their own competing technologies, purchase competitive products or services or engage third-party providers. If we are unable to develop or acquire enhancements to, and new features for, our existing products or acceptable new products that keep pace with rapid technological developments, our products may become obsolete, less marketable and less competitive, and our business will be harmed.

We depend significantly on our Orion family of products, which are our enterprise-class network management products. Our Orion family of products represented a majority of our revenue in 2007 and 2008. If we are unable to add products and develop enhancements to our Orion family that are satisfactory to our customers, or if our customers purchase or develop their own competing products and technologies causing a reduction in demand for our Orion family of products, our operating results will be harmed.

We depend on the U.S. federal government for a meaningful portion of our sales and fulfill most of these sales through two resellers. Any reductions in sales to the U.S. federal government as a result of the loss of these resellers or any other reason could harm our growth.

In 2008, approximately 13% of our sales was to a number of different departments of the U.S. federal government. A substantial majority of these sales were made through two of our resellers. Any factors that cause a decline in government expenditures generally or government IT expenditures in particular could cause our revenue to grow less rapidly or even to decline. Also, since in some cases we are unable to fulfill orders from the U.S. government directly, the loss of our current resellers, which are entitled under certain circumstances to terminate our contracts with them, would cause at least a temporary inability to fulfill orders from the government until we were able to find and qualify a suitable alternative. This, in turn, would cause revenue to be delayed and could cause sales to be lost.

Table of Contents

Index to Financial Statements

We operate in a highly competitive market, which could make it difficult for us to acquire and retain customers.

The market for network management solutions is intensely competitive. Competition in our market is based primarily on the level of difficulty in installing, using and maintaining solutions; total cost of ownership, including product price and implementation and support costs; professional services implementation; product performance, functionality, flexibility, scalability and interoperability; brand and reputation; distribution channels; vertical markets or industries; and financial resources of the vendor. We often compete to sell our products against existing products or systems that our potential customers have already made significant expenditures to install. Many of our actual and potential competitors enjoy substantial competitive advantages over us, such as greater name recognition, more comprehensive and varied products and services, and substantially greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. Given their larger size, greater resources and existing customer relationships, our competitors may be able to compete and respond more effectively than we can to new or changing opportunities, technologies, standards or customer requirements.

We face competition from both traditional, larger software vendors offering enterprise-wide software frameworks and services and smaller companies offering point solutions for specific network management issues. We also compete with network equipment vendors and systems management solution providers whose products and services address network management requirements. Our principal competitors vary depending on the product we offer and include Hewlett Packard, IBM, CA, BMC, Cisco and several smaller vendors.

Some of our competitors have made acquisitions or entered into strategic relationships with one another to offer a more comprehensive product than they individually had offered. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry and as companies enter into partnerships or are acquired. Companies and alliances resulting from these possible consolidations and partnerships may create more compelling product offerings and be able to offer more attractive pricing, making it more difficult for us to compete effectively. In addition, continued industry consolidation may adversely impact customers perceptions of the viability of small and medium-sized technology companies and consequently their willingness to purchase from those companies.

Competition could result in increased pricing pressure, reduced operating margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results and financial condition.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, our financial performance may suffer.

We have substantially expanded our overall business, customer base, headcount and operations in recent periods both domestically and internationally. We increased our total number of employees from 36 as of June 30, 2006 to 254 as of December 31, 2008. In addition, during this same period, we made substantial investments in our information systems and significantly expanded our operations outside the United States, including an expansion of our sales operations in Europe, the Middle East and Africa and the establishment of a sales and support center in Cork, Ireland. In 2008, we opened a development center in the Czech Republic and an international sales and support center in Singapore. We also acquired a development center in New Zealand in 2008. We increased the number of our customers, which we define as individuals or entities, including distributors or resellers, that have purchased one or more of our products under a unique customer identification number since our inception in 1999, from over 28,000 customers as of June 30, 2006 to over 80,000 customers as of December 31, 2008. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to manage our growth successfully, our operating results will suffer.

Table of Contents

Index to Financial Statements

Our business depends on customers renewing their annual maintenance contracts. Any decline in maintenance renewals could harm our future operating results.

We sell each of our products pursuant to a perpetual license, which includes one year of maintenance as part of the initial price. Our customers have no obligation to renew their maintenance agreements after the expiration of this one-year period, and they may not renew maintenance agreements. We may be unable to predict future customer renewal rates accurately. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our products, the prices of our products, the prices of products and services offered by our competitors or reductions in our customers spending levels. If our customers do not renew their maintenance arrangements or if they renew them on less favorable terms, our revenue may decline and our business will suffer. A substantial portion of our quarterly maintenance revenue is attributable to maintenance agreements entered into during previous quarters. As a result, if there is a decline in renewed maintenance agreements in any one quarter, only a small portion of the decline will be reflected in our maintenance revenue recognized in that quarter and the rest will be reflected in our maintenance revenue recognized in the following four quarters.

We rely on third parties for financial and operational services essential to our ability to manage our business. A failure or disruption in these services would materially and adversely affect our ability to manage our business effectively.

Currently, we use NetSuite to manage our order management and financial processes and salesforce.com to track our sales and marketing efforts. We believe the availability of these services is particularly essential to the management of our high-volume, transaction-oriented business model. As we expand our operations and sales efforts, we expect to utilize additional systems and service providers that may also be essential to managing our business. Although the systems and services that we require are typically available from a number of providers, it is time consuming and costly to qualify and implement these relationships. Therefore, if one or more of our providers suffer an interruption in their business, or experience delays, disruptions or quality control problems in their operations, or we have to change or add additional systems and services, our ability to manage our business would suffer.

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

Our success depends on our ability to enhance current products and to develop new products rapidly and cost effectively. In 2008, we opened a facility in the Czech Republic for research and development activities and have expanded that facility rapidly. We also outsource a portion of the coding and testing of our products and product enhancements to two Eastern European contract development vendors. We believe that performing our research and development in our facility in the Czech Republic and supplementing these activities with our contract development vendors enhance the efficiency and cost-effectiveness of our product development. If we experience problems with our workforce or facilities in the Czech Republic, our business could be harmed while we develop our products in an alternate manner that may be less efficient and cost-effective. In addition, if our contract development vendors terminate their relationships with us or experience problems with their facilities or workforce, or if for any other reason we are unable to maintain our relationship with our contract development vendors, our business could suffer due to a delay in our product release schedules while we either hire software developers and expand our facility in the Czech Republic or find alternative contract development resources.

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

We have international operations in the Republic of Ireland, the Czech Republic, Singapore and New Zealand, which we established or acquired in 2007 and 2008. Our limited experience in operating our business outside the United States increases the risk that our current and future international expansion efforts

Table of Contents

Index to Financial Statements

may not be successful. In particular, our business model may not be successful in particular countries or regions outside the United States for reasons that we currently are unable to anticipate. In addition, conducting international operations subjects us to risks that we have not generally faced in the United States. These include:

- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- difficulties in managing the staffing of international operations;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, restrictions on the repatriation of earnings and changes in tax rates;
- dependence on resellers and distributors to increase customer acquisition;
- the burdens of complying with a wide variety of foreign laws and different legal standards;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability abroad;
- terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international business and, consequently, our operating results. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish, acquire or integrate operations in other countries will produce desired levels of revenue or profitability.

We rely on our management team and need additional personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.

Our success and future growth depend on the skills, working relationships and continued services of our management team. Our future success also will depend on our ability to attract, retain and motivate highly skilled product architects and sales, technical support and product development personnel in the United States and internationally. All of our employees work for us on an at-will basis. Competition for these types of personnel is intense, particularly in the software industry. As a result, we may be unable to attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business. We maintain key person insurance for our Chief Executive Officer and intend to obtain key person insurance for our President prior to this offering.

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

In 2007 and 2008, we acquired new technology, know-how and products through our acquisition of Neon Software, Inc. and substantially all of the assets, including technology, know-how and products, and liabilities, of IPMonitor Corporation and Trilenium Investments Limited. Our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions and, if necessary, to obtain satisfactory debt or equity financing to fund those acquisitions. Mergers and acquisitions are inherently risky, and any mergers and acquisitions we complete may not be successful. Any mergers and acquisitions we do would involve numerous risks, including the following:

difficulties in integrating and managing the operations, technologies and products of the companies we acquire;

diversion of our management s attention from normal daily operations of our business;

16

Table of Contents

Index to Financial Statements

- our inability to maintain the key business relationships and the reputations of the businesses we acquire;
- uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- our dependence on unfamiliar affiliates and partners of the companies we acquire;
- insufficient revenue to offset our increased expenses associated with acquisitions;
- our responsibility for the liabilities of the businesses we acquire;
- our inability to maintain internal standards, controls, procedures and policies; and
- potential loss of key employees of the companies we acquire.

We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us. If we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders will likely experience ownership dilution, and if we finance future acquisitions with debt funding, we will incur interest expense and may have to comply with financing covenants or secure that debt obligation with our assets.

Material defects or errors in our products could harm our reputation, result in significant costs to us and impair our ability to sell our products.

Software products are inherently complex and often contain defects and errors when first introduced. Any defects in our products could result in:

- lost or delayed market acceptance and sales of our products;
- a reduction in maintenance renewals;
- diversion of development resources; and
- injury to our reputation and our brand.

The costs incurred in correcting or remediating the impact of defects or errors in our products may be substantial and could adversely affect our operating results.

If a third party asserts that we are infringing its intellectual property, we could be subjected to costly and time-consuming litigation or expensive licenses, and our business might be harmed.

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received, and from time to time may receive, letters claiming that our products infringe or may infringe the patents or other intellectual property rights of others. As we face increasing competition, the possibility of intellectual property rights claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use. Additionally, we have licensed from other parties proprietary technology covered by patents, and these patents may be challenged, invalidated or circumvented. These types of claims could harm our relationships with our customers, might deter future customers from acquiring our products or could expose us to litigation with respect to these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in that litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named as a party. Any of these results could harm our brand and operating results.

Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming, expensive to litigate or settle, and divert management resources and attention. As a result of any successful intellectual property rights claim against us or our customers, we might have to pay damages or stop

Table of Contents

Index to Financial Statements

using technology found to be in violation of a third party s rights, which could prevent us from offering our products to our customers. We could also have to seek a license for the technology, which might not be available on reasonable terms, might significantly increase our cost of revenue or might require us to restrict our business activities in one or more respects. The technology also might not be available for license to us at all. As a result, we could also be required to develop alternative non-infringing technology, which could require significant effort and expense.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to acquired technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

The success of our business depends on our ability to protect and enforce our intellectual property rights.

We rely on a combination of copyright, trademark, trade dress, unfair competition and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. These laws, procedures and restrictions provide only limited protection. We currently have no patents, and no patents may issue with respect to our current patent applications. Any future patents issued to us may be challenged, invalidated or circumvented, may not provide sufficiently broad protection or may not prove to be enforceable in actions against alleged infringers.

We endeavor to enter into agreements with our employees and contractors and with parties with which we do business in order to limit access to and disclosure of our proprietary information. We cannot be certain that the steps we have taken will prevent unauthorized use or reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. The enforcement of our intellectual property rights also depends on our legal actions against these infringers being successful, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, trademark, trade dress, copyright and trade secret protection may not be available in every country in which our products are available over the Internet. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and still evolving.

One of our former employees has sued us and our founder. An adverse outcome or protracted litigation even if we prevail could require us to pay damages and royalties and subject us to other remedies and incur significant litigation fees and expenses.

On November 26, 2007, a former employee brought a lawsuit in Oklahoma State Court asserting a number of claims against us and Donald C. Yonce, our founder and a current member of our board of directors. The former employee claims that he is a co-author and that he is, therefore, co-owner of all of our major software products, which he claims he assisted in developing while an employee of our company. The former employee makes this claim despite the fact that he signed an agreement with us which provides that we are the exclusive owner of all copyrights and other intellectual property relating to any work performed by the former employee while employed by us. He also claims that Donald C. Yonce made certain oral promises to him regarding future potential compensation at our company prior to our recapitalization in December 2005 in the event of a sale of our company, and further alleges unspecified violations of Oklahoma labor protection laws. The former employee is seeking half of the profits from sales of our software products of which he claims to be a co-author and co-owner, as well as punitive damages and unspecified other legal and equitable relief. In April 2008, Mr. Yonce requested that we indemnify him from these claims pursuant to a stock purchase agreement entered into in 2005 between Mr. Yonce, us and certain stockholders who are parties to that agreement. We have denied this request although we have agreed to pay his legal fees. Even if we prevail in the litigation, we could incur significant litigation fees and expenses. Because this lawsuit is in its initial stage, it is not possible to predict the

[Table of Contents](#)

[Index to Financial Statements](#)

outcome of the litigation. Although we believe we have meritorious defenses, an adverse outcome in this litigation could materially and adversely affect us, requiring us to pay damages or royalties or subjecting us to other remedies.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investor views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are in the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors addressing this assessment. Both we and our independent auditors will be testing our internal controls in connection with the audit of our financial statements for the year ending December 31, 2010 and, as part of that testing, identifying areas for further attention and improvement. If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, harm our ability to operate our business and reduce the trading price of our stock.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.

A change in accounting standards or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way in which we conduct our business.

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

As a public company, we will incur significant legal, accounting, investor relations and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and the New York Stock Exchange, or NYSE. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically over the past several years. We expect these rules and regulations to increase our legal and financial compliance costs substantially and to make some activities more time-consuming and costly. We are unable currently to estimate these costs with any degree of certainty. We also expect that, as a public company, it will be more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

We may be subject to regulation of our advertising and customer solicitation or to other newly adopted laws and regulations, which could harm our business.

As part of our product download process and during our sales process, most of our customers agree to receive emails and other communications from us. However, we may be subject to restrictions on our ability to communicate with these customers through email and phone calls. Several jurisdictions have proposed or

Table of Contents

Index to Financial Statements

adopted privacy-related laws that restrict or prohibit unsolicited email or spam. These laws may impose significant monetary penalties for violations and complex and often burdensome requirements in connection with sending commercial email. Depending on how they are interpreted, these laws may impose burdens on our email marketing practices. If any of those challenges is successful, our business may become subject to state laws and regulations that further restrict our email marketing practices. The scope of those regulations is unpredictable. Compliance with laws and regulations of different jurisdictions imposing different standards and requirements is very burdensome for businesses like ours. We offer products to customers in multiple states and foreign jurisdictions. Our business efficiencies and economies of scale depend on generally uniform product offerings and uniform treatment of customers across all jurisdictions in which we operate. Compliance requirements that vary significantly from jurisdiction to jurisdiction impose an added cost to our business and increased liability for compliance deficiencies. In addition, laws or regulations that could harm our business could be adopted, or reinterpreted so as to affect our activities, by the U.S. government, state governments, regulatory agencies or by foreign governments or agencies. Violations or new interpretations of these laws or regulations may result in penalties or damage our reputation or could increase our costs or make our products less attractive.

If we fail to protect confidential information against security breaches, or if our customers or potential customers are reluctant to use our websites because of privacy concerns, we might face additional costs and activity in our websites could decline.

Some of our customers pay for our products with credit cards. During the purchasing process and in connection with evaluations of our software, either third-party providers or we collect and use personally identifiable information, such as credit card numbers, email addresses and phone numbers. This information could be compromised or accessed as a result of misappropriation or security breaches, and we could be subject to liability as a result. Our policies concerning the collection, use and disclosure of personally identifiable information are described on our websites. We could be subject to legal claims, government action or harm to our reputation if our third-party service providers or we fail to comply or are seen as failing to comply with our policies concerning personally identifiable information or if our policies are inadequate. Concern among prospective customers regarding our use of personal information collected on our websites could keep prospective customers from purchasing our products.

Our servers and those of our third-party service providers are vulnerable to computer viruses or physical or electronic break-ins. Industry-wide incidents or incidents with respect to our websites, including misappropriation of third-party information, security breaches, or changes in industry standards, regulations or laws, could deter people from using the Internet or our websites to conduct transactions that involve the transmission of confidential information, which could harm our business.

The laws of some states and countries require businesses that maintain personal information about their residents in electronic databases to implement reasonable measures to keep that information secure. In addition, under the laws of some states and countries, if there is a breach of our computer systems and we know or suspect that unencrypted personal customer information has been stolen, we are required to inform any customers whose information was stolen, which could harm our reputation and business. Other states and countries have enacted different and often contradictory requirements for protecting personal information collected and maintained electronically. Compliance with numerous and contradictory requirements of the different states and countries is particularly difficult for an online business such as ours that collects personal information from customers in multiple jurisdictions. Failure to comply with these laws could result in legal liability. In addition, we could suffer adverse publicity and loss of consumer confidence were it known that we did not take adequate measures to assure the confidentiality of the personally identifiable information that our customers had given to us. This could result in a loss of customers and revenue that could jeopardize our success. We may not be successful in avoiding potential liability or disruption of business resulting from the failure to comply with these laws. If we were required to pay any significant amount of money in satisfaction of claims under these new laws, or any similar laws enacted by other jurisdictions, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any of these laws, our business, operating results and

Table of Contents

Index to Financial Statements

financial condition could be adversely affected. Further, complying with the applicable notice requirements in the event of a security breach could result in significant costs.

Our business and financial performance could be negatively impacted by changes in tax laws or regulations.

New sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Those enactments could adversely affect our domestic and international business operations, and our business and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. These events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our customers to pay fines and/or penalties and interest for past amounts deemed to be due. If we raise our product and maintenance prices to offset the costs of these changes, existing customers may elect not to renew their maintenance arrangements and potential customers may elect not to purchase our products. Additionally, new, changed, modified or newly interpreted or applied tax laws could increase our customers and our compliance, operating and other costs, as well as the costs of our products. Further, these events could decrease the capital we have available to operate our business. Any or all of these events could adversely impact our business and financial performance.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or our failure to comply with regulations could harm our operating results.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers ability to use and share data, potentially reducing demand for our products. In addition, taxation of products and services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services and product offerings, which could harm our business and operating results.

Our debt obligations contain restrictions that impact our business and expose us to risks that could adversely affect our liquidity and financial condition.

At December 31, 2008, we had approximately $101.1 million of outstanding indebtedness under our December 2005 credit facilities, and our interest expense in 2007 and 2008 was approximately $10.2 million and $8.5 million, respectively. We expect to utilize proceeds from this offering to repay a significant portion or all of these obligations. However, if we do not raise sufficient funds in connection with the offering, these credit facilities may remain outstanding.

Our credit facilities contain various covenants that will continue to be operative if our credit facilities remain outstanding. The covenants, among other things, limit our and certain of our subsidiaries abilities to:

- incur additional indebtedness or guarantee indebtedness of others;
- create additional liens on our assets;
- pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock;
- make investments, including acquisitions;
- make capital expenditures;

enter into mergers or consolidations or sell assets;

sell our subsidiaries;

engage in sale and leaseback transactions; and

enter into transactions with affiliates.

Table of Contents

Index to Financial Statements

Our credit facilities also contain numerous affirmative covenants that will remain in effect if our credit facilities remain outstanding. In addition, we are required under each of our credit facilities to continue to comply with an interest coverage ratio and a leverage ratio. Further, the obligations under our credit facilities will continue to be subject to mandatory prepayment in certain circumstances, including upon certain asset sales or receipt of condemnation proceeds, upon certain issuances of equity securities or debt, and, in the case of our senior credit facility, annually, with a portion of our excess cash flow. Even if we comply with all of the applicable covenants, the restrictions on the conduct of our business could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that may be beneficial to the business. Even if our credit facilities are terminated, any additional debt that we incur in the future could subject us to similar or additional covenants.

If we experience a decline in cash flow due to any of the factors described in this Risk Factors section or otherwise, we could have difficulty paying interest and principal amounts due on our indebtedness and meeting the financial covenants set forth in our credit facilities. If we are unable to generate sufficient cash flow or otherwise to obtain the funds necessary to make required payments under our credit facilities, or if we fail to comply with the various requirements of our indebtedness, we could default under our credit facilities. Any such default that is not cured or waived could result in an acceleration of the credit facilities, an increase in the applicable interest rates under the credit facilities, and a requirement that our subsidiaries that have guaranteed the credit facilities pay the obligations in full, and would permit the lenders to exercise remedies with respect to all of the collateral that is securing the credit facilities, including substantially all of our and our subsidiary guarantors assets. Thus, any such default could have a material adverse effect on our liquidity and financial condition.

Risks Related to this Offering

Our common stock could trade at prices below the initial public offering price.

There has not been a public trading market for shares of our common stock prior to this offering. An active trading market may not develop or be sustained after this offering. The initial public offering price for the shares of common stock sold in this offering will be determined by negotiations among us, the selling stockholders and representatives of the underwriters. This price may not be indicative of the price at which our common stock will trade after this offering, and our common stock could easily trade below the initial public offering price.

Our stock price may be volatile, and you may be unable to sell your shares at or above the offering price.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the factors described in this Risk Factors section or otherwise, and other factors beyond our control, such as fluctuations in the valuations of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes and international currency fluctuations, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have become subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management s attention from other business concerns, which could seriously harm our business.

The concentration of our capital stock ownership with insiders upon the completion of this offering will limit your ability to influence corporate matters.

We anticipate that our executive officers, directors, current 5% or greater stockholders and entities affiliated with them will together beneficially own approximately % of our common stock outstanding after this offering. This significant concentration of share ownership may adversely affect the trading price for our

Table of Contents

Index to Financial Statements

common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, these stockholders, acting together, will be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon completion of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters option to purchase additional shares and no exercise of outstanding options after , 2009. The shares sold in this offering will be immediately tradable without restriction. Of the remaining shares:

- no shares will be eligible for sale immediately upon completion of this offering; and
- shares will be eligible for sale upon the expiration of lock-up agreements, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act.

The lock-up agreements expire 180 days after the date of this prospectus, except that the 180-day period may be extended in certain cases for up to 34 additional days under certain circumstances where we announce or pre-announce earnings or a material event occurs within approximately 17 days prior to, or approximately 16 days after, the termination of the 180-day period. The representatives of the underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Following this offering, holders of substantially all of the shares of our common stock not sold in this offering will be entitled to rights with respect to the registration of these shares under the Securities Act. See Description of Capital Stock Registration Rights. If we register their shares of common stock following the expiration of the lock-up agreements, these stockholders could sell those shares in the public market without being subject to the volume and other restrictions of Rule 144 and Rule 701.

After the closing of this offering, we intend to register approximately 19,200,000 shares of common stock that have been issued or reserved for future issuance under our stock incentive plans. Of these shares, shares will be eligible for sale upon the exercise of vested options after the expiration of the lock-up agreements.

Because our initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our outstanding common stock, new investors will incur immediate and substantial dilution.

The initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our common stock based on the total value of our tangible assets less our total liabilities immediately following this offering. Therefore, if you purchase common stock in this offering, you will experience immediate and substantial dilution of approximately $ per share, the difference between the

Table of Contents

Index to Financial Statements

price you pay for our common stock and its pro forma as adjusted net tangible book value after completion of the offering. Furthermore, investors purchasing common stock in this offering will own only approximately % of our shares outstanding after the offering even though they will have contributed % of the total consideration received by us in connection with our sales of common stock. To the extent outstanding options to purchase common stock are exercised, there will be further dilution.

Our management has broad discretion in the use of the net proceeds from this offering and may not use the net proceeds effectively.

Our management will have broad discretion in the application of the net proceeds of this offering. Other than repayment of a significant portion or all of our outstanding long-term indebtedness of $101.1 million as of December 31, 2008 and an earnout payment to our original stockholders of up to $20.0 million, we cannot specify with certainty the uses to which we will apply these net proceeds. The failure by our management to apply these funds effectively could adversely affect our ability to continue to maintain and expand our business.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws to be effective upon the completion of this offering will contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- not providing for cumulative voting in the election of directors;
- authorizing the board to issue, without stockholder approval, preferred stock with rights senior to those of our common stock;
- prohibiting stockholder action by written consent; and
- requiring advance notification of stockholder nominations and proposals.

These and other provisions in our amended and restated certificate of incorporation and our amended and restated bylaws to be effective upon the completion of this offering and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay in the future for shares of our common stock and result in the market price of our common stock being lower than it would be without these provisions. See Description of Capital Stock Preferred Stock and Description of Capital Stock Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws.

If securities analysts do not publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

We expect that the trading price for our common stock will be affected by any research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who may elect to cover us downgrade their evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

We do not anticipate paying any dividends on our common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay cash dividends, you could receive a return on your investment in our common stock only if the market price of our common stock increases before you sell your shares. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.

24

Table of Contents

Index to Financial Statements

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements that are based on our management s beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and Compensation Discussion and Analysis. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would or similar expressions and 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. We discuss these risks in greater detail in Risk Factors and elsewhere in this prospectus. Given these 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 prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, 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.

This prospectus also contains estimates and other information concerning our industry, including market size and growth rates, that are based on industry publications, surveys and forecasts, including those generated by Compass Intelligence Research and reports published by Gartner, Inc. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. Although we believe the information in these industry publications, surveys and forecasts is reliable, we have not independently verified and cannot guarantee the accuracy or completeness of the information. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in Risk Factors.

The Gartner Report described herein represents data, research opinion or viewpoints published, as part of a syndicated subscription service available only to clients, by Gartner, Inc., a corporation organized under the laws of the State of Delaware, USA, and its subsidiaries (Gartner), and is not a representation of fact. The Gartner Report does not constitute a specific guide to action and you assume sole responsibility for selection of, or reliance on, the Gartner Report, or any excerpts thereof, in making any decision, including any investment decision. Although we believe the information in the Gartner Report is reliable, we have not independently verified and cannot guarantee the accuracy or completeness of the information. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus), and the opinions expressed in the Gartner Report are subject to change without notice. Gartner is not responsible, nor shall it have any liability, to us or to you for errors, omissions or inadequacies in, or for any interpretations of, or for any calculations based upon data contained in, the Gartner Report or any excerpts thereof.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

We estimate that the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately $ million, or $ million if the underwriters option to purchase additional shares is exercised in full. A $1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by $ million, assuming the number of shares offered by us, as set forth on the front cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

We intend to use a portion of our net proceeds from this offering to repay a significant portion or all of our outstanding long-term indebtedness of $101.1 million as of December 31, 2008 under our December 2005 credit facilities and to pay an earnout payment of up to $20.0 million. See Certain Relationships and Related Party Transactions Redemption Agreement. The borrowings outstanding under our December 2005 credit facilities currently have a stated maturity of December 2011. The $76.1 million of borrowings outstanding under the first lien term loan at December 31, 2008 bear interest at a per annum rate of three-month LIBOR plus a margin of 3.50%, or 7.4% at December 31, 2008, and the $25.0 million of borrowings outstanding under the second lien term loan at December 31, 2008 bear interest at a per annum rate of three-month LIBOR plus a margin of 5.25% to 6.25% depending on our leverage ratio at the time, or 9.0% at December 31, 2008, in each case payable quarterly. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations, Commitments and Contingencies. We intend to use our remaining net proceeds from this offering for working capital and general corporate purposes. We may also use a portion of our net proceeds from this offering to acquire or license products, technologies or businesses, but we currently have no agreements or commitments relating to material acquisitions or licenses. Accordingly, our management will have broad discretion in the application of these proceeds and investors will be relying on the judgment of our management regarding their application.

Pending their use, we plan to invest our net proceeds from this offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

DIVIDEND POLICY

We do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings will be used for the operation and growth of our business. Any future determination to pay dividends on our common stock would be subject to the discretion of our board of directors and would depend upon various factors, including our results of operations, financial condition and liquidity requirements, restrictions that may be imposed by applicable law and our contracts, and other factors deemed relevant by our board of directors. In addition, the terms of our credit facilities currently restrict our ability to pay dividends.

Table of Contents

Index to Financial Statements

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2008 on:

- an actual basis;

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

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

The information below is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	December 31, 2008		
(in thousands)	**Actual**	**Pro Forma (unaudited)**	**Pro Forma As Adjusted**
Cash and cash equivalents	$ 40,566	$ 40,566	$
Long-term obligations, including current portion (excluding deferred revenue)	$ 101,306	$ 101,306	$
Convertible preferred stock, $0.001 par value: 46,551,618 shares authorized, 27,000,003 shares issued and outstanding, actual; 46,551,618 shares authorized, no shares issued or outstanding, pro forma; no shares authorized, issued or outstanding, pro forma as adjusted	27		
Stockholders equity (deficit):			
Preferred stock, $0.001 par value: no shares authorized, issued or outstanding, actual or pro forma; 10,000,000 shares authorized, no shares issued or outstanding, pro forma as adjusted			
Common stock, $0.001 par value: 123,000,000 shares authorized, 28,166,656 shares issued and outstanding, actual; 123,000,000 shares authorized, 55,166,659 shares issued and outstanding, pro forma; and 123,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	28	55	
Additional paid-in capital	15,166	15,166	
Accumulated other comprehensive loss	(315)	(315)	
Accumulated deficit	(63,434)	(63,434)	
Total stockholders equity (deficit)	(48,555)	(48,528)	
Total capitalization	$ 52,778	$ 52,778	$

27

Table of Contents

Index to Financial Statements

The numbers of pro forma and pro forma as adjusted shares of common stock shown as issued and outstanding in the table are based on the number of shares of our common stock outstanding as of December 31, 2008 and exclude:

- 12,004,001 shares of our common stock issuable upon exercise of options outstanding under our 2005 Stock Plan as of December 31, 2008, with a weighted average exercise price of $3.82 per share; and
- 6,029,346 shares of our common stock reserved for future issuance under our 2008 Stock Plan, which will become effective in connection with this offering (including 2,529,346 shares of common stock reserved, as of December 31, 2008, 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).

A $1.00 decrease or increase in the initial public offering price would result in an approximately $ million decrease or increase in each of pro forma as adjusted cash and cash equivalents, additional paid-in capital, total stockholders equity (deficit) and total capitalization. If the underwriters exercise their option to purchase additional shares in full, there would be a $ increase in each of pro forma as adjusted cash and cash equivalents, additional paid-in capital, total stockholders equity (deficit) and total capitalization.

Table of Contents

Index to Financial Statements

DILUTION

At December 31, 2008, our pro forma net tangible book value (deficit) was approximately $(70.6) million, or $(1.28) per share of common stock. Our pro forma net tangible book value (deficit) per share represents the amount of our tangible assets less our liabilities, divided by the shares of common stock outstanding at December 31, 2008 after giving effect to the conversion of all outstanding shares of convertible preferred stock into 27,000,003 shares of our common stock upon completion of this offering. After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma as adjusted net tangible book value at December 31, 2008 would have been $, or $ per share of common stock. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors.

The following table illustrates this dilution:

Assumed initial public offering price per share		$
Pro forma net tangible book value (deficit) per share as of December 31, 2008	$ (1.28)	
Increase per share attributable to this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Net tangible book value dilution per share to new investors in this offering		$

If all our outstanding options had been exercised, our pro forma net tangible book value (deficit) as of December 31, 2008 would have been $(24.8) million, or $(0.37) per share, and the pro forma as adjusted net tangible book value after this offering would have been $ million, or $ per share, causing dilution to new investors of $ per share.

The following table summarizes, on a pro forma as adjusted basis as of December 31, 2008, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid to us by existing stockholders and by new investors purchasing shares in this offering at the initial public offering price of $, the midpoint of the price range set forth on the front cover of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	55,166,659	%	$ 10,452,490	%	$ 0.19
New investors					
Total		100.0%	$	100.0%	

The foregoing calculations are based on 55,166,659 shares of our common stock outstanding as of December 31, 2008 and exclude:

- 12,004,001 shares of our common stock issuable upon exercise of options outstanding under our 2005 Stock Plan as of December 31, 2008, with a weighted average exercise price of $3.82 per share; and

6,029,346 shares of our common stock reserved for future issuance under our 2008 Stock Plan, which will become effective in connection with this offering (including 2,529,346 shares of common stock reserved, as of December 31, 2008, 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).

Table of Contents

Index to Financial Statements

SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the following consolidated statement of income data for 2006, 2007 and 2008 and consolidated balance sheet data as of December 31, 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 2004 and 2005 and consolidated balance sheet data as of December 31, 2004, 2005 and 2006 from our audited consolidated financial statements not included in this prospectus. You should read the consolidated financial data set forth below in conjunction with our consolidated financial statements and related notes and the information under 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:	**Year Ended December 31,**				
(in thousands, except per share data)	**2004**	**2005**	**2006**	**2007**	**2008**
Revenue:					
License	$ 13,783	$ 18,400	$ 23,676	$ 39,525	$ 55,461
Maintenance and other	7,640	9,502	14,558	22,210	37,674
Total revenue	21,423	27,902	38,234	61,735	93,135
Cost of revenue (1)	186	257	490	2,253	3,588
Gross profit	21,237	27,645	37,744	59,482	89,547
Operating expenses:					
Sales and marketing (1)	848	1,140	3,504	12,909	22,664
Research and development (1)	860	930	2,341	5,899	8,452
General and administrative (1)	566	973	6,477	9,763	16,464
Recapitalization expenses (2)		1,612			
Total operating expenses	2,274	4,655	12,322	28,571	47,580
Operating income	18,963	22,990	25,422	30,911	41,967
Other income (expense):					
Interest income	2	4	447	528	528
Interest expense	(4)	(474)	(10,682)	(10,235)	(8,539)
Foreign exchange loss				(73)	(934)
Total other expense	(2)	(470)	(10,235)	(9,780)	(8,945)
Income before income taxes	18,961	22,520	15,187	21,131	33,022
Income tax expense (benefit)		(751)	5,596	7,524	10,717
Net income	18,961	23,271	9,591	13,607	22,305
Amount allocated to participating preferred stockholders		(4,642)	(4,791)	(6,681)	(10,922)
Net income available to common stockholders	$ 18,961	$ 18,629	$ 4,800	$ 6,926	$ 11,383
Basic earnings per share available to common stockholders	$ 6,320	$ 13.95	$ 0.18	$ 0.25	$ 0.40
Diluted earnings per share available to common stockholders	$ 6,320	$ 8.73	$ 0.18	$ 0.24	$ 0.35
Shares used in computation of basic earnings per share available to common stockholders (3)	3	1,335	27,014	27,969	28,137
Shares used in computation of diluted earnings per share available to common stockholders (3)	3	2,667	54,055	56,030	32,652

Pro forma earnings per share (unaudited)					
Basic					$ 0.40
Diluted					$ 0.37
Weighted average number of shares used in pro forma computation (unaudited)					
Basic					55,137
Diluted					59,652
Other Data:					
Adjusted EBITDA (4)	$ 19,020	$ 23,026	$ 27,061	$ 35,433	$ 48,389

30

Table of Contents

Index to Financial Statements

Consolidated Balance Sheet Data: (in thousands)	December 31, 2004	2005	2006	2007	2008
Cash and cash equivalents	$ 137	$ 828	$ 9,342	$ 19,303	$ 40,566
Working capital (deficit)	(1,604)	(631)	1,676	5,130	16,393
Deferred revenue	4,416	7,531	8,353	17,092	27,162
Total assets	3,082	9,864	21,072	49,262	86,907
Long-term obligations and convertible preferred stock		110,027	102,909	101,987	95,379
Total stockholders deficit	(1,813)	(108,822)	(96,298)	(78,534)	(48,555)

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

(in thousands)	Year Ended December 31, 2006	2007	2008
Cost of revenue	$	$ 39	$ 63
Sales and marketing	334	1,213	1,593
Research and development	190	467	755
General and administrative	991	2,091	3,509
	$ 1,515	$ 3,810	$ 5,920

(2) In December 2005, a group of investors led by Bain Capital Ventures and Insight Venture Partners purchased a 67.8% interest in us from our original stockholders. This transaction was accomplished through a recapitalization of the company. Costs associated with effecting the recapitalization, comprised primarily of consulting fees to certain of our stockholders and legal and accounting fees, were expensed in the 2005 consolidated statement of income.

(3) The number of shares of outstanding stock increased significantly as a result of our December 2005 recapitalization. The effect of the recapitalization was only minimally reflected in the 2005 shares used in the computation of basic and diluted earnings per share available to common stockholders due to the weighted average nature of the calculation. There was no impact of stock options in our earnings per share calculations in 2004, and there was only a minimal impact in 2005, as we had no stock option plan prior to December 2005.

(4) 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 these adjustments and the reason 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;

Table of Contents

Index to Financial Statements

we adopted SFAS No. 123(R), *Share-Based Payment*, on January 1, 2006 and recorded stock-based compensation expense of approximately $1.5 million, $3.8 million and $5.9 million for the years ended December 31, 2006, 2007 and 2008, respectively. Prior to January 1, 2006, we accounted for stock-based compensation using the intrinsic value method under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, which resulted in zero stock-based compensation expense. By comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating results without the additional variations caused by stock-based compensation expense, which is not comparable from year to year due to changes in accounting treatment and is a non-cash expense that is not a key measure of our operations; and

our lenders believed Adjusted EBITDA was the appropriate performance measure for the key operational covenants in our credit agreements. These key operational covenants require us to maintain a minimum consolidated interest coverage ratio and a maximum consolidated leverage ratio as of the last day of each fiscal quarter. Each of these ratios uses Adjusted EBITDA in its calculation. The interest coverage ratio is defined to be the ratio of Adjusted EBITDA for the trailing four quarters to cash interest expense for the trailing four quarters. To be in compliance, our interest coverage ratio had to be at least 3.5 to 1.0 as of December 31, 2008 and must be at least 3.5 to 1.0 as of the last day of each fiscal quarter thereafter. The leverage ratio is defined to be the ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. Our leverage ratio as of December 31, 2008 could not be more than 3.1 to 1.0, and this maximum ratio decreases over time to 2.1 to 1.0 as of December 31, 2011. We were in compliance with each of these key operational covenants as of December 31, 2008. We believe these are key operational covenants because the failure to comply with these covenants would be an event of default under our credit agreements that would likely result in the acceleration of our indebtedness or an unfavorable amendment to the terms of the credit agreements. This acceleration would and any such amendment might adversely affect our liquidity and financial condition.

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.

Table of Contents

Index to Financial Statements

The following table presents a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measure, for each of the periods indicated.

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

Table of Contents

Index to Financial Statements

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.

Overview

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. We design our software to meet the requirements of networks and implementations of varying sizes and levels of complexity. We currently have customers that use our software to manage networks ranging from a single device to over 100,000 installed devices. Our products are easy to find, evaluate, use and maintain.

In 1999, we were formed and introduced the first version of one of our core products, Engineer s Toolset. Until December 2005, we were owned by our original stockholders and employed a simple business model designed to minimize expenses and maximize cash flow. We focused our marketing efforts almost exclusively on optimizing our placement in search engine listings, which we attempted to influence through changing the content on our website, and on direct email lead generation programs to the registered end-users of our software products. We did not engage in any proactive advertising, branding or lead generation programs, and thus had minimal marketing expense. By employing a self service model in which our software was downloaded by engineers who came to our website, we kept sales expense low as well. Our relatively small historical investment in sales and marketing and research and development allowed us to be profitable in every year since inception and to generate income before income taxes in excess of 80% of revenue from 2003 through 2005. Despite our low levels of expenditures, by 2005 we had grown our revenue to $27.9 million and had introduced a suite of software products, including our current flagship product, Orion Network Performance Monitor, as well as Orion Network Configuration Manager, formerly known as Cirrus Configuration Manager.

In 2005, our founder decided to explore alternatives in order to grow our business more rapidly than had been possible under our historical model. In December 2005, investors led by Bain Capital Ventures and Insight Venture Partners acquired an aggregate of 67.8% of our outstanding capital stock from our original stockholders and we recapitalized our company. As a result, we incurred $110.0 million of long-term debt, $101.1 million of which remained outstanding at December 31, 2008. In the second half of 2006, we hired most of our current management team. This new management team began to implement changes to our business model that were designed to accelerate the growth of our revenue. These changes included expanding our suite of products, refining our product development process, creating sales and marketing organizations, and building administrative infrastructure to manage our business.

Throughout 2007 and 2008, we continued to build and refine our business model, making significant investments in people, systems and infrastructure. We continue to embrace certain elements of our founder s model, including providing downloadable enterprise-class software designed for network professionals, focusing on our customer base and end-user community, and offering compelling pricing. In addition, we now employ a highly efficient product development process, a scalable marketing model and a high volume, transaction-oriented inside sales model that have allowed us to drive and support rapid growth in our business at high operating margins while offering our products at prices that are typically significantly lower than those of our competitors. Our revenue grew from $38.2 million in 2006 to $61.7 million in 2007 and $93.1 million in 2008 and our operating income grew from $25.4 million in 2006 to $30.9 million in 2007 and $42.0 million in 2008. Our average transaction size

Table of Contents

Index to Financial Statements

for new license sales in 2007 and 2008 was less than $6,000 compared to hundreds of thousands of dollars for many competing products. We manage our business with a culture and systems that are focused on metrics and helping us to achieve a high level of visibility and consistency in our execution.

We have also sought to expand our product offerings through three acquisitions. In April 2007, we acquired ipMonitor, our entry-level network, server and application monitoring product, by purchasing substantially all of the assets and liabilities of IPMonitor Corporation, or IPMonitor. In May 2007, we acquired our LANsurveyor product and various underlying technologies by purchasing all of the outstanding stock of Neon Software, Inc., or Neon. In December 2008, we acquired our Kiwi Syslog Server and Kiwi CatTools products by purchasing substantially all of the assets and liabilities of Trilenium Investments Limited, or Trilenium. We paid $5.9 million, $3.75 million and $7.2 million, respectively, in connection with these acquisitions, resulting in the recording of purchased intangible assets and goodwill on our balance sheet, and amortization of certain of these assets in our statements of income. We anticipate making selective additional acquisitions of companies with products that complement our business model.

To increase our international sales, we have expanded international operations by building a direct sales force and contracting with resellers overseas. We established operations in Cork, Ireland in 2007 to serve as our international headquarters. We have also opened a sales and support operation in Singapore in 2008. Since we recognize the predominant portion of our international revenue through an Irish subsidiary, we have begun to reduce our tax rate below the U.S. federal statutory rate.

Through December 13, 2005, we operated as a Subchapter S corporation. As a consequence, all of our earnings were recorded on the personal tax returns of our original stockholders and we were not a tax-paying entity. Accordingly, we had no federal or state income tax expense through that date. Since December 13, 2005, we have been a Subchapter C corporation and thus have recorded income tax expense (benefit).

Key Business Metrics

We designed our business model to sell high volumes of low-priced, downloadable, enterprise-class software to our customers and to be low cost, scalable and efficient. We review a number of key business metrics to help us monitor the performance of our business model and to identify trends affecting our business. The measures that we believe are the primary indicators of our quarterly and annual performance are as follows:

Average Transaction Size for New License Sales. We focus our sales, marketing and research and development efforts on network professionals and other IT professionals in organizations of all sizes, with the goal of driving purchases of our software by these network and other IT professionals in very short sales cycles with minimal levels of approval. In addition, many of our customers make small initial purchases of our software to manage specific components of their networks and then make additional purchases over time to expand the use of the product that they purchased or to buy additional software products from us. We measure the average transaction size for new license sales on a frequent basis as an indicator of the success of these efforts and to ensure the effectiveness of our marketing and sales model.

Adjusted EBITDA. Our management uses Adjusted EBITDA to measure our performance. Because Adjusted EBITDA excludes certain non-cash expenses such as depreciation, amortization and stock-based compensation, we believe that this measure provides us with additional useful information to measure and understand our performance on a consistent basis, particularly with respect to changes in performance from period to period. We use Adjusted EBITDA in the preparation of our budgets and to measure and monitor our performance. Adjusted EBITDA is not determined in accordance with GAAP and is not a substitute for or superior to financial measures determined in accordance with GAAP. For further discussion regarding Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see footnote 4 to the table in Selected Consolidated Financial Data included elsewhere in this prospectus.

Table of Contents

Index to Financial Statements

Revenue Growth. Beginning in the middle of 2006 with the hiring of our current executive management team, we have employed a differentiated business model for marketing and selling high volumes of enterprise- class software, which is focused on rapid revenue growth at high Adjusted EBITDA margins. We regularly review our revenue growth to measure our success.

Opportunities and Trends

Businesses, governments and other organizations are increasingly relying 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 generally growing in size and complexity. We believe that the increasing challenges of network management and the limitations of existing offerings present a market opportunity for our products. We expect our revenue to continue to grow as we capitalize on this market opportunity.

We have rapidly evolved and expanded our business since the middle of 2006. This expansion has included hiring most of our senior management team, moving our corporate headquarters to Austin, Texas and building infrastructure to support our business. This evolution has resulted in our significantly expanding our direct inside sales presence in the United States, entering into an outsourced development relationship in Eastern Europe in late 2006, creating a direct sales and support presence in Europe through establishment of our European headquarters in Cork, Ireland in the third quarter of 2007, establishing a research and development facility in the Czech Republic in 2008 and opening an international sales and support operation in Singapore in 2008. We have also expanded through three acquisitions in April and May 2007 and December 2008. These investments in and changes to our business have allowed us to accelerate our revenue growth significantly while maintaining high operating margins.

We expect to continue to invest for the foreseeable future in expanding our business as we increase our direct sales presence in the United States, Europe and Asia, enhance and expand our product offerings and pursue strategic acquisitions. We expect to continue to experience significant annual growth in our business while striving to maintain and increase Adjusted EBITDA as a percentage of revenue; however, there is a risk that the returns that we achieve on future investments in the growth of our business will not be as rapid or as high as what we have achieved in the past.

Key Components of Our Results of Operations

Sources of Revenue

Our revenue is primarily comprised of license and maintenance revenue. We license our software under perpetual licenses, which include one year of maintenance as part of the initial purchase price of the product. License revenue reflects the revenue recognized from sales of new licenses and upgrades to our software. We have experienced strong and consistent annual and quarterly growth in license revenue. Customers can renew and generally have renewed their maintenance agreements for annual periods at our standard list maintenance renewal pricing for their software products. Current customers with maintenance agreements are entitled to receive unspecified upgrades or enhancements when and if they become available. Maintenance revenue is an important source of our future revenue. We have experienced strong and consistent annual and quarterly growth in maintenance and other revenue. Based on the trend of increasing new license sales and increasing maintenance renewals during 2007 and 2008, we expect maintenance revenue to continue to increase in 2009.

Cost of Revenue

Cost of revenue primarily consists of personnel costs related to providing technical support services and amortization of acquired developed product technologies. Personnel costs include salaries, bonuses and stock- based compensation for technical support personnel, as well as an allocation of our facilities, information technology and other overhead costs and our employee benefit costs. We allocate stock-based compensation expense to personnel costs based on the expense category in which the optionholder works. We allocate

Table of Contents

Index to Financial Statements

overhead, such as rent, computer and other technology costs, and employee benefit costs to personnel costs in each expense category based on worldwide headcount in that category. We expect our cost of revenue to increase in absolute dollars but to remain relatively stable as a percentage of revenue in future periods.

Operating Expenses

We classify our operating expenses into three categories: sales and marketing, research and development and general and administrative.

Our operating expenses primarily consist of personnel costs, contract research and development costs, marketing program costs and legal, accounting, consulting and other professional service fees. Personnel costs for each category of operating expenses include salaries, bonuses and stock-based compensation for personnel in that category, as well as an allocation of our facilities, information technology and other overhead costs and our employee benefit costs. We allocate stock-based compensation expense resulting from the amortization of the fair value of options granted based on how we categorize the department in which the optionholder works. We allocate overhead, such as rent, computer and other technology costs and employee benefit costs, to each expense category based on worldwide headcount in that category.

Our operating expenses increased in absolute dollars and as a percentage of revenue in each of 2006, 2007 and 2008 as we have built infrastructure and added employees across all categories in order to accelerate and support our growth and to expand into international markets. We expect our operating expenses in 2009 to continue to increase in absolute dollars and to be consistent with 2008 levels as a percentage of revenue.

Sales and Marketing. Sales and marketing expenses primarily consist of personnel costs for our sales, marketing and business development employees and executives, commissions earned by our sales personnel, the cost of marketing programs such as on-line lead generation, promotional events and webinars and the cost of business development programs. During the third quarter of 2007, we began to make significant investments to expand our sales operations outside the United States, particularly in EMEA. We established a sales and support center in Cork, Ireland in July 2007 and intend to continue to add resources to this facility. We also opened an international sales and support center in Singapore in June 2008 and are rapidly expanding the operations at that center.

Research and Development. Research and development expenses primarily consist of personnel costs for our product development employees and executives and fees to our contract development vendors in Eastern Europe. We have devoted our development efforts primarily to expanding our product line and increasing the functionality and enhancing the ease-of-use of our software offerings. In 2008, we opened a development center in the Czech Republic to take advantage of low labor rates and strong technical talent and acquired research and development personnel in New Zealand as part of our acquisition of Trilenium. We expect our research and development expenses to increase in absolute dollars in 2009 as we continue to expand our Czech Republic development center.

General and Administrative. General and administrative expenses primarily consist of personnel costs for our executive, finance, legal, human resources and administrative personnel, as well as legal, accounting and other professional service fees and other corporate expenses. We expect to incur additional costs in 2009 and beyond associated with being a public company, including higher legal, corporate insurance and financial reporting expenses and the additional costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act.

Other Income (Expense)

Other income (expense) primarily consists of interest income, interest expense and foreign exchange losses. Interest income represents interest received on our cash and cash equivalents. Interest expense is associated with our outstanding long-term debt, which was $102.5 million as of December 31, 2006 and 2007 and $101.1 million

Table of Contents

Index to Financial Statements

as of December 31, 2008. We expect interest expense to decrease in periods subsequent to the completion of this offering as we anticipate paying down our outstanding long-term debt balance with proceeds from this offering. Foreign exchange losses relate to expenses and transactions denominated in currencies other than the functional currency of the associated company.

Income Tax Expense

Income tax expense primarily consists of corporate income taxes related to profits resulting from the sale of our software offerings in the United States and Ireland. We expect our income tax expense to increase in absolute dollars as our profits continue to increase; however, we expect our effective tax rate to begin to decline slowly, due to the lower corporate tax rate in Ireland, as our international revenue increases as a percentage of total revenue.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application, while in other cases management s judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management s judgments and estimates.

Impairment of Long-Lived Assets

We evaluate long-lived assets held and used for impairment whenever events or changes in circumstances indicate that their net book values may not be recoverable. We continually evaluate whether events and circumstances have occurred that indicate the balance of our property and equipment and intangible assets with finite lives may not be recoverable. This evaluation is significantly impacted by estimates and assumptions of future revenue, expenses and other factors, which are affected by changes in the business climate, legal matters and competition. If an event occurs that would cause us to revise our estimates and assumptions used in analyzing the value of our property and equipment or our intangible assets with finite lives, that revision could result in a non-cash impairment charge that could have a material impact on our financial results. When these factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. We base the impairment, if any, on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows of those assets, and record it in the period in which we make the determination.

Goodwill and Other Intangible Assets with Indefinite Lives

We made two acquisitions in 2007 and one acquisition in 2008 that resulted in the recognition of goodwill. We test goodwill and other intangible assets with indefinite lives for impairment on an annual basis in the fourth quarter of each year in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Additionally, we will test goodwill and other intangible assets with indefinite lives in the interim if events and circumstances indicate that goodwill and other intangible assets with indefinite lives may be impaired. The

Table of Contents

Index to Financial Statements

events and circumstances that we would consider include the business climate, legal factors, operating performance indicators and competition. If an event occurs that would cause us to revise our estimates and assumptions used in analyzing the value of our goodwill and other intangible assets with indefinite lives, the revision could result in a non-cash impairment charge that could have a material impact on our financial results.

Valuation of assets and liabilities assumed in business combinations, including goodwill and other intangible assets, requires the use of management s judgment. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future reflecting pricing, volume and expense levels, the appropriate weighted average cost of capital and appropriate discount rate. We believe that the assumptions made in this regard are comparable to those a market participant would use in making similar estimates of fair value. In arriving at this assertion, we derived future cash flows based on historical revenue growth increased by an amount we believed to be achievable by us. Expense levels were analyzed based on existing cost structures and anticipated margins. Our estimates were based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. Management s assumptions do not reflect unanticipated events or circumstances that may occur.

Determining the expected life of an intangible asset requires considerable management judgment and is based on an evaluation of a number of factors, including the competitive environment, our market share, customer history and macroeconomic factors. We determined that acquired product technologies and customer relationships were intangible assets that had useful lives of five and three years, respectively. These lives were based on the expected use of the existing technology and customer turnover rates. We amortized these intangible assets on a straight-line basis as we do not expect a degradation in value in any one period different from that in another period during the useful lives of the amortizable intangible assets.

Revenue Recognition

We derive substantially all of our revenue from the licensing of our software products and from the sale of maintenance agreements. We include one year of maintenance as part of the initial purchase price of each software offering and then sell annual renewals of this maintenance agreement. We recognize revenue for software, maintenance and other services in accordance with the American Institute of Certified Public Accountants Statement of Position, or SOP, 97-2, *Software Revenue Recognition*, as amended, when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable.

License Revenue. We consider delivery of our software to have occurred and recognize revenue from the sale of perpetual licenses to our software when risk of loss transfers to the customer or reseller, which is generally upon electronic transfer of the license key that provides immediate availability of the product to the purchaser.

We sell licenses to our software products through our direct inside sales force and through our distributors and other resellers. Our resellers do not carry inventory of our software; we require resellers to specify the end-user of the software at the time of the order. If the reseller does not provide end-user information, then we will generally not fulfill the order. In periods prior to October 1, 2006, on isolated occasions our resellers carried a limited amount of inventory. In those instances, we deferred revenue from the sale of those products until the software was sold by the reseller to an end-user.

We generally use a purchase order, an authorized credit card, an electronic or manually signed license agreement, or the receipt of a cash payment as evidence of an arrangement. Sales through resellers are typically evidenced by a reseller agreement, together with purchase orders or authorized credit cards on a transaction-by-transaction basis.

We account for sales incentives to customers or resellers as a reduction of revenue at the time we recognize the revenue from the related product sale. We report revenue net of any sales tax collected.

Table of Contents

Index to Financial Statements

Our return policy generally does not allow customers to return software offerings.

Because our software is always sold with maintenance, we calculate the amount of revenue allocated to the software license by determining the fair value of the maintenance and subtracting it from the total invoice or contract amount. We establish vendor-specific objective evidence, or VSOE, of the fair value of maintenance services by the standard published list pricing for our maintenance renewals since we generally charge list prices for our maintenance renewals.

For periods prior to October 1, 2006, we had implied post contract support services obligations because we provided free technical support and unspecified software upgrades to certain customers. Thus, for these periods, we deferred a portion of the license revenue from product sales and allocated these amounts to post contract support deferred revenue to account for the circumstances in which we provided post contract support services in excess of the customer s contractual post contract support services period. We then recognized the deferred revenue for these implied post contract support services obligations ratably on a daily basis over the implied post contract support services period, which was typically based on the expected term of the obligation, which ranged from five months to three years. The implied post contract support services obligation for our software offerings historically ceased upon the delivery of the next major software upgrade. In October 2006, we ceased offering free upgrades and support to customers.

Maintenance and Other Revenue. We derive maintenance revenue from fees for software maintenance services and historically implied post contract support services. We recognize maintenance revenue ratably on a daily basis over the contract period. For periods prior to January 1, 2007, we recognized implied post contract support services on a daily basis over the remaining estimated term of the obligation. We had recognized all revenue related to implied post contract support services by January 1, 2007. Customers with maintenance agreements are entitled to receive unspecified upgrades or enhancements to new versions of their software products on a when-and-if-available basis. Other revenue consists of training and consulting revenue, which is recognized upon delivery of the training course or consulting services to the end customer. Training and consulting revenue is not currently significant nor do we expect it to be significant in future periods.

Stock-Based Compensation

We have granted our employees restricted stock and stock options for common stock. On January 1, 2006, we adopted the provisions of SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) requires recognizing compensation costs for all share-based payment awards made to employees based upon each award s estimated grant date fair value. It covers employee stock options, restricted stock and employee stock purchases related to employee stock purchase plans.

We adopted SFAS No. 123(R) using the modified prospective transition method, which does not result in the revision of prior periods. Accordingly, our results of operations for 2006 and subsequent periods are not comparable to our results of operations for periods prior to 2006.

Under the modified prospective transition method, SFAS No. 123(R) applies to new equity awards and to equity awards modified, repurchased or canceled after the adoption date. Additionally, compensation cost for the portion of awards granted prior to the adoption date for which the requisite service had not been rendered as of the adoption date must be recognized as the employee renders the requisite service. The compensation cost for that portion of awards must be based on the grant-date fair value of those awards as calculated in the prior period pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation*. The compensation cost for those earlier awards is attributed to periods beginning on or after the adoption date using the attribution method that was used under SFAS No. 123, which was the straight-line method. Instead of recognizing forfeitures only as they occur, we now estimate an expected forfeiture rate and utilize it to determine our expense.

We utilize the Black-Scholes option-pricing model to determine the fair value of our stock option awards. For stock options that contain only a service vesting feature, we recognize compensation cost on a straight-line

Table of Contents

Index to Financial Statements

basis over the respective vesting periods. Stock-based compensation under SFAS No. 123(R) decreased income before income taxes by $1.5 million, $3.8 million and $5.9 million in 2006, 2007 and 2008, respectively.

For periods ended after January 1, 2006, pursuant to SFAS 123(R), the income tax benefits exceeding the recorded deferred income tax benefit and any pre-adoption as-if deferred income tax benefit from stock-based compensation awards, or together the excess tax benefits, must be reported in net cash provided by financing activities. In 2006 and 2007, we reflected excess tax benefits from stock-based compensation awards of $0.2 million and $0.3 million as an outflow in cash flows from operating activities and an inflow in cash flows from financing activities in our consolidated statements of cash flows, resulting in no impact on cash. Excess tax benefits from stock-based compensation awards in 2008 were $83,000.

Valuation of Common Stock

In 2007, 2008 and 2009, we granted options to purchase shares of common stock with exercise prices as follows:

Grant Date	Options Granted	Exercise Price Per Share	SFAS 123(R) Fair Value
January 2007	362,250	$ 4.06	$ 989,893
April 2007	650,325	4.06	1,769,523
July 2007	213,450	4.06	505,381
October 2007	773,400	4.35	2,063,848
November 2007	900,000	4.35	2,399,670
January 2008	679,989	4.48	1,734,719
March 2008	122,300	9.40	657,248
April 2008	187,450	9.40	1,016,090
May 2008	515,800	9.40	2,754,217
June 2008	275,850	9.40	1,461,315
July 2008	88,900	9.40	465,579
August 2008	42,350	9.40	216,404
November 2008	44,775	8.68	208,897
March 2009	293,113	8.68	1,495,251

For all dates, we granted employees options at exercise prices equal to the fair value of the underlying common stock at the time of grant, as determined by our board of directors on a contemporaneous basis. To determine the fair value of our common stock, our board of directors considered many factors, including:

- our current and historical operating performance;
- our expected future operating performance;
- our financial condition at the grant date;
- the liquidation rights and other preferences of our preferred stock;
- any recent privately negotiated sales of our securities to independent third parties;

- input from management;
- the lack of marketability of our common stock;
- the potential future marketability of our common stock;
- the business risks inherent in our business and in technology companies generally; and
- the market performance of comparable public companies.

In December 2006, Austin Ventures, a venture capital firm, purchased 1,847,292 shares of our common stock and preferred stock directly from certain of our stockholders at a price per share of $4.06 in a private third-party transaction. The price per share paid by Austin Ventures for these shares and the terms of the transaction were the result of negotiations between Austin Ventures and the selling stockholders in the transaction.

Table of Contents

Index to Financial Statements

The stock option grants in January 2007 were made within 30 days of the sales to Austin Ventures described in the preceding paragraph. The purchase price paid by Austin Ventures was the primary factor considered by our board of directors when determining the fair value of our common stock in January 2007 as the AICPA Practice Aid, *Valuation of Privately Held Company Equity Securities Issued as Compensation*, indicates a third-party transaction between a willing buyer and a willing seller is the best indication of the fair value of an enterprise. Thus, we used the third-party transaction price of $4.06 per share in determining the fair value of our common stock at the time of the January 2007 stock option grants.

For the April and July 2007 stock option grants, we continued to use the $4.06 per share valuation based on the price per share paid by Austin Ventures for our common and preferred stock in December 2006. Our results of operations in the first and second quarters of 2007 were consistent with the expectations that we had provided to Austin Ventures prior to their purchase in December 2006 at $4.06 per share. Based primarily on these factors, our board of directors determined in April and July 2007 that there had been no significant change in our performance since the Austin Ventures purchase that warranted a higher valuation of our common stock.

In October 2007, we reviewed the growth in our business from the second to the third quarter of 2007 and our forecasted operating results for the fourth quarter of 2007 and for the full year 2008. During the third quarter of 2007, we sequentially increased our revenue and Adjusted EBITDA over the second quarter of 2007 by 35.4% and 60.8%, respectively. We also experienced strong sales performance across all of our territories and geographies. We expected this strong sales performance to impact our forecasted operating results positively for the fourth quarter of 2007 and for the full year 2008. In connection with our grant of options in October 2007, we considered generally accepted valuation methodologies, including the discounted cash flow method, the prior transaction method and a market approach based on the Guideline Public Company Method. We utilized and prepared a valuation of our common stock using a market approach based on the Guideline Public Company Method because we believed it produced the most reliable indicator of enterprise value in light of the stage of our company. The Guideline Public Company Method attempts to determine enterprise value based on comparisons to comparable public companies. A key assumption under the market approach is that the selected comparable companies are truly comparable. We selected companies of varying sizes engaged in similar lines of business. This peer group included software companies recently consummating initial public offerings and more mature publicly traded software companies. We concluded that enterprise value to revenue and enterprise value to Adjusted EBITDA would yield the most appropriate indications of value for us because we believed that potential investors would focus equally on our revenue growth and our ability to yield returns on their investment based on positive cash flows. We weighted these values equally when determining the fair value of our common stock. Although we believed an illiquidity discount could have been appropriate, we did not discount the derived enterprise values for illiquidity as we felt this would result in a more conservative valuation. Based on the results of this analysis, we determined that our enterprise value was $293.4 million, or $4.35 per share of common stock. We discussed this valuation with our board of directors and, based on this analysis, our board of directors determined that the fair value of our common stock should be increased to $4.35 per share of common stock in connection with the October 2007 grants. For purposes of the November 2007 stock option grants, our board determined there had been no significant change in our business or industry that would warrant a higher valuation than the fair value of our common stock of $4.35 per share in October 2007.

In January 2008, we analyzed the fair value of our common stock using a probability-weighted expected return method. Although we considered other generally accepted valuation methodologies at that time, our decision to utilize the probability-weighted expected return method was influenced by, among other things, the fact that we had begun to consider more seriously an initial public offering of our common stock, including holding our organizational meeting with our underwriters in December 2007. Under this methodology, we estimated the fair market value of our common stock based upon an analysis of future values assuming various outcomes. Share value was based upon the probability-weighted present value of the possible outcomes, as well as the rights of each class of preferred and common stock. We modeled future outcomes to include an initial public offering, a strategic acquisition and an acquisition years in the future. We used the Guideline Public Company Method based on equally-weighted enterprise value to revenue and enterprise value to Adjusted EBITDA multiples. We again selected companies engaged in similar lines of business with similar size in terms

Table of Contents

Index to Financial Statements

of revenue. We then applied a discount for illiquidity based upon a study of illiquidity discounts, which indicated that potential discounts of 14% to 40% would be acceptable after giving consideration to the initial public offering. Based on this study, we selected a discount of 10% due to our belief in the near-term prospects of the initial public offering. After applying this discount, we determined that our enterprise value was $389.9 million, or $4.43 per share of common stock.

In late March 2008, one of our significant stockholders negotiated an agreement with certain of our minority stockholders to have us repurchase the minority stockholders shares of common and preferred stock at a price of $9.40 per share. After completing that transaction, we sold an equal number of shares to a number of our existing stockholders pro rata based on the relative percentages of shares held by those stockholders that elected to participate in the transaction at the same price of $9.40 per share. For further discussion of this transaction and the parties involved, see the caption Certain Relationships and Related Party Transactions 2008 Stock Repurchase and Sale. We used the negotiated repurchase price of $9.40 per share in determining the fair value of our common stock in March 2008 in accordance with the guidance in the AICPA Practice Aid, *Valuation of Privately Held Company Equity Securities Issued as Compensation*, which states that a third-party transaction between a willing buyer and a willing seller is the best indication of fair value.

For purposes of the April, May and June 2008 stock option grants, we continued to use the $9.40 per share valuation based on the valuation established for our common stock by the March 2008 transaction described in the preceding paragraph. With respect to the April 2008 grants, our board of directors concluded that, since the date of the March 2008 stock option grants, there had been no significant change in our business or expectations of future business that would warrant a valuation higher than $9.40 per share. In connection with the May 2008 grants, we updated our January 2008 valuation based on the probability-weighted expected return method. In doing so, we increased the probability of an initial public offering while lowering the probability of an acquisition and continued to use an illiquidity discount of 10% due to our belief of the near-term prospects of the initial public offering. We also updated the enterprise value to revenue and enterprise value to Adjusted EBITDA multiples based on more recent market information and weighted the multiples 33% and 67%, respectively, in deriving an enterprise value under the Guideline Public Company Method. This updated valuation determined a fair value per share below the $9.40 per share valuation in the March 2008 transaction. After considering the updated valuation and the purchase price per share in the March 2008 transaction, our board of directors continued to use $9.40 per share as the exercise price for the May 2008 grants. In connection with our June 2008 grants, our board of directors concluded that, since the date of the March 2008 stock option grants and in light of the updated May valuation, there had been no significant change in our business or expectations of future business that would warrant a valuation higher than $9.40 per share and continued to use the $9.40 per share as the exercise price for the June 2008 grants.

In connection with the July and August 2008 grants, we updated our May 2008 valuation to derive the enterprise value to revenue and enterprise value to Adjusted EBITDA multiples based on more recent market information and the performance of our business. We applied the same weighting of the multiples, probabilities for various company scenarios and illiquidity discount as those used in the May 2008 valuation due to our continued belief in the likelihood of our initial public offering. This updated valuation determined a fair value per share below the $9.40 per share valuation in the March 2008 transaction. After again considering the updated valuation and the purchase price per share in the March 2008 transaction, our board of directors determined that there had been no significant change in our business or expectations of future business that would warrant a valuation higher than $9.40 per share and continued to use $9.40 per share as the exercise price for the July and August 2008 grants.

In connection with the November 2008 grants, we updated our July 2008 valuation to derive the enterprise value to revenue and enterprise value to Adjusted EBITDA multiples based on more recent market information. We also updated our valuation by applying the multiples for each company scenario to financial projections of additional future periods. For the initial public offering scenarios, we derived an enterprise value by applying public company multiples to revenue and Adjusted EBITDA projections for 2008 and 2009. For the strategic sale scenarios, we derived an equity value by applying transaction multiples to revenue and Adjusted EBITDA

Table of Contents

Index to Financial Statements

projections for 2009 and 2010. We used the same weighting of the multiples as in July 2008 because we continued to believe that our potential investors would be likely to value our business with a heavier weighting on the enterprise value to Adjusted EBITDA multiple than on the enterprise value to revenue multiple. We also did not adjust the probabilities of the company scenarios because our management believed that the fundamental strength of our business continued to make each of the company scenarios as likely as in July 2008. We applied the same illiquidity discount used in the July 2008 valuation because we had not experienced a material change in our business or prospects despite the deteriorating economic environment and we continued to believe in the near-term prospects of the offering. We derived an enterprise value of $8.68 per share of common stock. After considering this updated valuation and the passage of time since the March 2008 transaction, we determined that the fair value of our common stock was $8.68 per share.

For purposes of the March 2009 grants of stock options and restricted stock, we continued to use the $8.68 per share valuation based on the November 2008 valuation. Our board of directors concluded that, since the date of the November 2008 stock option grants, there had been no significant change in our business or expectations of future business that would warrant a valuation higher than $8.68 per share.

Income Taxes

We use the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*. Under this method, we recognize deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the respective carrying amounts and tax bases of our assets and liabilities.

In July 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of Statement of Financial Accounting Standards 109*, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. We adopted FIN 48 on January 1, 2007. At the adoption, there was no liability for uncertain tax positions due to the fact that there were no material identified tax benefits that were considered uncertain tax positions. At December 31, 2008, we had $0.2 million of unrecognized tax benefits, all of which, if recognized, would affect our effective tax rate. As of December 31, 2007, we had no unrecognized tax benefits.

We accrue interest and penalties related to unrecognized tax benefits as a component of income tax expense. As of the adoption date of FIN 48, there was no accrued interest or penalties. As of December 31, 2007 and 2008, there was no accrued interest or penalties.

In calculating our effective tax rate, we make judgments regarding certain tax positions, including the timing and amount of deductions and allocations of income among various tax jurisdictions.

The adoption of FIN 48 required us to identify, evaluate and measure all uncertain tax positions taken or to be taken on tax returns and to record liabilities for the amount of these positions that may not be sustained, or may only partially be sustained, upon examination by the relevant taxing authorities. Although we believe that our estimates and judgments were reasonable, actual results may differ from these estimates. Some or all of these judgments are subject to review by the taxing authorities.

We establish valuation allowances when necessary to reduce deferred tax assets to the amounts expected to be realized. On a quarterly basis, we evaluate the need for, and the adequacy of, valuation allowances based on the expected realization of our deferred tax assets. The factors used to assess the likelihood of realization include our latest forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

Table of Contents

Index to Financial Statements

We intend either to invest our non-U.S. earnings permanently in foreign operations or to remit these earnings to our U.S. entities in a tax-free manner. For this reason, we do not record federal income taxes on the undistributed earnings of our foreign subsidiaries.

Consolidated Statement of Income Data	**Year Ended December 31,**		
(in thousands)	**2006**	**2007**	**2008**
Revenue:			
License	$ 23,676	$ 39,525	$ 55,461
Maintenance and other	14,558	22,210	37,674
Total revenue	38,234	61,735	93,135
Cost of revenue (1)	490	2,253	3,588
Gross profit	37,744	59,482	89,547
Operating expenses:			
Sales and marketing (1)	3,504	12,909	22,664
Research and development (1)	2,341	5,899	8,452
General and administrative (1)	6,477	9,763	16,464
Total operating expenses	12,322	28,571	47,580
Operating income	25,422	30,911	41,967
Other income (expense):			
Interest income	447	528	528
Interest expense	(10,682)	(10,235)	(8,539)
Foreign exchange loss		(73)	(934)
Total other expense	(10,235)	(9,780)	(8,945)
Income before income taxes	15,187	21,131	33,022
Income tax expense	5,596	7,524	10,717
Net income	$ 9,591	$ 13,607	$ 22,305

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

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

45

Table of Contents

Index to Financial Statements

Comparison of the Years Ended December 31, 2007 and 2008

Revenue

	Year Ended December 31,				
	2007		2008		
Revenue (dollars in thousands)	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Change**
License	$ 39,525	64.0%	$ 55,461	59.5%	$ 15,936
Maintenance and other	22,210	36.0	37,674	40.5	15,464
Total	$ 61,735	100.0%	$ 93,135	100.0%	$ 31,400

Revenue was $93.1 million in 2008 compared to $61.7 million in 2007, an increase of $31.4 million, or 50.9%. This increase was comprised of a $15.9 million increase in license revenue and a $15.5 million increase in maintenance and other revenue. The increases in both license revenue and maintenance and other revenue were primarily due to the increased demand for our software products. Our average transaction size for new license sales in 2008 was approximately $5,900, which represents an increase from $5,100 in 2007. We experienced sales growth in North America, EMEA, the Asia Pacific region and Latin America during 2008 compared to 2007. Our sales growth in license revenue was primarily related to our continued efforts to add sales personnel in order to respond to the increased demand for our software products. In addition, maintenance and other revenue increased as our maintenance base continued to grow due to strong new license sales and high customer retention.

Cost of Revenue and Gross Margin

	Year Ended December 31,		
Cost of Revenue and Gross Margin (dollars in thousands)	**2007**	**2008**	**Change**
Total revenue	$ 61,735	$ 93,135	$ 31,400
Total cost of revenue	2,253	3,588	1,335
Gross profit	$ 59,482	$ 89,547	$ 30,065
Gross margin	96.4%	96.1%	

Cost of revenue was $3.6 million in 2008 compared to $2.3 million in 2007, an increase of $1.3 million, or 59.3%. This increase was due primarily to an increase in cost of maintenance revenue related to an increase in headcount of our North American and EMEA support organizations in 2008 compared to 2007 in order to support the increasing number of new customers we added during 2007 and 2008. Cost of license revenue also increased due to the amortization of acquired product technologies associated with two acquisitions we made in the second quarter of 2007. This non-cash amortization of acquired product technologies was $0.2 million for 2008 and was recorded in cost of license revenue. Our gross margin as a percentage of revenue was relatively consistent in 2007 and 2008 and we expect gross margin in future periods to approximate the gross margin during 2008 of 96.1%.

Operating Expenses

	Year Ended December 31,

	2007		2008		
Operating Expenses (dollars in thousands)	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Change**
Sales and marketing	$ 12,909	20.9%	$ 22,664	24.3%	$ 9,755
Research and development	5,899	9.6	8,452	9.1	2,553
General and administrative	9,763	15.8	16,464	17.7	6,701
Total	$ 28,571	46.3%	$ 47,580	51.1%	$ 19,009

Table of Contents

Index to Financial Statements

Sales and Marketing. Sales and marketing expenses were $22.7 million in 2008 compared to $12.9 million in 2007, an increase of $9.8 million, or 75.6%. Increases occurred in sales and marketing expenses during 2008 as we focused on building a larger direct inside sales force in the United States and made significant investments to expand our sales operations outside the United States, by adding personnel to our sales center in Cork, Ireland and establishing a sales center in Singapore in June 2008 to support our growth in the Asia Pacific region. In addition, we have made a significant investment in business development activities in 2008, including adding a Vice President of Business Development, in order to take advantage of partnering opportunities that have the potential to expand our business. As a result of these efforts, our sales and marketing personnel costs increased by $6.8 million and stock-based compensation expense increased by $0.4 million. We also increased our spending on marketing programs and other activities in 2008 compared to 2007. Marketing program costs such as Internet search optimization expenses, trade show costs and search engine placement fees increased $1.6 million in 2008 compared to 2007. Other costs such as credit card processing fees, recruiting fees, and software licensing costs increased by $0.7 million.

Research and Development. Research and development expenses were $8.5 million in 2008 compared to $5.9 million in 2007, an increase of $2.6 million, or 43.3%. In order to support our product development strategy, we increased the size of our North American research and development organization, we opened a research and development facility in the Czech Republic in April 2008 and we established a relationship with two contract research and development vendors in Eastern Europe. In addition, we added to our research and engineering team as a result of two acquisitions that we made in the second quarter of 2007 and one acquisition that we made in the fourth quarter of 2008. Our personnel costs increased by $1.8 million and the fees we paid to our offshore contract research and development vendors increased by $0.3 million from 2007 to 2008.

General and Administrative. General and administrative expenses were $16.5 million in 2008 compared to $9.8 million in 2007, an increase of $6.7 million, or 68.6%. This increase was due primarily to a $2.4 million increase in personnel costs, a $1.4 million increase in stock-based compensation expense and a $0.5 million increase in facility and information technology costs to support our growth and international expansion. Professional fees, principally from accounting, audit and tax fees related to our initial public offering that were required to be expensed and legal fees, increased by $1.6 million.

Other Income (Expense)

Other Income (Expense) **(in thousands)**	**Year Ended December 31,** **2007**	**2008**	**Change**
Interest income	$ 528	$ 528	$
Interest expense	(10,235)	(8,539)	(1,696)
Foreign exchange loss	(73)	(934)	861
Total	$ (9,780)	$ (8,945)	$ (835)

Interest expense in 2008 decreased by $1.7 million compared to 2007 due to lower average interest rates in the 2008 period. Our total average outstanding debt balance was approximately the same during both periods. Pursuant to the terms of our credit agreements, our interest rate is reset periodically. Our effective interest rate for 2008 was 8.4% as compared to 10.0% in 2007. Foreign exchange losses related to the weakening of the British Pound Sterling and U.S. dollar against the Euro.

Income Tax Expense

Our income tax expense in 2008 increased by $3.2 million from 2007. This increase resulted from an increase in our income before income taxes of $11.9 million from 2007 to 2008 and was partially offset by a decrease in our effective tax rate from 35.6% in 2007 to 32.5% in 2008 as a result of the establishment of our European operations in July 2007.

Table of Contents

Index to Financial Statements

Comparison of the Years Ended December 31, 2006 and 2007

Revenue

Revenue (dollars in thousands)	Year Ended December 31, 2006 Amount	2006 Percentage of Revenue	2007 Amount	2007 Percentage of Revenue	Change
License	$ 23,676	61.9%	$ 39,525	64.0%	$ 15,849
Maintenance and other	14,558	38.1	22,210	36.0	7,652
Total	$ 38,234	100.0%	$ 61,735	100.0%	$ 23,501

Revenue was $61.7 million in 2007 compared to $38.2 million in 2006, an increase of $23.5 million, or 61.5%. This increase was comprised of a $15.8 million increase in license revenue and a $7.7 million increase in maintenance and other revenue. The increase in both license revenue and maintenance and other revenue was primarily due to an increase in sales activity in 2007 compared to 2006 to respond to increasing demand for our software products. In addition, our average transaction size for new license sales increased to approximately $5,100 in 2007 from $3,900 in 2006. We experienced sales growth in North America, EMEA and selected countries in the Asia Pacific region during 2007, with international revenue comprising 6.4% of our revenue during 2007. Our sales growth in North America was primarily due to an increase in sales of our software offerings to many different departments of the U.S. government.

Cost of Revenue and Gross Margin

Cost of Revenue and Gross Margin (dollars in thousands)	Year Ended December 31, 2006	2007	Change
Total revenue	$ 38,234	$ 61,735	$ 23,501
Total cost of revenue	490	2,253	1,763
Gross profit	$ 37,744	$ 59,482	$ 21,738
Gross margin	98.7%	96.4%	

Cost of revenue was $2.3 million in 2007 compared to $0.5 million in 2006, an increase of $1.8 million, or 360%. This increase was due primarily to an increase in cost of maintenance revenue related to an increase in headcount of our North American technical support organization in 2007 and the establishment of our European support center in the third quarter of 2007 in order to support the increasing number of new customers we added during 2007 and to support our international expansion that we began in July 2007. Cost of license revenue increased $0.1 million due to the amortization of acquired developed product technologies associated with our acquisitions in 2007.

Operating Expenses

Operating Expenses	Year Ended December 31, 2006 Amount	2006 Percentage of Revenue	2007 Amount	2007 Percentage of Revenue	Change

(dollars in thousands)					
Sales and marketing	$ 3,504	9.2%	$ 12,909	20.9%	$ 9,405
Research and development	2,341	6.1	5,899	9.6	3,558
General and administrative	6,477	16.9	9,763	15.8	3,286
Total	$ 12,322	32.2%	$ 28,571	46.3%	$ 16,249

Table of Contents

Index to Financial Statements

Sales and Marketing. Sales and marketing expenses were $12.9 million in 2007 compared to $3.5 million in 2006, an increase of $9.4 million, or 268%. This increase was principally due to an increase in sales and marketing headcount during 2007. The increase in headcount was primarily to build a larger direct inside sales force in the United States as well as to make a significant investment to expand our sales operations outside the United States, particularly in EMEA, by establishing a sales and support center in Cork, Ireland. As a result of these efforts, our sales and marketing personnel costs increased by $7.1 million. We also increased our spending on marketing programs and other activities during 2007. Marketing program costs such as Internet search optimization expenses, trade show costs and pay per click fees increased $1.4 million from 2006 to 2007.

Research and Development. Research and development expenses were $5.9 million in 2007 compared to $2.3 million in 2006, an increase of $3.6 million, or 152%. In the second half of 2006, in order to support our product development strategy, we began to increase the size of our research and development organization and established a relationship with a contract development vendor in Eastern Europe. As a result, our personnel costs increased $2.0 million during 2007 and the fees we paid to our offshore contract development vendor increased $1.5 million.

General and Administrative. General and administrative expenses were $9.8 million in 2007 compared to $6.5 million in 2006, an increase of $3.3 million, or 51%. This increase was due primarily to a $4.0 million increase in personnel costs, partially offset by lower relocation, severance and other costs, as we incurred $0.9 million of costs in 2006 related to the relocation of our corporate headquarters from Tulsa, Oklahoma to Austin, Texas.

Other Income (Expense)

	Year Ended December 31,		
Other Income (Expense) **(in thousands)**	**2006**	**2007**	**Change**
Interest income	$ 447	$ 528	$ 81
Interest expense	(10,682)	(10,235)	447
Foreign exchange loss		(73)	(73)
Total	$ (10,235)	$ (9,780)	$ 455

Interest expense decreased by $0.4 million due to the repayment of $7.5 million of our outstanding long-term debt balance in December 2006. Our effective average interest rate decreased from 10.4% in 2006 to 10.0% in 2007.

Income Tax Expense

Our income tax expense increased by $1.9 million from 2006 to 2007. This increase resulted from an increase in our income before income taxes of $5.9 million from 2006 to 2007, partially offset by a decrease in our effective tax rate to 35.6% in 2007 from 36.8% in 2006 as a result of the establishment of our European operations in July 2007.

Table of Contents

Index to Financial Statements

Quarterly Results of Operations

The following tables set forth unaudited quarterly consolidated statement of income data for 2007 and 2008, as well as the percentage that each line item represented of our revenue. We have prepared the statement of income for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of the management, each statement of income includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
(in thousands, except per share data)	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(unaudited)							
Revenue	$ 12,773	$ 12,784	$ 17,311	$ 18,867	$ 20,396	$ 21,677	$ 26,165	$ 24,897
Cost of revenue	429	573	611	640	819	847	940	982
Gross profit	12,344	12,211	16,700	18,227	19,577	20,830	25,225	23,915
Operating expenses:								
Sales and marketing	2,559	3,022	3,452	3,876	4,538	5,138	6,522	6,466
Research and development	1,229	1,529	1,522	1,619	1,920	1,990	2,339	2,203
General and administrative	1,889	2,268	2,566	3,040	4,172	3,787	4,527	3,978
Total operating expenses	5,677	6,819	7,540	8,535	10,630	10,915	13,388	12,647
Operating income	6,667	5,392	9,160	9,692	8,947	9,915	11,837	11,268
Other income (expense):								
Interest income	140	109	106	173	150	110	140	128
Interest expense	(2,530)	(2,560)	(2,590)	(2,555)	(2,681)	(1,858)	(1,896)	(2,104)
Foreign exchange gain (loss)		(26)	9	(56)	(133)	6	84	(891)
Total other expense	(2,390)	(2,477)	(2,475)	(2,438)	(2,664)	(1,742)	(1,672)	(2,867)
Income before income taxes	4,277	2,915	6,685	7,254	6,283	8,173	10,165	8,401
Income tax expense	1,553	1,059	2,326	2,586	2,133	2,945	2,878	2,761
Net income	2,724	1,856	4,359	4,668	4,150	5,228	7,287	5,640
Amount allocated to participating preferred stockholders	(1,348)	(910)	(2,136)	(2,287)	(2,034)	(2,560)	(3,567)	(2,761)
Net income available to common stockholders	$ 1,376	$ 946	$ 2,223	$ 2,381	$ 2,116	$ 2,668	$ 3,720	$ 2,879
Basic earnings per share available to common stockholders	$ 0.05	$ 0.03	$ 0.08	$ 0.08	$ 0.08	$ 0.09	$ 0.13	$ 0.10
Diluted earnings per share available to common stockholders	$ 0.05	$ 0.03	$ 0.08	$ 0.08	$ 0.07	$ 0.08	$ 0.11	$ 0.09
Shares used in computation of basic earnings per share available to common stockholders	27,581	28,097	28,097	28,097	28,097	28,141	28,153	28,157

Shares used in computation of diluted earnings per share available to common stockholders	55,249	55,567	55,810	56,158	57,788	33,035	33,407	33,380
Other data:								
Adjusted EBITDA	$ 7,573	$ 6,449	$ 10,371	$ 11,041	$ 10,396	$ 11,692	$ 13,933	$ 12,368

Table of Contents

Index to Financial Statements

	Three Months Ended							
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(unaudited)							
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	3.4	4.5	3.5	3.4	4.0	3.9	3.6	3.9
Gross margin	96.6	95.5	96.5	96.6	96.0	96.1	96.4	96.1
Operating expenses:								
Sales and marketing	20.0	23.6	20.0	20.5	22.2	23.7	24.9	26.0
Research and development	9.6	12.0	8.8	8.6	9.4	9.2	8.9	8.8
General and administrative	14.8	17.7	14.8	16.1	20.5	17.5	17.3	16.0
Total operating expenses	44.4	53.3	43.6	45.2	52.1	50.4	51.1	50.8
Operating income	52.2	42.2	52.9	51.4	43.9	45.7	45.3	45.3
Other income (expense):								
Interest income	1.1	0.9	0.6	0.9	0.7	0.5	0.5	0.5
Interest expense	(19.8)	(20.0)	(15.0)	(13.5)	(13.1)	(8.6)	(7.2)	(8.5)
Foreign exchange gain (loss)		(0.2)	0.1	(0.3)	(0.7)	0.1	0.3	(3.6)
Total other expense	(18.7)	(19.4)	(14.3)	(12.9)	(13.1)	(8.0)	(6.4)	(11.5)
Income before income taxes	33.5	22.8	38.6	38.4	30.8	37.7	38.9	33.7
Income tax expense	12.2	8.3	13.4	13.7	10.5	13.6	11.0	11.1