UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF TEXAS

DALLAS DIVISION

DANIEL RICHARDSON, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. SOLARWINDS, INC., KEVIN B. THOMPSON, MICHAEL S. BENNETT, and MICHAEL J. BERRY, Defendants.	§ § § § § § § § § § § § §	Civil Action No. ______ CLASS ACTION JURY TRIAL DEMANDED

COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

JURISDICTION AND VENUE

1. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission ("SEC") [17 C.F.R. §240.10b-5].

2. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act.

3. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

4. SolarWinds, Inc. ("SolarWinds" or the "Company") is incorporated in and has its headquarters in Austin, Texas. SolarWinds conducts substantial business in and has offices within

this District, as well as in Tulsa, Oklahoma. The Company's international headquarters is located in Cork, Ireland.

5. In connection with the acts alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

INTRODUCTION AND OVERVIEW

6. This is a federal securities class action on behalf of purchasers of the common stock of SolarWinds between February 8, 2010 and July 21, 2010 inclusive (the "Class Period"), against SolarWinds and certain of its officers and/or directors for violations the Exchange Act. These claims are asserted against SolarWinds and certain of their officers and/or directors who made materially false and misleading statements during the Class Period in press releases, analyst conference calls, and filings with the SEC.

7. During the Class Period, defendants issued materially false and misleading statements regarding the Company's operations and its business and financial results and outlook. Specifically, defendants misled investors by misrepresenting and failing to disclose material problems with SolarWinds' license revenues and sales to the United States federal government, as well as material problems within the Company's sales management team that prevented SolarWinds from accurately predicting the Company's ability to make and maintain sales. The result was that defendants' statements about the Company's expected financial performance lacked a reasonable basis when made.

8. At the start of the Class Period, on February 8, 2010, defendants touted positive financial guidance for 2010. That positive financial guidance depended, in large part, on what defendants described as "significantly increased" breadth of deployment of SolarWinds' "technologies across many areas of the Department of Defense and civilian agencies," which

"resulted in an increase in the number of transactions with US federal government customers, the number of departments and projects where we are deployed and where we expect additional sales over time." Defendants told the market that the result was "a higher degree of consistency in our federal sales." In response to the Company's positive financial guidance for 2010, the price of SolarWinds stock steadily increased, climbing from $20.04 at the start of the Class Period to as high as $24.85 on April 15, 2010.

9. On April 26, 2010, a mixture of positive and negative news about the Company reached the market. Defendants again told the market SolarWinds had "significantly increased" the breadth of deployment of SolarWinds' technologies across "many areas of the Department of Defense and civilian agencies," which again resulted in increased transactions with the United States federal government. In addition, defendants not only reiterated the Company's 2010 financial guidance, but ***raised*** the high end of its reported revenue outlook.

10. Coupled with the positive reports and raised positive financial outlook for 2010, however, defendants revealed that although federal government transaction volume increased in the first quarter 2010, the Company was "not yet ready to project growth in [its] federal new license sales in 2010" and continued to "model relatively flat performance in 2010 versus 2009." Downplaying the problem, during a conference call with investors, defendants told the market they had "seen" federal purchasing "start to ramp back up."

11. The partial revelation of problems within the Company's federal government business caused the price of SolarWinds stock to fall 16%, or $3.81 per share, to close at $20.12 on April 27, 2010. If not for defendants' ongoing false statements and raised financial guidance for 2010 – which lacked a reasonable basis – the price of SolarWinds common stock would have declined further.

12. On July 21, 2010, the Company cut its recently reaffirmed and raised revenue guidance. Now, the high end of the Company's guidance was ***below*** the low end of the previously announced guidance. Describing why the Company was abruptly cutting its financial forecasts, defendants revealed there had been a 44% decline in United States federal government sales that was caused by the ***inability of the Company's "US federal sales management team to predict and positively influence" the pace of sales***. Defendants also revealed the Company was making "several changes" to its "US federal team in terms of leadership and structure to achieve better visibility and performance. . . ."

13. In response to defendants' disclosure of the Company's true financial condition and future business prospects, multiple analysts downgraded SolarWinds common stock and openly questioned the credibility of defendants' reasoning and statements, pointing to "too many explanations" from Company management and a "license miss of significant magnitude." The market reaction was swift and severe, with the price of SolarWinds stock falling 23%, or $3.81 per share, to close at $12.71 on July 22, 2010, causing substantial financial damage to Plaintiff and Class members.

PARTIES

14. Daniel Richardson, as set forth in the accompanying certification and incorporated by reference herein, purchased the common stock of SolarWinds during the Class Period and has been damaged thereby.

15. As set forth above, SolarWinds provides powerful and affordable IT management software to more than 93,000 customers worldwide. Defendant SolarWinds may be served with process at its Registered Agent, CT Corporation System, 350 N. St. Paul St., Suite 2900, Dallas, Texas 75201.

16. Defendant Kevin B. Thompson ("Thompson"), is and has been President and Chief Executive Officer ("CEO") of SolarWinds since March 2010. Prior to his appointment as President and CEO, Thompson was the Company's Chief Financial Officer and Treasurer. During the Class Period, while SolarWinds stock was artificially inflated, defendant Thompson sold 33,838 shares of his SolarWinds stock for total insider trading proceeds of $720,475. Defendant Thompson may be served with process at 3711 South MoPac Expressway, Building Two, Austin, Texas 78746.

17. Defendant Michael S. Bennett ("Bennett"), was until March 1, 2010 during the Class Period, Chairman and CEO of SolarWinds when he stepped down due to ongoing health issues. During the Class Period, while SolarWinds stock was artificially inflated, defendant Bennett sold 300,205 shares of his SolarWinds stock for total insider trading proceeds of $6,132,205. Defendant Bennett may be served with process at 4317 Dunning Lane, Austin, Texas 78746.

18. Defendant Michael J. Berry ("Berry"), is and has been since March 1, 2010, Senior Vice President and Chief Financial Officer of SolarWinds. Prior to his appointment as Vice President and Chief Financial Officer, Berry was Executive Vice President of Finance and Accounting as well as Chief Financial Officer of i2 Technologies, Inc. Defendant Berry may be served with process at 4040 McEwen Road, Suite 240, Dallas, Texas 75244.

19. Defendants Thompson, Bennett, and Berry are collectively referred to herein as the "Individual Defendants."

20. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of SolarWinds, were privy to confidential and proprietary information concerning SolarWinds, its operations, finances, financial condition and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning SolarWinds, as discussed in detail below. Because of their positions with SolarWinds, the

Individual Defendants had access to non-public information about its business, finances, products, markets and present and future business prospects via internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

21. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were "controlling persons" within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of SolarWinds' business.

22. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts and through them, to the investing public. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

23. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the New York Stock Exchange ("NYSE") and governed by the

federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to SolarWinds' financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of SolarWinds' common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

24. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of SolarWinds' common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. Defendants deceived the investing public regarding SolarWinds' business, operations and management and the intrinsic value of SolarWinds' securities and caused Plaintiff and members of the Class to purchase SolarWinds' common stock at artificially inflated prices.

CLASS ACTION ALLEGATIONS

25. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased the common stock of SolarWinds between February 8, 2010 and July 21, 2010, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

26. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, SolarWinds' common stock was actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands

of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by SolarWinds or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

27. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law complained of herein.

28. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class action and securities litigation.

29. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business and operations of SolarWinds;

(c) whether the price of SolarWinds common stock was artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

30. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of

individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

Background

SolarWinds was founded in 1999 and was listed on the NYSE in 2009. The Company provides powerful and affordable IT management software to more than 93,000 customers worldwide. SolarWinds claims its products are "downloadable, easy to use and maintain, and provide the power, scale, and flexibility needed to manage today's complex network environments." The Company's online community, "thwack," offers users the problem-solving and technology-sharing for all of the Company's products.

Defendants' False and Misleading Statements Issued During the Class Period

31. The Class Period begins on February 8, 2010. On that date SolarWinds issued a press release announcing its third quarter and year-to-date results for the twelve (12) and forty (40) weeks ended December 5, 2009. In the press release, the Company also issued its 2010 outlook. The Company stated in pertinent part, as follows:

SolarWinds Announces Fourth Quarter and Full Year 2009 Results

- Record quarterly total revenue of $33.0 million, 32% growth over Q4 2008
- 11th straight quarter of 40% or higher year-over-year maintenance revenue growth
- GAAP diluted earnings per share of $0.09, Non-GAAP diluted earnings per share of $0.19

* * *

Financial Results

SolarWinds reported record total revenue for the fourth quarter of 2009 of $33.0 million, a 32% increase over total revenue in the fourth quarter of 2008, and reported total revenue for the full year 2009 of $116.4 million, a 25% increase over total revenue for the full year 2008.

License revenue was $17.6 million in the fourth quarter of 2009, representing a 26% increase over license revenue in the fourth quarter of 2008. Maintenance revenue was $15.4 million in the fourth quarter of 2009, representing a 40% increase over maintenance revenue in the fourth quarter of 2008.

* * *

Financial Outlook

As of February 8, 2010, SolarWinds is providing its guidance for its first quarter of 2010 and its full year ending December 31, 2010. The financial information below represents forward-looking non-GAAP financial information, including an estimate of non-GAAP operating income, non-GAAP net income and non-GAAP diluted earnings per share, for the first quarter and full year 2010. These non-GAAP financial measures exclude, among other items mentioned previously, stock-based compensation expense and acquisition-related costs. SolarWinds cannot reasonably estimate the expected stock-based compensation expense for these future periods as the amounts depend upon such factors as the future price of SolarWinds' stock for purposes of computation. In addition, costs related to acquisitions are not something that SolarWinds can estimate because it is a function of what acquisitions, if any, are completed and what kinds of costs are incurred in connection with any such acquisitions.

Financial Outlook for Full Year 2010

SolarWinds management currently expects to achieve the following results for the full year 2010:

- ***Total revenue in the range of $159.0–$164.0 million***
- Non-GAAP operating income of $77.5–$80.5 million
- Non-GAAP net income of $54.0–$56.0 million
- Non-GAAP diluted earnings per share of $0.72–$0. 75
- Weighted average shares outstanding of approximately 74.8 million

Financial Outlook for the First Quarter of 2010

SolarWinds management currently expects to achieve the following results for the first quarter of 2010:

- Total revenue in the range of \$33.7–\$34.7 million
- Non-GAAP operating income of \$16.2–\$16.7 million
- Non-GAAP net income of \$11.3–\$11.7 million
- Non-GAAP diluted earnings per share of \$0.15–\$0.16
- Weighted average shares outstanding of approximately 73.8 million

32. Following the issuance of the February 8, 2010 press release, the Company hosted a conference call with analysts and investors to discuss the Company's earnings and operations. During the conference call, defendants made numerous positive statements about the Company's business, operations, and prospects. For example, Thompson discussed the Company's outlook for 2010, and stated, in pertinent part:

> We also feel positive about the potential for our US federal business in 2010. We have significantly increased the breadth of the deployment of our technologies across many areas of the Department of Defense and civilian agencies, which has resulted in an increase in the number of transactions with US federal government customers, the number of departments and projects where we are deployed and where we expect additional sales over time. This has resulted in a higher degree of consistency in our federal sales.

33. Later in the call, Thompson also stated:

> So let me try to respond to the question, and if I don't hit all the points let me know. So I think as you look at 2010, included in that 2010 guidance is that \$4 million to \$5 million of Tek-Tools revenue and a \$3 million to \$3.5 million loss from the Tek-Tools business. So inclusive of that, we will do the non-GAAP earnings per share as I indicated of \$0.72 to \$0.75. That includes that dilution -- dilutive impact of the Tek-Tools acquisition. As you look at the license and maintenance revenue line, what I will tell you is that something we are still working through. The reason is the way they priced in the past, while it has been very consistent the way we priced in terms of perpetual license with a pretty highly valued maintenance stream not quite as high as our own, they haven't had some of the clarity we have around how you contract, which then determines how and when you recognize revenue. So there is some of that we've got to clean up as we move through 2010.

> So I'll give you more clarity as we get past the end of the first quarter and on the second quarter call about how that is going to break out between license and maintenance revenue as we move through the rest of the year. There won't be a lot of Tek-Tools revenue in the first quarter as we work through those issues.

34. Thompson further responded to questions regarding licensing, by stating, in pertinent part, as follows:

> On the license revenue side we are definitely are looking at the strength we started to see in the commercial market on a global basis. We are looking at the fact that we are executing much more effectively outside North America, just one quarter in, because our new management team being in place outside the US. We are looking at the products we both have today, the products that we expect to bring to market. And that is what is giving us the confidence that the sequential growth we have been seeing will continue to play out through 2010.
>
> So it is not as much an acceleration, but more a continuation of the sequential trend that we have seen as we move through the back half of 2009 and we are moving into 2010.
>
> On the pipeline comment, as you guys know, there hasn't really been a significant change in the way we look at that piece of our business. Our pipelines go out kind of 45 to 60 days, because our deal cycle is still in that 30 to 45 to 60 days on the outside, other than US federal. And so our pipelines continue to be strong. Our pipelines are better today than they were 90 days ago, which is part of what gives us the confidence that we have that we are going to be able to show growth in 2010.
>
> And the metrics that are much further up the funnel than that in terms of Web traffic and our ability to impact Web traffic, and our ability to drive down those across the entire suite of products that we have. The fact that we have we are going to have more products to bring more people to the site, which we can then get them to download multiple products. Those are the things that we are looking at as a management team that gives us the confidence that we are going to have the kind of growth that we expect in 2010.

35. On February 24, 2010, the Company filed with the SEC its quarterly report on Form 10-K for the fiscal year ended December 31, 2009. The Company's Form 10-K was signed by Thompson and Bennett and reiterated the Company's financial results. In addition, pursuant to the SOX, the Form 10-K contained certifications signed by Thompson and Bennett stating that the Form 10-K "does not contain any untrue statement of a material fact or omit to state a material fact

necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report."

36. On April 26, 2010, SolarWinds issued a press release announcing its first quarter 2010 financial results. The Company stated, in pertinent part, as follows:

SolarWinds Announces First Quarter 2010 Results

- Record quarterly total revenue of $34.3 million, $34.8 million on a non-GAAP, constant-currency basis
- GAAP operating income of $13.4 million; Non-GAAP operating income of $16.5 million, a 39% year-over-year increase over the first quarter of 2009
- GAAP diluted earnings per share of $0.12, non-GAAP diluted earnings per share of $0.16
- Net cash provided by operating activities in the quarter of $15.9 million

* * *

Financial Results

SolarWinds reported record quarterly total revenue in the first quarter of 2010 of $34.3 million, a 43% year-over-year increase over total revenue in the first quarter of 2009. License revenue was $17.6 million in the first quarter of 2010, a 41% year-over-year increase over license revenue for the first quarter of 2009. Maintenance revenue was $16.7 million in the first quarter of 2010, a 45% year-over-year increase over maintenance revenue for the first quarter of 2009.

On a GAAP basis, operating income was $13.4 million, net income was $8.9 million and diluted earnings per share was $0.12 for the first quarter of 2010, compared to operating income of $10.0 million, net income of $3.1 million and diluted earnings per share of $0.09 for the first quarter of 2009.

Non-GAAP operating income was $16.5 million in the first quarter of 2010 compared to $11.9 million in the first quarter of 2009, representing 39% year-over-year growth. Non-GAAP net income was $11.4 million in the first quarter of 2010, or $0.16 per diluted share, compared to $7.6 million in the first quarter of 2009, or $0.12 per diluted share, representing a 51% year-over-year increase in Non-GAAP net income.

Net cash provided by operating activities was $15.9 million in the first quarter of 2010, representing a 7% increase over net cash provided by operating activities in the first quarter of 2009 and a 21% sequential increase over net cash provided by

> operating activities in the fourth quarter of 2009. Cash and cash equivalents at the end of the first quarter of 2010 were $104.1 million, a $25.7 million decrease from the end of the fourth quarter of 2009, which reflects both a $28.0 million cash payment related to the acquisition of Tek-Tools, Inc. and a $19.1 million repayment of outstanding debt obligations.
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> Information about SolarWinds' use of non-GAAP financial information is provided under "Non-GAAP Financial Measures" below.
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> * * *
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> **Financial Outlook for Full Year 2010**
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> ***SolarWinds management updates its previous outlook, raises the high end of its reported revenue outlook despite the negative impact of foreign currency rates and currently expects to achieve the following results for the full year 2010:***
>
> - ***Total revenue in the range of $159.0–$165.0 million***
> - Non-GAAP operating income of $77.5–$80.5 million
> - Non-GAAP net income of $54.0–$56.0 million
> - Non-GAAP diluted earnings per share of $0.72–$0.75
> - Approximately 75 million weighted average diluted shares outstanding

37. Following the issuance of the April 26, 2010 press release, the Company hosted a conference call with analysts and investors to discuss the Company's earnings and operations. During the conference call, defendants made numerous positive statements about the Company's business, operations, and prospects. For example, Berry discussed the Company's 2010 Outlook and stated, in pertinent part:

> ***We continue to feel positive about the potential for our US federal business in 2010. We have significantly increased the breadth of our deployment of our technologies across many areas of the Department of Defense and civil agencies, which has resulted in an increase in the number of transactions with US federal government customers and the number of departments and projects where we are installed.***
>
> However, while we did see federal government transaction volume increase in the first quarter, we are not yet ready to project growth in our federal new license sales in 2010 and so continue to model relatively flat performance in 2010 versus 2009. ***As***

> ***we have said before, we certainly will be disappointed if we do not grow the federal business in 2010, but that is our best forecast and expectation at this time.***
>
> * * *
>
> ***We expect total revenue for 2010 to be in the range of $159 million to $165 million.*** This reflects anticipated growth of 37 to 42% over 2009 total revenue of $116.4 million. ***License revenue for 2010 is expected to be in the range of $83 million to $86 million, representing a 33 to 38% increase as compared to 2009.*** Maintenance revenue is projected to be in the range of $76 million to $79 million, or a growth rate of 41 to 46% as compared to 2009.
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> * * *

38. Later in the call, Thompson and analyst Scott Zeller engaged in the following exchange:

> **Scott Zeller** - *Needham & Company - Analyst*
>
> -- Kevin? Okay. And then the follow-up to that was on government, could you remind us the percentage of either license or total revs from government? And on the big deals in government, are you noticing the change you're seeing and attributing it to seasonality? Or is it more of a permanent change in appetite for big deals?
>
> **Kevin Thompson** - *SolarWinds, Inc. - President & CEO*
>
> Yes. Let me respond to the second question first. ***I don't think there's been a change in the appetite of the federal government to deploy our technologies***. I don't think there's been a change in the projects that we've been a part of over the last several years. I think those purchases will still happen over time. I think what we've seen is a slowdown in the federal purchasing activity in late Q4, which we talked about last quarter. *We've seen that start to ramp back up*. But we're not all the way back up to the levels we were at before December. So I think those deals still come.
>
> I think we've been pretty conservative on our view of the rest of the year until we see some of those transactions start to close. We [sic] really real good about the volume-based business that we've built and the fact that that will get us to the forecast that we have for the year and still leave us the potential that we have to be able to exceed that forecast if some of these other transactions start to close.

39. On April 27, 2010, the Company announced the departure of Kenny L. Van Zant, who was the Senior Vice President and Chief Product Strategist of SolarWinds, Inc.

40. In response to the Company's press release and conference call revealing lower than expected licensing revenue for the second quarter in a row, SolarWinds' stock fell $3.81 per share or 16%, to close at $20.12 on April 27, 2010, on a 410% increase in trading volume.

41. On May 6, 2010, the Company filed its annual report for the quarterly period ended March 31, 2010 with the SEC on Form 10-Q, which was signed by Berry. In addition, the Form 10-Q contained signed certifications by Thompson and Berry, pursuant to SOX, stating that the filing "did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made."

42. On May 10, 2010, Goldman Sachs upgraded the Company's stock on valuation and added the stock to Goldman's "Conviction Buy List." Analyst Derek Bingham stated, "commercial accounts remain "very strong" even if demand remains sluggish in the federal sector. The former makes up 85% of sales."

43. On June 15, 2010, SolarWinds introduced three new board members, Mark Bonham, Roger Sippl and Lloyd Waterhouse.

44. On June 30, 2010, Bennett announced his retirement from the position of Executive Chairman and member of Board of Directors effective immediately due to personal reasons.

45. On July 21, 2010, SolarWinds issued a press release announcing its second quarter ended June 30, 2010 financial results. The Company stated, in pertinent part, as follows:

SolarWinds Announces Second Quarter 2010 Results

- Record quarterly total revenue of $35.5 million representing 31% year-over-year growth
- GAAP operating income of $12.9 million, non-GAAP operating income of $17.7 million, or 50% of revenue
- GAAP diluted earnings per share of $0.12, non-GAAP diluted earnings per share of $0.17

* * *

Financial Results

SolarWinds reported record total revenue for the second quarter of 2010 of $35.5 million, a 31% increase over total revenue in the second quarter of 2009. License revenue was $17.3 million in the second quarter of 2010, representing an 18% increase over license revenue in the second quarter of 2009. Maintenance revenue was $18.2 million in the second quarter of 2010, representing a 47% increase over maintenance revenue in the second quarter of 2009, the 13th consecutive quarter of year-over-year growth greater than 40%.

* * *

Financial Outlook

As of July 21, 2010, SolarWinds is providing its financial outlook for its third quarter of 2010 and ***updating its outlook for the full year ending December 31, 2010***. The financial information below represents forward-looking non-GAAP financial information, including an estimate of non-GAAP operating income, non-GAAP net income and non-GAAP diluted earnings per share, for the third quarter of 2010 and for the full year 2010. These non-GAAP financial measures exclude, among other items mentioned below, stock-based compensation expense. SolarWinds cannot reasonably estimate the expected stock-based compensation expense for these future periods as the amounts depend upon such factors as the future price of SolarWinds' stock for purposes of computation. In addition, costs related to non-recurring items and acquisitions are not something that SolarWinds can estimate because they are a function of what non-recurring items and acquisitions, if any, occur and the kind of costs incurred in connection with any such non-recurring items or acquisitions.

Financial Outlook for the Third Quarter of 2010

SolarWinds management currently expects to achieve the following results for the third quarter of 2010:

- Total revenue in the range of $37.0–$39.0 million
- Non-GAAP operating income representing 48%–50% of revenue
- Non- GAAP net income of $12.5–$13.5 million
- Non-GAAP diluted earnings per share of $0.165–$0.180
- Weighted average shares outstanding of approximately 74.5 million

Financial Outlook for Full Year 2010

SolarWinds is revising its outlook, previously announced on April 26, 2010, for the full year 2010 based on several factors, including:

- unfavorable trends in the exchange rate of Euros to US dollars;
- ***lengthening sales cycles to the U.S. federal government, resulting in decreased predictability of future results and an expected decline in sales to the U.S. federal government***; and
- lower expectations for the growth in European sales due to economic issues impacting both the public sector and commercial business customers in the region.

SolarWinds management currently expects to achieve the following results for the full year 2010:

- ***Total revenue in the range of $146.0–$151.0 million, or year-over-year growth of 25%–30%***
- Non-GAAP operating income representing 48%–50% of revenue
- Non-GAAP net income of $49.3–$52.2 million
- Non-GAAP diluted earnings per share of $0.67–$0.70
- Weighted average shares outstanding of approximately 74.0 million

46. Following the issuance of the July 21, 2010 press release, the Company hosted a conference call with analysts and investors to discuss the Company's earnings and operations. During the conference call, defendants made numerous positive statements about the Company's business, operations, and prospects. For example, Thompson commented on the Company's earnings, as follows:

> We're able to announce another consecutive quarter of record revenue, sequential quarterly revenue growth and strong year-over-year growth in total revenue. We finished the second quarter with total revenue of $35.5 million, and license revenue of $17.3 million. These results reflect year-over-year growth of 31% and 18%. Our customer retention rate continues to be strong, with maintenance revenue increasing by $5.8 million, or 47% as compared to the second quarter of 2009.
>
> ***Despite these positive results, we did not achieve our expectations for license revenue growth in the second quarter.*** Later in the call, I will go into more detail

about what we saw in the quarter, how it impacted our results, and the changes we have made in the business as a result. Our second-quarter 2010 growth in license sales is driven by a [42%] year-over-year increase on our commercial market sales on a global basis.

The growth in commercial license sales is greater than 25% in each of our major geographic regions, with Asia Pacific showing the most significant growth at 75%. The growth in commercial market sales is consistent with our outlook for the second quarter, but was partially ***offset by a 44% decline in our US federal government sales***. ***The decline in US federal sales, which was primarily driven by a reduction in the value of orders received from agencies and groups associated with the Department of Defense was not consistent with our outlook.***

However, despite the decline in dollar value of sales for the US federal government, we have had three consecutive quarters of increasing US federal transaction volume, which is a positive trend that we plan to build on.

* * *

We are disappointed with the lack of consistency in the pace at which transactions are moving through the US federal procurement process, and with the inability of our US federal sales management team to predict and positively influence this pace. As a result, we have made several changes to our US federal team in terms of leadership and structure to achieve better visibility and performance in this part of our business.

In addition, while we fully expect that we will close a number of project-based transactions with the US federal government in the future, consistent with what we have done in prior periods, we will no longer include these potential transactions in our forecasts of US federal sales due to their unpredictability in terms of timing and close. We will instead base our future quarterly and annual outlook for US federal sales on our high-volume transactional-based federal business which has shown very consistent growth over the last four quarters.

It is important to note that we are not making this change in our outlook because of a reduction in demand for our product in the US federal government or because we have seen any additional competitive dynamics. On the contrary, demand is growing, and we are seeing a broadening of the deployment of our products inside many different US federal government agencies through our transactional business. We believe that this transactional business will feed additional employment of our products in the future. Second, while we had positive year-over-year results from our European business, we experienced a meaningful decline in the close rate of commercial marketplace transactions in our European pipeline during the second quarter, which impacted huge sales in the month of June. This resulted in a weaker month of June in our European commercial business than we were projecting based on our second quarter 2010 download volume, historical download conversion and pipeline conversion rate and the other sales metrics that we track using our forecasting

47. Later in the call, Berry discussed the Company's licensing business:

> ***The US federal business was very soft in the second quarter, as new sales were down 44% on a year-over-year basis, and down 23% sequentially versus the first quarter of 2010.*** As Kevin mentioned, this softness was due to multiple factors, and we have implemented several actions aimed at getting this important piece of our business moving in the right direction. However, as you will see in our outlook section, as a result of these issues, we have revised the way we are forecasting our US federal business.
>
> * * *
>
> ***While US federal remains an important component of our business, we have a higher level of uncertainty related to the timing of getting transactions in our pipeline through the purchasing process, especially as it relates to license sales related to project spending, which generally have larger transaction sizes.***
>
> We believe we have significantly reduced the risk to our outlook associated with the US federal business during the back half of 2010, but I do want to point out that the run rate of the US federal business continues to perform as expected. This was evidenced in the second quarter of 2010 where even though new sales dollars were down by 23% and we did not sign any large deals, volume actually increased by 3% sequentially versus the first quarter of 2010.
>
> ***For the full year 2010, we had previously expected the dollar amount of new sales in the US federal business to be flat to slightly down from 2009, or approximately 15% of our new sales. Our current expectation is that the US federal business will represent only 10% of our new sales, which is based on transactional, volume-based US federal business only.***
>
> ***For the third quarter of 2010, our outlook reflects a decline in US federal sales of more than 50% as compared to the third quarter of 2009. This equates to a reduction in our expectations for revenue in the second half of 2010 of approximately $5 million to $6 million***. The third bucket, which represents the remainder of the reduction, is a lowering of our growth expectations related to the commercial business, the majority of which is as a result of the current economic uncertainties in many of our primary European markets.

48. On July 22, 2010, multiple analysts downgraded SolarWinds stock, including Jeffries & Co., Morgan Stanley, Needham & Company and Goldman Sachs. Most notably, Goldman Sachs downgraded SolarWinds stock to "Neutral" from "Buy" and lowered its price target from $21.50 to

$16.50 as a result of the Company's disappointing earnings. The downgrade was due to "too many explanations" and a "license miss of significant magnitude."

49. As a result of defendants' false and misleading statements and omissions, SolarWinds stock traded at artificially inflated prices during the Class Period. However, in response to the Company's press release and analyst downgrades, SolarWinds stock plummeted 23% or $3.81 per share to close at $12.71 on July 22, 2010, on an increase of 419% in trading volume.

50. The true facts, which were known to defendants but concealed from the investing public during the Class Period, were as follows: (1) defendants issued materially false and misleading statements regarding the Company's operations and its business and financial results and outlook; (2) defendants misled investors by misrepresenting and failing to disclose material problems with SolarWinds' license revenues and sales to the United States federal government, as well as material problems within the Company's sales management team that prevented SolarWinds from accurately predicting the Company's ability to make and maintain sales; and (3) as a result, defendants' statements about the Company's expected financial performance lacked a reasonable basis when made.

Additional Scienter Allegations

51. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding SolarWinds, their control over, and/or receipt and/or modification of SolarWinds' allegedly materially misleading misstatements and/or their associations

with the Company which made them privy to confidential proprietary information concerning SolarWinds, participated in the fraudulent scheme alleged herein.

52. During the Class Period, the artificially inflated price of SolarWinds common stock directly benefited the Individual Defendants, who sold 334,043 shares of stock and received insider trading proceeds of $6,852,680, as set forth below:

Michael S. Bennett:

Date	Shares	Price	Proceeds
02/16/10	40,241	$19.21	$773,030
02/16/10	19,800	$19.23	$380,754
03/17/10	40,241	$21.34	$858,743
03/17/10	19,800	$21.34	$422,532
04/14/10	40,241	$24.01	$966,186
04/14/10	19,800	$23.96	$474,408
05/11/10	40,241	$19.32	$777,456
05/11/10	19,800	$19.32	$382,536
06/09/10	40,241	$18.28	$735,605
06/09/10	19,800	$18.23	$360,954
TOTAL	**300,205**		**$6,132,205**

Kevin B. Thompson:

Date	Shares	Price	Proceeds
04/27/10	18,800	$21.49	$404,012
04/27/10	9,060	$20.44	$185,186
04/27/10	5,978	$21.96	$131,277
TOTAL	**33,838**		**$720,475**

Loss Causation/Economic Loss

53. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of SolarWinds common stock and operated as a fraud or deceit on Class Period purchasers of SolarWinds common stock by failing to disclose and misrepresenting the adverse facts detailed herein. When defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market,

the price of SolarWinds common stock fell precipitously as the prior artificial inflation came out. As a result of their purchases of SolarWinds common stock during the Class Period, Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws when the artificial inflation was removed.

54. By failing to disclose to investors the adverse facts detailed herein, defendants presented a misleading picture of SolarWinds' business and prospects. Defendants' false and misleading statements had the intended effect and caused SolarWinds common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $24.85 per share on April 15, 2010.

55. As a direct result of Defendants' disclosure on July 21, 2010, the price of SolarWinds common stock fell precipitously, falling by $3.81 per share, or 23%. This drop removed the inflation from the price of SolarWinds common stock, causing real economic loss to investors who had purchased SolarWinds common stock during the Class Period.

56. The 23% decline was a direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market through a series of partial disclosures. The timing and magnitude of the price decline in SolarWinds common stock negates any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by Plaintiff and the other Class members was a direct result of defendants' fraudulent scheme to artificially inflate the prices of SolarWinds common stock and the subsequent significant declines in the value of SolarWinds common stock when defendants' prior misrepresentations and other fraudulent conduct were revealed.

Applicability of Presumption of Reliance:
Fraud on the Market Doctrine

57. At all relevant times, the market for SolarWinds common stock was an efficient market for the following reasons, among others:

(a) SolarWinds common stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, SolarWinds filed periodic public reports with the SEC and the NYSE;

(c) SolarWinds regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) SolarWinds was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

58. As a result of the foregoing, the market for SolarWinds common stock promptly digested current information regarding SolarWinds from all publicly available sources and reflected such information in the prices of the stock. Under these circumstances, all purchasers of SolarWinds common stock during the Class Period suffered similar injury through their purchase of SolarWinds common stock at artificially inflated prices and a presumption of reliance applies.

No Safe Harbor

59. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint.

Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of SolarWinds who knew that those statements were false when made.

COUNT I

Violation of Section 10(b) of
the Exchange Act and Rule 10b-5
Promulgated Thereunder Against All Defendants

60. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

61. During the Class Period, defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

62. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

63. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for SolarWinds common stock and suffered losses when the artificial inflation was removed, as set forth herein. Plaintiff and the Class would not have purchased SolarWinds common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

64. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of SolarWinds common stock during the Class Period.

COUNT II

Violation of Section 20(a) of the Exchange Act Against the Individual Defendants

65. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

66. The Individual Defendants acted as controlling persons of SolarWinds within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of SolarWinds, and their ownership of SolarWinds stock, the Individual Defendants had the power and authority to cause SolarWinds to engage in the wrongful conduct complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: October 15, 2010

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CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

The undersigned declares, as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed the complaint and authorized its filing.

2. Plaintiff did not purchase and/or acquire the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in any private action under the federal securities laws.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary. I understand that this is not a claim form, and that my ability to share in any recovery as a member of the class is not dependent upon execution of this Plaintiff Certification.

4. Plaintiff's transactions in the security that is the subject of this action during the Class Period are as follows:

Purchases:

Name of Company	Date(s) Purchased	# Shares Purchased	Cost
SWI	7/21/10	200	16.40 ($3280)
SWI	7/22/10	100	$13.40 ($1340)
			$4620

Sales:

Name of Company	Date(s) Sold	# Shares Sold	Proceeds
SWI	7/27/10	300	$4,245

5. During the three (3) years prior to the date of this certification, Plaintiff has not sought to serve or served as a class representative in an action filed under the federal securities laws except for the following (if any):

none

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 13 day of Oct, 2010 in M SLBOURNE, FL.
City State

(Signature) X