

**UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF TEXAS  
Austin Division**

██████████ Individually and on Behalf  
of All Others Similarly Situated,

Plaintiff,

v.

SOLARWINDS, INC., KEVIN B.  
THOMPSON, and JASON REAM,

Defendants.

Case No. 15-652

**DEMAND FOR JURY TRIAL**

**CLASS ACTION COMPLAINT FOR VIOLATIONS OF  
THE FEDERAL SECURITIES LAWS**

Plaintiff ██████████ (“Plaintiff”), by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, his counsel’s investigation, which includes without limitation: (a) review and analysis of regulatory filings made by SOLARWINDS, INC. (“SolarWinds” or the “Company”), with the United States Securities and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports issued by and disseminated by SolarWinds; and (c) review of other publicly available information concerning SolarWinds.

**NATURE OF THE ACTION AND OVERVIEW**

1. This is a class action on behalf of purchasers of SolarWinds securities between April 28, 2015 and July 16, 2015, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. SolarWinds and its subsidiaries design, develop, market, sell and support enterprise-class information technology (“IT”) infrastructure management software to IT professionals in organizations of all sizes. The Company’s product offerings range from individual software tools to more comprehensive software products that solve problems encountered every day by IT professionals. The Company’s products are purportedly designed to help enable efficient and effective management of their networks, systems and application infrastructure.

3. On July 16, 2015, after the market closed, the Company disclosed its revenues for the second quarter of 2014 below analyst expectations and lowered revenue guidance for the next few quarters. According to the Company, it experienced a slower than expected growth in new license and subscription sales. The Company attributed the slowdown to the underperformance of its online marketing campaign tool, which failed to convert prospective customers and generate quality “demand capture.”

4. On this news, shares of SolarWinds declined \$11.51 per share, over 24%, to close on July 17, 2015, at \$35.54 per share, on heavy volume.

5. Throughout the Class Period, Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose, among others: (1) that the Company’s domestic business was struggling against the Company’s expectations; (2) that the Company’s license sales growth of core license products and resulting license revenue was lower than expectations and guidance; (3) that the overall quality of the “demand capture” the Company was garnering for certain core products was dropping; and, (4) that, as a result of the foregoing, Defendants’ positive statements about

the Company's business, operations, and prospects, were false and misleading and/or lacked a reasonable basis.

6. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

### **JURISDICTION AND VENUE**

7. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

8. 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 (15 U.S.C. §78aa).

9. Venue is proper in this Judicial District pursuant to 28 U.S.C. §1391(b) and Section 27 of the Exchange Act (15 U.S.C. §78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the preparation and dissemination of materially false and/or misleading information, occurred in substantial part in this Judicial District. Additionally, SolarWinds's principal executive offices are located within this Judicial District.

10. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

### **PARTIES**

11. Plaintiff ██████████ as set forth in the accompanying certification, incorporated by reference herein, purchased SolarWinds common stock during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

12. Defendant SolarWinds is a Delaware corporation with its principal executive offices located at 3711 S. MoPac Expressway, Building Two, Austin, Texas 78746.

13. Defendant Kevin B. Thompson (“Thompson”) was, at all relevant times, Chief Executive Officer (“CEO”) and a director of the Company.

14. Defendant Jason Ream (“Ream”) was, at all relevant times, Chief Financial Officer (“CFO”) of the Company.

15. Defendants Thompson and Ream are collectively referred to hereinafter as the “Individual Defendants.” The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the content of SolarWinds’s reports to the SEC, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. Each defendant was 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. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

16. SolarWinds and its subsidiaries design, develop, market, sell and support enterprise-class IT infrastructure management software to IT professionals in organizations of all sizes. The Company's product offerings range from individual software tools to more comprehensive software products that solve problems encountered every day by IT professionals. The Company's products are purportedly designed to help enable efficient and effective management of their networks, systems and application infrastructure.

### **Materially False and Misleading Statements Issued During the Class Period**

17. The Class Period begins on April 28, 2015. On this day, the Company issued a press release entitled, "SolarWinds Announces First Quarter 2015 Results." Therein, the Company, in relevant part, stated:

SolarWinds (NYSE: SWI), a leading provider of powerful and affordable IT management software, today reported results for its first quarter ended March 31, 2015.

- Total revenue for the first quarter of \$116.8 million, representing 22% year-over-year growth on a reported basis and 27% year-over-year growth on a constant currency basis.
- Combined maintenance and subscription revenue for the first quarter of \$74.4 million, representing 25% year-over-year growth in recurring revenue on a reported basis and 31% on a constant currency basis.
- License revenue for the first quarter of \$42.4 million, representing 17% year-over-year growth on a reported basis and 19% on a constant currency basis.
- GAAP diluted earnings per share of \$0.24 and non-GAAP diluted earnings per share of \$0.46 for the first quarter.
- GAAP operating income of \$24.1 million, or a GAAP operating margin of 21%, and non-GAAP operating income of \$48.0 million, or a non-GAAP operating margin of 41% for the first quarter.

### ***Financial Results***

SolarWinds reported total revenue for the first quarter of 2015 of \$116.8 million, a 22% increase on a reported basis over total revenue for the first quarter of 2014. Total revenue on a constant currency basis for the first quarter was \$121.4 million, a 27% increase over total revenue for the first quarter of 2014. Record total recurring revenue, comprised of maintenance revenue of \$63.7 million and subscription revenue of \$10.7 million, reached \$74.4 million, increasing by 25% on a reported basis over the first quarter of 2014 and increasing by 31% on a constant currency basis, and represents 64% of total revenue. License revenue was \$42.4 million for the first quarter of 2015, representing a 17% increase on a reported basis over license revenue for the first quarter of 2014 and a 19% increase on a constant currency basis.

On a GAAP basis, diluted earnings per share were \$0.24 for the first quarter of 2015 compared to \$0.23 for the first quarter of 2014. Non-GAAP diluted earnings per share were \$0.46 for the first quarter of 2015, compared to \$0.41 for the first quarter of 2014.

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### ***Recent Business Highlights***

“The first quarter was a solid start to 2015. We drove strong growth in our core network and systems management products, and in our MSP business, which contributed to healthy overall new business sales growth. We also continued to execute on our goal of becoming the IT management vendor of choice for addressing the complex, connected set of performance problems in today’s increasingly hybrid IT infrastructures by acquiring a Cloud-based log management company. We are excited about the numerous opportunities for growth that we believe lie ahead of us,” said Kevin Thompson, SolarWinds’ President and Chief Executive Officer.

Recent SolarWinds business highlights include:

- The company continued to strengthen the new SolarWinds® Cloud brand through the acquisition of Papertrail, a Cloud-based log management company, and the launch of a new user interface, Spaces, for the Librato® Cloud monitoring solution. Papertrail extends the company’s ability to help IT Pros, DevOps and developers quickly and easily monitor log data in order to troubleshoot application performance across on-premise, SaaS and Cloud-based environments like Amazon Web Services (AWS®). Librato’s user interface Spaces offers cloud developers and operations teams the ability to create and manipulate interactive dashboards of time series data and composite metrics for faster collaboration and problem resolution.

- SolarWinds also enhanced their systems management product offerings to help IT organizations ensure optimal application performance by monitoring the complete application stack (AppStack) through a single pane of glass. Specifically, the company introduced the new SolarWinds Storage Resource Monitor (SRM) and released significant updates to SolarWinds Server & Application Monitor (SAM), SolarWinds Virtualization Manager and SolarWinds Web Performance Monitor (WPM), including greater integration with SolarWinds' Orion® technology backbone and the new SolarWinds AppStack dashboard.
- SolarWinds continues to receive honors for its business and product performance. In the first quarter, SolarWinds' Europe, the Middle East and Africa (EMEA) Headquarters located in Cork, Ireland, was named Cork Company of the Year and also received the Large Company of the Year Award as part of the 2015 Cork Company of the Year Awards sponsored by the Cork Chamber. In addition, the U.K.'s Network Computing Magazine recognized SolarWinds as a finalist for Company of the Year. First quarter product accolades included a number of awards across multiple publications for SolarWinds Server & Application Monitor (SAM), SolarWinds Virtualization Manager (VM), SolarWinds Network Performance Monitor (NPM), SolarWinds Network Configuration Manager (NCM), and SolarWinds Log & Event Manager (LEM).

“We are pleased with our first quarter revenue growth of 27% on a constant currency basis. We believe these results illustrate the strength of our hybrid financial model, highlighted by a growing mix of predictable, recurring revenue, which grew 31% on a constant currency basis,” said Jason Ream, SolarWinds' Executive Vice President and Chief Financial Officer.

“In addition, despite the increased level of investment we have made in our business and in our hybrid IT management software strategy, the inherent leverage in our business model was once again reflected in non-GAAP operating margins that exceeded our outlook for the first quarter,” added Ream.

### ***Financial Outlook***

As of April 28, 2015, SolarWinds is providing its financial outlook for its second quarter of 2015 and full year of 2015. The financial information below represents forward-looking non-GAAP financial information, including an estimate of non-GAAP operating income as a percentage of revenue and non-GAAP diluted earnings per share, for the second quarter of 2015 and for the full year 2015. These non-GAAP financial measures exclude, among other items mentioned below, stock-based compensation expense and related employer-paid payroll taxes. SolarWinds cannot reasonably estimate the expected stock-based compensation expense and related employer-paid payroll taxes 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 costs 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. To determine projected revenue growth rates on a constant currency basis for the second quarter and full year 2015, expected revenue from entities reporting in foreign currencies was translated into U.S. dollars using the comparable prior year period's average foreign currency exchange rates.

***Financial Outlook for the Second Quarter of 2015***

SolarWinds' management currently expects to achieve the following results for the second quarter of 2015:

- Total revenue on a reported basis in the range of \$120.6 to \$123.8 million, or 19% to 22% growth over the second quarter of 2014. Total revenue on a constant currency basis in the range of \$127.0 to \$130.0 million, or 25% to 28% growth over the second quarter of 2014.
- Non-GAAP operating income representing approximately 40% of revenue.
- Non-GAAP diluted earnings per share of \$0.45 to \$0.47.
- Weighted average outstanding diluted shares of approximately 77.8 million.

***Financial Outlook for Full Year 2015***

SolarWinds' management currently expects to achieve the following results for the full year 2015:

- Total 2015 revenue on a reported basis in the range of \$512.0 to \$527.0 million, or 19% to 23% year-over-year growth. Total revenue on a constant currency basis in the range of \$530.0 to \$544.0 million, or 24% to 27% year-over-year growth.
- Non-GAAP operating income for the full year representing 40% to 41% of revenue.
- Non-GAAP diluted earnings per share of \$1.92 to \$2.04.
- Weighted average outstanding diluted shares of approximately 78.3 million.

18. On May 5, 2015, the Company filed its Quarterly Report with the SEC on Form 10-Q for the 2015 fiscal first quarter. The Company's Form 10-Q was signed by Defendant Ream, and reaffirmed the Company's statements previously announced on April 28, 2015.



19. The statements contained in ¶¶17-18 were materially false and/or misleading when made because defendants failed to disclose or indicate the following: (1) that the Company's domestic business was struggling against the Company's expectations; (2) that the Company's license sales growth of core license products and resulting license revenue was lower than expectations and guidance; (3) that the overall quality of the "demand capture" the Company was garnering for certain core products was dropping; and, (4) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects, were false and misleading and/or lacked a reasonable basis.

#### **Disclosures at the End of the Class Period**

20. On July 16, 2015, the Company issued a press release entitled, "SolarWinds Announces Second Quarter 2015 Results." Therein, the Company, in relevant part, stated:

SolarWinds (NYSE: SWI), a leading provider of powerful and affordable IT management software, today reported results for its second quarter ended June 30, 2015.

#### ***Financial Results***

- Total revenue for the second quarter of \$119.1 million on a reported basis and \$125.0 million on a constant currency basis, representing 17% year-over-year growth on a reported basis and 23% year-over-year growth on a constant currency basis.
- Record recurring revenue for the second quarter of \$80.5 million on a reported basis, comprising maintenance revenue of \$67.6 million and subscription revenue of \$12.9 million, and \$85.3 million on a constant currency basis, representing 26% year-over-year growth on a reported basis and 34% year-over-year growth on a constant currency basis, and representing 68% of total revenue.
- License revenue for the second quarter of \$38.6 million on a reported basis and \$39.6 million on a constant currency basis, representing 3% year-over-year growth on a reported basis and 5% year-over-year growth on a constant currency basis.
- GAAP operating income of \$27.9 million and GAAP operating margin of 24% for the second quarter of 2015 compared to GAAP operating income of \$18.2 million and GAAP operating margin of 18% for the second quarter of 2014.

- Non-GAAP operating income of \$51.5 million and non-GAAP operating margin of 43% for the second quarter of 2015 compared to non-GAAP operating income of \$42.7 million and non-GAAP operating margin of 42% for the second quarter of 2014.
- Record cash flow from operations of \$54.7 million in the second quarter of 2015 compared to \$51.0 million in the second quarter of 2014.
- GAAP diluted earnings per share of \$0.29 for the second quarter of 2015 compared to \$0.18 for the second quarter of 2014 and non-GAAP diluted earnings per share of \$0.52 for the second quarter of 2015 compared to \$0.41 for the second quarter of 2014.

### ***Recent Business Highlights***

“During the second quarter of 2015 several areas of our business performed well including our MSP and Cloud businesses, license sales in our US Federal and Asia-Pacific businesses, our installed base teams’ sales efforts and our customer retention rates. In addition, we exceeded our margin and profit outlook and generated record cash flow from operations given the strength of our unique business model,” said Kevin Thompson, SolarWinds’ President and Chief Executive Officer.

“As we look ahead to the second half of 2015, we feel confident in our ability to deliver strong growth given the size of our market opportunity and our strategy to capitalize on it as we seek to become the IT management vendor of choice for managing all things IT for IT professionals in all geographies and in companies of all sizes,” added Thompson.

Additional highlights include:

- The company took important steps to strengthen its ability to reach IT pros and provide them with the best products to manage all things IT -- from on-premise to the Cloud -- regardless of where the asset or user sits. SolarWinds added a new strategic European R&D office in Kraków, Poland, expanded a dedicated international sales team to better serve national government IT pros and added Jason Marshall as Senior Vice President, Chief Marketing Officer.
- SolarWinds also delivered important product updates. Among these enhancements, SolarWinds® Virtualization Manager now provides users the ability to perform remediation actions for performance issues in virtualized environments; SolarWinds Storage Resource Monitor added support for five market-leading storage array families; SolarWinds Network Configuration Manager now automates network vulnerability detection and security policy enforcement with remediation actions; and SolarWinds Database Performance Analyzer improved the performance management of business-critical applications whether hosted on premises, in a virtualized environment or on the Amazon Web Services® Cloud as

well as introduced new integration with SolarWinds' Orion® technology backbone, providing a single view of performance, uptime, capacity and resource utilization across the stack. Additional product updates were made to SolarWinds Web Help Desk® software and DameWare® Remote Support.

- SolarWinds and its products received recognition from several leading IT and business publications. SolarWinds systems management family of products won for overall “Application Performance Monitoring & Management” in NetworkWorld® Asia’s Information Management Awards. SC Magazine® honored SolarWinds Network Configuration Manager with “Best Risk/Policy Management Solution” and “Best SIEM Solution” for SolarWinds Log & Event Manager. In addition, Database Trends and Applications included SolarWinds on their DBTA 100 2015 list based on SolarWinds’ database performance management and optimization capabilities. Forbes® also recently ranked SolarWinds No. 19 on its list of the “Most Innovative Growth Companies.”

“Our focus on delighting our customers resulted in strong customer retention rates for maintenance and subscription in the quarter,” said Jason Ream, SolarWinds Executive Vice President and Chief Financial Officer. “In addition, our highly efficient business model allowed us to deliver a very strong quarter of earnings and cash flow in the second quarter,” added Ream.

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### ***Financial Outlook***

As of July 16, 2015, SolarWinds is providing its financial outlook for its third quarter of 2015 and full year of 2015. The financial information below represents forward-looking non-GAAP financial information, including an estimate of non-GAAP operating income as a percentage of revenue and non-GAAP diluted earnings per share, for the third quarter of 2015 and for the full year 2015. These non-GAAP financial measures exclude, among other items mentioned below, stock-based compensation expense and related employer-paid payroll taxes. SolarWinds cannot reasonably estimate the expected stock-based compensation expense and related employer-paid payroll taxes 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 costs 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. To determine projected revenue growth rates on a constant currency basis for the third quarter and full year 2015, expected revenue from entities reporting in foreign currencies was translated into U.S. dollars using the comparable prior year period’s average foreign currency exchange rates.

***Financial Outlook for the Third Quarter of 2015***

SolarWinds's management currently expects to achieve the following results for the third quarter of 2015:

- Total revenue on a reported basis in the range of \$130 to \$134 million, or 15% to 19% growth over the third quarter of 2014. Total revenue on a constant currency basis in the range of \$135 to \$138 million, or 19% to 23% growth over the third quarter of 2014.
- Non-GAAP operating income representing 41% to 42% of revenue.
- Non-GAAP diluted earnings per share of \$0.49 to \$0.53.
- Weighted average outstanding diluted shares of approximately 77.8 million.

***Financial Outlook for Full Year 2015***

SolarWinds' management currently expects to achieve the following results for the full year 2015:

- Total 2015 revenue on a reported basis in the range of \$502 to \$512 million, or 17% to 19% year-over-year growth. Total revenue on a constant currency basis in the range of \$521 to \$530 million, or 22% to 24% year-over-year growth.
- Non-GAAP operating income for the full year representing 41.5% to 42.0% of revenue.
- Non-GAAP diluted earnings per share of \$2.00 to \$2.08.
- Weighted average outstanding diluted shares of approximately 77.6 million.

21. On this news, shares of SolarWinds declined \$11.51 per share, over 24%, to close on July 17, 2015, at \$35.54 per share, on heavy volume.

**CLASS ACTION ALLEGATIONS**

22. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all those who purchased SolarWinds's securities between April 28, 2015 and July 16, 2015, inclusive (the "Class Period") 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.

23. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, SolarWinds's securities were actively traded on the New York Stock Exchange (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. Millions of SolarWinds shares were traded publicly during the Class Period on the NYSE. As of May 1, 2015, SolarWinds had 76,388,051 shares of common stock outstanding. 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.

24. 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 that is complained of herein.

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

26. 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 omitted and/or misrepresented material facts about the business, operations, and prospects of SolarWinds; and

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

27. 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 makes 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.

#### **UNDISCLOSED ADVERSE FACTS**

28. The market for SolarWinds's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, SolarWinds's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired SolarWinds's securities relying upon the integrity of the market price of the Company's securities and market information relating to SolarWinds, and have been damaged thereby.

29. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of SolarWinds's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. Said statements and omissions were materially false and/or misleading in that they failed to disclose material adverse information and/or

misrepresented the truth about SolarWinds's business, operations, and prospects as alleged herein.

30. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about SolarWinds's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

#### **LOSS CAUSATION**

31. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

32. During the Class Period, Plaintiff and the Class purchased SolarWinds's securities at artificially inflated prices and were damaged thereby. The price of the Company's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

**SCIENTER ALLEGATIONS**

33. 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/or 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, his/her control over, and/or receipt and/or modification of SolarWinds's 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.

**APPLICABILITY OF PRESUMPTION OF RELIANCE  
(FRAUD-ON-THE-MARKET DOCTRINE)**

34. The market for SolarWinds's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, SolarWinds's securities traded at artificially inflated prices during the Class Period. On April 28, 2015, the Company's stock closed at a Class Period high of \$52.19 per share. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of SolarWinds's securities and market information relating to SolarWinds, and have been damaged thereby.

35. During the Class Period, the artificial inflation of SolarWinds's stock was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or



misleading statements about SolarWinds's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of SolarWinds and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company stock. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

36. At all relevant times, the market for SolarWinds's securities was an efficient market for the following reasons, among others:

(a) SolarWinds 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/or the NYSE;

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

(d) SolarWinds was followed by securities analysts employed by brokerage firms who wrote reports about the Company, and these reports 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.

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

**NO SAFE HARBOR**

38. 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. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as "forward-looking statements" when made and 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. In the alternative, to the extent that the statutory safe harbor is determined to 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 was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of SolarWinds who knew that the statement was false when made.

**FIRST CLAIM**  
**Violation of Section 10(b) of**  
**The Exchange Act and Rule 10b-5**  
**Promulgated Thereunder Against All Defendants**

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

40. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase SolarWinds's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

41. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for SolarWinds's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

42. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about SolarWinds's financial well-being and prospects, as specified herein.

43. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a

course of conduct as alleged herein in an effort to assure investors of SolarWinds's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about SolarWinds and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

44. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

45. The defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them, including,

among other things, that certain of the Company's subsidiaries or business units were engaged in improper business practices and misrepresented the financial results, performance, and value of the Company's business units and equity investments. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing SolarWinds's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

46. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of SolarWinds's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired SolarWinds's securities during the Class Period at artificially high prices and were damaged thereby.

47. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff

and the other members of the Class and the marketplace known the truth regarding the problems that SolarWinds was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their SolarWinds securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

48. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

49. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

**SECOND CLAIM**  
**Violation of Section 20(a) of**  
**The Exchange Act Against the Individual Defendants**

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

51. The Individual Defendants acted as controlling persons of SolarWinds within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after

these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

52. In particular, each of these Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

53. As set forth above, SolarWinds and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and/or omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

#### **PRAYER FOR RELIEF**

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

- (a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
- (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.

**DEMAND FOR JURY TRIAL**

Plaintiff hereby demands a trial by jury.

DATED:

Respectfully submitted,