SolarWinds, Inc.
Form 10-Q
October 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34358

SOLARWINDS, INC.
(Exact name of registrant as specified in its charter)

Delaware	73-1559348
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3711 S. MoPac Expressway
Building Two
Austin, Texas 78746
(512) 682.9300
(Address and telephone number of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

On October 28, 2013, 75,151,734 shares of common stock, par value $0.001 per share, were outstanding.

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Safe Harbor Cautionary Statement

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. Such statements may be signified by terms such as “anticipates,” “believes,” “continues,” “estimates,” “expects,” “intend “targets,” “may,” “could,” “should,” “will,” “would” or similar expressions and the negatives of those terms. In this report, forward-looking statements include statements regarding our financial projections, future financial performance and plans and objectives for future operations including, without limitation, the following:

- Our expectation to grow our business by focusing on initiatives such as (i) expanding our web presence, brand awareness and improving our communication with prospects and our current customer base both domestically and internationally, (ii) accelerating the rate at which we are selling additional products into our install base, (iii) improving the competitive positioning of our products by investing in new product features and infrastructure, (iv) increasing our presence in several key geographic markets including Asia-Pacific, Latin America, Europe, Middle East and Africa by expanding our product portfolio, localizing marketing material, and establishing new relationships with distributors and resellers, (v) acquisitions and internal development of products that will expand our presence in current markets or new markets and (vi) international expansion company-wide at lower cost locations to drive our competitive advantage;
- Our expectation to continue to pursue acquisitions that will enable us to enter new markets, or new segments of our existing markets, by bringing new product offerings to market more quickly than we can develop them;
- Our belief that the acquisition of N-able will allow us to leverage the opportunity associated with rapidly growing adoption of the cloud and SaaS-based services among small and medium-sized businesses, or SMBs, by enhancing our remote monitoring and management offerings and adding managed service provider, or MSP, service automation to the broad range of management challenges that we address for the IT industry;
- Our belief that we can bring the key features of our operating model to the N-able business and help drive revenue growth in the remote monitoring and management market;
- Our belief that the similarities between our and Confio's respective sales and marketing models will allow us to accelerate the growth of the Confio products in the IT market;
- Our expectation to continue to generate solid growth while delivering strong operating income and to increase our cash flows from operating activities with our disciplined approach to investing in our business combined with our large market opportunity;
- The premise that we will be able to deliver ongoing value to our customers and maintain a long-term financial relationship with the users of our IT management products;
- Our expectation that our revenue growth will be approximately 22-23% for the full year of 2013;
- Our expectation that core product transaction volume growth will be the primary driver of our new license growth;
- Our expectation that our Non-GAAP operating margin will be approximately 50% for the full year of 2013;
- Our belief that IT-related trends and the limitations of existing offerings present a significant market opportunity for our products;
- Our expectation that our revenue will continue to grow as we capitalize on IT-related trends and other market opportunities through acquisitions and development;
- Our objective of targeting total new sales growth of 20% for our existing license and subscription products and new product offerings over the next three to five years;
- Our belief that there is a substantial opportunity for additional sales of our software in the Europe, Middle East and Africa, or EMEA, region, the Asian-Pacific region, and the Latin American region, and our intention to increase our sales, marketing and support operations in these regions;
- Our belief that although difficult economic conditions in certain geographic regions may adversely affect the sales of our products, such conditions also could offer us an opportunity to market and sell our products to mid-size businesses and enterprise customers at compelling prices compared to the prices of some competing products;
- Our expectation that the U.S. federal government will continue to be a significant market opportunity and our belief that the ease of deployment, power and scalability of our products gives us a competitive advantage to sell to various agencies and departments of the U.S. federal government;

- Our expectation that we will continue to experience inconsistency in the buying pattern of the U.S. federal government for larger transactions with our products;

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- Our belief that many of our larger transactions with the U.S. federal government, both new licenses and maintenance renewals, are dependent on specific projects that may not be continued at the same scale in the future due to budgetary cuts or other reasons, and the reduction or cancellation of specific projects such as these could result in our sales to the U.S. federal government growing less rapidly than expected or even decreasing;
- Our expectation that maintenance revenue will continue to increase in absolute dollars in future periods;
- Our expectation that our cost of revenue will increase in absolute dollars and fluctuate as a percentage of revenue as we acquire additional companies or technologies and as we increase our headcount to support new customers and product offerings;
- Our expectation that the N-able acquisition will increase our operating expenses in future periods;
- Our expectation that our operating expenses will continue to increase in absolute dollars as we make long-term investments in our business both domestically and internationally;
- The possibility that our operating expenses in future periods may increase in absolute dollars and fluctuate as a percentage of revenue as we acquire additional companies or technologies and integrate the businesses;
- Our intention to continue to grant equity awards to our current executives and employees and those who join us in the future through acquisitions or otherwise, which will result in additional stock-based compensation expense;
- Our expectation that we will continue to hire sales personnel in the United States and in our international sales offices to drive new license sales growth;
- Our expectation to continue to invest in our websites, online user community site and marketing programs to drive customer downloads and support our new product launches;
- Our expectation that we will continue to invest in our research and development activities by hiring engineers in our international locations, which will allow us to continue our research and development growth strategy internationally;
- Our expectation that we will incur higher administrative costs in future periods as our business continues to grow both organically and through acquisitions;
- Our expectation that our international income, as a percentage of total income, will increase and that such increase should result in a corresponding decline in our effective income tax rate;
- Our continued investment in the sales and marketing efforts that drive our revenue growth;
- Our expectation that our international cash and cash equivalents will continue to increase as a percentage of our consolidated cash and cash equivalents;
- Our intention that the earnings generated by our international operations will be invested indefinitely in those operations and our expectation that we will not repatriate those earnings to our domestic operations;
- Our estimation that our capital expenditures for the remaining three months of 2013 will be approximately $3.0 million, primarily related to purchases of equipment and software in our Austin, Czech Republic and Ireland locations to support their continued growth;
- Our expectation that our capital expenditures in the fiscal year 2014 will be approximately $10 to $15 million, primarily related to our expected growth and expansions of our corporate headquarters in Austin, Texas and our international locations;
- Our expectation that repurchases of our common stock under our share repurchase program will occur over the next nine months although the exact timing of repurchases and number of shares of common stock to be purchased will depend upon market conditions and other factors;
- Our expectation that our share repurchase program will be funded using our cash on hand, cash generated from operations or borrowings under our Credit Agreement;
- Our belief that our existing cash and cash equivalents, our cash flows from operating activities and our borrowing capacity under our Credit Agreement will be sufficient to fund our operations and our commitments for capital expenditures for at least the next 12 months; and
- Our expectation that the lease for our future corporate headquarters in Austin, Texas will commence in the second quarter of 2014 and our plans with respect to either terminating our existing lease through a settlement with our landlord or subleasing all or part of our existing corporate headquarters to a third party for the remaining lease term through May 2016.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially and adversely different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those summarized under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly reports on Form 10-Q and other documents we file with the Securities and Exchange Commission ("SEC"). Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this quarterly report on Form 10-Q. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially and adversely from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$182,831	$179,702
Short-term investments	23,276	49,276
Accounts receivable, net of allowances of $345 and $271 as of September 30, 2013 and December 31, 2012, respectively	45,544	32,506
Income tax receivable	745	142
Deferred taxes	2,030	1,712
Prepaid and other current assets	4,434	3,322
Total current assets	258,860	266,660
Property and equipment, net	8,644	8,342
Long-term investments	16,819	12,823
Deferred taxes	3,031	338
Goodwill	253,605	158,601
Intangible assets and other, net	94,099	70,631
Total assets	$635,058	$517,395
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$5,868	$4,050
Accrued liabilities	13,337	14,226
Accrued earnout	—	121
Income taxes payable	3,334	4,037
Current portion of deferred revenue	120,637	97,672
Total current liabilities	143,176	120,106
Long-term liabilities:		
Deferred revenue, net of current portion	6,685	5,084
Non-current deferred taxes	2,729	483
Other long-term liabilities	14,255	8,908
Total liabilities	166,845	134,581
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value: 123,000,000 shares authorized and 75,244,873 and 74,633,412 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	75	75
Additional paid-in capital	243,882	229,277
Accumulated other comprehensive income (loss)	1,030	(1,145)
Accumulated earnings	223,226	154,607
Total stockholders' equity	468,213	382,814
Total liabilities and stockholders' equity	$635,058	$517,395

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue:				
License	$34,358	$34,008	$96,300	$90,919
Maintenance and other	50,283	37,715	137,841	104,515
Subscription	3,222	—	4,151	—
Total revenue	87,863	71,723	238,292	195,434
Cost of license revenue	2,646	2,080	8,263	5,820
Cost of maintenance and other revenue	2,942	2,511	8,578	7,314
Cost of subscription revenue	1,511	—	2,046	—
Gross profit	80,764	67,132	219,405	182,300
Operating expenses:				
Sales and marketing	25,962	19,146	66,538	53,289
Research and development	9,558	7,214	25,622	20,814
General and administrative	13,383	9,288	34,758	26,107
Total operating expenses	48,903	35,648	126,918	100,210
Operating income	31,861	31,484	92,487	82,090
Other income (expense):				
Interest income	91	112	324	307
Other income (expense), net	(6)	90	(497)	41
Total other income (expense)	85	202	(173)	348
Income before income taxes	31,946	31,686	92,314	82,438
Income tax expense	9,123	9,200	23,695	23,394
Net income	$22,823	$22,486	$68,619	$59,044
Net income per share:				
Basic earnings per share	$0.30	$0.30	$0.91	$0.80
Diluted earnings per share	$0.30	$0.29	$0.90	$0.78
Weighted-average shares used to compute net income per share:				
Shares used in computation of basic earnings per share	75,371	74,344	75,202	74,038
Shares used in computation of diluted earnings per share	76,466	76,303	76,580	75,871

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

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SolarWinds, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income	$22,823	$22,486	$68,619	$59,044
Other comprehensive income (loss):				
Foreign currency translation adjustment	3,611	1,293	2,200	(175)
Unrealized gains (losses) on investments, net of income tax expense (benefit) of $27 and $20 for the three months ended September 30, 2013 and 2012, respectively and $(14) and $19 for the nine months ended September 30, 2013 and 2012, respectively	51	38	(25)	36
Other comprehensive income (loss)	3,662	1,331	2,175	(139)
Comprehensive income	$26,485	$23,817	$70,794	$58,905

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

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

	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities		
Net income	$68,619	$59,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,727	13,166
Provision for doubtful accounts	261	138
Stock-based compensation expense	17,143	11,368
Deferred taxes	(4,393)	(1,085)
Excess tax benefit from stock-based compensation	(7,746)	(8,921)
Premium on investments	(607)	(1,178)
Other non-cash expenses	822	908
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(9,706)	(12,344)
Income taxes receivable	133	22
Prepaid and other assets	(236)	(1,201)
Accounts payable	968	1,616
Accrued liabilities	(3,596)	2,389
Income taxes payable	11,989	13,102
Deferred revenue and other liabilities	22,225	19,225
Net cash provided by operating activities	113,603	96,249
Cash flows from investing activities		
Purchases of investments	(17,288)	(48,067)
Maturities of investments	38,674	26,750
Purchases of property and equipment	(2,963)	(3,081)
Purchases of intangible assets and other long-term investments	(8,249)	(1,068)
Acquisition of businesses, net of cash acquired	(120,868)	(48,323)
Other investing activities	579	—
Net cash used in investing activities	(110,115)	(73,789)
Cash flows from financing activities		
Repurchase of common stock	(18,351)	(1,472)
Exercise of stock options	8,124	8,662
Excess tax benefit from stock-based compensation	7,746	8,921
Earnout payments for acquisitions	—	(4,154)
Net cash provided by (used in) financing activities	(2,481)	11,957
Effect of exchange rate changes on cash and cash equivalents	2,122	(64)
Net increase in cash and cash equivalents	3,129	34,353
Cash and cash equivalents		
Beginning of period	179,702	122,707
End of period	$182,831	$157,060
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$15,737	$11,122
Non-cash financing transactions		

Accrued earnout (Note 4)	$—	$1,547

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

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SolarWinds, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

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

Basis of Presentation

We prepared our interim condensed consolidated financial statements in conformity with United States of America generally accepted accounting principles, or GAAP, and the reporting regulations of the Securities and Exchange Commission, or the SEC. They do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying condensed consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries. We have eliminated all intercompany balances and transactions.

We have made estimates and judgments affecting the amounts reported in our condensed consolidated financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The accounting estimates that require our most significant, difficult and subjective judgments include:

- the valuation of goodwill, intangibles, long-lived assets and contingent consideration, including accrued earnouts;
- revenue recognition;
- stock-based compensation;
- income taxes; and
- loss contingencies.

The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

Certain reclassifications have been made to prior periods’ financial statements to conform to the current period presentation. These reclassifications did not result in any change in previously reported net income, total assets or shareholders’ equity.

Recent Accounting Pronouncements

There have been no significant changes in recent accounting pronouncements that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 that have had a significant impact on our condensed consolidated financial statements or notes thereto.

Fair Value Measurements

We apply the authoritative guidance on fair value measurements for financial assets and liabilities that are measured at fair value on a recurring basis and non-financial assets and liabilities, such as goodwill, intangible assets and property, plant and equipment that are measured at fair value on a non-recurring basis.

The guidance establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets accessible by us.

Level 2: Inputs that are observable in the marketplace other than those inputs classified as Level 1.

Level 3: Inputs that are unobservable in the marketplace and significant to the valuation.

We determine the fair value of our available-for-sale securities based on inputs obtained from multiple pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. However, we classify all of our available-for-sale securities as being valued using Level 2 inputs. The valuation techniques used to determine the fair value of our financial instruments having Level 2 inputs are derived from unadjusted, non-binding market consensus prices that are corroborated by

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observable market data, quoted market prices for similar instruments, or pricing models. Our procedures include controls to ensure that appropriate fair values are recorded by a review of the valuation methods and assumptions. See Note 4 for a summary of our financial instruments and acquisition related contingent considerations accounted for at fair value on a recurring basis. The carrying amounts reported in our condensed consolidated balance sheets for cash, accounts receivable, accounts payable and other accrued expenses approximate fair value due to relatively short periods to maturity.

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2013 are summarized below:

(in thousands)	Unrealized Gain (Loss) on Available-for-Sale Investments, net of tax	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2012	$ 16	$(1,161)	$(1,145)
Other comprehensive gain (loss) before reclassification	(25)	2,200	2,175
Amount reclassified from accumulated other comprehensive income (loss)	—	—	—
Net current period other comprehensive income (loss)	(25)	2,200	2,175
Balance at September 30, 2013	$ (9)	$1,039	$1,030

Revenue Recognition

We derive substantially all of our revenue from the licensing of our software products, the sale of annual maintenance agreements for these products and, to a lesser extent, our subscription products and services. In accordance with current guidance, we recognize revenue for software, maintenance and subscriptions when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Our return policy generally does not allow our customers to return software products.

We generally use a purchase order, an authorized credit card, an electronic or manually signed license agreement, or the receipt of a cash payment as evidence of an arrangement. We consider delivery to have occurred and recognize revenue when risk of loss transfers to the customer, reseller or distributor or the customer has access to their subscription which is generally upon electronic transfer of the license key or password that provides immediate availability of the product to the purchaser. We account for sales incentives to customers, resellers or distributors as a reduction of revenue at the time we recognize the revenue from the related product sale. We report revenue net of any sales tax collected.

We sell our software products through our direct sales force and through our distributors and other resellers. Our distributors and resellers do not carry inventory of our software and we generally require them to specify the end-user of the software at the time of the order. If the distributor or reseller does not provide end-user information, then we will generally not fulfill the order. Our distributors and resellers have no rights of return or exchange for software that they purchase from us and payment for these purchases is due to us without regard to whether the distributors or resellers collect payment from their customers. Sales through resellers and distributors are typically evidenced by a reseller or distributor agreement, together with purchase orders or authorized credit cards on a transaction-by-transaction basis.

License Revenue. Under software revenue recognition guidance, we use the residual method to recognize revenue when a license agreement includes one or more elements to be delivered and vendor-specific objective evidence, or VSOE, of fair value for all undelivered elements exists. Because our software is generally sold with maintenance, we calculate the amount of revenue allocated to the software license by determining the fair value of the maintenance and subtracting it from the total invoice or contract amount. We establish VSOE of the fair value of maintenance services by the standard published list pricing for our maintenance renewals since we generally charge list prices for our maintenance renewals. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is generally deferred and recognized when delivery of those elements occurs or when fair value can be established. When the undelivered element for which we do not have VSOE of fair value is support, revenue for the entire arrangement is recognized ratably over the support period.

Maintenance and Other Revenue. We derive maintenance revenue from fees for software maintenance services. We typically include one year of maintenance as part of the initial purchase price of each perpetual software offering and then sell renewals of this maintenance agreement. We generally recognize maintenance revenue ratably on a daily basis over the contract period. Customers with maintenance agreements are entitled to receive unspecified upgrades or enhancements to new versions

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of their software products on a when-and-if-available basis. Other revenue is not currently significant nor do we expect it to be significant in future periods.

Subscription Revenue. We primarily derive subscription revenue from fees received from customers for time-based license arrangements and software-as-a-service, or SaaS offerings. We generally invoice subscription agreements monthly in advance over the subscription period. Subscription revenue is recognized ratably over the subscription term when all revenue recognition criteria have been met. We introduced these offerings in the second quarter of 2013 as a result of the acquisition of N-able Technologies.

2. Acquisitions

N-able Acquisition

In May 2013, we acquired N-able Technologies International, Inc., or N-able, a provider of cloud-based remote monitoring and management and service automation software serving small and medium-sized businesses, or SMBs, through the MSP channel for approximately $127.7 million in cash, including cash acquired. The acquisition increased our product offerings and we believe will allow us to leverage the opportunity associated with rapidly growing adoption of the cloud and SaaS-based services among SMBs by enhancing our remote monitoring and management offerings and adding MSP service automation to the broad range of management challenges that we address for the IT industry. The acquisition was financed with available cash and we incurred $1.0 million in acquisition related costs, which are included in general and administrative expense for the nine months ended September 30, 2013. The weighted average amortization period for the intangible assets was 6.0 years. Goodwill is not deductible for tax purposes.

The initial determination of the fair value of the assets acquired and liabilities assumed is based on a preliminary valuation and the estimates and assumptions for these items are subject to change as we obtain additional information during the measurement period. Subsequent changes to the purchase price or other fair value adjustments determined during the measurement period are recorded as an adjustment to goodwill. Measurement period adjustments for the three months ended September 30, 2013 resulted in an increase in goodwill of $0.3 million. The measurement period adjustments during the period were based on information obtained subsequent to the acquisition related to certain conditions that existed as of the acquisition date. We may have additional measurement period adjustments as we finalize the fair value of certain assets acquired and liabilities assumed.

The following table summarizes the consideration paid and the amounts recognized for the assets acquired and liabilities assumed, including measurement period adjustments:

	Fair Value (in thousands)
Current assets, including cash of $6,845	$ 11,577
Property and equipment	693
Deferred tax assets	125
Identifiable intangible assets	30,080
Goodwill	94,384
Current liabilities	(3,486)
Deferred tax liabilities	(3,846)
Deferred revenue	(1,796)
Total consideration	$ 127,731

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The following table summarizes the fair value of the acquired identifiable intangible assets and estimated useful lives:

	Fair Value (in thousands)	Useful Life (in years)
Developed product technologies	$ 17,170	5
Customer relationships	9,330	8
Customer backlog	2,170	4
Tradenames	970	8
Non-competition covenant	440	6
Total identifiable intangible assets	$ 30,080	

The amounts of revenue and net loss related to the N-able acquisition included in our condensed consolidated financial statements from the effective date of the acquisition for the nine months ended September 30, 2013 are $8.0 million and $3.1 million, respectively. We recognize revenue on the acquired products in accordance with our revenue recognition policy as described above in Note 1.

The following table presents our unaudited pro forma results of operations for the three month period ended September 30, 2012 and nine month periods ended September 30, 2013 and 2012 as if the N-able acquisition had occurred at the beginning of the earliest period presented, or January 1, 2012. The pro forma financial information illustrates the measurable effects of a particular transaction, while excluding effects that rely on highly judgmental estimates of how operating decisions may or may not have changed as a result of that transaction. Accordingly, we adjusted the pro forma results for quantifiable items such as the amortization of acquired intangible assets and the estimated income tax provision of the pro forma combined results. The N-able pro forma results were not adjusted for post-acquisition operational decisions made by management such as changes in the product offerings, pricing and packaging of the products. We prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisition had taken place on January 1, 2012, or of any future results.

	Three months ended September 30,	Nine months ended September 30,	
	2012	2013	2012
(in thousands, except per share data)	Pro Forma	Pro Forma	
Revenue	$77,846	$250,971	$212,055
Net Income	21,532	64,829	55,939

The following table reflects the changes in goodwill for the nine months ended September 30, 2013:

(in thousands)	
Balance at December 31, 2012	$158,601
Acquisitions	94,384
Foreign currency translation and other adjustments	620
Balance at September 30, 2013	$253,605

Goodwill and indefinite-lived intangibles are assessed at the consolidated level for impairment in the fourth quarter of each year or more frequently if events or changes in circumstances indicate that impairment may exist. We evaluate long-lived assets, including identifiable definite-lived intangibles and other assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. As of September 30, 2013, there were no indicators of impairment identified as a result of our review of events and circumstances related to our goodwill, indefinite-lived intangible assets or long-lived assets.

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3. Investments

Our cash and cash equivalents as of September 30, 2013 and December 31, 2012 consisted of demand deposit accounts and money market funds. The following table summarizes our cash and cash equivalents:

(in thousands)	September 30, 2013	December 31, 2012
Demand deposit accounts	$124,420	$82,195
Money market funds	58,411	97,507
Total cash and cash equivalents	$182,831	$179,702

Our short-term and long-term investments as of September 30, 2013 and December 31, 2012 consisted primarily of available-for-sale securities, such as corporate bonds, municipal bonds and commercial paper. The following table summarizes our short-term and long-term available-for-sale securities as of September 30, 2013 and December 31, 2012:

	September 30, 2013				December 31, 2012			
(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments:								
Available-for-sale securities:								
Corporate bonds	$20,216	$16	$(3)	$20,229	$22,206	$16	$(14)	$22,208
Municipal bonds	1,047	1	—					