

NETSCOUT SYSTEMS INC  
Form 10-Q  
August 10, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0000-26251

**NETSCOUT SYSTEMS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**04-2837575**  
(IRS Employer

**Incorporation or Organization)**

**Identification No.)**

**310 Littleton Road, Westford, MA 01886**

**(978) 614-4000**

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. 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES  NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, as of August 7, 2009 was 40,357,526.

**Table of Contents**

**NETSCOUT SYSTEMS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2009**

**TABLE OF CONTENTS**

**PART I: FINANCIAL INFORMATION**

***Item 1. Unaudited Financial Statements:***

Condensed Consolidated Balance Sheets: As of June 30, 2009 and March 31, 2009 3

Condensed Consolidated Statements of Operations: For the three months ended June 30, 2009 and 2008 4

Condensed Consolidated Statements of Cash Flows: For the three months ended June 30, 2009 and 2008 5

Notes to Condensed Consolidated Financial Statements 6

***Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*** 16

***Item 3. Quantitative and Qualitative Disclosures About Market Risk*** 27

***Item 4. Controls and Procedures*** 27

**PART II: OTHER INFORMATION**

***Item 1. Legal Proceedings*** 28

***Item 1A. Risk Factors*** 28

***Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*** 28

***Item 6. Exhibits*** 28

**SIGNATURES** 29

**EXHIBIT INDEX** 30

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. Unaudited Financial Statements****NetScout Systems, Inc.****Condensed Consolidated Balance Sheets****(In thousands, except share and per share data)****(Unaudited)**

	<b>June 30, 2009</b>	<b>March 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 75,733	\$ 82,222
Marketable securities	37,032	24,162
Accounts receivable, net of allowance for doubtful accounts of \$584 and \$572 at June 30, 2009 and March 31, 2009, respectively	29,016	39,827
Inventories	7,260	6,850
Refundable income taxes	6,650	8,389
Deferred income taxes	2,796	2,796
Prepaid expenses and other current assets	5,108	4,939
<b>Total current assets</b>	<b>163,595</b>	<b>169,185</b>
Fixed assets, net	13,279	13,848
Goodwill	128,177	128,177
Acquired intangible assets, net	58,125	59,610
Deferred income taxes	34,181	34,941
Long-term marketable securities	28,798	29,528
Other assets	1,260	1,445
<b>Total assets</b>	<b>\$ 427,415</b>	<b>\$ 436,734</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 6,946	\$ 6,385
Accrued compensation	12,205	23,156
Accrued other	5,132	5,407
Income taxes payable	3,122	1,702
Current portion of long-term debt	13,144	10,000
Deferred revenue	66,279	70,815
<b>Total current liabilities</b>	<b>106,828</b>	<b>117,465</b>
Other long-term liabilities	730	771
Accrued long-term retirement benefits	1,424	1,330
Long-term deferred revenue	8,958	8,937
Long-term debt, net of current portion	76,856	82,500
<b>Total liabilities</b>	<b>194,796</b>	<b>211,003</b>

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Commitments and contingencies (Note 9)

Stockholders' equity:

Preferred stock, \$0.001 par value:

5,000,000 shares authorized; no shares issued or outstanding at June 30, 2009 and March 31, 2009

Common stock, \$0.001 par value:

150,000,000 shares authorized; 44,866,417 and 44,811,729 shares issued and 40,334,400 and 40,279,712 shares outstanding at June 30, 2009 and March 31, 2009, respectively

	45	45
Additional paid-in capital	194,632	192,844
Accumulated other comprehensive loss	(1,598)	(1,461)
Treasury stock at cost, 4,532,017 shares at June 30, 2009 and March 31, 2009	(28,939)	(28,939)
Retained earnings	68,479	63,242

Total stockholders' equity	<b>232,619</b>	<b>225,731</b>
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Total liabilities and stockholders' equity	<b>\$ 427,415</b>	<b>\$ 436,734</b>
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

## NetScout Systems, Inc.

## Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,	
	2009	2008
Revenue:		
Product	\$ 28,391	\$ 34,917
Service	29,671	25,690
Total revenue	58,062	60,607
Cost of revenue:		
Product <sup>(1)</sup>	7,259	10,346
Service <sup>(1)</sup>	4,909	4,992
Total cost of revenue	12,168	15,338
Gross profit	45,894	45,269
Operating expenses:		
Research and development <sup>(1)</sup>	9,218	10,173
Sales and marketing <sup>(1)</sup>	22,106	24,059
General and administrative <sup>(1)</sup>	5,230	6,532
Amortization of acquired intangible assets	490	490
Total operating expenses	37,044	41,254
Income from operations	8,850	4,015
Interest and other income (expense), net:		
Interest income	277	662
Interest expense	(1,087)	(2,001)
Other income (expense), net	91	(413)
Total interest and other income (expense), net	(719)	(1,752)
Income before income tax expense	8,131	2,263
Income tax expense	2,894	766
Net income	\$ 5,237	\$ 1,497
Basic net income per share	\$ 0.13	\$ 0.04
Diluted net income per share	\$ 0.13	\$ 0.04
Weighted average common shares outstanding used in computing:		
Net income per share - basic	40,309	38,954

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Net income per share - diluted	41,119	40,504
(1) Share-based compensation expenses included in these amounts are as follows:		
Cost of product revenue	\$ 28	\$ 26
Cost of service revenue	56	40
Research and development	308	311
Sales and marketing	556	530
General and administrative	335	284
Total share-based compensation expense, before income tax effect	\$ 1,283	\$ 1,191

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

**Table of Contents****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,237	\$ 1,497
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	3,599	3,456
Loss on disposal of fixed assets	19	333
Inventory write-down	110	
Share-based compensation expense associated with equity awards	1,283	1,191
Deferred income taxes	833	67
Changes in assets and liabilities, net of the effects of acquisitions		
Accounts receivable	10,811	5,615
Inventories	(112)	(507)
Refundable income taxes	1,739	(593)
Prepaid expenses and other current assets	(189)	6,727
Other assets	185	443
Accounts payable	561	(1,888)
Accrued compensation and other expenses	(11,173)	(5,192)
Income taxes payable	1,420	225
Deferred revenue	(4,515)	(362)
<b>Net cash provided by operating activities</b>	<b>9,808</b>	<b>11,012</b>
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	(13,458)	(1,327)
Proceeds from maturity of marketable securities	1,128	3,062
Purchase of fixed assets	(1,972)	(1,297)
<b>Net cash (used in) provided by investing activities</b>	<b>(14,302)</b>	<b>438</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	86	1,220
Repayment of long-term debt	(2,500)	(1,250)
Excess tax benefit from stock options exercised	419	297
<b>Net cash (used in) provided by financing activities</b>	<b>(1,995)</b>	<b>267</b>
Effect of exchange rate changes on cash and cash equivalents		289
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,489)</b>	<b>12,006</b>
Cash and cash equivalents, beginning of period	82,222	56,702
<b>Cash and cash equivalents, end of period</b>	<b>\$ 75,733</b>	<b>\$ 68,708</b>

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





**Table of Contents**

**NetScout Systems, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements as of June 30, 2009 and for the three months ended June 30, 2009 and 2008 have been prepared by NetScout Systems, Inc., or NetScout or the Company, in accordance with generally accepted accounting principles, or GAAP, for interim financial reports and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles have been condensed or omitted pursuant to such regulations. In the opinion of the Company's management, the unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's financial position, results of operations and cash flows. The results of operations for the three months ended June 30, 2009 are not necessarily indicative of the results of operations for the year ending March 31, 2010. The balance sheet at March 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009, as filed with the Securities Exchange Commission, or SEC, on June 1, 2009.

We have evaluated subsequent events through August 10, 2009, the date on which the financial statements were issued. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in these financial statements.

**2. Concentration of Credit Risk and Significant Customers**

Financial instruments, which include cash, cash equivalents, short-term marketable securities, accounts receivable and accounts payable are stated at fair value. Long-term marketable securities, which consist of auction rate securities, are stated at fair value based on discounted cash flow calculations. At June 30, 2009 and March 31, 2009, no one customer or channel partner accounted for more than 10% of the accounts receivable balance. During the three months ended June 30, 2009 and 2008 no one direct customer or indirect channel partner accounted for more than 10% of total revenue. Historically, the Company has not experienced any significant non-performance by its customers nor does the Company anticipate non-performance by its customers in the future and, accordingly, the Company does not require collateral from such instruments.

**3. Share-Based Compensation**

The 1999 Stock Option Plan and the 2007 Equity Incentive Plan, which replaced the 1999 Stock Option Plan effective as of September 12, 2007, permit the granting of stock options, restricted stock and restricted stock units, collectively referred to as share-based awards. Periodically, the Company grants share-based awards to employees, officers and directors of the Company and its subsidiaries. The Company accounts for these share-based awards in accordance