NETSCOUT SYSTEMS INC
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
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 000-26251

NETSCOUT SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	04-2837575
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer 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 x 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 x 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	x	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 x

The number of shares outstanding of the registrant's common stock, par value $0.001 per share, as of October 29, 2015 was 99,131,910.

NETSCOUT SYSTEMS, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2015
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PART I: FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements
NetScout Systems, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2015 (Unaudited)	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$215,539	$104,893
Marketable securities	103,138	101,392
Accounts receivable and unbilled costs, net of allowance for doubtful accounts of $8,984 and $173 at September 30, 2015 and March 31, 2015, respectively	165,092	82,226
Inventories	71,066	12,130
Prepaid income taxes	40,694	1,393
Deferred income taxes	29,796	21,755
Prepaid expenses and other current assets (related party balances of $53,702 and $0, respectively)	72,218	13,495
Total current assets	697,543	337,284
Fixed assets, net	60,398	23,864
Goodwill	1,702,705	197,445
Intangible assets, net	1,102,717	50,180
Deferred income taxes	412	—
Long-term marketable securities	32,708	58,572
Other assets	7,588	1,704
Total assets	$3,604,071	$669,049
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable (related party balances of $7,513 and $0, respectively)	$37,425	$13,077
Accrued compensation	73,482	36,553
Accrued other	27,660	14,474
Income taxes payable	—	107
Deferred tax liability	2,252	—
Deferred revenue and customer deposits	233,405	123,422
Total current liabilities	374,224	187,633
Other long-term liabilities	5,445	1,995
Deferred tax liability	328,010	10,639
Accrued long-term retirement benefits	28,988	1,587
Long-term deferred revenue and customer deposits	39,224	26,961
Long-term debt	250,000	—
Contingent liabilities, net of current portion	4,560	4,484
Total liabilities	1,030,451	233,299
Commitments and contingencies (Note 11)		
Stockholders’ equity:		
Preferred stock, $0.001 par value:		
5,000,000 shares authorized; no shares issued or outstanding at September 30, 2015 and March 31, 2015	—	—

Common stock, $0.001 par value:		
150,000,000 shares authorized; 113,858,772 and 50,812,548 shares issued and 99,131,910 and 40,807,805 shares outstanding at September 30, 2015 and March 31, 2015, respectively	114	51
Additional paid-in capital	2,619,418	298,101
Accumulated other comprehensive loss	(2,914)	(4,645)
Treasury stock at cost, 14,726,862 and 10,004,743 shares at September 30, 2015 and March 31, 2015, respectively	(354,511)	(169,516)
Retained earnings	311,513	311,759
Total stockholders’ equity	2,573,620	435,750
Total liabilities and stockholders’ equity	$3,604,071	$669,049

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

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NetScout Systems, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Product	$174,899	$57,953	$228,492	$122,319
Service	86,211	45,646	133,361	89,132
Total revenue	261,110	103,599	361,853	211,451
Cost of revenue:				
Product (related party balances of $7,728, $0, $7,728 and $0, respectively)	75,421	12,939	87,919	26,705
Service (related party balances of $2,492, $0, $2,492 and $0, respectively)	24,766	8,656	33,564	17,486
Total cost of revenue	100,187	21,595	121,483	44,191
Gross profit	160,923	82,004	240,370	167,260
Operating expenses:				
Research and development (related party balances of $10,814, $0, $10,814 and $0, respectively)	65,896	19,241	83,954	38,008
Sales and marketing (related party balances of $9,078, $0, $9,078 and $0, respectively)	79,153	32,196	117,245	69,468
General and administrative (related party balances of $7,063, $0, $7,063 and $0, respectively)	41,301	11,067	51,400	19,820
Amortization of acquired intangible assets	9,843	856	10,652	1,718
Total operating expenses	196,193	63,360	263,251	129,014
Income (loss) from operations	(35,270)	18,644	(22,881)	38,246
Interest and other income (expense), net:				
Interest income	172	98	330	202
Interest expense	(1,786)	(196)	(1,978)	(390)
Other income (expense), net (related party balances of $383, $0, $383 and $0, respectively)	786	(445)	674	(486)
Total interest and other expense, net	(828)	(543)	(974)	(674)
Income (loss) before income tax expense (benefit)	(36,098)	18,101	(23,855)	37,572
Income tax expense (benefit)	(28,183)	6,868	(23,609)	14,863
Net income (loss)	$(7,915)	$11,233	$(246)	$22,709
Basic net income (loss) per share	$(0.09)	$0.27	$0.00	$0.55
Diluted net income (loss) per share	$(0.09)	$0.27	$0.00	$0.54
Weighted average common shares outstanding used in computing:				
Net income per share - basic	91,410	41,060	66,232	41,071
Net income per share - diluted	91,410	41,652	66,232	41,732

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

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NetScout Systems, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(7,915)	$11,233	$(246)	$22,709
Other comprehensive income:				
Cumulative translation adjustments	(124)	(1,675)	853	(2,107)
Changes in market value of investments:				
Changes in unrealized (losses) gains	117	(23)	58	21
Total net change in market value of investments	117	(23)	58	21
Changes in market value of derivatives:				
Changes in market value of derivatives, net of benefits of ($187), ($360), ($204) and ($272)	(340)	(603)	(313)	(467)
Reclassification adjustment for net gains (losses) included in net income, net of taxes (benefits) of $177, $51, $657 and ($14)	291	81	1,133	(23)
Total net change in market value of derivatives	(49)	(522)	820	(490)
Other comprehensive income (loss)	(56)	(2,220)	1,731	(2,576)
Total comprehensive income (loss)	$(7,971)	$9,013	$1,485	$20,133

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

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NetScout Systems, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands, except share data)
(Unaudited)

	Common stock		Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Treasury stock		Retained Earnings	Total Stockholders' Equity
	Shares	Par Value			Shares	Stated Value		
Balance, March 31, 2014	49,922,959	$50	$273,574	$2,772	8,757,175	$(117,802)	$250,567	$409,161

nGenius Flow Recorder and our acc
Quantiva, furthers our strategy to de
customers. We also introduced a ne
Manager Appliance for NetFlow fo
analyzing of large Cisco NetFlow-e
Appliance is security-hardened and
data from large deployments of Cis
nGenius Performance Manager App
Windows 2003 or Red Hat Linux p
collected from thousands of NetFlo
Performance Manager Standby Serv
high-availability of their business n
crisis. Addressing large commercial
regulated requirements for business
the *nGenius* Standby Server will he
and application activity during a cri
applications are on-line, which sites
business, and how business services
networks and systems. The *nGenius*
maintains a frequently updated, rep
performance data and configuration
becomes unavailable, the administra
to assume control of all performanc
also featured the release of our *nGe*
the performance management of hig
nGenius OC-48 probe addresses wi
converged IP-based voice, data, and
third-generation networks.

Critical Accounting Policies

NetScout considers accounting policies rela
accounts receivable, valuation of inventorie
capitalization of software development cost
income taxes to be critical in fully understa

Revenue Recognition

Product revenue consists of sales of our har
products. Product revenue is recognized up
arrangement exists, title and risk of loss hav
determinable and collection of the related r

Service revenue consists primarily of fees f
training. NetScout generally provides three
hardware support as part of product sales. R
ratably over the three-month support period
recognized ratably over the 12-month suppo
support periods the customer may elect to p
typically runs for an additional 12 months.
recognized ratably over the support period.
recognized as the work is performed.

License and royalty revenue consists prima
equipment manufacturers that incorporate c
their own products or reproduce and sell ou
when delivery of the original equipment ma
become contractually entitled to receive lic
determinable and collection is probable. Ro
product shipments by the license holder.

Multi-element arrangements are customer p
service offerings that may be delivered at v
arrangements, each element of the purchase
is allocated to the undelivered elements, pri
vendor-specific objective evidence of fair v
method, the remaining portion of the purcha
generally hardware and licensed software p
within the contract for each element. Vendo
undelivered elements is based on the price

Allowance for Doubtful Accounts Receiva

Accounts receivable is reduced by an allow
terms are net 30 days. We monitor all accou
any collection issues as they arise. We belie
industry terms and business risk. At March
accounts receivable balance. At March 31,
10% of our accounts receivable balance. Hi
non-performance by our customers nor do
the future and, accordingly, typically we do
occasions we will require select internationa
perform credit checks on all potential new
maintain allowances for doubtful accounts
customers to make their required payments
administrative expenses. As of March 31, 2
was $44,000 and $34,000, respectively. The
judgments and estimates of the uncollectabi
debts, customer credit-worthiness, current e
Significant judgments and estimates are ma
accounts. If these accounting judgments an
financial results could be materially and adv

Valuation of Inventories

Inventories are stated at the lower of actual
by using the first-in, first-out (FIFO) me
finished goods. Inventory carrying values a
of March 31, 2006 and 2005, we recorded r
$587,000, respectively. We regularly monit
inventory. Our net realizable value adjustm
sales, expected timing and impact of new pr
current economic trends, expected market a
buying patterns. We adjust the cost basis of
net realizable value. Significant

judgments and estimates are made when est
these accounting judgments and estimates p
results could be materially and adversely in

Valuation of Goodwill and Other Intangib

The carrying value of goodwill was $36.6 n
2005, respectively. The increase of $7.7 mi
NetScout over the fair value of tangible and
April 14, 2005, the closing date of the acqu
the enterprise-level at least annually or mor
indicating that the recorded goodwill may b
exceeds its fair value, the implied fair value
goodwill. If the carrying value of goodwill
recorded in an amount equal to that excess.

We consider the market capitalization of ou
stockholders equity as one indicator that n
analysis. At times, the market capitalization
below our stockholders equity; however,
our stockholders equity would necessarily
trends or decrease in customer demand resu
sustained period in the future, we would ne
judgments and estimates are made when as
and estimates prove to be materially inaccu
our financial results could be materially and
future event or circumstance indicates that
determined to be impaired, our financial res
future periods. As of March 31, 2006, based
been no goodwill impairment.

The carrying value of other intangible asset
2005, respectively. We account for our othe
value of other intangible assets acquired in
purchase method of accounting at their esti
amortize other intangible assets over their e
Company s other intangible assets include
from the acquisition of Quantiva s business

In-process research and development was $
the acquisition of Quantiva s business. In-p
valued by management with the assistance
assigned to in-process research and develop
projects that would be continued and for wh
established as of the acquisition date and w
approach, as represented by time invested b
in-process research and development. We re
valuation methodology. However, due to th
meaningful cash flow projection could not

determined to be most appropriate.

Capitalization of Software Development C
Software

Costs incurred in the research and developm
small point releases and small product enha
year, are expensed as incurred. Costs associ
expensed prior to establishment of technolo
Accounting for the Costs of Computer So
and capitalized thereafter, until the related s

customer shipment. Judgment is required in
feasibility has been met. Future major produ
Performance Manager 2.0 release in fiscal y
of SFAS No. 86. Amortization of capitalize
revenue on a straight-line basis over two ye
accordance with SFAS No. 86.

As of March 31, 2006, capitalized software
accumulated amortization of such costs was
costs of $312,000. Capitalized software dev
assessment of recoverability based upon an
and changes in product technologies. Unam
are determined to be in excess of the net rea
expensed in the period in which such a dete
estimates are made when assessing the net r
development costs. If our accounting judgm
inaccurate, we may expense such software c
results could be materially and adversely in
ended March 31, 2006, NetScout met techn
product. Capitalized costs to date include pa
are directly associated with and devote time
development tasks eligible for capitalization
infrastructure, testing and project managem
costs are not capitalized. As of March 31, 2
nGenius Analytics product totaled $312,000
be recorded on a straight-line basis over tw
general public which is anticipated to be in

During the twelve months ended March 31,
purchased software obtained in connection
Purchased capitalized software is included
net. Amortization of capitalized purchased
three years from the date of the purchase. A
ended March 31, 2006. The Company cons
alternative for amortizing these costs and d
preferable given the amount of subjectivity
related to the acquired Quantiva software.

NetScout is implementing a new Enterprise
manage better the growth and increasing co
effectiveness and efficiency of our internal
are incurred in the procurement and develop
accordance with SOP 98-1 (Accounting fo
Obtained for Internal Use). Preliminary pr
expensed as incurred. Once we executed co
the software system, capitalization of eligib
paid for the purchase of software, fees paid
software during the application developmen
employees who are directly associated with
working on software development tasks suc
infrastructure, testing and project managem
costs are not capitalized. As of March 31, 2
system implementation totaled $1.8 million
recorded on a straight-line basis over five y

ready for its intended use, which is currentl

Income Taxes

NetScout estimates the quarterly income ta
tax rate. Significant judgments and estimate
annual effective tax rate. In addition, we ma
exposures involving our tax positions. Our

estimate of the value of our tax reserves co
judgments about the interpretation of statut
these judgments and estimates prove to be
significantly and our financial results could

NetScout recognizes deferred income tax a
the financial statement carrying amounts an
acquired or incurred net operating loss carr
likelihood that our deferred income tax ass
and, to the extent that recovery is not belie
is established. All available evidence, both
determination of recording a valuation allo
ongoing tax planning strategies when asses
future taxable income will be sufficient to
assets.

As of March 31, 2006, deferred income tax
$381,000 of federal net operating loss carr
development tax credits, which begin to ex
temporary book and tax accounting differe
and estimates are made when determining
income tax assets will not be realized and,
judgments and estimates prove to be mater
required and our financial results could be
we determine that we will not be able to re
future, an adjustment to the deferred incom
the period such determination is made.

Results of Operations

The following table sets forth, for the perio
certain line items included in our Statement

NetSco

Stateme

Percentag

Revenue:
Product
Service
License and royalty
Total revenue
Cost of revenue:
Product
Service
Total cost of revenue
Gross margin
Operating expenses:
Research and development
Sales and marketing
General and administrative
Amortization of other intangible assets
In-process research and development
Total operating expenses
Income (loss) from operations
Interest income and other expenses, net
Income (loss) before income tax expense (b
Income tax expense (benefit)
Net income (loss)

Fiscal Years Ended March 31, 2006 and 2

Revenue

Product revenue consists of sales of our har
products. Service revenue consists of custo
License and royalty revenue consist of roya
equipment manufacturers who incorporate
their own products or who reproduce and se
indirect channel partner accounted for more
ended March 31, 2006 and 2005.

Revenue:
Product
Service
License and royalty
Total revenue

Product. The 24% or $12.2 million increase
software products, was primarily due to an
price per unit due to product mix during the
of approximately 10% in unit sales.

Service. The 6% or $2.0 million increase in
the number of customer support agreements
continued renewals of customer support agr
Certain older probe products were removed
others will be removed in fiscal year 2007.

License and royalty. The 89% or $1.6 milli
primarily due to Cisco s discontinuation of
There will be no future royalty revenue fro

Total product and service revenue from dire
royalty revenue from indirect channels are a

	Fis
	2
Channel mix:	
Indirect	$ 59,62
Direct	38,25
Total Revenue	$ 97,87

Revenue from indirect channels increased 2
domestically and internationally.

Sales outside North America are primarily
are generally responsible for distributing ou
service to customers within their territory. A
States dollars. Our reported international re
customers outside North America that are s
channel partners. These domestic resellers f
efforts in conjunction with our direct sales f
international locations; however, we report
NetScout ships the products to a domestic l

Revenue was distributed geographically as

	Fi
	2
Geographic mix:	
North America	$ 77,8
International:	
Europe Middle East Africa	14,7
Asia Pacific Other	5,2
Subtotal International:	20,0
Total Revenue	$ 97,8

Revenue from sales outside North America
marketing focus in international regions. No
America to continue to account for a signifi

Cost of Revenue and Gross Profit

Cost of product revenue consists primarily
duplication, manuals, packaging materials,
of capitalized software. Cost of service reve
overhead and support costs.

Cost of revenue:
Product
Service
Total cost revenue
Gross profit:
Product $
Product %
Service $
Service %
License and royalty $
License and royalty %
Total gross profit $
Total gross margin %

Product. The 15% or $2.4 million increase
24% or $12.2 million increase in product re
cost per unit during fiscal year 2006. In add
recorded $259,000 in inventory write-down
percentage increased by 3 points to 71% fro
revenue increases and due to the mix of hig
ended March 31, 2006.

Service. The 12% or $544,000 increase in c
$429,000 increase in personnel costs due to
incentive compensation and a $56,000 incre
increase in service gross profit corresponds
revenue offset by the 12% or $544,000 incr

Gross profit. Our gross profit in absolute do
was primarily due to the $12.2 million incre
$2.4 million increase in product costs and th
the associated $544,000 increase in service
gross profit was the $1.6 million decrease in

Operating Expenses

Research and development. Research and d
expenses, fees for outside consultants, over
development of new products and the enhan

	Fiscal
	2006
	(D
	Re
Research and development	$ 18,141

The 8% or $1.4 million increase in research
$1.4 million increase in personnel expenses
including an increase in employee incentive
associated with the four persons hired in co
and other limited hiring. Average headcoun
the fiscal years ended March 31, 2006 and 2

Sales and marketing. Sales and marketing e
overhead and other expenses associated wit

seminars, advertising and new product laun

	Fiscal
	2006
	(D %Re
Sales and marketing	$ 40,467

The 10% or $3.6 million increase in total sa
$2.2 million increase in sales commission e
attainment and higher attainment of sales in
travel, and a $229,000 increase in stock-bas
sales and marketing was 145 and 147 for th
respectively.

General and administrative. General and ac
personnel expenses for executive, financial,
other corporate expenditures.

	Fisca
	2006
	(I
	R
General and administrative	$ 8,873

The 9% or $738,000 increase in general and
$559,000 increase in personnel expenses m
support compliance with Sarbanes-Oxley, a
increase in employee incentive compensatio
expense was also due to a $131,000 increas
headcount in general and administrative wa
2006 and 2005, respectively.

Amortization of other intangible assets. Am
acquisition of Quantiva s business in the fi

	Fi
Amortization of other intangible assets	$ 149

In-process research and development. In-pr
various projects and technologies acquired
technological feasibility had not been estab
alternative future use.

	Fi

In-process research and development	$ 143

Interest Income and Other Expenses, Ne

Interest income includes interest earned on
and restricted investments. Other expenses,
and various interest expense.

	Fisca
	2005
	(D
	R
Interest income and other expenses, net	$ 2,627

The 150% or $1.6 million increase in intere
to higher market interest rates on cash, cash

Income Tax Expense

The annual effective tax rate for the fiscal y
tax rate of 24.9% for the fiscal year 2005. C
the federal statutory and state tax rates prim
credits. We recorded a discrete income tax l
March 31, 2005 as a result of the resolution
benefit significantly lowered our annual eff

	Fisca
	2006
	(I
	I
Income tax expense	$ 3,366

Net Income

Net income for the fiscal years ended Marc

	Fiscal
	2006
	(D
	Re
Net income	$ 5,797

The $2.9 million increase in net income dur
mainly attributable to the increases in produ
million, respectively, partially offset by a de
increase in personnel costs of $2.0 million,
an increase in income tax expense of $2.4 n

Fiscal Years Ended March 31, 2005 and

Revenue

Product revenue consists of sales of our har
products. Service revenue consists of custor
License and royalty revenue consist of roya
equipment manufacturers who incorporate o
their own products or who reproduce and se
indirect channel partner accounted for more
ended March 31, 2005 and 2004.

Revenue:
Product
Service
License and royalty
Total revenue

Product. The 24% or $9.9 million increase
software products, was primarily due to an
per unit due to product mix during the fisca
approximately 14% in unit sales.

Service. The 13% or $3.8 million increase i
in the number of customer support agreeme
continued renewals of customer support agr

License and royalty. The 1% or $23,000 de
due to a decrease in unit sales by Cisco.

Total product and service revenue from dire
royalty revenue from indirect channels are a

	Fi
	2
Channel mix:	
Indirect	$ 46,83
Direct	38,38
Total Revenue	$ 85,21

Revenue from indirect channels increased 3
domestically and internationally.

Sales outside North America are primarily c
are generally responsible for distributing ou
service to customers within their territory. A
States dollars. Our reported international re
customers outside North America that are s
channel partners. These domestic resellers f
efforts in conjunction with our direct sales f
international locations; however, we report
NetScout ships the products to a domestic l

Revenue was distributed geographically as

Geographic mix:	
North America	$
International:	
Europe Middle East Africa	
Asia Pacific Other	
Subtotal International:	
Total Revenue	$

Revenue from sales outside North America
marketing focus in international regions.

Cost of Revenue and Gross Profit

Cost of product revenue consists primarily
duplication, manuals, packaging materials,
of capitalized software. Cost of service reve
overhead and support costs.

Cost of revenue:	
Product	$
Service	
Total cost revenue	$
Gross profit:	
Product $	$
Product %	
Service $	
Service %	
License and royalty $	
License and royalty %	
Total gross profit $	$
Total gross margin %	

Product. The 22% or $2.9 million increase
24% or $9.9 million increase in product rev
percentage remained relatively constant at

Service. The 3% or $141,000 increase in co
increase in personnel costs due to increased
incentive compensation and a $31,000 incre
India operations in an effort to enhance our
cost efficiencies. The 15% or $3.7 million i
the 13% or $3.8 million increase in service
cost of service revenue.

Gross profit. Our 19% or $10.4 million incr
in product profit of $6.8 million and service
increased product and service revenue. The
service margin percentages was partially of
margin contribution of $23,000 and an incr

$221,000.

Also, our gross margin is primarily impacte
service, and license and royalty revenue. W
license and royalty revenue relative to prod
service revenue relative to product revenue.

Operating Expenses

Research and development. Research and d
expenses, fees for outside consultants, overl
development of new products and the enhan

	Fiscal
	2005
	(D
	Re
Research and development	$ 16,789

The 14% or $2.1 million increase in researc
capitalization of software development cost
March 31, 2004, a $312,000 increase in per
compensation and employee incentive comp
engineering consulting costs associated wit
nGenius product line, offset by a 100% or $
user group was reorganized into a user foru
classified as sales and marketing expenses f
event s focus is now to promote and netwo
community. Average headcount in research
years ended March 31, 2005 and 2004, resp

Sales and marketing. Sales and marketing e
overhead and other expenses associated wit
seminars, advertising and new product laun

	Fiscal
	2005
	(Do
	Re
Sales and marketing	$ 36,889

The 7% or $2.5 million increase in total sal
29% or $1.9 million increase in sales comm
revenue attainment and higher attainment o
employee compensation due to employee in
and marketing was 147 and 144 for the fisc
respectively.

General and administrative. General and ac
personnel expenses for executive, financial,
other corporate expenditures.

	Fisca
	2005
	(I
	R
General and administrative	$ 8,135

The 25% or $1.6 million increase in genera
$881,000 increase in personnel costs due to
Sarbanes-Oxley, increased employee base c
and an 88% or $745,000 increase in profess
compliance with Sarbanes-Oxley. Average
49 for the fiscal years ended March 31, 200

Amortization of other intangible assets. Am
acquisition of NextPoint Networks in fiscal
amortized as of June 30, 2003 and no amort

	Fis
	2
Amortization of other intangible assets	$

Interest Income and Other Expenses, Ne

Interest income includes interest earned on
and restricted investments. Other expenses,
and various interest expense.

	Fisca
	200
	(
Interest income and other expenses, net	$ 1,053

The 50% or $350,000 increase in interest in
higher market interest rates on cash, cash e
extent, due to higher average marketable se

Income Tax Expense (Benefit)

The annual effective tax rate was 24.9% fo
an annual effective tax rate of (46.1%) for t
annual effective tax rates differ from the fe
the impact of federal and state tax credits. I
a discrete income tax benefit of $440,000 a
audit. This discrete tax benefit significantly

	Fiscal
	2005
	(D % Rev
Income tax expense (benefit)	$ 949

Net Income (Loss)

Net income (loss) for the fiscal years ended

	Fiscal Y
	2005
	(Do % Rev
Net income (loss)	$ 2,870

The $3.4 million increase in net income dur mainly attributable to the increases in produ million, respectively, partially offset by a de development costs of $1.3 million, increase

$1.9 million, increase in sales commissions
$1.4 million, increase in professional servic
with compliance with Sarbanes-Oxley, and
$570,000.

Contractual Obligations

As of March 31, 2006, we had the followin

Payment due by pe

Contractual Obligations	Total
Operating lease obligations	$ 25,25
Total contractual obligations	$ 25,25

We lease facilities and certain equipment u
September 2013 for a total of $25.3 million

Off-Balance Sheet Arrangements

We do not have any relationships with unc
entities often referred to as structured finan
been established for the purpose of facilitat
not exposed to any financing, liquidity, mar
in such relationships.

Guarantor s Agreements

The Company warrants that its software an
the documentation accompanying such pro
software, which also includes firmware, the
expires ninety (90) days thereafter. For har
shipment and expires twelve (12) months th
exclusions which include but are not limite
made to the software or hardware by a part
caused by a power surge or a force majeure

services shall be performed in a good and w
product and support services warranties are
standards. No warranty cost information is
Instead, service revenue associated with wa
software sale and is recognized over the wa

Contracts that the Company enters into in t
indemnification provisions. Pursuant to thes
any third party claims brought against a pa
of such third party s (i) U.S. patent and/or
convention member country copyright, and
intellectual property rights. Moreover, this
damages awarded against the partner or dir
reimburse the partner or direct customer fo
them from the lawsuit.

On limited occasions, the Company may ag
partners or direct customers, such as indem
defend and pay any damages awarded to a
on a lawsuit alleging that such third party h
damage legally determined to have been ca
products.

The term associated with these indemnifica
maximum potential amount of future paym
arising from indemnification agreements m
the monetary exposure associated with the
unlimited. Historically, the Company has in
relating to such indemnity agreements and
is immaterial. If the Company were to have
could potentially have a material impact on

Liquidity and Capital Resources

Cash, cash equivalents, and marketable secu

Cash and cash equivalents
Short-term marketable securities
Long-term marketable securities
Cash, cash equivalents, and marketable

We have a line of credit with a bank, which
working capital purposes and to obtain lette
credit are a function of eligible accounts rec
collateralized by our inventory and account
of credit secured under the line aggregating
operating lease for our corporate headquart
line of credit. Under the agreement we are
which require that NetScout maintain minin
which is a minimum tangible net worth of
were in compliance with all such covenants

Cash, cash equivalents, and marketable secu
2005 to March 31, 2006. While cash and ca
long-term marketable securities decreased i

Cash and cash equivalents were impacted b

Net cash provided by operating activiti
Net cash provided by (used in) investin activities
Net cash provided by financing activiti

Net cash provided by operating activities.

Net cash provided by operating activities ar ended March 31, 2006. The primary source March 31, 2006 included net income of $5. non-cash items of $7.4 million, an increase expenses primarily as a result of incentive c increase in deferred revenue of $4.0 million customer support

agreements attributable to new product sale
continued renewals of customer support agr
offset by a $4.9 million increase in accounts
the fiscal year ended March 31, 2006.

Net cash provided by operating activities ar
ended March 31, 2005. The primary source
March 31, 2005 included net income of $2.
non-cash items of $3.7 million, an increase
expenses primarily as a result of the timing
compensation and sales commissions, and a
mainly due to an increase in the number of
product sales generated over the last fiscal y
support agreements from the expanding pro
inventory due to inventory management and
the timing of payments, offset by an increas
of the timing of sales within the fiscal year
in prepaids and other current assets mainly
maintenance contracts, marketing and sales

Net cash provided by operating activities ar
March 31, 2004. The primary sources of op
2004 included the net loss of $545,000, adj
$3.8 million, a decrease of $1.1 million in a
activities, an increase of $581,000 in accou
increase of $1.1 million in accrued compen
timing of payroll cycles, and an increase of
of an increase in the number of customer su
generated over the last year combined with
from our expanding product installed base,
to the timing of inventory purchases.

Net cash provided by (used in) investing ac

For the fiscal years ended March 31, 2006,
activities reflects the purchase of marketabl
$129.2 million, respectively, offset by the p
due to cash management activities of $74.3
respectively, and the purchase of fixed asse
million and $1.7 million, respectively, and
software of $1.4 million, $403,000 and $0,
assets year over year is mainly due to the in
future growth. We anticipate that our invest
quarters. For the fiscal year ended March 3
activities also reflects the acquisition of Qu
consideration. Also, for the fiscal year ende
investing activities was reduced by the inve
related to *nGenius* Performance Manager 2.

Net cash provided by financing activities.

For the fiscal years ended March 31, 2006,
activities was mainly due to proceeds from
the exercise of stock options and the emplo
and $1.5 million respectively. For the fiscal
financing activities also reflected the purcha
with our open market stock repurchase prog
an open market stock repurchase program t
shares of

its outstanding common stock, subject to m
fiscal year ended March 31, 2006, NetScou
treasury stock related to our open market st
program in the future is undeterminable at t

We believe that our cash balances, marketa
future cash flows generated by operations w
for working capital and capital expenditure
product were to decrease substantially, our
short-term working capital and expenditure

Additionally, a portion of our cash may be u
businesses or products or to obtain the right
time, in the ordinary course of business, we
products or technologies. If our existing sou
liquidity requirements, we may seek to sell
sale of additional equity or debt securities c
stockholders.

Recent Accounting Standards

In December 2004, the FASB issued SFAS
will provide investors and other users of fin
financial information by requiring that the c
transactions be recognized in financial state
value of the equity or liability instruments i
share-based compensation arrangements inc
performance-based awards, share appreciati
replaces FASB SFAS No. 123, Accountin
APB Opinion No. 25, Accounting for Stoc
issued in 1995, established a fair-value-base
transactions with employees as the preferre
entities the option of continuing to apply th
to financial statements disclosed what net in
fair-value-based method been used. Public
issuers of which the Company is not one) w
annual reporting period that begins after Ju
the acceleration of vesting of all stock optio
become exercisable on or after April 1, 200
March 31, 2006. Despite these acceleration
financial statements upon adoption. The Co
statement impact of adopting this standard.

In November 2004, the FASB issued SFAS
No. 43, Chapter 4. SFAS No. 151 amends
of idle facility expense, freight, handling co
recognized as current-period charges. In ad
fixed production overheads to the costs of c
production facilities. The provisions of this

during fiscal years beginning after June 15,
adoption of SFAS No. 151 will have any ef
results.

In May 2005, FASB issued SFAS No. 154,
No. 154 replaces APB No. 20, Accountin
Changes in Interim Financial Statements,
required method for reporting a change in a
guidance for determining whether retrospec

change in accounting principle is impractica
application is impracticable. The reporting
issued financial statements is also addresse
and corrections of errors made in fiscal yea
Company does not expect that the adoption
Company s financial position or operating

Item 7A. Quantitative and Qualitative Disc

We consider all highly liquid marketable se
or less to be cash equivalents and those wit
considered to be marketable securities. Cas
are stated at cost plus accrued interest, whic
securities are stated at fair value based on q
marketable securities consist primarily of m
NetScout s primary market risk exposures
currency exchange rate risk. We currently d
believe that a fluctuation in interest rates w
equivalents. NetScout s exposure to intere
expected to continue to be modest due to th
credit with $3.2 million of letters of credit s
outstanding under the line and no other out

NetScout s exposure to currency exchange
transactions are executed in U.S. dollars. N
such as foreign payroll, rent and office exp
exchange rate fluctuations could have a ma
and financial condition. Currently, NetScou
activities. The impact of currency exchange

Item 8. Financial Statements and Supplem

NetScout s Consolidated Financial Statem
Registered Public Accounting Firm appear

Item 9. Changes in and Disagreements Wi
Disclosure

There have been no changes in or disagreem
disclosure matters.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Pro

As of March 31, 2006, NetScout, under the
management, including the Company s pri
officer, evaluated the effectiveness of the d
procedures pursuant to Rule 13a-15(b) pro
evaluation, our principal executive officer a
March 31, 2006, our disclosure controls an
information relating to NetScout, including
disclosed by NetScout in the reports that it
processed, summarized and reported within
Exchange Commission s rules and forms, i
accumulated and communicated to our man
and principal financial officer, as appropria
disclosure.

Changes in Internal Control over Financia

During the quarter ended March 31, 2006, t
financial reporting that have materially affe
our internal control over financial reporting

Management s Report on Internal Cont

Our management is responsible for establis
financial reporting as such term is defined i
over financial reporting was designed to pr
financial reporting and the preparation of fi
accordance with generally accepted accoun
internal control over financial reporting ma
projections of any evaluation of effectivene
controls may become inadequate because o
compliance with the policies or procedures
effectiveness of our internal control over fi
this assessment, our management used the
Organizations of the Treadway Commissio
Based on our assessment we concluded tha
effective as of March 31, 2006.

Our management s assessment of the effec
reporting as of March 31, 2006 has been au
independent registered public accounting fi
at F-2 of this Annual Report on Form 10-K

Item 9B. Other Information

Not applicable.

I

Item 10. Directors and Executive Officers

The information required by Item 10 is inco
for its annual stockholders meeting, which

Item 11. Executive Compensation

The information required by Item 11 is inco
for its annual stockholders meeting, which

***Item 12. Security Ownership of Certain Be
Stockholder Matters***

The information required by Item 12 is inco
for its annual stockholders meeting, which

Item 13. Certain Relationships and Relate

The information required by Item 13 is inco
for its annual stockholders meeting, which

Item 14. Principal Accountant Fees and S

The information required by Item 14 is inco
for its annual stockholders meeting, which

I

Item 15. Exhibits and Financial Statement

(a) 1. Consolidated Financial Statements.

For a list of the consolidated financ
Consolidated Financial Statements

2. Financial Statement Schedule.

Valuation and Qualifying Accounts

3. List of Exhibits.

We hereby file as part of, or incorpo
Form 10-K the exhibits listed on th
financial statements.

(b) We hereby file as part of this Annual R
15(a)(3) above.

(c) We hereby file as part of this Annual R
listed in Item 15(a)(2) above.

SIG

Pursuant to the requirements of Section 13
registrant has duly caused this report to be s
duly authorized.

Pursuant to the requirements of the Securiti
signed below by the following persons on b
the dates indicated.

Signature	
/s/ ANIL K. SINGHAL **Anil K. Singhal**	Pre Off (Pr
/s/ NARENDRA V. POPAT **Narendra V. Popat**	Ch Sec
/s/ DAVID P. SOMMERS **David P. Sommers**	Ser Op Off Off
/s/ JEFFREY R. WAKELY **Jeffrey R. Wakely**	Vic Ch (Pr
/s/ VICTOR A. DEMARINES **Victor A. DeMarines**	Dir
/s/ JOHN R. EGAN **John R. Egan**	Dir
/s/ JOSEPH G. HADZIMA, JR.	Dir

Joseph G. Hadzima, Jr	
/s/ Stuart McGuigan	Di
Stuart McGuigan	
/s/ Vincent J. Mullarkey	Di
Vincent J. Mullarkey	
/s/ Kenneth T. Schiciano	Di
Kenneth T. Schiciano	

N etSco

Index to Consolid

Report of Independent R

To the Board of Directors and Shareholders

of NetScout Systems, Inc.:

We have completed integrated audits of Ne
consolidated financial statements and of its
March 31, 2006 and an audit of its fiscal 20
with the standards of the Public Company A
opinions, based on our audits, are presented

Consolidated financial statements and finan

In our opinion, the consolidated financial st
Item 15(a)(1) present fairly, in all material r
Inc. and its subsidiaries at March 31, 2006 a
their cash flows for each of the three years i
with accounting principles generally accept
our opinion, the financial statement schedul
presents fairly, in all material respects, the i
conjunction with the related consolidated fi
financial statement schedule are the respons
responsibility is to express an opinion on th
schedule based on our audits. We conducted
the standards of the Public Company Accou
standards require that we plan and perform
whether the financial statements are free of
statements includes examining, on a test ba
in the financial statements, assessing the ac
made by management, and evaluating the o
that our audits provide a reasonable basis fo

Internal control over financial reporting

Also, in our opinion, management s assess
Control Over Financial Reporting appearing
effective internal control over financial repo
established in *Internal Control Integrated*
Organizations of the Treadway Commission
based on those criteria. Furthermore, in our
respects, effective internal control over fina
criteria established in *Internal Control In*
Company s management is responsible for

reporting and for its assessment of the effec
Our responsibility is to express opinions on
of the Company s internal control over fina
audit of internal control over financial repor
Company Accounting Oversight Board (Un
and perform the audit to obtain reasonable a
over financial reporting was maintained in a
over financial reporting includes obtaining a
reporting, evaluating management s assess
effectiveness of internal control, and perfor
necessary in the circumstances. We believe
opinions.

A company s internal control over financia
reasonable assurance regarding the reliabili
financial statements for external purposes in

accordance with generally accepted accoun
financial reporting includes those policies a
records that, in reasonable detail, accurately
of the assets of the company; (ii) provide re
necessary to permit preparation of financial
accounting principles, and that receipts and
in accordance with authorizations of manag
(iii) provide reasonable assurance regarding
acquisition, use, or disposition of the compa
financial statements.

Because of its inherent limitations, internal
detect misstatements. Also, projections of a
subject to the risk that controls may become
that the degree of compliance with the polic

PricewaterhouseCoopers LLP

Boston, Massachusetts

June 2, 2006

NetSco

Consolida

(In thousands, exce

Assets	
Current assets:	
Cash and cash equivalents	
Marketable securities	
Accounts receivable, net of allowance for d and $34 at March 31, 2006 and 2005, respe	
Inventories	
Refundable income taxes	
Deferred income taxes	
Restricted cash	
Prepaids and other current assets	
Total current assets	
Fixed assets, net	
Goodwill	
Other intangible assets, net	
Capitalized software development costs, ne	
Deferred income taxes	
Long-term marketable securities	
Other assets	
Total assets	
Liabilities and Stockholders Equity	
Current liabilities:	
Accounts payable	
Accrued compensation	
Accrued other	
Deferred acquisition payment	
Deferred revenue	
Total current liabilities	
Accrued other	
Deferred revenue	
Total liabilities	
Commitments and contingencies (Note 16)	
Stockholders equity:	
Preferred stock, $0.001 par value:	

5,000,000 shares authorized; no shares issu
March 31, 2006 and 2005
Common stock, $0.001 par value:
150,000,000 shares authorized; 35,488,019
issued and 31,284,796 and 30,689,050 shar
March 31, 2006 and 2005, respectively
Additional paid-in capital
Accumulated other comprehensive loss
Deferred compensation
Treasury stock at cost, 4,203,223 shares at
Retained earnings
Total stockholders equity
Total liabilities and stockholders equity

The accompanying notes are an integra

NetSco

Consolidated S

(In thousands,

Revenue:
Product
Service
License and royalty
Total revenue
Cost of revenue:
Product (1)
Service(1)
Total cost of revenue
Gross profit
Operating expenses:
Research and development(1)
Sales and marketing(1)
General and administrative(1)
Amortization of other intangible assets
In-process research and development
Total operating expenses
Income (loss) from operations
Interest income and other expense, net
Income (loss) before income tax expense (b
Income tax expense (benefit)
Net income (loss)
Basic net income (loss) per share
Diluted net income (loss) per share
Shares used in computing:
Basic net income (loss) per share
Diluted net income (loss) per share

(1) Share-based compensation expense incl
amounts are as follows:

Cost of product revenue
Cost of service revenue

Research and development	
Sales and marketing	
General and administrative	
Total stock-based compensation expense	

The accompanying notes are an integra

NetSco

Consolidated Statements of Stockh

(In thousands, excep

	Common stock Voting			
	Shares	Par Value	Additional Paid In Capital	Acc la Ot Cor hen Inc
Balance, March 31, 2003	34,151,894	$ 34	$ 108,835	$
Net loss				
Net unrealized investment gains (losses)				
Comprehensive income, net of tax of $0				
Issuance of common stock pursuant to exercise of options	235,280		1,049	
Issuance of common stock in exchange for services	2,000		9	
Issuance of common stock pursuant to employee stock purchase plan	195,403		444	
Amortization of deferred compensation				
Reversal of deferred compensation upon termination of employees			(5)	
Tax benefits of disqualifying dispositions of incentive stock options			351	
Repurchase of common stock as treasury				

Balance, March 31, 2004	34,584,577	34	110,683	
Net income				
Net unrealized investment gains (losses)				(
Comprehensive income, net of tax of $0				
Issuance of common stock pursuant to exercise of options	165,552	1	743	
Issuance of common stock pursuant to employee stock purchase plan	142,144		744	
Tax benefits of disqualifying dispositions of incentive stock options			116	
Balance, March 31, 2005	34,892,273	35	112,286	(
Net Income				
Net unrealized investment gains (losses)				
Comprehensive income				
Issuance of common stock pursuant to exercise of options	399,564		1,695	
Issuance of common stock pursuant to employee stock purchase plan	196,182		627	
Grant of restricted stock units			5,045	
Stock-based compensation expense for restricted stock units				
Stock-based compensation expense for restricted stock units granted to non-employees			95	
Stock-based compensation expense for options granted to non-employees			75	

Acceleration of vesting period of stock options granted prior to 12/31/04			14	
Stock-based compensation expense for acceleration of options				
Tax benefits of disqualifying dispositions of incentive stock options			220	
Balance, March 31, 2006	35,488,019	$ 35	$ 120,057	$ (

NetSco

Consolidated St

(In thousands, exce

Cash flows from operating activities:	
Net income (loss)	
Adjustments to reconcile net income (loss) provided by operating activities:	
Depreciation	
Amortization of goodwill and other intangi	
Amortization of capitalized software	
In-process research and development	
Loss on disposal of fixed assets	
Inventory write-down	
Share-based compensation expense associa equity awards	
Deferred income taxes	
Changes in assets and liabilities:	
Accounts receivable, net	
Inventories	
Refundable income taxes	
Prepaids and other current assets	
Other assets	
Accounts payable	
Accrued compensation and other expenses	
Income taxes payable	
Deferred revenue	
Net cash provided by operating activities	
Cash flows from investing activities:	
Purchases of marketable securities	
Proceeds from maturity of marketable secu	
Purchase of fixed assets	
Capitalized expenditures for internal use so	
Purchase of Quantiva, Inc. assets	
Capitalized software development costs	
Net cash (used in) provided by investing ac	
Cash flows from financing activities:	
Proceeds from issuance of common stock	
Repurchase of common stock as treasury st	
Net cash provided by financing activities	
Net increase (decrease) in cash and cash eq	

Cash and cash equivalents, beginning of ye	
Cash and cash equivalents, end of year	
Supplemental disclosure of cash flow inf	
Cash paid for interest	
Cash paid for income taxes	
Non-cash financing activities:	
Tax benefits of disqualifying dispositions o incentive stock options recorded to additio capital	

The accompanying notes are an integra

NetSco

Notes to Consolid

(In thousands, excep

1. Nature of Business

NetScout Systems, Inc. (NetScout or the
sells and supports a family of integrated pro
complex, high-speed networks, enabling de
to end-users. NetScout manufactures and m
software solution that is used by enterprise,
worldwide. NetScout has a single operating
assets are located in the United States.

2. Summary of Significant Accounting Po

Basis of Presentation

The consolidated financial statements inclu
subsidiaries. All significant inter-company

Use of Estimates

The preparation of financial statements in c
principles requires management to make es
amounts of assets and liabilities and disclos
the consolidated financial statements and th
the reporting period. Significant estimates i
recognition, allowances for doubtful accoun
goodwill and other intangible assets, capital
software and internal use software, and inco
and analyzed by management for changes in
these estimates could occur in the future.

Cash and Cash Equivalents and Marketa

NetScout accounts for its investments in acc
Standards (SFAS) No. 115, Accounting
Under the provision of SFAS No. 115, NetS
available-for-sale , which are carried at fa
unrealized gains or losses are recorded as a
realized. NetScout considers all highly liqu
months or less to be cash equivalents and th
considered to be marketable securities. Cash
are stated at cost plus accrued interest, whic
securities are stated at fair value based on q
marketable securities consist primarily of m

At March 31, 2006 and periodically through
balances in various operating accounts in ex
amount of credit exposure with any one fina
of the financial institutions with which it in

Restricted Investment

NetScout has a restricted investment accoun
million, which is included in prepaid and ot
there were unrealized losses of $24 and $18
income (loss), net of $0 tax.

NetSco

Notes to Consolidated F

(In thousands, exce

2. Summary of Significant Accounting Po

Revenue Recognition

Product revenue consists of sales of our har
products. Product revenue is recognized up
arrangement exists, title and risk of loss hav
determinable and collection of the related r

Service revenue consists primarily of fees f
training. NetScout generally provides three
hardware support as part of product sales. R
ratably over the three-month support period
recognized ratably over the 12-month supp
purchase extended support agreements for p
typically for 12-month periods. Revenue fro
ratably over the support period. Revenue fr
the work is performed.

License and royalty revenue consists prima
equipment manufacturers who incorporate
their own products or reproduce and sell ou
when delivery of the original equipment ma
become contractually entitled to receive lic
determinable and collection is probable. Ro
product shipments by the license holder.

For multi-element arrangements, each elem
the total fee under the arrangement is alloca
agreements and training, using vendor spec
and the remaining portion of the fee is alloc
hardware products and licensed software pr
within the contract for each element, under
evidence of fair value is based on the price

Concentration of Credit Risk and Signifi

The carrying value of NetScout s financial
short-term marketable securities, accounts r
approximate fair values due to their short-te
stated at fair value based on quoted market
receivables, management believes the Com
industry terms and business risk. At March
approximately 20% of our accounts receiva
accounted for more than 10% of our accoun
more than 10% of NetScout s total revenue
and 2004. Historically, we have not experie
customers nor do we anticipate non-perform
accordingly, we do not require collateral fro

Fixed Assets

Fixed assets are stated at cost and depreciat
useful lives of the assets. Leasehold improv
the shorter of the lease term or anticipated u
upon asset disposal are recognized in the ye
building improvements are capitalized, whi
charged against earnings as incurred.

NetSco

Notes to Consolidated F

(In thousands, excep

2. Summary of Significant Accounting Po

Goodwill and Other Intangible Assets

In July 2000, NetScout recorded goodwill a
method in connection with the acquisition o
intangible assets acquired, which are fully a
workforce and completed technology.

In April 2005, NetScout recorded goodwill
method in connection with the acquisition o
intangible assets acquired consist of softwa
other intangible assets over their estimated
in-process research and development (IPR
alternative future use and that have not reac
acquisition are expensed as incurred.

NetScout assesses goodwill for impairment
frequently when events and circumstances o
impaired. If the book value of the Company
period, the implied fair value of goodwill w
goodwill. If the carrying amount of goodwi
will be recorded in an amount equal to that
assess goodwill for impairment is to compa
stockholders equity. If the value of stockh
period ending, the Company s goodwill wo
Company to pursue a more in depth analysi
At March 31, 2006, NetScout determined th

Capitalized Software Development Costs

Costs incurred in the research and developm
incurred, except for certain software develo
of computer software are expensed prior to
defined by SFAS No. 86, Accounting for t
or Otherwise Marketed) and capitalized th
available for first customer shipment. Durin
Company capitalized $1.3 million of softwa

the Company commenced amortization of c
straight-line basis over a two-year period. A
costs were $221, $663 and $441 for the fisc
respectively. During the fiscal year ended M
feasibility for its *nGenius* Analytics produc
development costs for the *nGenius* Analytic
development costs for the *nGenius* Analytic
over two years once the project is ready for
in the first quarter of fiscal year 2007.

The Company also capitalizes purchased so
fiscal year ended March 31, 2006, the Com
obtained in connection with the acquisition
capitalized software is included on the bala
Amortization of purchased software is reco
Amortization of capitalized purchased softw
2006. The Company considered the econom
these costs and determined that the straight-
subjectivity involved in projecting the timin
software.

NetSco

Notes to Consolidated F

(In thousands, excep

2. Summary of Significant Accounting Po

Capitalized software development costs are
of changes to the anticipated future revenue
technologies. Unamortized capitalized softw
excess of the net realizable value of the soft
which such a determination is made.

Certain costs incurred in the procurement an
Planning (ERP) system are capitalized in
of Computer Software Developed or Obtain
costs associated with the project were exper
capitalized software for the ERP system tot
Amortization of internal use software will b
once the project is substantially complete an
be in the second half of fiscal year 2007.

Stock-Based Compensation

The Company accounts for stock-based awa
as prescribed by Accounting Principles Boa
Issued to Employees, and related interpret
provisions of Statement of Financial Accou
Stock-Based Compensation Transition and
stock-based awards to non-employees are a
accordance with SFAS No. 123 and Emergi
Accounting for Equity Instruments that ar
Conjunction with Selling, Goods or Service

Had compensation cost for the Company s
the grant dates, as prescribed in SFAS No. 1
diluted net income (loss) per share on a pro

Net income (loss) as reported	
Add: stock based compensation under APB tax	
Deduct: stock-based employee compensatic determined under fair value-based method f net of tax	
Pro forma net income (loss)	
Basic net income (loss) per share:	
As reported	
Pro forma	
Diluted net income (loss) per share:	
As reported	
Pro forma	

NetSco

Notes to Consolidated F

(In thousands, excep

2. Summary of Significant Accounting Po

The fair value of each option grant is estima
option pricing model with the following ass

Option Plans

Expected option term
Weighted average risk-free interest rate
Expected stock price volatility
Dividend yield
Weighted average fair value

Stock Purchase Plan

Expected option term
Weighted average risk-free interest rate
Expected stock price volatility
Dividend yield
Weighted average fair value

Foreign Currency

Assets and liabilities of subsidiaries outside
exchange rates that are historical or in effec
SFAS No. 52, Foreign Currency Translati
adjustments are included in the consolidated
are an extension of the domestic operations
contracted in U.S. dollars, and as a result, th
to these transactions. Foreign subsidiary exp
exchange rate in effect at the time the transa

Advertising Expense

NetScout recognizes advertising expense as
$120, $31 and $21 for the years ended Marc

Other Comprehensive Income (Loss)

Other comprehensive income (loss) adjustm
on marketable securities and restricted inve
fiscal years ended March 31, 2006, 2005, an

Net income (loss)
Unrealized gains (loss) on marketable secur restricted investments, net of $0 tax
Other comprehensive income (loss)

NetSco

Notes to Consolidated F

(In thousands, excep

2. Summary of Significant Accounting Po

Income Taxes

NetScout accounts for its income taxes und
liability method, deferred tax assets and lial
future tax consequences, attributable to diff
amounts of assets and liabilities and their re
operating loss carryforwards. Income tax ex
liability and the change in deferred tax asse
established to the extent that it is more likel
realized.

Net Income (Loss) Per Share

Basic net income (loss) per share is comput
average number of shares of common stock
common stock subject to repurchase. Dilute
income by the sum of the weighted average
during the period and the weighted average
assumed exercise of stock options, shares o
stock units using the treasury stock meth

Reclassifications

Certain prior years financial statement iter
year s presentation.

Recent Accounting Standards

In December 2004, the FASB issued SFAS
will provide investors and other users of fin
financial information by requiring that the c

transactions be recognized in financial state
value of the equity or liability instruments i
share-based compensation arrangements inc
performance-based awards, share appreciat
replaces FASB SFAS No. 123,   Accountin
APB Opinion No. 25,   Accounting for Stoc
issued in 1995, established a fair-value-base
transactions with employees as the preferre
entities the option of continuing to apply th
to financial statements disclosed what net in
fair-value-based method been used. Public
issuers of which the Company is not one) w
annual reporting period that begins after Ju
the acceleration of vesting of all stock optic
become exercisable on or after April 1, 200
March 31, 2006. Despite these acceleration
financial statements upon adoption. The Co
statement impact of adopting this standard.

In November 2004, the FASB issued SFAS
No. 43, Chapter 4.   SFAS No. 151 amends
of idle facility expense, freight, handling co
recognized as current-period charges. In

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Notes to Consolidated F

(In thousands, exce

2. Summary of Significant Accounting Po

addition, SFAS No. 151 requires that alloca
conversion be based on the normal capacity
Statement are effective for inventory costs i
2005. The Company does not expect that th
the Company s financial position or operat

In May 2005, FASB issued SFAS No. 154,
No. 154 replaces APB No. 20, Accounting
Changes in Interim Financial Statements,
required method for reporting a change in a
guidance for determining whether retrospec
is impracticable and for reporting a change
reporting of a correction of an error by resta
addressed. SFAS No. 154 is effective for ac
fiscal years beginning after December 15, 2
adoption of SFAS No. 154 will have any ef
results.

3. Marketable Securities

The following is a summary of marketable
maturity dates of April 2006 through Febru

U.S. government and municipal obliga
Commercial paper
Less restricted investment
Marketable securities
Short-term marketable securities

Long-term marketable securities

The following is a summary of marketable
maturity dates of April 2005 through March

U.S. government and municipal obliga
Commercial paper
Less restricted investment
Marketable securities
Short-term marketable securities
Long-term marketable securities

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Notes to Consolidated F

(In thousands, exce

4. Inventories

Inventories are stated at actual cost. Cost is
method. Inventories consist of the followin

Raw materials
Work in process
Finished goods

5. Fixed Assets

Fixed assets consist of the following:

Furniture and fixtures
Computer equipment and purchased software
Demonstration and spare part units
Leasehold improvements
Less accumulated depreciation

Depreciation expense on fixed assets for th
$2,869, $2,718, and $3,162, respectively.

6. Acquisition

On April 14, 2005, the Company complete
Quantiva, a provider of automated analytic
The acquisition of Quantiva s business is i
with unique technology that automates dete
problems before they impact business critic
analyzes real-time performance metrics usi
techniques to establish dynamic thresholds
Company s financial statements include th
acquisition date.

The total purchase price was approximately
includes $1.3 million in escrow to be paid s
Company has recorded the cash in escrow a
with an offsetting liability reported as defe
sixteenth month anniversary of the acquisit
on the balance, will be paid to Quantiva or
to satisfy potential claims and obligations t
purchase price includes capitalized acquisit
consulting and accounting

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Notes to Consolidated F

(In thousands, exce

6. Acquisition (Continued)

services. The acquisition was accounted for
accordance with SFAS No. 141, Business
Other Intangible Assets. The total purchas
tangible and intangible assets acquired base
time of acquisition as follows:

Current assets
Fixed assets
Intangible assets
Goodwill
Total purchase price including acquisit

Goodwill was recognized for the excess pur
acquired. Goodwill is primarily attributable
synergies related to the integration of Quan
Management solution. Goodwill from the Q
Company s one reporting unit. Goodwill fo

The following table reflects the estimated fa
estimates of useful lives:

Software
Non-compete agreements
In-process research and development

The acquired research and development of
consolidated statement of operations during

The following pro forma information prese
statements of operations of the Company ar
March 31, 2006 and 2005, giving effect to t
2004, respectively.

Pro forma revenues	
Pro forma net income	
Pro forma earnings per share:	
Basic	
Diluted	

The pro forma net income and earnings per
adjustments for amortization of intangibles,
This pro forma information does not purpor
been obtained had the acquisition been com
realized in the future.

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Notes to Consolidated F

(In thousands, excep

7. Goodwill & Other Intangible Assets

Goodwill

The carrying amount of goodwill was $36.6
and 2005, respectively. The Company s go
Networks, Inc. in July 2000 and substantial
(Note 6). The Company recorded $7.7 milli
Quantiva.

There was no change in the carrying amoun
2005. The change in the carrying amount of
is as follows:

Balance as of beginning of period
Goodwill related to the acquisition of Q
Balance as of March 31, 2006

Other intangible assets

The carrying amount of other intangible ass
Intangible assets acquired in a business com
accounting at their estimated fair values at t
other intangible assets over their estimated
Assets consist of the following as of March

Software
Non-Compete Agreements

There were no carrying amounts of other in
of acquired software included as cost of pro
March 31, 2006. Amortization of other acqu
was $149 for the fiscal year ended March 3

The following is the expected future amorti

2007
2008
2009
Total

The weighted average useful life of other in

NetSco

Notes to Consolidated F

(In thousands, excep

8. Capitalized Software Development Co

During the fiscal year ended March 31, 200
nGenius Analytics product. As of March 31
the *nGenius* Analytics product totaled $312
the *nGenius* Analytics product will be recor
project is ready for sale to the general publi
fiscal year 2007. During the fiscal year end
million of software development costs. Beg
amortization of capitalized software develo
period. Amortization of capitalized softwar
the fiscal years ended March 31, 2006, 200

During the fiscal year ended March 31, 200
purchased software obtained in connection
Purchased capitalized software is included
net. Amortization of purchased software is
Amortization of capitalized purchased softw
2006.

9. Line of Credit

At March 31, 2006, NetScout had a revolvi
borrow up to $10,000 based upon a percent
under the line are payable on demand and b
March 31, 2006). NetScout s accounts rece
Under the terms of the agreement, NetScou
covenants, which require that NetScout mai
restrictive of which is a minimum tangible
maintain a minimum tangible net worth of
compliance with all financial covenants at M
under the line of credit at March 31, 2006.
NetScout is required to maintain a letter of

NetSco

Notes to Consolidated F

(In thousands, exce

10. Net Income (Loss) Per Share

Calculations of the basic and diluted net inc
common shares are as follows:

Basic:		
Net income (loss) applicable to common stockholders	$	
Weighted average common shares outstanding		3
Basic net income (loss) per share	$	
Diluted:		
Net income (loss) applicable to common stockholders	$	
Weighted average common shares outstanding		3
Weighted average stock options		
Weighted average restricted stock units		
Diluted weighted average shares		3
Diluted net income (loss) per share	$	

The following table sets forth common stoc
income (loss) per share, since the inclusion

Stock options

11. Material Transactions Affecting Stoc

Restricted Stock

On April 14, 2005, the Company granted st
employees of Quantiva and to a consultant
company that sold substantially all of its ass
consisted of grants of 154,345 restricted sto
an exercise price. The Company recorded th
stock units granted to former employees as
period expense in accordance with EITF 96
expense for the restricted stock granted to th
with EITF 96-18. The Company estimated t
per share value of $4.14, which represented
on the date of grant. Upon the grant of the r
compensation for the fair market value of th
stockholders equity and will be subsequen
vesting period. The restricted stock units iss
marked-to-market at each reporting date un
compensation expense on a pro-rata basis o
of these awards at March 31, 2006 was app
these grants for the fiscal year ended March

NetSco

Notes to Consolidated F

(In thousands, excep

11. Material Transactions Affecting Stoc

On September 14, 2005, the Company gran
Company s Board of Directors. These awa
vest over one year after grant, provided tha
of the meetings of the Board and at least 75
which such directors are a member. In the e
not met, the restricted stock units will not v
The restricted stock units do not have an ex
value of these restricted stock units using a
closing price of the Company s common s
within stockholders equity and will be sub
the vesting period. The gross value of these
Amortization expense related to these grant
In addition, the Company will pay each me
underlying shares in conjunction with the v
defray personal taxes related to the issuance
to these payments over a period equal to the
is one year. Operating expenses related to t
ended March 31, 2006, was $65.

During fiscal year ended March 31, 2006, t
employees and officers of the Company. Th
which vest over four years. The restricted s
Company recorded the intrinsic value of the
between $5.64 and $6.63, which represente
on the date of grant, as deferred compensati
subsequently amortized as compensation ex
the awards at March 31, 2006 was approxin
the grants for the fiscal year ended March 3

Stock Options

On April 14, 2005, the Company granted e
Quantiva, a company that sold substantially
awards consisted of options to purchase 20,
a four-year period, and have an exercise pri
current period expense for the stock option
Compensation expense related to these opti
$76. The Company calculated the fair value
with EITF 96-18. These options will be ma
with changes being charged to compensatio
vesting period with any unexpensed amoun

the stock options was calculated using the E
following weighted average assumptions:

Dividend yield	
Expected volatility	
Risk-free interest rate	
Expected life (years)	

NetSco

Notes to Consolidated F

(In thousands, excep

11. Material Transactions Affecting Stoc

Acceleration of Stock Option Vesting Per

On May 4, 2005, the Board of Directors of
of all stock options issued on or before Dec
April 1, 2006, so that all such options shall
options had been granted under the Compa
Company s officers and employees, includ
substantially all of these options were in ex
Company s common stock and thus were c
date. Options to purchase 621,234 shares of
outstanding unvested options (of which 7%
held by the Company s executive officers)
exercise price of the options subject to the a
the Company recorded $14 of deferred com
fully amortized over the remaining vesting
as compensation expense.

12. Capital Stock

Treasury Stock

On September 17, 2001, NetScout announc
purchase up to one million shares of outsta
conditions and other factors. Any purchase
made from time to time without prior notic
2005 there were no repurchased shares. As
158,000 shares of common stock under this

13. Stock Plans

1990 Stock Option Plan

In October 1990, NetScout adopted the 199
provides for the granting of incentive and n
and consultants of NetScout. The 1990 Stoc
of options to purchase up to 4,514,666 shar
Directors determines the term of each optio
each option is granted and the rate at which
years. The exercise price of incentive stock
market value of the common stock at the da
granted to holders of more than 10% of the
granted cannot exceed ten years (five years
more than 10% of the voting stock of NetSc
under the 1990 Stock Option Plan.

1999 Stock Option and Incentive Plan

In April 1999, NetScout adopted the 1999 S
Option Plan). The 1999 Stock Option Plan
employees, officers and directors, consultan
NetScout may grant options that are intende
intended to qualify as incentive stock option
Incentive stock options may be granted only
Plan is administered by the Compensation C
Stock

NetSco

Notes to Consolidated F

(In thousands, excep

13. Stock Plans (Continued)

Option Plan, the Compensation Committee
awards are granted and determine the terms
common stock subject to the award. Stock-
exercise price of incentive stock options sh
the common stock at the date of grant (110
more than 10% of the voting stock of NetS
years (five years for incentive stock options
stock of NetScout). A total of 9,500,000 sh
under the 1999 Stock Option Plan.

1997 and 2000 Incentive Plans

In July 2000, NetScout assumed NextPoint
Incentive Plan and all outstanding options
of the acquisition of NextPoint. Options to
converted into options to purchase shares o
Incentive Plan provided that all outstanding
consummation of the NextPoint acquisition
executed an agreement providing that (i) on
options would become exercisable immedia
of the unexercisable options would become
years following the acquisition. Under the 2
exercisable over a four-year period. No add
Stock Incentive Plan or the 2000 Stock Ince

Offer to Exchange

On November 8, 2002, NetScout commence
Offer) whereby employees who held stock
and/or the NextPoint Networks, Inc. 2000 S
connection with the acquisition of NextPoi
share were given the opportunity to tender
NetScout. Participants who elected to partic
exchange any other options granted to him
commencement date of the Exchange Offer
Chairman of the Board of Directors of NetS
holding eligible option grants were eligible
December 9, 2002, the Exchange Offer exp

shares of common stock were accepted for

The exercise price of all new options grante
price of NetScout s common stock as repor
trading on the date of grant. On June 13, 20
shares of common stock at an exercise price
Exchange Offer.

NetSco

Notes to Consolidated F

(In thousands, excep

13. Stock Plans (Continued)

Transactions under the 1990 and 1999 Stoc
Incentive Plans during the fiscal years ende
as follows:

Outstanding-March 31, 2003
Granted
Exercised
Canceled
Outstanding-March 31, 2004
Granted
Exercised
Canceled
Outstanding-March 31, 2005
Granted
Exercised
Canceled
Outstanding-March 31, 2006

The following tables summarizes informatio
March 31, 2006:

Range of Exercise Prices	Numbe

	Of Shar
$1.27 to 2.50	125,0
$3.01 to 5.00	2,059,8
$5.04 to 7.40	976,3
$7.60 to 11.25	775,4
$13.44 to 14.94	93,0
$15.13 to 18.50	66,0
$21.25 to 28.94	94,1
	4,189,8

As of March 31, 2006, there were 4,833,71
the NetScout 1999 Stock Option Plan. As o
shares of common stock, with a weighted a
under the NetScout 1990 and 1999 Stock O
Plans. As of March 31, 2004, options to pur
weighted average exercise price of $6.61, w
Stock Option Plans and the 1997 and 2000

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Notes to Consolidated F

(In thousands, exce

13. Stock Plans (Continued)

Restricted Stock

The 1999 Stock Option Plan permits the gra
collectively referred to as equity-based aw
measured at fair value on the date of grant b
quoted price of the Company s common st
an operating expense over the correspondin
March 31, 2006, 848,496 shares of restricte
market value of $6.10 per share (Note 11.)

In July 2000, as a part of the NextPoint acq
compensation, which was charged to NetSc
vesting periods, generally from one to four
NetScout recorded $127 of compensation e
compensation was reversed due to terminat
NextPoint acquisition, 267,602 shares of N
released during a two-year period subseque
NextPoint as they continued employment a
deferred compensation related to the reserv
compensation expense over the two-year pe

In July of 2003 a non-employee director of
NetScout common stock at $.001 per share.
expense for the fiscal year ended March 31,

Employee Stock Purchase Plan

In April 1999, NetScout adopted the 1999 E
Plan). The 1999 Purchase Plan is adminis
of NetScout whose customary employment
than three months in any calendar year are
Employees who would own 5% or more of
NetScout s stock immediately after the gra
Purchase Plan. The Board of Directors susp
2005.

14. Retirement Plan

In 1996, NetScout established a 401(k) plar
of the Internal Revenue Code of 1986, as ar
of the employee s contribution up to 6% of
amended to increase the NetScout match to
employee s salary. NetScout contributions
made matching contributions of $826, $746
2006, 2005 and 2004, respectively.

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Notes to Consolidated F

(In thousands, exce

15. Income Taxes

Income (loss) before income tax expense (b

Domestic	
Foreign	

The components of the income tax expense

Current income tax expense (benefit):	
Federal	
State	
Foreign	
Deferred income tax expense (benefit)	
Federal	
State	

The components of net deferred tax assets a

Deferred tax assets (liabilities):
Reserves
Accrued expenses
Depreciation
Deferred revenue
Intangible assets
Net operating loss carryforwards
Research and development tax credit c
Stock-based compensation
Other

At March 31, 2006, NetScout had federal n
research and development tax credits of app
available to offset future taxable income. Th
2012.

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Notes to Consolidated F

(In thousands, exce

15. Income Taxes (Continued)

For federal income tax purposes, a portion o
development tax credit carryforwards are su
case of changes in ownership, as defined by

The income tax expense (benefit) computed
from NetScout s effective tax rate primaril

Statutory U.S. federal tax rate
State taxes, net of federal tax benefit
Stock-based compensation expense
Research and development tax credits
Income tax loss contingency
Other

In the fiscal year ended March 31, 2005, we
result of the resolution of a federal income t
2002, 2001, and 2000. This resulted in an (

16. Commitments and Contingencies

Leases

NetScout leases office space under non-can
the leases was $3,957, $3,963 and $4,040 fo
2004, respectively.

Future non-cancelable minimum lease com
follows:

Year ending March 31,
2007
2008
2009
2010
2011
Remaining years
Total minimum lease payments

Contingencies

From time to time NetScout is subject to leg
business. In the opinion of management, th
current legal proceedings and claims will no
position, cash flows or results of operations

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Notes to Consolidated F

(In thousands, excep

16. Commitments and Contingencies (Co

Employment Agreements

In August 2004, NetScout amended employ
which provide that each employee stockhol
During the term of this agreement, they wil
on company performance and individual ob
terminable at will and provide that if either
without cause, or either decides to terminat
each is entitled to receive severance benefit
months following termination, the greater o
and (ii) for each subsequent twelve-month p
received in the immediately preceding twel
for a five-year term commencing June 1, 19

Guarantor s Agreements

NetScout warrants that its software and har
documentation accompanying such product
which also includes software embedded in t
commences upon shipment and expires nin
warranty commences upon shipment and ex
is subject to various exclusions, which inclu
resulting from modifications made to the so
or damage to hardware caused by a power s
warrants that all support services shall be p
Company believes that its product and supp
commonly accepted industry standards. No
warranty costs are accrued. Instead, service
time of a hardware or software sale and is r

Contracts that NetScout enters into in the o
indemnification provisions. Pursuant to the
any third party claims brought against a par
of such third party s (i) U.S. and/or EU or
member country copyright, and/or (iii) U.S.
property rights. Moreover, this indemnity m
against the partner or direct customer in su
direct customer for any reasonable attorney

On limited occasions, the Company may ag
partners or direct customers, such as indem
defend and pay any damages awarded to a t
on a lawsuit alleging that such third party h
damage legally determined to have been ca
products.

The term associated with these indemnifica
maximum potential amount of future paym
arising from indemnification agreements m
the monetary exposure associated with the
unlimited. Historically, the Company has in
related to such indemnity agreements and b
is immaterial. If the Company were to have
could potentially have a material impact on

NetSco

Notes to Consolidated F

(In thousands, exce

17. Geographic Information

Revenue was distributed geographically as

North America	
Europe Middle East Africa	
Asia Pacific	

The North America revenue includes sales t
resellers fulfill customer orders based upon
Company s direct sales force and may subs
locations. The Company reports these shipm
ships the products to a North American loca
North America is a result of export sales. Su
are located in the United States of America.

18. Results of Operations Unaudited

The following table sets forth certain unaud
the fiscal years ended 2005 and 2006. In the
prepared on the same basis as the audited co
adjustments, consisting only of normal recu
amounts stated below to present fairly the q
the audited consolidated financial statement
Annual Report on Form 10-K. The quarterl
future results of operations.

	March 31, 2006	Dec. 31, 2005	Sept. 30 2005
Revenue	$ 25,814	$ 24,911	$ 23,65
Gross profit	$ 19,536	$ 18,982	$ 18,17
Net income	$ 1,804	$ 1,887	$ 1,45
Basic and diluted net income per share	$ 0.06	$ 0.06	$ 0.0

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Schedule II Valuat

Description	Balance at Beginning of Year	Addi Res (Bene
Year ended March 31, 2004		
Allowance for doubtful accounts	$ 146,000	
Year ended March 31, 2005		
Allowance for doubtful accounts	$ 40,000	
Year ended March 31, 2006		
Allowance for doubtful accounts	$ 34,000	

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Inde

2.1	Asset Purchase Agreement date Quantiva, Inc. (filed as Exhibit on April 20, 2005 and incorpor
3.1, 4.1	Third Amended and Restated C Exhibit 3.3, 4.1 to NetScout s and incorporated herein by refe
3.2, 4.2	Form of Amended and Restated NetScout s Annual Report on and incorporated herein by refe
4.3	Specimen Certificate for shares to NetScout s Annual Report o 2001 and incorporated herein b
10.1	1990 Stock Option Plan, as am Registration Statement on Forr reference).*
10.2	1999 Stock Option and Incenti NetScout s Quarterly Report o September 30, 2001 and incorp
10.3	Form of Incentive Stock Option pursuant to 1999 Stock Option 10.1 to NetScout s Quarterly F September 30, 2004 and incorp
10.4	1999 Employee Stock Purchase NetScout s Definitive Proxy S and Exchange Commission on reference).*
10.5	Stock Purchase and Redemptio among NetScout, Greylock Equ Associates, Inc. and Egan-Man NetScout s Registration Stater herein by reference).
10.6	Amended and Restated Loan ar and between NetScout and Sili Registration Statement on Forr reference).
10.7	Loan Modification Agreement Silicon Valley Bank (filed as E Form S-1 (No. 333-76843) and
10.8	Agreement Relating to Employ and Anil Singhal (filed as Exhi Form S-1 (No. 333-76843) and
10.9	Amendment No. 1 to Agreeme by and between NetScout and A Registration Statement on Forr reference).*

10.10	Amendment No. 2 to Agreeme and between NetScout and Ani Quarterly Report on Form 10-Q incorporated herein by referenc

10.11	Agreement Relating to Employm and Narendra Popat (filed as Exh Form S-1 (No. 333-76843) and in
10.12	Amendment No. 1 to Agreement and between NetScout and Naren Registration Statement on Form reference).*
10.13	Amendment No. 2 to Agreement and between NetScout and Naren Quarterly Report on Form 10-Q incorporated herein by reference
10.14	Loan Modification Agreement en Silicon Valley Bank (filed as Exh Form 10-K for the fiscal year end reference).
10.15	Loan Modification Agreement en Silicon Valley Bank (filed as Exh Form 10-K for the fiscal year end reference).
10.16	Loan Modification Agreement en Silicon Valley Bank (filed as Exh Form 10-K for the fiscal year end reference).
10.17	Loan Modification Agreement en Silicon Valley Bank (filed as Exh 10-K for the fiscal year ended M
10.18	Lease between Arturo J. Gutierre Westford Realty Trust, u/d/t date North Registry of Deeds in Book Technology Park West, as amend Report on Form 10-K for the fisc herein by reference).
10.19	1997 Stock Incentive Plan of Ne as Exhibit 4.3 to NetScout s Reg and incorporated herein by refere
10.20	2000 Stock Incentive Plan of Ne to NetScout s Registration State herein by reference).*
10.21	Loan Modification Agreement en Silicon Valley Bank (filed as Exh 10-Q for the quarterly period end reference).
10.22	Loan Modification Agreement en Silicon Valley Bank (filed as Exh 10-K for the fiscal year ended M
10.23	Loan Modification Agreement en 2003, between NetScout and Sili Quarterly Report on Form 10-Q incorporated herein by reference
10.24	Loan Modification Agreement en 2004, between NetScout and Sili NetScout s Annual Report on Fo and incorporated herein by refere

10.25	Loan Modification Agreement er 2004, between NetScout and Sili Quarterly Report on Form 10-Q incorporated herein by reference

10.26	Summary of Director Compensat Report on Form 10-Q for the qua incorporated herein by reference)
10.27	Form of Restricted Stock Unit A Quarterly Report on Form 10-Q and incorporated herein by refere
21	Subsidiaries of NetScout.
23	Consent of PricewaterhouseCoop
31.1	Certification Pursuant to Section
31.2	Certification Pursuant to Section
32.1	Certification Pursuant to Section
32.2	Certification Pursuant to Section

* Indicates a management contract or con