

NETSCOUT SYSTEMS INC  
Form 10-Q  
November 06, 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 September 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)

Edgar Filing: NETSCOUT SYSTEMS INC - Form 10-Q

**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 November 6, 2009 was 40,664,030.

**Table of Contents**

**NETSCOUT SYSTEMS, INC.**

**FORM 10-Q**

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

**TABLE OF CONTENTS**

**PART I: FINANCIAL INFORMATION**

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

<u>Condensed Consolidated Balance Sheets: As of September 30, 2009 and March 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations: For the three and six months ended September 30, 2009 and September 30, 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows: For the six months ended September 30, 2009 and September 30, 2008</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6

<b><i>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i></b>	17
--	----

<b><i>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></i></b>	32
---	----

<b><i>Item 4. <u>Controls and Procedures</u></i></b>	33
--	----

**PART II: OTHER INFORMATION**

<b><i>Item 1. <u>Legal Proceedings</u></i></b>	33
--	----

<b><i>Item 1A. <u>Risk Factors</u></i></b>	33
--	----

<b><i>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></i></b>	34
--	----

<b><i>Item 4. <u>Submission of Matters to a Vote of Securities Holders</u></i></b>	34
--	----

<b><i>Item 6. <u>Exhibits</u></i></b>	34
---------------------------------------	----

<b><u>SIGNATURES</u></b>	35
--------------------------	----

<b><u>EXHIBIT INDEX</u></b>	36
-----------------------------	----

**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)**

	September 30, 2009	March 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 84,698	\$ 82,222
Marketable securities	29,232	24,162
Accounts receivable, net of allowance for doubtful accounts of \$371 and \$572 at September 30, 2009 and March 31, 2009, respectively	33,159	39,827
Inventories	7,414	6,850
Prepaid income taxes	6,764	8,389
Deferred income taxes	2,796	2,796
Prepaid expenses and other current assets	4,675	4,939
<b>Total current assets</b>	<b>168,738</b>	<b>169,185</b>
Fixed assets, net	12,434	13,848
Goodwill	128,177	128,177
Acquired intangible assets, net	56,639	59,610
Deferred income taxes	33,006	34,941
Long-term marketable securities	28,856	29,528
Other assets	1,668	1,445
<b>Total assets</b>	<b>\$ 429,518</b>	<b>\$ 436,734</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,118	\$ 6,385
Accrued compensation	12,674	23,156
Accrued other	4,849	5,407
Income taxes payable	4,780	1,702
Current portion of long-term debt	10,000	10,000
Deferred revenue	61,937	70,815
<b>Total current liabilities</b>	<b>102,358</b>	<b>117,465</b>
Other long-term liabilities	684	771
Accrued long-term retirement benefits	1,485	1,330
Long-term deferred revenue	8,572	8,937
Long-term debt, net of current portion	74,356	82,500
<b>Total liabilities</b>	<b>187,455</b>	<b>211,003</b>

## Edgar Filing: NETSCOUT SYSTEMS INC - Form 10-Q

Commitments and contingencies (Note 10)

Stockholders' equity:

Preferred stock, \$0.001 par value:

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

Common stock, \$0.001 par value:

150,000,000 shares authorized; 45,007,546 and 44,811,729 shares issued and 40,475,529 and 40,279,712

shares outstanding at September 30, 2009 and March 31, 2009, respectively

	45	45
Additional paid-in capital	196,957	192,844
Accumulated other comprehensive loss	(1,565)	(1,461)
Treasury stock at cost, 4,532,017 shares at September 30, 2009 and March 31, 2009	(28,939)	(28,939)
Retained earnings	75,565	63,242

Total stockholders' equity	<b>242,063</b>	<b>225,731</b>
----------------------------	----------------	----------------

Total liabilities and stockholders' equity	<b>\$ 429,518</b>	<b>\$ 436,734</b>
--	-------------------	-------------------

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 September 30,		Six Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Product	\$ 30,631	\$ 39,513	\$ 59,022	\$ 74,430
Service	29,060	29,348	58,731	55,038
Total revenue	59,691	68,861	117,753	129,468
Cost of revenue:				
Product <sup>(1)</sup>	8,289	12,057	15,548	22,403
Service <sup>(1)</sup>	4,584	5,289	9,493	10,280
Total cost of revenue	12,873	17,346	25,041	32,683
Gross profit	46,818	51,515	92,712	96,785
Operating expenses:				
Research and development <sup>(1)</sup>	8,670	10,135	17,888	20,308
Sales and marketing <sup>(1)</sup>	21,372	25,739	43,478	49,798
General and administrative <sup>(1)</sup>	4,604	6,080	9,834	12,611
Amortization of acquired intangible assets	491	490	981	981
Total operating expenses	35,137	42,444	72,181	83,698
Income from operations	11,681	9,071	20,531	13,087
Interest and other income (expense), net:				
Interest income	141	606	418	1,268
Interest expense	(868)	(1,573)	(1,955)	(3,574)
Other income (expense), net	12	(461)	103	(875)
Total interest and other income (expense), net	(715)	(1,428)	(1,434)	(3,181)
Income before income tax expense	10,966	7,643	19,097	9,906
Income tax expense	3,880	2,701	6,774	3,467
Net income	\$ 7,086	\$ 4,942	\$ 12,323	\$ 6,439
Basic net income per share	\$ 0.18	\$ 0.13	\$ 0.31	\$ 0.16
Diluted net income per share	\$ 0.17	\$ 0.12	\$ 0.30	\$ 0.16
Weighted average common shares outstanding used in computing:				
Net income per share - basic	40,395	39,201	40,352	39,078

## Edgar Filing: NETSCOUT SYSTEMS INC - Form 10-Q

Net income per share - diluted	41,590	41,008	41,388	40,781
--------------------------------	--------	--------	--------	--------

(1) Share-based compensation expenses included in these amounts are as follows:

Cost of product revenue	\$ 29	\$ 26	\$ 57	\$ 53
Cost of service revenue	56	55	112	94
Research and development	312	300	620	611
Sales and marketing	545	511	1,101	1,041
General and administrative	342	296	677	580
<b>Total share-based compensation expense, before income tax effect</b>	<b>\$ 1,284</b>	<b>\$ 1,188</b>	<b>\$ 2,567</b>	<b>\$ 2,379</b>