

NETSCOUT SYSTEMS INC  
Form 10-Q  
November 07, 2008  
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**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, 2008

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)

Delaware  
(State or Other Jurisdiction of Incorporation  
or Organization)

04-2837575  
(IRS Employer Identification No.)

310 Littleton Road, Westford, MA 01886

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(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 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  Smaller reporting company

(Do not check if a 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, 2008 was 39,339,881.

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**NETSCOUT SYSTEMS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

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	<b>September 30, 2008</b>	<b>March 31, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 64,810	\$ 56,702
Marketable securities	13,053	10,465
Accounts receivable, net of allowance for doubtful accounts of \$182 and \$86 at September 30, 2008 and March 31, 2008, respectively	25,906	32,048
Inventories	7,285	12,083
Refundable income taxes	5,723	5,036
Deferred income taxes	5,191	6,052
Prepaid expenses and other current assets	5,132	13,546
<b>Total current assets</b>	<b>127,100</b>	<b>135,932</b>
Fixed assets, net	15,104	16,729
Goodwill	131,754	131,802
Acquired intangible assets, net	62,581	65,569
Deferred financing costs	829	956
Deferred income taxes	34,891	34,891
Long-term marketable securities	31,487	33,764
Restricted cash	122	121
Other assets	723	1,173
<b>Total assets</b>	<b>\$ 404,591</b>	<b>\$ 420,937</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 7,326	\$ 9,207
Accrued compensation	18,441	23,594
Accrued other	5,825	7,805
Income taxes payable	2,173	1,065
Long-term debt, current portion	8,750	6,250
Deferred revenue	58,731	74,257
<b>Total current liabilities</b>	<b>101,246</b>	<b>122,178</b>
Other long-term liabilities	878	917
Accrued long-term retirement benefits	1,294	1,245
Long-term deferred revenue	6,407	6,764
Long-term debt, net of current portion	87,500	92,500

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Total liabilities	<b>197,325</b>	<b>223,604</b>
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, 2008 and March 31, 2008		
Common stock, \$0.001 par value:		
150,000,000 shares authorized; 43,819,853 and 43,370,802 shares issued and 39,287,836 and 38,838,785 shares outstanding at September 30, 2008 and March 31, 2008, respectively		
	44	43
Additional paid-in capital	188,068	182,789
Accumulated other comprehensive gain (loss)	(1,540)	246
Treasury stock at cost, 4,532,017 shares at September 30, 2008 and March 31, 2008	(28,939)	(28,939)
Retained earnings	49,633	43,194
Total stockholders' equity	<b>207,266</b>	<b>197,333</b>
Total liabilities and stockholders' equity	<b>\$ 404,591</b>	<b>\$ 420,937</b>

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

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## NetScout Systems, Inc.

**Condensed Consolidated Statements of Operations****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenue:</b>				
Product	\$ 39,513	\$ 18,911	\$ 74,430	\$ 36,424
Service	29,348	10,701	55,038	21,101
<b>Total revenue</b>	<b>68,861</b>	<b>29,612</b>	<b>129,468</b>	<b>57,525</b>
<b>Cost of revenue:</b>				
Product (1)	12,057	5,204	22,403	9,856
Service (1)	5,289	1,809	10,280	3,608
<b>Total cost of revenue</b>	<b>17,346</b>	<b>7,013</b>	<b>32,683</b>	<b>13,464</b>
<b>Gross profit</b>	<b>51,515</b>	<b>22,599</b>	<b>96,785</b>	<b>44,061</b>
<b>Operating expenses:</b>				
Research and development (1)	10,135	4,711	20,308	9,246
Sales and marketing (1)	25,739	11,126	49,798	22,355
General and administrative (1)	6,080	3,192	12,611	6,025
Amortization of acquired intangible assets	490		981	6
<b>Total operating expenses</b>	<b>42,444</b>	<b>19,029</b>	<b>83,698</b>	<b>37,632</b>
Income from operations	9,071	3,570	13,087	6,429
<b>Interest and other income (expense), net:</b>				
Interest income	606	1,089	1,268	2,107
Interest expense	(1,573)	(22)	(3,574)	(31)
Other expense, net	(461)	(6)	(875)	(6)
<b>Total interest and other income (expense), net</b>	<b>(1,428)</b>	<b>1,061</b>	<b>(3,181)</b>	<b>2,070</b>
Income before income tax expense	7,643	4,631	9,906	8,499
Income tax expense	2,701	1,380	3,467	2,568
<b>Net income</b>	<b>\$ 4,942</b>	<b>\$ 3,251</b>	<b>\$ 6,439</b>	<b>\$ 5,931</b>
Basic net income per share attributable to common shareholders	\$ 0.13	\$ 0.10	\$ 0.16	\$ 0.18
Diluted net income per share attributable to common shareholders	\$ 0.12	\$ 0.10	\$ 0.16	\$ 0.18
<b>Weighted average common shares outstanding used in computing:</b>				
Weighted average shares outstanding basic	39,201	32,302	39,078	32,221
Weighted average shares outstanding diluted	41,008	33,600	40,781	33,435

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

Cost of product revenue	\$ 26	\$ 10	\$ 53	\$ 21
Cost of service revenue	55	15	94	28
Research and development	300	70	611	184
Sales and marketing	511	149	1,041	319
General and administrative	296	82	580	159
	\$ 1,188	\$ 326	\$ 2,379	\$ 711

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

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## NetScout Systems, Inc.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended September 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,439	\$ 5,931
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	7,208	2,226
Amortization of deferred financing costs	127	
Loss on disposal of fixed assets	333	13
Inventory write-down	151	
Share-based compensation expense associated with equity awards	2,379	711
Deferred income taxes	861	(292)
Changes in assets and liabilities, net of the effects of acquisitions		
Accounts receivable	6,142	(392)
Inventories	4,647	(284)
Refundable income taxes	(687)	348
Prepaid expenses and other current assets	8,401	542
Other assets	490	