



FORM 10-K

NETSCOUT SYSTEMS INC – NTCT

Filed: June 05, 2006 (period: March 31, 2006)

Annual report which provides a comprehensive overview of the company for the past year

Table of Contents

PART I

- Item 1. Business
Item 7A. Quantitative and Qualitative Disclosures About Market Risk 44

PART I

- Item 1. Business
Item 1A. Risk Factors
Item 1B. Unresolved Staff Comments
Item 2. Properties
Item 3. Legal Proceedings
Item 4. Submission of Matters to a Vote of Security Holders

PART II

- Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of E
Item 6. Selected Financial Data
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 7A. Quantitative and Qualitative Disclosures About Market Risk
Item 8. Financial Statements and Supplementary Data
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure
Item 9A. Controls and Procedures
Item 9B. Other Information

PART III

- Item 10. Directors and Executive Officers of the Registrant
Item 11. Executive Compensation
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matt
Item 13. Certain Relationships and Related Transactions
Item 14. Principal Accountant Fees and Services

PART IV

- Item 15. Exhibits and Financial Statement Schedules
SIGNATURES
Index to Exhibits
EX-21 (Subsidiaries of the registrant)

EX-23 (Consents of experts and counsel)

EX-31.1

EX-31.2

EX-32.1

EX-32.2

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2006
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
(978) 614-4000

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$0.001 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant as of September 30, 2005 (based on the last reported sale price on the Nasdaq National Market as of such date) was approximately \$95,006,788. As of June 1, 2006, there were 31,570,937 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Registrant's Proxy Statement for the fiscal year 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Except as expressly incorporated by reference, the proxy statement is not deemed to be part of this report.

NETSCOUT SYSTEMS, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2006
TABLE OF CONTENTS

PART I

Item 1.	<u>Business</u>	4
	<u>Industry Background</u>	5
	<u>Traditional Approaches to Network Performance Management</u>	6
	<u>NetScout's Approach to Network and Application Performance Management</u>	7
	<u>NetScout Products and Performance Technology</u>	8
	<u>Strategy</u>	9
	<u>Sales and Marketing</u>	11
	<u>Support Services</u>	12
	<u>Research and Development</u>	12
	<u>Manufacturing</u>	12
	<u>Customers</u>	13
	<u>Channels</u>	13
	<u>Competition</u>	13
	<u>Intellectual Property Rights</u>	13
	<u>Employees</u>	14
	<u>Available Information</u>	14
Item 1A.	<u>Risk Factors</u>	14
Item 1B.	<u>Unresolved Staff Comments</u>	20
Item 2.	<u>Properties</u>	20
Item 3.	<u>Legal Proceedings</u>	21
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	21

PART II

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
Item 6.	<u>Selected Financial Data</u>	23
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
	<u>Overview</u>	24
	<u>Critical Accounting Policies</u>	25
	<u>Comparison of Years Ended March 31, 2006 and March 31, 2005</u>	31

	<u>Comparison of Years Ended March 31, 2005 and March 31, 2004</u>	35
	<u>Contractual Obligations</u>	40
	<u>Off-Balance Sheet Arrangements</u>	40
	<u>Liquidity and Capital Resources</u>	41
	<u>Recent Accounting Standards</u>	43
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 8.	<u>Financial Statements and Supplementary Data</u>	44
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	44
Item 9A.	<u>Controls and Procedures</u>	44
Item 9B.	<u>Other Information</u>	45
 <u>PART III</u>		
Item 10.	<u>Directors and Executive Officers of the Registrant</u>	46
Item 11.	<u>Executive Compensation</u>	46
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	46
Item 13.	<u>Certain Relationships and Related Transactions</u>	46
Item 14.	<u>Principal Accountant Fees and Services</u>	46
 <u>PART IV</u>		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	47
	<u>Signatures</u>	48
	<u>Index to Consolidated Financial Statements</u>	F-1
	<u>Index to Exhibits</u>	
Exhibit 21	<u>Subsidiaries of NetScout.</u>	
Exhibit 23	<u>Consent of PricewaterhouseCoopers LLP.</u>	
Exhibit 31.1	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	
Exhibit 31.2	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	
Exhibit 32.1	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	
Exhibit 32.2	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	

PART I

Item 1. Business

NetScout Systems, Inc. ("We", "NetScout" or the "Company"), a Delaware corporation founded in 1984, designs, develops, manufactures, markets, sells and supports a family of products that assures the performance and availability of critical business applications and services in complex, high-speed networks. We manufacture and market these products as an integrated hardware and software solution that is used by enterprises, governmental agencies and service providers worldwide. We have a single operating segment and substantially all of our identifiable assets are located in the United States of America.

Businesses have continued to increase their reliance on software applications and computer networks, making them strategic assets for competitive advantage and essential business operations. To support the growing number of users and their demands for faster and more reliable computer network access, new network technologies and products are continually being introduced. New applications are increasingly based on service oriented architectures, implemented over virtualized resources, including networks, storage, and servers. Furthermore, with the proliferation of malicious computer viruses, destructive worms and sophisticated hackers, businesses have adopted robust security systems and procedures that are not always consistent with performance goals. The result is increasingly large, geographically dispersed, and complex networks and infrastructures that are difficult to manage and business service performance levels that are difficult to guarantee. Computer network malfunctions, resource contention and infrastructure and application misconfiguration all can cause business service disruptions, lost revenue and customer dissatisfaction. Consequently, businesses are recognizing the critical importance of addressing customer IT service performance problems quickly and proactively. The NetScout Systems suite of products is tailored for this rapidly growing market of organizations running complex networks that are built for performance while striving to be completely secure.

The *nGenius*[®] Performance Management System, our integrated, appliance-based software solution, monitors, collects and publishes information on the behavior of individual applications and business services, such as Voice-over-IP, e-commerce, supply chain management, and customer relationship management, as well as the performance of the underlying network (routers, switches and communication links), and the level of IT end-users' activity. The *nGenius* Solution draws on performance data collected directly from multiple sources, including our line of network monitoring appliances called *nGenius* Probes, intelligent software agents, and infrastructure devices. The hardware probes attach to the network non-intrusively and collect in-depth information about application and network activity in real time. Organizations can gain "end-through-end" visibility to understand better and optimize application performance across the network by placing probes at strategic locations throughout a network. This "end-through-end" architecture provides information unavailable to ordinary "end-to-end" approaches that collect data only at the edge the network.

The *nGenius* Solution generates, analyzes and publishes historical information in real-time displays and customizable historical reports. These displays and reports summarize the status of application performance, service levels, network activity, device utilization, and other critical metrics of network availability, utilization and performance, and are delivered to the IT engineering and operations staff in easy-to-read, Web-based formats. Our customers use the information generated by the *nGenius* Solution to detect problems early and to diagnose and solve them rapidly, thereby reducing the Mean Time to Repair, or MTTR, for IT operations. Using the collected performance data they can also manage the delivery of services and monitor service-level agreements, assess infrastructure capacity against future needs, and justify requirements for additional resources.

Increases in both application complexity and traffic loads have given rise to the need for higher speed infrastructures and Quality of Service, or QoS, prioritization policies to optimize application performance. To meet the challenges required for visibility into the health and activity of these applications and infrastructures, NetScout extended the *nGenius* Performance Management System with High Definition capabilities. During fiscal year 2006, we delivered High Definition Performance Management, or HDPM, for the *nGenius*

Performance Management System, a new technology that addresses the critical need for detailed, granular visibility of application performance in today's complex global enterprise and government networks. These High Definition capabilities record comprehensive details on all application traffic flows and conversations up to 60 times an hour. HDPM represents an evolutionary step based upon our Common Data Model, or CDMTM, strategy and architecture, launched by NetScout four years ago, which has enabled us to address major challenges facing enterprises today as they strive to increase performance and service levels across their networks in the face of increasing complexity. HDPM was released in a new version of the *nGenius* Performance Management System in early fiscal year 2006, followed by an additional release later during fiscal year 2006. Both releases added valuable capabilities and incorporated customer feature requests such as application visibility into Multi-Protocol Label Switching, or MPLS, networks, Virtual Private Networks, or VPNs, third party packet analysis trace files, and support for monitoring and managing peer-to-peer applications.

During fiscal year 2006, we acquired substantially all of the assets of Quantiva, Inc. ("Quantiva"), a provider of automated analytics software solutions for application performance management. Quantiva's patented technology uses real time performance metrics to establish expected behavior values using advanced statistical modeling. When a measurement, such as the utilization of a critical business application, is recognized as deviating from its usual behavior, the Quantiva Progressive AnalyticsTM software automatically performs diagnostic analysis to determine the likely cause. The final outcome is fewer, more reliable alarms, accompanied by actionable diagnostic results that increase IT productivity and reduce MTTR for performance problems. Coupled with our high-resolution performance data, Quantiva's software will extend our leading market position in detecting and diagnosing application performance problems before they impact our customer's critical business services. Products based on the Quantiva technology were trialed throughout the second half of fiscal 2006, and the first commercial release occurred with the delivery of the *nGenius* Analytics product in May 2006.

We market and distribute our products through our own direct sales force and through channel partners that include distributors, resellers, service providers and systems integrators. Our principal customers are Global 5000 enterprises, representing a wide range of industries including financial services, technology, telecommunications, healthcare, retail, manufacturing, and service providers as well as many large agencies of the federal government. As of March 31, 2006, NetScout has licensed our products to more than 3,300 customers, and no customer represented more than 10% of revenues in fiscal years 2006, 2005 or 2004.

Our principal executive offices are located at 310 Littleton Road, Westford, Massachusetts, and our telephone number is (978)–614–4000.

Industry Background

Enterprise and government organizations are increasingly dependent upon their computer data networks and on the internet to generate and deliver information and business services to their constituents: customers, suppliers, investors, employees, and citizens. At the same time, data networks are taking on new roles: subsuming the role of the voice network and serving as the platform for the next generation of massively distributed, virtualized, service-oriented application architectures. Furthermore, rapidly advancing server technology and mushrooming multimedia applications continue to drive up traffic levels and have spawned a new wave of infrastructure upgrades, including broad deployment of 10 Gigabit per second Ethernet network technology. The combination of these fundamental trends produces unprecedented complexity coupled with unparalleled business impact – requiring capable management technology.

Large organizations have been bracing themselves for these challenges by investing in new, more powerful performance management solutions and making organizational and process changes to be able to prevent and resolve business service disruptions more rapidly while keeping operation costs, including personnel costs, under control. Core to these changes is the concept of the information system not as a collection of servers, storage devices, network equipment and applications that can be managed in isolation of each other, but as an

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

In connection with the Annual Report of NetScout Systems, Inc. (the "Company") on Form 10–K for the period ending March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Sommers, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID P. SOMMERS

David P. Sommers
Chief Financial Officer

June 2, 2006

Created by 10KWizard www.10KWizard.com