

NETSCOUT SYSTEMS INC  
Form 10-K  
May 25, 2012  
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**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, 2012

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)

310 Littleton Road, Westford, MA 01886

04-2837575  
(IRS Employer  
Identification No.)

(978) 614-4000

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, \$0.001 Par Value**

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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 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  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 aggregate market value of common stock held by non-affiliates of the registrant as of September 30, 2011 (based on the last reported sale price on the Nasdaq Global Market as of such date) was approximately \$435,580,350. As of May 18, 2012, there were 41,828,456 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

(1) Portions of the Registrant's Proxy Statement for the fiscal year 2012 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.

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**NETSCOUT SYSTEMS, INC.**

*FORM 10-K*

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**PART I**

***Item 1. Business***

**Corporate Background**

NetScout Systems, Inc., or we, or NetScout, provides the equipment that allows our customers to ensure that applications are running smoothly across their networks. NetScout designs, develops, manufactures, markets, licenses, sells and supports market leading application and network performance management and service assurance solutions focused on assuring service delivery quality, performance and availability for some of the world's largest, most demanding and complex internet protocol (IP) based service delivery environments. We manufacture and market these products in integrated hardware and software solutions that are used by commercial enterprises, large governmental agencies and telecommunication service providers worldwide. We have a single operating segment and substantially all of our identifiable assets are located in the United States.

We conduct our business globally and our sales force is managed in four main geographic teams: United States, Europe, Asia and the rest of the world.

We are a Delaware corporation founded in 1984 and our principal executive offices are located at 310 Littleton Road, Westford, Massachusetts, and our telephone number is (978) 614-4000. NetScout's internet address is <http://www.netscout.com>. Information contained or referenced on our website is not incorporated by reference in and does not form a part of this Annual Report on Form 10-K. NetScout makes available, free of charge, on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

**General**

With a sustained history of 28 years of technology innovation, NetScout continues to lead the market and is changing how organizations manage and optimize the delivery of business applications and services and assure user experience across global IP networks. NetScout has continually advanced its product portfolio to meet the needs of organizations to provide solutions to manage dynamic network and application environments and to improve user experience by assuring service availability, quality and reliability. Our solution is a highly scalable and flexible real-time service delivery management platform that supports a wide-range of enterprise information technology (IT) operations and management organizations including network operations, application managers, network operations centers, network engineering, security operations and service delivery teams. In addition, within the service provider segment, our solutions are deployed to a broad range of operational users including the network operations, network engineering, service operations, application groups, customer care, marketing, chief technology officers and advance engineering groups.

During fiscal year 2012, we completed three acquisitions, bringing unique technology, products and new capabilities to our solution set in support of our unique Unified Service Delivery Management (USDMM) strategy, thereby further enhancing the value of our solution to new and existing customers and increasing our market differentiation. In April 2011 we completed the acquisition of Psytechnics, Ltd (Psytechnics) who was a pioneer and recognized innovator in IP Voice, Video and Telepresence unified communications services performance management. In October 2011, we completed the acquisition of Fox Replay BV (Replay), a leading provider of user session reconstruction and replay technology that enables organizations to perform forensic analysis of end-user actions in support of cyber intelligence activities. In November 2011, we acquired Simena, LLC (Simena), an established provider of high performance, low-latency IP packet flow-based network monitoring switching technology that enables IT organizations and service providers to aggregate, filter and control network traffic for data, voice, and video monitoring and cyber security deployments. These acquisitions have brought key new technologies and capabilities to our solution offering that greatly enhance our USDMM strategy enabling further market differentiation of our solution offerings and will accelerate our customers' time to value. Each of

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these acquisitions complement our focused packet-flow strategy and will enable us to continue to build a leading solution set that meets customer requirements in streamlining their network monitoring architecture, enhances the usefulness of our solution in cybersecurity implementations and addresses the growing need to support Unified Communications (UC) services along with business data applications. All three of these acquisitions have been completed and are fully integrated into the organization.

NetScout solutions use advanced packet flow technologies to enable these organizations to gain greater, more granular visibility into the interdependencies of network and application behavior to effectively monitor, analyze and assure the end-to-end performance of data and UC business services. NetScout's value proposition to our customers is to identify service delivery issues early to enable the identification and prevention of significant service degradations or failures early before large numbers of users are impacted. As a result of our highly scalable and extensible USDM framework, organizations gain superior and sustainable visibility into user experience and the interrelated performance of applications and networks to better understand their service delivery environment. This visibly enables a more proactive management strategy and enhances operational agility enabling the IT operations and management organization to:

Optimize service delivery performance and increase efficiency and use of existing infrastructure;

Protect the user experience and assure business service continuity;

Simplify managing complex service delivery environments and reduce operations and support cost and complexity;

To ultimately lower the overall total cost of IT operations;

## **Industry Background**

Large enterprises, public sector agencies, and telecommunication service providers are critically dependent upon their data networks and the Internet to generate and deliver information and business services to their customers, suppliers, investors, employees, and citizens. Simultaneously, these data networks have taken new and strategic roles within these organizations, including carrying voice and video traffic, and serving as the platform for the next generation of massively distributed, virtualized and service-oriented application architectures. Application architectures are changing as well, with an increasing trend towards data center consolidation and private and hybrid cloud service delivery models. Furthermore, rapidly advancing server technology and exploding multimedia applications continue to drive growth in traffic levels which have spawned a new wave of infrastructure upgrades. In parallel, the service provider market continues to undergo fundamental changes with the accelerating transition to IP based services, requiring new network infrastructures and presenting new and daunting challenges for assessing and assuring service quality. The combination of these fundamental trends has created increasing levels of complexity coupled with growing business dependence requiring IT organizations to take a different approach to managing their service delivery networks to assure an always-on, anywhere, and device access to business service delivery.

NetScout is in a unique position, addressing both the enterprise and service provider markets. Building on our common packet-flow technology foundation, we have developed substantial expertise in assuring IP network-based service delivery that has enabled us to develop a highly scalable solution that not only addresses the needs of both the enterprise and the service provider markets, but also allows us to transfer this knowledge and technology development between these customer groups.

We market and distribute our products globally through our own direct sales force and through strategic channel partners that include distributors, value added resellers and systems integrators. We have two primary customer groups which include both the enterprise and service provider markets. For our enterprise markets, we focus on the Global 5000, which includes industries such as financial, healthcare, manufacturing, retail, technology, utilities, education, and the public sector, which includes agencies of federal, state and local governments. In the service provider customer group, we sell focused solutions to mobile operators, wireline operators and cable multi-service operators globally. We had no single customer or channel partner representing more than 10% of revenues in fiscal years 2012, 2011 or 2010.

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### ***Enterprise Markets***

In today's dynamic business environment, the IP network is increasingly being viewed as a strategic and critical success factor for many organizations. Consequently, the IT organization is under immense pressure to orchestrate the seamless and reliable delivery of services to meet increasing business and user expectations. IT must provide more services and greater business value with fewer resources and lower operating budgets than ever before. The IT mission is focused on reducing the cost of IT while increasing IT performance, improving operational efficiencies and delivering the highest quality and availability of IT services possible. This, coupled with the ever changing technology landscape and the continued increasing complexity of IT infrastructure, drives the need for a more automated and unified approach to managing service delivery. As a result, IT management must reduce the cost of service delivery, address increasing complexity, scale globally and adapt to emerging technologies such as cloud services, virtualization and unified communication services.

The result is increasingly large, geographically dispersed, and complex networks and infrastructures that are challenging to manage and that make obtaining consistent performance and service levels difficult to assure. Application and network malfunctions, resource contention, and infrastructure and application mis-configurations can all cause service disruptions, lost revenue and customer dissatisfaction. Consequently, the IT operations organization is recognizing the critical importance of identifying and addressing business service performance problems quickly and proactively. The NetScout nGenius® portfolio of products is designed for this rapidly growing market of organizations running complex, widely-distributed networks that provide always-on service delivery environments.

### ***Enterprise Environments***

Within the enterprise environment, the value of NetScout's nGenius® and Sniffer technologies enables IT organizations to protect and improve service delivery quality while evolving their service management model from a reactive approach, that responds to user complaints, to a more proactive model that is able to identify and address business service performance issues before they become serious and impact large numbers of users. Organizations can efficiently assure service delivery consistently from the data center to local users and over the wide area network (WAN) to branch offices, freeing up scarce IT resources to spend time on more strategic initiatives. Some of the current enterprise IT initiatives our solutions support include:

**Data Center Modernization & Virtualization** We enable IT organizations to manage the delivery of services across virtual and physical environments, providing a comprehensive, unified view of application and network performance. Intelligent early warning of emerging issues with the ability to analyze both physical and virtual services within the data center enables organizations to optimize datacenter infrastructure investments, protect against service degradations, and simplify the operation of complex, multi-tier application environments.

**Unified Communications** We deliver deep applications-level unified visibility into voice, data and video services side-by-side in order to understand the interrelationships of all services that traverse the network infrastructure and assess quality and performance of the delivery of these services. Application-level visibility enables the UC team to assess beyond typical network performance to see into voice or video quality to best assess the true user experience.

**Branch Office & WAN** We bring extended visibility into the performance of applications and networks at and between locations, including cloud-based services, with a unified view of end-to-end service delivery enabling collaborative problem-solving and uniform planning, enabling IT organizations to reduce the cost of managing their remote sites.

**Bring Your Own Device and Enterprise Mobility** With the consumerization of IT, the IT operations and management teams are confronted with supporting a wide range of new devices on corporate networks. Although IT loses direct control of the environment, user performance expectations remain consistent with corporate-supplied devices. We provide service assurance across

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the infrastructure and applications supporting a broad range of service delivery strategies including wireless service delivery to enable intelligent early warning and rapid-response troubleshooting, regardless of the connected devices.

**Process Improvement & ITIL Initiatives** We deliver real-time and historical information that provides the necessary insight to restore service, manage capacity, and understand the users' quality of experience. The unified service delivery management approach enabled by the nGenius solution empowers IT organizations to collaborate more meaningfully while reducing the overall costs of IT operations through a unified platform delivering a common set of metrics and insight across disparate IT departments. The nGenius solution also provides IT organizations a highly efficient service-oriented workflow that aligns with Information Technology Infrastructure Library (ITIL) process models.

**Structured Approach to Service Assurance & Troubleshooting** Our solution provides real-time enterprise-wide views, backed up by high-definition, actionable information on all network traffic, including individual applications and end-users, for rapid isolation of network issues, quick service restoration, and a minimization of business impact.

### ***Telecommunication Service Provider Markets***

Our opportunity in the service provider market stems from the industry's transformation to next generation all-IP networks driven by migration to third generation and Long-term Evolution (LTE) technologies. The move to IP has touched all sub-segments of the service provider environment. It is recognized that moving to an all-IP environment enables service providers to optimize their operating environment, consolidate and converge multiple networks and gain a high degree of flexibility in service offerings due to the dynamic nature of modern IP technology. Most carriers are moving from legacy circuit switched environments, where each user connection or service uses a dedicated circuit with dedicated bandwidth, to highly dynamic packet switched IP-based environments. The value of IP is that service providers gain a high degree of efficiency and provisioning flexibility for services over shared facilities with security and service quality capabilities coming from the underlying network equipment technology rather than through dedicated connections. As a result, service providers now require a much higher level of understanding of the traffic flows in a true multi-service delivery environment.

### ***Telecommunication Service Provider Environments***

As service providers transform their operations using the power of the modern IP network, they are confronted with new challenges in assuring services over an increasingly dynamic operating environment. New multimedia applications, migration from time division multiplexing (TDM) technology, or asynchronous transfer mode (ATM) technology, transport networks to a next generation all-IP network, introduction of Voice over IP (VoIP) along with the transition to IP multimedia sub-systems (IMS) require a new and innovative approach to assuring the delivery of next-generation broadband IP services.

Today's service providers are focused on creating a compelling set of services, with a high quality user experience, while also keeping an eye on reducing operational complexity and costs. This, coupled with the challenge of IP transformation activities and emerging new technologies LTE, Internet Protocol Television (IP-TV) and cloud services drives the need for a more automated and unified approach to managing service delivery and the subscriber experience. Service providers must reduce the cost of service delivery, address increasing complexity, scale globally and adapt to emerging technologies such as cloud services, virtualization and unified communication services while assuring high quality user experiences to retain their revenue base.

**For Mobile Operators** The fundamental transformation of the mobile network to all-IP enables mobile operators to build highly-scalable service delivery environments to offer new services to meet the growing subscriber demand for data, voice and video-centric services and to consolidate and simplify network operations. However, to capitalize fully on the value of IP and the significant market opportunities, mobile operators need detailed IP packet-level insight and core-to-access visibility.

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**For Fixed-line and Cable Operators** The growing demand for high-bandwidth triple-play services, broadband connectivity, content anywhere, IP-TV, on-demand video traffic, new extended WiFi initiatives and carrier Ethernet services presents service providers with significant revenue opportunities. IP has become the *de facto* convergence mechanism for access, distribution and core networks, enabling new service offerings, simplifying network operations while reducing total cost of operations. To realize these benefits, operators need comprehensive insight into IP services, service usage, service availability, application awareness, traffic load, network availability and network performance.

### **Products & Technology Overview**

#### **nGenius Service Assurance Solution**

The nGenius Service Assurance Solution delivers comprehensive, high definition visibility into end-to-end performance of the network, applications, services and users. Using a family of unified software-based analytics modules and rich packet-flow based metadata, the nGenius Service Assurance Solution delivers unmatched visibility into the end-to-end service delivery environment. By delivering a broad range of intelligent data sources, the nGenius solution provides unified visibility into virtually any place in the network, extending from the datacenter infrastructure and virtualized servers to the network core, edge and branch office, to deliver highly accurate insight into the user's application performance experience.

The nGenius Service Assurance Solution provides the following capabilities:

Service visualization and intelligent early warning;

Application and network performance management;

Service and policy validation;

Service optimization and capacity planning; and

Advanced trending and reporting capabilities;

Deep forensics and historical analysis.

The nGenius Service Assurance Solution is a fully integrated platform that uses a number of specialized software analytics modules and distributed intelligent data sources consisting of:

**nGenius Performance Manager** Our core analytics module that analyzes and correlates the meta-data delivered by a comprehensive range of nGenius intelligent data sources (hardware devices and software agents) for integrated application and service performance monitoring, response time analysis, troubleshooting, capacity planning and trending and reporting enabling end-to-end visibility and assurance of service delivery.

**nGenius Service Delivery Manager** A real-time business service dashboard that provides unified visibility into service delivery in the context of how services are delivered and consumed to produce timely, actionable management insight. Combining real-time and historical views of service domains the dashboard automates the detection of service quality problems and emerging security threats across physical, virtual, and cloud-based services from the application hosting environment, through the network, to the user.



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**nGenius Voice | Video Manager** Is an advanced UC performance management and analysis analytics module enabling IT staff to proactively manage the performance and user experience for a broad range of collaboration-enabling real time communications services, such as telepresence, video, and voice. The solution delivers network performance and granular application-specific metrics for IP-based voice and video session transmission and conversation quality to reveal real-time service performance and the true user experience. As a result, IT organizations can achieve the required actionable visibility into the end-to-end behavior and quality UC applications and services.

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**nGenius Enterprise Intelligence** extends the session-level analysis capabilities of the nGenius Service Assurance Solution to provide granular hop-by-hop views into performance and latency of a users' application session as complex application traffic crosses multiple data centers and cloud environments to provide a unified perspective of user experience. Leveraging the real-time data mining capabilities of NetScout's Adaptive Session Intelligence (ASI) technology, nGenius Enterprise Intelligence automates, accelerates and simplifies the creation of a true representation of an end-to-end user data or voice session.

**nGenius Subscriber Intelligence** Designed for mobile operators, nGenius Subscriber Intelligence provides datacenter-to-core-to-access visibility for managing mobile data sessions in general packet radio service (GPRS), in universal mobile telecommunications systems (UMTS), code division multiple access (CDMA) and LTE mobile networks. nGenius Subscriber Intelligence incorporates NetScout's ASI technology built into our nGenius InfiniStream appliances to provide unmatched, real-time correlation of related user plane and control plane sessions across both the core and access portions of the network.

**nGenius Trading Intelligence** A high-performance, latency-management solution purpose-built for trading environments that addresses the specialized visibility needs of exchanges and trading market firms. nGenius Trading Intelligence provides real-time visibility into complex trade order execution, market data feed latency and performance for trading environments enabling trade engineers to isolate delays, compare venue execution routes, monitor trade activity, and track client access to better optimize the performance of high-speed trading platforms.

**Sniffer Analysis Software Suite** The Sniffer Analysis Software Suite provides a direct connection to nGenius InfiniStream appliances for highly optimized forensic analysis and packet data mining to exploit fully the valuable information contained within network packets. The Sniffer Analysis software suite provides a powerful view deep into IP network packets revealing granular information about network and application interactions and response time and latency metrics to speed post event troubleshooting and support a wide-range of cybersecurity incident response and investigation analysis activities.

**nGenius Performance Manager for Flows and nGenius Analytics for Flows** nGenius Performance Manager and Analytics for Flows support Cisco NetFlow, sFlow, IP service level agreement data for analysis and reporting of performance problems, analysis and reporting for application utilization and conversation-level statistics and management information base (MIB II) data collected by nGenius Collectors.

**Sniffer Portable Analyzer Product Family** is a stand-alone field service analysis module that provides portable network and application analysis capabilities for field troubleshooting activities. Built on widely deployed Sniffer technology, the software-based analysis tool is deployed on individual technician laptops to support segment-specific portable analysis and troubleshooting activities enabling the rapid isolation of issues for wired and wireless networks. The Sniffer Global version of the product is integrated with Cisco's Mobility Services Engine to enable location-based visibility for wireless end-points.

**nGenius Intelligent Data Sources** nGenius Intelligent data sources provide the capabilities of gathering and analyzing information rich packet-flow data from across the network to enable the granular analysis and reporting capabilities of the nGenius Solution. nGenius InfiniStream appliances provide hardware-based data capture and metadata creation for the nGenius Solution and support 1 Gigabit and 10 Gigabit network connections and scale from one to 96 terabytes of packet storage capability. The nGenius Virtual Agent enables granular network and application visibility from within virtual server environments and the nGenius Integrated Agent integrates into network equipment, such as the Cisco® Integrated Services Router and Cisco Unified Computing express system to enable extended visibility into network and application performance from branch offices. nGenius Collectors support collection of network-based statistics from network equipment supporting standards-based data such as Cisco NetFlow, jFlow and sFlow.

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**Adaptive Session Intelligence (ASI) Technology** provides the extensible technology foundation for the nGenius Solution's rich real-time analytics capabilities. It enables the creation of statistical meta data, session transaction records and adaptive session traces enabling the monitoring of all users, all applications and all services consistently across the network. ASI technology is a critical differentiating technology that enables the performance at scale and real-time flexibility needed to address large and complex service delivery environments

**nGenius 1500 Series Packet Flow Switch** The nGenius packet flow switch enables powerful aggregation and flexible intelligent filtering capabilities enable the network team to collect traffic from a single monitoring point and deliver this traffic to many devices eliminating the need for redundant tapping points or mirror/SPAN ports. This enables the IT organization to better capture targeted traffic to enable a more flexible and comprehensive approach to important packet-flow data. In addition to consolidating vendor complexity, this enables IT organizations to efficiently consolidate scarce and costly monitoring points and intelligently share valuable traffic flows across multiple management and cybersecurity tools consistently.

### **Lawful Interception**

Sold into very specialized markets addressing the law enforcement community, NetScout's Replay NetAnalyst product supports lawful interception (LI) activity and interprets intercepted internet data and reconstructs all communications. The sessions can be viewed as easily as the internet itself. Communications are played back in the original order and appearance, guaranteeing the ability to see what the target saw, or hear what the target heard.

### **Product Enhancements and New Products**

NetScout continuously enhances its solutions to meet the increasing demands and ever changing technology landscape of IP networks and service and applications. Typically, these types of changes result in modest increases in the functionality of the products that do not meet the criteria for capitalization. In recent years, we have also delivered major product upgrades across our product lines, more tightly integrating deep packet analysis and forensics into our top-down performance management workflows, improving the flexibility of our industry-leading intelligent early warning capabilities, and adding support for new sources of user experience and performance related metrics.

In our fiscal year 2012, we made a number of major enhancements to our nGenius Service Assurance Solution that includes capabilities to further support mobile networks, with additions of LTE-specific capabilities as well as a broad range of incremental specialized capabilities. Specific new products introduced during our Fiscal Year 2012 include:

**nGenius Packet Flow Switch** Is the first announced product resulting from NetScout's acquisition of Simena. Announced February, 2012, the nGenius 1500 series packet flow switch is a high-performance, ultra-low latency network monitoring switch that enables enterprise IT organizations and service providers to cost-effectively aggregate, filter and distribute network traffic to the nGenius Service Assurance Solution and other monitoring, compliance and security tools.

**nGenius Integrated Agent for Cisco Unified Computing System express (UCSe)** further extends NetScout's monitoring capabilities into second generation Cisco ISR platforms to support the Cisco UCSE operating environment providing valuable insight into service performance, user experience and to identify security threats closer to the point of a user's service consumption for site-to-data center, site-to-cloud and site-to-site service traffic.

**nGenius Voice | Video Manager** Announced in May 2011, and representing the initial integration of technology from the Psytechnics, nGenius Voice | Video Manager provides comprehensive real-time service management for IP Telepresence, video and voice services with application-specific details of user session transmission and conversation quality to reveal the true user experience.

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**nGenius Enterprise Intelligence** Leveraging NetScout's Adaptive Session Intelligence Technology and announced May, 2011, nGenius Enterprise Intelligence closes the gap between network and application performance analysis enabling the comprehensive end-to-end visualization of user sessions to reveal the interdependencies that impact service quality and the downstream user experience.

### **Integration with third-party solutions**

To have greater operational impact on assuring performance of applications and service delivery, NetScout has integrated its technology with third-party management consoles and business service management systems. This integration allows organizations to receive alarms on impending performance problems and to link into the nGenius solution in order to perform detailed problem analysis and troubleshooting. By providing seamless integration into management platforms, NetScout fills a significant gap in the third party product functionality and visibility into the interaction of applications, services and infrastructure resources from a packet-based network vantage point. NetScout collaborates with technology partners to provide integrated solutions and extend the value of the nGenius Service Assurance Solution for application and network performance management across the organization. Using packet-flow data, key performance indicators and other sources of performance information derived from the nGenius Service Assurance Solution, integrated solutions enhance an organization's ability to optimize, simplify and protect the service delivery environment.

**Cisco Systems** NetScout is a member of the Cisco Developer Network Program for Mobility, Unified Communications and Advanced Routing. NetScout has integrated its widely deployed nGenius probe technology into the Cisco Integrated Services Router (ISR) platform enabling our joint customers to leverage the end-to-end capabilities of our service assurance solution from the datacenter to the branch office. We have received certification of our compatibility and interoperability with Cisco's Unified Communications platform. NetScout has also integrated its Sniffer Global product with the Cisco 3300 series Mobility Services Engine, to provide contextual location information to simplify and improve management of wireless networks.

**EMC® Ionix Control Center (formerly SMARTS®)** NetScout is an EMC Corp. (EMC) Velocity2 partner and provides integration between the nGenius Service Assurance Solution and the EMC Ionix Service Assurance Manager, EMC Ionix IP Availability Manager and EMC Ionix Discovery Manager. Integration between the nGenius solution and EMC Ionix solution provides our joint customers with complementary visibility into the packet-flow data within the service delivery environment.

**Hewlett-Packard Company** NetScout is a Platinum Business Partner in Hewlett-Packard's (HP's) Enterprise Management Alliance Program, and provides integration between the nGenius Service Assurance Solution with HP Business Technology Optimization Software solutions including HP OpenView Network Node Manager, HP Business Availability Center and HP Operations Manager. Together the integrated solutions provide our joint customers a single-pane-of-glass approach to troubleshooting to speed problem identification and resolution and assure users experience. In addition, NetScout has integrated its nGenius Integrated agent into some of the HP Networking chassis switching products to provide visibility into network and application performance at the network edge.

**IBM Tivoli** NetScout is an International Business Machine (IBM®), PartnerWorld member, and has been awarded Ready for IBM Tivoli Software validation status to the nGenius service assurance solution for its integration with IBM Tivoli NetView®, IBM Tivoli Enterprise Console® and IBM Tivoli Netcool®/OMNIBus. The integration between NetScout and IBM platforms provides our joint customers with expanded reach of IBM's Event Management Systems by combining integrated fault management and service delivery assurance into a single integrated console view with a seamless troubleshooting workflow.

**IBM Sametime** Through the nGenius Voice and Video Manager solution, NetScout integrates with IBM Sametime through an integrated client-side plug in that provides quality metrics from desktop Sametime applications to measure and assure quality performance of the IBM Sametime® software helping to assure the delivery of unified, real-time communication and collaboration services from enterprise instant messaging and online meetings to telephony and video conferencing.

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**VMware vSphere** NetScout is an Elite tier Technology Alliance Partner of VMware. nGenius Virtual Agent from NetScout is a virtualized implementation of the widely deployed nGenius Probe technology optimized for VMware that restores lost visibility to virtual environments. It seamlessly extends high-performance packet-flow analysis capabilities deeper into the data center and private clouds enabling IT organizations to achieve true end-to-end visibility of application traffic within and between virtual servers.

### **Strategy**

Enhancing shareholder value through sustained growth and increased profitability based on our continued market leadership is our primary objective. We continue to see a strong level of interest by the market for our products and technology as both enterprise and service provider customers struggle to keep up with the increasing complexity and volume of service traffic over IP networks. Both of these customer groups are looking for unified approaches that can scale to manage and assure the delivery of critical services over highly distributed IP networks. We intend to capitalize on this growing market demand regarding user experience in managing service delivery. We will pursue growth by increasing our ongoing business with our established customers, expanding our worldwide coverage and presence to add new customers, growing and establishing new relationships with technology alliance partners and driving greater value through strategic resellers and go to market partners. Key elements of our strategy include:

**Drive technology innovation to extend our market leadership** We are increasing our investment in research and development to expand and enhance our unified service delivery management capabilities that capitalize on our extensive experience with global enterprise and service provider organizations with very large, high-capacity IP-based networks. We intend to take advantage of our unique position in both the enterprise and service provider markets to cross-leverage our technology development for both markets to enable greater capabilities for our current and new customers. We will continue to enhance and extend our product line to meet the increasing challenges of managing a diverse range of services over an increasingly global network environment.

**Continued portfolio enhancements** We plan to continue to enhance our products and solutions to address the management challenges associated with virtualization, cloud computing, service-oriented architectures, VoIP, video, and Telepresence technologies. In addition, we will continue to drive our solutions to help IT organizations address the challenges of complex service delivery, datacenter consolidation, branch office consolidation and optimization, increasing mobility and the move to a more process-oriented operating environment.

**Enabling pervasive visibility** We intend to continue to expand our intelligent data source family to enable our customers to achieve more visibility in more places across their end-to-end network environment. We are expanding our nGenius InfiniStream appliance family to enable greater levels of storage and processing capacity and to expand our software-based nGenius Virtual Agent and nGenius Integrated Agent technology to enable wider deployment of our technology within virtual computing environments, network devices and computing platforms. We intend to continue to greatly enhance our ability to scale and to generate real-time meta data to meet the need for addressing a rapidly growing level of data traffic and an increasingly complex application environment. This includes extending and strengthening our market and technology lead by supporting new and innovative ways to address the ongoing technology challenges associated with the increasing volume of data traffic and enable scalable support for 40 Gigabit, 100 Gigabit topologies and increasing global deployments of IPv6.

**Expand our customer base in both enterprise and service provider markets** It is our intention to substantially grow our presence in both the enterprise and service provider markets. In the enterprise market, we are growing our installed base footprint to include a broader number of top-tier enterprise customers as well as extending to reach the mid-market enterprise customers. We intend to increase the use of our products across the IT organization to include new operational groups by expanding their capabilities and value. In the service provider market, we are expanding our presence through new

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service provider customer acquisitions as well as expanding our footprint further out into the radio access network, deeper into the core and into new datacenter expansions as cloud-based service offerings become increasingly strategic to service providers.

**Increase market relevance and awareness** To generate increased demand for our products we will continue to promote and position our technology, products and solutions to both the enterprise and service provider market and drive our vision and strategy of unified service delivery management. In addition, we will continue to drive industry initiatives around managing service delivery.

**Scale and grow our direct sales force** Our direct sales force was structured to specifically and effectively target the enterprise and service provider markets. Each of these markets has different technology issues, challenges and sales cycles. Consequently, NetScout is very well positioned with a well aligned field organization that will enable us to better meet the needs of these two diverse markets.

**Extend our technology partner alliance ecosystem** We plan to continue to enhance our technology value, product capabilities and customer relevance through the continued integration of our products into technology partner products. This includes both interoperability integration efforts, as well as embedding our technology into alliance partner products to gain a more pervasive footprint across both enterprise and service provider networks.

**Enhance and extend our training services** We plan to extend and continue to enhance our training services to support our growing customer base in both the enterprise and service provider markets. We continue to enhance our training with personalized education programs to help our customers deploy and use our products more effectively. We have strengthened our classroom training and added web-based on-demand training programs. We also continue to enhance our certification programs designed to recognize network professionals who have demonstrated an in-depth understanding of nGenius and Sniffer products and technologies.

## **Sales and Marketing**

We sell our products, support and services through a direct sales force and an indirect reseller and distribution channel. Our sales force uses a high-touch sales model that consists of face-to-face meetings with customers to understand and identify their unique business challenges and requirements. Our sales teams then translate those requirements into tailored business solutions that allow the customer to maximize the performance of its infrastructure and service delivery environment. Due to the complexity of the systems and the capital expenditure involved, our sales cycle typically takes three to twelve months. We build strategic relationships with our customers by continually enhancing our solution to help them address their evolving service delivery management challenges. In addition to providing a comprehensive solution to meet these needs, we continually provide software enhancements to our customers as part of their maintenance contracts with us. These enhancements are designed to provide additional and ongoing value to our existing customers to promote loyalty and the expansion of their deployment of our products. Existing customer growth is also driven by the expansion and changes in their networks as they add new infrastructure elements, new users, new locations, new applications and experience increasing service traffic volumes.

Our sales force is organized into four main geographic teams covering sales around the globe: United States, Europe, Asia and the rest of the world. Revenue from sales outside the United States represented 25%, 27% and 27% of our total revenue in the fiscal years ended March 31, 2012, 2011 and 2010, respectively. Sales to customers outside the United States are primarily export sales through channel partners, who are generally responsible for distributing our products and providing technical support and service to customers within their territories. Sales arrangements are primarily transacted in United States dollars. Our reported international revenue does not include any revenue from sales to customers outside the United States that are shipped to our United States-based indirect channel partners. These domestic resellers fulfill customer orders based upon joint selling efforts in conjunction with our direct sales force and may subsequently ship our products to international

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locations; however, we report these shipments as United States revenue since we ship the products to a domestic location. We expect revenue from sales to customers outside the United States to continue to account for a significant portion of our total revenue in the future.

Our marketing organization drives our market strategy, product positioning and messaging and produces and manages a variety of programs such as advertising, trade shows, industry events, public and analyst relations, direct mail, seminars, sales promotions, and web marketing to promote the sale and acceptance of our solutions and to build the NetScout, nGenius and Sniffer brand names in the marketplace. Key elements of our marketing strategy focus on thought leadership, market education, go to market strategies, reputation management, demand generation, and the acceleration of our strategic selling relationships with local and global resellers, systems integrators, and our technology alliance partners.

## **Seasonality**

We have experienced, and expect to continue to experience, quarterly variations in our order bookings as a result of a number of factors, including the length of the sales cycle, complexity of customer environments, new product introductions and their market acceptance and seasonal factors affected by customer projects and typical IT buying cycles. Due to these factors, we historically have experienced stronger bookings during our fiscal third and fourth quarters than in the first and second quarters. Net revenue can also be affected by unforeseen delays in product shipments due to issues such as on hand inventory, customer shipping instructions and acceptance requirements.

## **Support Services**

Customer satisfaction is a key driver of NetScout's success. NetScout's MasterCare support programs offer customers various levels of high quality support services to assist in the deployment and use of our solutions. We have support personnel strategically deployed across the globe to deliver 24/7 toll-free telephone support to our premium MasterCare customers. Some of the support services, such as on-site support activities, are provided by qualified third party support partners. In addition many of our certified resellers provide Partner Enabled Support to NetScout end-users. This is especially prevalent in international locations where time zones and language, among other factors, make it more efficient for end-users to have the reseller provide initial support functions. MasterCare support also includes updates to our software and firmware at no additional charge, if and when such updates are developed and made generally available to our commercial customer base. If ordered, MasterCare support commences upon expiration of the standard warranty for software. For software, which also includes firmware, the standard warranty commences upon shipment and expires 90 days thereafter. With regard to hardware, the standard warranty commences upon shipment and expires 12 months thereafter. We believe our warranties are consistent with commonly accepted industry standards.

## **Research and Development**

Our continued success depends significantly on our ability to anticipate and create solutions that will meet emerging customer requirements. We have invested significant financial resources and personnel into the development of our products and technology. Our continued investment in research and development is crucial to our business and our continued success in the market. We have assembled a team of highly skilled engineers with expertise in various technologies associated with our business and the technologies being deployed by our customers. These technologies and expertise include networks, protocols, applications, application delivery, WAN technologies, storage and systems management. As we have expanded our market to also include the wireless service provider sector, we have added a significant number of resources with expertise in service provider networks and technologies including GSM, UMTS, CDMA and LTE technologies. We plan to continue to expand our product offerings and capabilities in the near future, and, therefore, plan to continue to invest and dedicate significant resources to our research and development activities. In addition, as we continue to expand our position in the service provider market, we will need to continue to expand our offerings and focused capabilities for these customers. We will continue to make substantial investments in growing our service provider technology expertise to maintain and grow our market and technology lead for this rapidly growing market opportunity.

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We predominantly develop our products internally, with some third party contracting. We have also acquired developed technology through business acquisitions. To promote industry standards and manifest technology leadership, we participate in and support the activities and recommendations of industry standards bodies, such as the Internet Engineering Task Force, the 3<sup>rd</sup> Generation Partnership Project and we also engage in close and regular dialogue with our key customers and alliance partners. These activities provide early insight into the direction of network and applications performance requirements for current and emerging technologies.

### **Manufacturing**

Our manufacturing operations consist primarily of final product assembly, configuration and testing. We purchase components and subassemblies from suppliers and construct our hardware products in accordance with NetScout standard specifications. We inspect, test and use process control to ensure the quality and reliability of our products. In February 1998, we obtained ISO 9001 quality systems registration, a certification showing that our corporate procedures and manufacturing facilities comply with standards for quality assurance and process control. In July 2003, we obtained ISO 9001:2000 quality systems registration, a certification showing that our corporate procedures comply with standards for continuous improvement and customer satisfaction.

Although we generally use standard parts and components for our products, which are available from various suppliers, each of the computer network interface cards used in our devices is currently available only from separate single source suppliers. We have generally been able to obtain adequate supplies of components in a timely manner from current suppliers. While currently we purchase from specific suppliers, we believe that, in most cases, alternate suppliers can be identified if current suppliers are unable to fulfill our needs. Our reliance on single source suppliers is further described in Item 1A Risk Factors.

We manufacture our products based upon near-term demand estimates resulting from detailed sales forecasts. Due to the fact that these forecasts have a high degree of variability because of such factors as time of year, overall economic conditions and employee incentives, we maintain inventory levels in advance of receipt of firm orders to ensure that we have sufficient stock to satisfy all incoming orders.

### **Customers**

We sell our products to enterprises and service providers and other organizations with large- and medium-sized high-speed IP computer networks. Our enterprise customers cover a wide variety of industries, such as financial services, technology, public sector, manufacturing, healthcare, utilities, education and retail. In the telecommunications service provider customer group we address mobile operators, wireline operators and cable operators. A significant number of our service provider customers are mobile operators.

### **Backlog**

We configure our products to customer specifications and generally deliver the final products to the customer within a relatively short time after receipt of the purchase order. These orders also often include service engagements and technical support coverage. Customers may reschedule or cancel orders prior to shipment with little or no penalty.

Our combined product backlog at March 31, 2012, consisting of unshipped orders and deferred product revenue, was \$13.0 million compared to an immaterial amount at March 31, 2011. Due to the fact that most if not all of our customers have the contractual ability to cancel unshipped orders prior to shipment we cannot provide assurance that our product backlog at any point in time will ultimately become revenue.

### **Channels**

In recent years we implemented reseller specific programs to improve our reach to customers and extend our presence in new markets through channel partners. We sell through a broad range of channel partners including value added resellers, value added distributors, resellers, and system integrators, for both the enterprise and



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service provider markets. Sales to customers outside the United States are primarily export sales through channel partners. These channel partners help us market and sell our products to a broad array of organizations globally and allow us to better allocate and leverage our field sales force. In addition, and in conjunction with our relationship with Cisco Systems, we have been developing channel programs that we expect will enable us to use our common channel partners to tap the extended reach and value of the global Cisco reseller channel.

Historically and currently, we have used indirect distribution channels principally as intermediaries on contractual terms for customers with whom we have no contract. Our sales force meets with end user customers to present NetScout products and solutions, conduct demonstrations, provide evaluation equipment, recommend detailed product solutions, develop product deployment designs and timelines, and assist in establishing financial and other justification for the proposed solution. During this selling process a channel partner, who has contracts with both the end customer and NetScout, may be brought in to facilitate the transaction and to provide fulfillment services. In the case of international channel partners, those services usually also include currency translation and support. In the U.S., fulfillment services are usually limited to invoicing and cash collection. Under this approach, we have limited dependence upon channel partners for the major elements of the selling process. In many cases, there are multiple channel partners with the required contractual relationships, so dependence on any single channel partner is not significant.

Total revenue from indirect channels represented 54%, 59% and 61% of our total revenue for the fiscal years ended March 31, 2012, 2011 and 2010, respectively.

## **Competition**

The service assurance and performance management market is highly competitive, rapidly evolving, and a fragmented market that has overlapping technologies and competitors. Consequently, there are a number of companies that deliver some elements of our solutions. There are also larger IT management companies that compete for the same IT budget for managing performance and service delivery with broader less focused offerings.

We believe we compete primarily on the basis of offering a complete and comprehensive service delivery management solution that enables IT organizations to address the challenges of managing and assuring the delivery of critical IT services and applications to predict, identify and resolve the root causes of poor performance of large-scale, distributed IP networking environments. We believe other principal competitive factors in our market include scalability, ability to address a large number of applications, locations and users, product performance, the ability to easily deploy into existing network environments and the ability to administer and manage the solution. We believe that our solutions provide superior data and perform better than competitive products as measured by a broad range of metrics including the ability to recognize and track a large number of applications, scalability to support high and increasing levels of data and network traffic, the ability to look at both data and control plane traffic across an entire network and the ability to provide real-time information about service performance and real-time alerts to emerging service problems. Our ability to sustain such a competitive advantage depends on our ability to deliver continued technology innovation and adapt to meet the evolving needs of our customers.

We believe we are currently the only vendor providing a comprehensive and end-to-end service delivery management solution that is capable of addressing the needs of both enterprise and service provider customers and can scale to meet the enormous challenges of today's dynamic service delivery environments. This capability will be the most critical factor in managing mission critical applications in the much anticipated new public cloud IT paradigm of the future. There have been some acquisitions by large IT management vendors to strengthen their portfolio in the service assurance market and they will continue to invest in this area. We believe that we compete favorably in the service delivery management and service assurance markets and are the only vendor with a comprehensive service assurance and service delivery management solution with the necessary factors of speed, granularity of critical information and power of analysis to meet the needs of today and tomorrow's dynamic IP-based network operating environments. We have a unified architecture, compared to many vendors

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approach in combining disparate technology elements. We believe we have a significant advantage in scalability, comprehensiveness of data gathered, performance, ease-of-use, unified workflows and the ability to scale our solution to address large global deployments that encompass a large number of applications, services, locations and users.

In the enterprise market, our larger competitors include companies such as Computer Associates and OPNET Technologies, Inc. along with a number of smaller private companies and new market entrants. In addition, we both compete with and partner with large enterprise management vendors, such as IBM, HP, and EMC, who currently offer generalized performance management solutions but could provide enhanced solutions in the future. In the service provider market our primary large competitors include Tektronix, a division of Danaher, and JDSU, who provide operational management systems based pri