

NETSCOUT SYSTEMS INC
Form 10-Q
February 06, 2009
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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 December 31, 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 February 5, 2009 was 40,162,440.

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NETSCOUT SYSTEMS, INC.

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2008

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	December 31, 2008	March 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 63,204	\$ 56,702
Marketable securities	25,353	10,465
Accounts receivable, net of allowance for doubtful accounts of \$186 and \$86 at December 31, 2008 and March 31, 2008, respectively	45,979	32,048
Inventories	7,955	12,083
Refundable income taxes	5,751	5,036
Deferred income taxes	4,257	6,052
Prepaid expenses and other current assets	5,673	13,546
Total current assets	158,172	135,932
Fixed assets, net	13,965	16,729
Goodwill	131,754	131,802
Acquired intangible assets, net	61,095	65,569
Deferred income taxes	35,812	34,891
Long-term marketable securities	30,658	33,764
Other assets	1,542	2,250
Total assets	\$ 432,998	\$ 420,937
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 6,688	\$ 9,207
Accrued compensation	22,719	23,594
Accrued other	7,067	7,805
Income taxes payable	5,076	1,065
Long-term debt, current portion	10,000	6,250
Deferred revenue	69,330	74,257
Total current liabilities	120,880	122,178
Other long-term liabilities	804	917
Accrued long-term retirement benefits	1,309	1,245
Long-term deferred revenue	7,476	6,764
Long-term debt, net of current portion	85,000	92,500
Total liabilities	215,469	223,604

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Commitments and contingencies (Note 10)

Stockholders' equity:

Preferred stock, \$0.001 par value:

5,000,000 shares authorized; no shares issued or outstanding at December 31, 2008 and March 31, 2008

Common stock, \$0.001 par value:

150,000,000 shares authorized; 43,890,018 and 43,370,802 shares issued and 39,358,001 and 38,838,785 shares outstanding at December 31, 2008 and March 31, 2008, respectively

	44	43
Additional paid-in capital	189,491	182,789
Accumulated other comprehensive income (loss)	(635)	246
Treasury stock at cost, 4,532,017 shares at December 31, 2008 and March 31, 2008	(28,939)	(28,939)
Retained earnings	57,568	43,194

Total stockholders' equity	217,529	197,333
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Total liabilities and stockholders' equity	\$ 432,998	\$ 420,937
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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)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
Revenue:				
Product	\$ 42,940	\$ 36,085	\$ 117,370	\$ 72,509
Service	29,110	17,656	84,148	38,757
Total revenue	72,050	53,741	201,518	111,266
Cost of revenue:				
Product (1)	10,755	11,627	33,158	21,483
Service (1)	5,271	4,056	15,551	7,665
Total cost of revenue	16,026	15,683	48,709	29,148
Gross profit	56,024	38,058	152,809	82,118
Operating expenses:				
Research and development (1)	9,900	9,272	30,208	18,518
Sales and marketing (1)	25,219	21,463	75,017	43,817
General and administrative (1)	7,149	9,454	19,760	15,479
Amortization of acquired intangible assets	490	314	1,471	320
Total operating expenses	42,758	40,503	126,456	78,134
Income (loss) from operations	13,266	(2,445)	26,353	3,984
Interest and other income (expense), net:				
Interest income	473	866	1,741	2,973
Interest expense	(1,560)	(1,955)	(5,134)	(1,986)
Other expense, net	(180)	(254)	(1,055)	(260)
Total interest and other income (expense), net	(1,267)	(1,343)	(4,448)	727
Income (loss) before income taxes	11,999	(3,788)	21,905	4,711
Income tax expense (benefit)	4,064	(682)	7,531	1,886
Net income (loss)	\$ 7,935	\$ (3,106)	\$ 14,374	\$ 2,825
Basic net income (loss) per share attributable to common shareholders	\$ 0.20	\$ (0.09)	\$ 0.37	\$ 0.08
Diluted net income (loss) per share attributable to common shareholders	\$ 0.20	\$ (0.09)	\$ 0.35	\$ 0.08
Weighted average common shares outstanding used in computing:				
Weighted average shares outstanding basic	39,334	36,495	39,164	33,651
Weighted average shares outstanding diluted	40,506	36,495	40,707	35,065

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

Cost of product revenue	\$ 27	\$ 2	\$ 80	\$ 23
Cost of service revenue	57	15	151	42
Research and development	278	80	889	264
Sales and marketing	532	152	1,573	473
General and administrative	328	94	908	254
	\$ 1,222	\$ 343	\$ 3,601	\$ 1,056

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)

	Nine Months Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 14,374	\$ 2,825
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	10,614	5,077
Loss on disposal of fixed assets	333	13
Inventory write-down	340	205
Share-based compensation expense associated with equity awards	3,601	1,056
Deferred income taxes	1,796	(138)
Changes in assets and liabilities, net of the effects of acquisitions		
Accounts receivable	(13,931)	(9,531)
Inventories	3,788	(1,082)
Refundable income taxes	(715)	(621)
Prepaid expenses and other current assets	7,911	(948)
Other assets	749	397
Accounts payable	(2,519)	2,780
Accrued compensation and other expenses	(1,662)	