

NETSCOUT SYSTEMS INC
Form 10-Q
August 06, 2010
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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 June 30, 2010

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)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-2837575
(IRS Employer
Identification No.)

310 Littleton Road, Westford, MA 01886

(978) 614-4000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES NO

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 August 5, 2010 was 41,910,222.

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NETSCOUT SYSTEMS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2010

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	June 30, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 98,063	\$ 63,322
Marketable securities	63,513	69,875
Accounts receivable, net of allowance for doubtful accounts of \$412 and \$427 at June 30, 2010 and March 31, 2010, respectively	40,318	65,556
Inventories	9,964	9,181
Prepaid income taxes	442	2,730
Deferred income taxes	2,813	2,698
Prepaid expenses and other current assets	4,418	5,422
Total current assets	219,531	218,784
Fixed assets, net	12,848	12,773
Goodwill	128,177	128,177
Acquired intangible assets, net	52,101	53,573
Deferred income taxes	28,524	30,062
Long-term marketable securities	29,415	37,354
Other assets	1,850	1,878
Total assets	\$ 472,446	\$ 482,601
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 8,521	\$ 7,307
Accrued compensation	13,836	19,806
Accrued other	4,573	5,051
Current portion of long-term debt	12,500	11,250
Deferred revenue	75,670	84,196
Total current liabilities	115,100	127,610
Other long-term liabilities	455	551
Accrued long-term retirement benefits	1,689	1,645
Long-term deferred revenue	15,054	17,846
Long-term debt, net of current portion	64,356	68,106
Total liabilities	196,654	215,758
Commitments and contingencies (Note 11)		

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Stockholders' equity:

Preferred stock, \$0.001 par value:

5,000,000 shares authorized; no shares issued or outstanding at June 30, 2010 and March 31, 2010

Common stock, \$0.001 par value:

150,000,000 shares authorized; 46,595,042 and 46,490,166 shares issued and 41,861,899 and 41,769,680 shares outstanding at June 30, 2010 and March 31, 2010, respectively

	47	46
Additional paid-in capital	210,843	209,146
Accumulated other comprehensive loss	(1,532)	(1,817)
Treasury stock at cost, 4,733,241 and 4,720,584 shares at June 30, 2010 and March 31, 2010, respectively	(31,870)	(31,691)
Retained earnings	98,304	91,159

Total stockholders' equity	275,792	266,843
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Total liabilities and stockholders' equity	\$ 472,446	\$ 482,601
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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 June 30,	
	2010	2009
Revenue:		
Product	\$ 33,972	\$ 28,391
Service	32,839	29,671
Total revenue	66,811	58,062
Cost of revenue:		
Product	8,851	7,259
Service	5,724	4,909
Total cost of revenue	14,575	12,168
Gross profit	52,236	45,894
Operating expenses:		
Research and development	9,778	9,218
Sales and marketing	25,119	22,106
General and administrative	5,297	5,230
Amortization of acquired intangible assets	477	490
Total operating expenses	40,671	37,044
Income from operations	11,565	8,850
Interest and other income (expense), net:		
Interest income	178	277
Interest expense	(622)	(1,087)
Other income (expense), net	4	91
Total interest and other income (expense), net	(440)	(719)
Income before income tax expense	11,125	8,131
Income tax expense	3,980	2,894
Net income	\$ 7,145	\$ 5,237
Basic net income per share	\$ 0.17	\$ 0.13
Diluted net income per share	\$ 0.17	\$ 0.13
Weighted average common shares outstanding used in computing:		
Net income per share - basic	41,812	40,309
Net income per share - diluted	42,482	41,119

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)

	Three Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 7,145	\$ 5,237
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	3,472	3,599
Loss on disposal of fixed assets	18	19
Share-based compensation expense associated with equity awards	1,178	1,283
Deferred income taxes	1,174	833
Changes in assets and liabilities		
Accounts receivable	25,238	10,811
Inventories	(783)	(2)
Prepaid income taxes	2,288	1,739
Prepaid expenses and other current assets	914	(189)
Other assets	28	185
Accounts payable	1,214	561
Accrued compensation and other expenses	(6,714)	(11,173)
Income taxes payable		1,420
Deferred revenue	(11,318)	(4,515)
Net cash provided by operating activities	23,854	9,808
Cash flows from investing activities:		
Purchase of marketable securities	(2,265)	(13,458)
Proceeds from maturity of marketable securities	17,404	1,128
Purchase of fixed assets	(2,093)	(1,972)
Net cash provided by (used in) investing activities	13,046	(14,302)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	143	86
Repayment of long-term debt	(2,500)	(2,500)
Excess tax benefit from stock options exercised	198	419
Net cash used in financing activities	(2,159)	(1,995)
Net increase (decrease) in cash and cash equivalents	34,741	(6,489)
Cash and cash equivalents, beginning of period	63,322	82,222
Cash and cash equivalents, end of period	\$ 98,063	\$ 75,733

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

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NetScout Systems, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements as of June 30, 2010 and for the three months ended June 30, 2010 and 2009 have been prepared by NetScout Systems, Inc., or NetScout or the Company, in accordance with generally accepted accounting principles, or GAAP, for interim financial reports and the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles have been condensed or omitted pursuant to such regulations. In the opinion of the Company's management, the unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's financial position, results of operations and cash flows. The results of operations for the three months ended June 30, 2010 are not necessarily indicative of the results of operations for the year ending March 31, 2011. The balance sheet at March 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010, as filed with the Securities Exchange Commission, or SEC, on May 28, 2010.

Recently Adopted Accounting Pronouncements

In October 2009, the FASB amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

- (i) provide updated guidance on how the deliverables in a multiple deliverable arrangement should be separated, and how the consideration should be allocated;
- (ii) require an entity to allocate revenue in an arrangement using estimated selling prices, or ESP, of deliverables if a vendor does not have vendor-specific objective evidence, or VSOE, of selling price or third-party evidence of selling price, TPE; and
- (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

We elected to early adopt this accou