

NETSCOUT SYSTEMS INC
Form 10-Q
February 05, 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 December 31, 2009

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

04-2837575
(IRS Employer

Incorporation or Organization)

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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 3, 2010 was 41,173,780.

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NETSCOUT SYSTEMS, INC.

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2009

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	December 31, 2009	March 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 66,524	\$ 82,222
Marketable securities	49,412	24,162
Accounts receivable, net of allowance for doubtful accounts of \$277 and \$572 at December 31, 2009 and March 31, 2009, respectively	57,650	39,827
Inventories	8,728	6,850
Prepaid income taxes	6,788	8,389
Deferred income taxes	2,897	2,796
Prepaid expenses and other current assets	4,667	4,939
Total current assets	196,666	169,185
Fixed assets, net	11,604	13,848
Goodwill	128,177	128,177
Acquired intangible assets, net	55,154	59,610
Deferred income taxes	32,713	34,941
Long-term marketable securities	35,349	29,528
Other assets	1,813	1,445
Total assets	\$ 461,476	\$ 436,734
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 8,484	\$ 6,385
Accrued compensation	17,884	23,156
Accrued other	5,020	5,407
Income taxes payable	6,196	1,702
Current portion of long-term debt	10,000	10,000
Deferred revenue	72,584	70,815
Total current liabilities	120,168	117,465
Other long-term liabilities	632	771
Accrued long-term retirement benefits	1,586	1,330
Long-term deferred revenue	12,914	8,937
Long-term debt, net of current portion	71,856	82,500
Total liabilities	207,156	211,003

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Commitments and contingencies (Note 11)

Stockholders' equity:

Preferred stock, \$0.001 par value:

5,000,000 shares authorized; no shares issued or outstanding at December 31, 2009 and March 31, 2009

Common stock, \$0.001 par value:

150,000,000 shares authorized; 45,396,628 and 44,811,729 shares issued and 40,864,611 and 40,279,712 shares outstanding at December 31, 2009 and March 31, 2009, respectively

	45	45
Additional paid-in capital	200,925	192,844
Accumulated other comprehensive loss	(1,817)	(1,461)
Treasury stock at cost, 4,532,017 shares at December 31, 2009 and March 31, 2009	(28,939)	(28,939)
Retained earnings	84,106	63,242

Total stockholders' equity	254,320	225,731
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Total liabilities and stockholders' equity	\$ 461,476	\$ 436,734
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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,	
	2009	2008	2009	2008
Revenue:				
Product	\$ 40,774	\$ 42,940	\$ 99,796	\$ 117,370
Service	29,941	29,110	88,672	84,148
Total revenue	70,715	72,050	188,468	201,518
Cost of revenue:				
Product	9,924	10,755	25,472	33,158
Service	5,481	5,271	14,974	15,551
Total cost of revenue	15,405	16,026	40,446	48,709
Gross profit	55,310	56,024	148,022	152,809
Operating expenses:				
Research and development	9,181	9,900	27,069	30,208
Sales and marketing	26,328	25,219	69,806	75,017
General and administrative	5,475	7,149	15,309	19,760
Amortization of acquired intangible assets	490	490	1,471	1,471
Total operating expenses	41,474	42,758	113,655	126,456
Income from operations	13,836	13,266	34,367	26,353
Interest and other income (expense), net:				
Interest income	109	473	527	1,741
Interest expense	(873)	(1,560)	(2,828)	(5,134)
Other income (expense), net	(98)	(180)	5	(1,055)
Total interest and other income (expense), net	(862)	(1,267)	(2,296)	(4,448)
Income before income tax expense	12,974	11,999	32,071	21,905
Income tax expense	4,433	4,064	11,207	7,531
Net income	\$ 8,541	\$ 7,935	\$ 20,864	\$ 14,374
Basic net income per share				
Basic net income per share	\$ 0.21	\$ 0.20	\$ 0.52	\$ 0.37
Diluted net income per share				
Diluted net income per share	\$ 0.20	\$ 0.20	\$ 0.50	\$ 0.35
Weighted average common shares outstanding used in computing:				
Net income per share - basic	40,684	39,334	40,463	39,164
Net income per share - diluted	42,041	40,506	41,657	40,707

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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 Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 20,864	\$ 14,374
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	10,867	10,614
Loss on disposal of fixed assets	247	333
Inventory write-down	180	340
Share-based compensation expense associated with equity awards	3,774	3,601
Deferred income taxes	2,328	1,796
Changes in assets and liabilities		
Accounts receivable	(17,823)	(13,931)
Inventories	(1,741)	3,788
Prepaid income taxes	1,601	(715)
Prepaid expenses and other current assets	284	7,911
Other assets	40	