

NETSCOUT SYSTEMS INC
Form 10-Q
February 02, 2016
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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, 2015

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 000-26251

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
(978) 614-4000

04-2837575
(IRS Employer
Identification 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 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 January 27, 2016 was 98,570,412.

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 FOR THE QUARTER ENDED DECEMBER 31, 2015
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PART I: FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

NetScout Systems, Inc.

Consolidated Balance Sheets

(In thousands, except share and per share data)

	December 31, 2015 (Unaudited)	March 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$230,521	\$104,893
Marketable securities	127,751	101,392
Accounts receivable and unbilled costs, net of allowance for doubtful accounts of \$4,720 and \$173 at December 31, 2015 and March 31, 2015, respectively	244,957	82,226
Inventories	63,427	12,130
Prepaid income taxes	37,795	1,393
Deferred income taxes	—	21,755
Prepaid expenses and other current assets (related party balances of \$28,733 and \$0, respectively)	49,421	13,495
Total current assets	753,872	337,284
Fixed assets, net	58,663	23,864
Goodwill	1,693,876	197,445
Intangible assets, net	1,075,532	50,180
Deferred income taxes	27,435	—
Long-term marketable securities	17,961	58,572
Other assets	7,775	1,704
Total assets	\$3,635,114	\$669,049
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (related party balances of \$5,009 and \$0, respectively)	\$52,660	\$13,077
Accrued compensation	100,817	36,553
Accrued other	23,828	14,474
Income taxes payable	—	107
Deferred revenue and customer deposits	255,822	123,422
Total current liabilities	433,127	187,633
Other long-term liabilities	2,291	1,995
Deferred tax liability	330,254	10,639
Accrued long-term retirement benefits	28,977	1,587
Long-term deferred revenue and customer deposits	56,570	26,961
Long-term debt	250,000	—
Contingent liabilities, net of current portion	4,598	4,484
Total liabilities	1,105,817	233,299
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, 2015 and March 31, 2015	—	—
Common stock, \$0.001 par value:		

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150,000,000 shares authorized; 114,075,319 and 50,812,548 shares issued and 98,570,412 and 40,807,805 shares outstanding at December 31, 2015 and March 31, 2015, respectively	114	51
Additional paid-in capital	2,627,807	298,101
Accumulated other comprehensive loss	(3,688	) (4,645
Treasury stock at cost, 15,504,907 and 10,004,743 shares at December 31, 2015 and March 31, 2015, respectively	(381,942	) (169,516
Retained earnings	287,006	311,759
Total stockholders' equity	2,529,297	435,750
Total liabilities and stockholders' equity	\$3,635,114	\$669,049

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

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NetScout Systems, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Revenue:				
Product	\$209,124	\$76,446	\$437,616	\$198,765
Service	98,555	46,387	231,916	135,519
Total revenue	307,679	122,833	669,532	334,284
Cost of revenue:				
Product (related party balances of \$8,736, \$0, \$16,464 and \$0, respectively)	77,147	18,310	165,066	45,015
Service (related party balances of \$2,225, \$0, \$4,717 and \$0, respectively)	28,968	8,672	62,532	26,158
Total cost of revenue	106,115	26,982	227,598	71,173
Gross profit	201,564	95,851	441,934	263,111
Operating expenses:				
Research and development (related party balances of \$4,197, \$0, \$15,011 and \$0, respectively)	65,131	18,864	149,085	56,872
Sales and marketing (related party balances of \$3,650, \$0, \$12,728 and \$0, respectively)	91,386	34,836	208,631	104,304
General and administrative (related party balances of \$6,383, \$0, \$13,446 and \$0, respectively)	30,973	13,391	82,477	33,211
Amortization of acquired intangible assets	11,249	821	21,901	2,539
Restructuring charges	572	0	468	0
Total operating expenses	199,311	67,912	462,562	196,926
Income (loss) from operations	2,253	27,939	(20,628)	) 66,185
Interest and other income (expense), net:				
Interest income	189	95	519	298
Interest expense	(2,070)	) (191)	) (4,047)	) (580)
Other expense, net (related party balances of \$0, \$0, \$383 and \$0, respectively)	(1,022)	) (416)	) (349)	) (904)
Total interest and other expense, net	(2,903)	) (512)	) (3,877)	) (1,186)
Income (loss) before income tax expense (benefit)	(650)	) 27,427	(24,505)	) 64,999
Income tax expense	23,857	9,798	248	24,661
Net income (loss)	\$(24,507)	) \$17,629	\$(24,753)	) \$40,338
Basic net income (loss) per share	\$(0.25)	) \$0.43	\$(0.32)	) \$0.98
Diluted net income (loss) per share	\$(0.25)	) \$0.42	\$(0.32)	) \$0.97
Weighted average common shares outstanding used in computing:				
Net income (loss) per share - basic	98,797	41,206	77,126	41,128
Net income (loss) per share - diluted	98,797	41,536	77,126	41,679

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

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NetScout Systems, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended		
	December 31,		December 31,		
	2015	2014	2015	2014	
Net income (loss)	\$(24,507	) \$17,629	\$(24,753	) \$40,338
Other comprehensive income (loss):					
Cumulative translation adjustments	(568) (1,290) 285	(3,397)
Changes in market value of investments:					
Changes in unrealized losses	(125) (75) (67) (54)
Total net change in market value of investments	(125) (75) (67) (54)
Changes in market value of derivatives:					
Changes in market value of derivatives, net of tax benefit of (\$108), (\$327), (\$314) and (\$595)	(180) (597) (492) (1,068)
Reclassification adjustment for net gains included in net income, net of taxes of \$60, \$133, \$718 and \$115	99	214	1,231	195	
Total net change in market value of derivatives	(81) (383) 739	(873)
Other comprehensive income (loss)	(774) (1,748) 957	(4,324)
Total comprehensive income (loss)	\$(25,281	) \$15,881	\$(23,796	) \$36,014

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

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NetScout Systems, Inc.

Consolidated Statements of Stockholders' Equity

(In thousands, except share data)

(Unaudited)

	Common stock		Additional	Accumulated	Treasury stock		Retained	Total
	Shares	Par Value	Paid In Capital	Other Comprehensive Income (Loss)	Shares	Stated Value	Earnings	Stockholders' Equity
Balance, March 31, 2014	49,922,959	\$50	\$273,574	\$ 2,772	8,757,175	\$		