EMCORE CORP
Form SC 13D
April 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO § 240.13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO § 240.13d-2(a)

(Amendment No.)1

EMCORE Corporation
(Name of Issuer)

Common Stock, no par value
(Title of Class of Securities)

290846 20 3
(CUSIP Number)

ERIC SINGER
VIEX CAPITAL ADVISORS, LLC
825 Third Avenue, 33rd Floor
New York, New York 10022

STEVE WOLOSKY, ESQ.
OLSHAN FROME WOLOSKY LLP
Park Avenue Tower
65 East 55th Street
New York, New York 10022
(212) 451-2300
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

April 4, 2016
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box ¨.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

---

1 The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP NO. 290846 20 3

1	NAME OF REPORTING PERSON VIEX Opportunities Fund, LP - Series One		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 1,221,281	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 1,221,281	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,221,281		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 4.7%		
14	TYPE OF REPORTING PERSON PN		

2

CUSIP NO. 290846 20 3

1	NAME OF REPORTING PERSON VIEX Special Opportunities Fund II, LP		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 751,496	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 751,496	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 751,496		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 2.9%		
14	TYPE OF REPORTING PERSON PN		

3

CUSIP NO. 290846 20 3

1	NAME OF REPORTING PERSON VIEX GP, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS AF		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 1,221,281	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 1,221,281	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,221,281		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 4.7%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 290846 20 3

1	NAME OF REPORTING PERSON VIEX Special Opportunities GP II, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS AF		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 751,496	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 751,496	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 751,496		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 2.9%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 290846 20 3

1	NAME OF REPORTING PERSON VIEX Capital Advisors, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS AF		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 1,972,777	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 1,972,777	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,972,777		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 7.6%		
14	TYPE OF REPORTING PERSON IA		

CUSIP NO. 290846 20 3

1	NAME OF REPORTING PERSON Eric Singer		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS AF		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION USA		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 1,972,777	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 1,972,777	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,972,777		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 7.6%		
14	TYPE OF REPORTING PERSON IN		

CUSIP NO. 290846 20 3

The following constitutes the Schedule 13D filed by the undersigned (the "Schedule 13D").

Item 1. Security and Issuer.

This statement relates to the Common Stock, no par value (the "Shares"), of EMCORE Corporation, a New Jersey corporation (the "Issuer"). The address of the principal executive offices of the Issuer is 2015 W. Chestnut Street, Alhambra, California, 91803.

Item 2. Identity and Background.

(a) This statement is filed by:

(i) VIEX Opportunities Fund, LP – Series One ("Series One"), a series of VIEX Opportunities Fund, LP, a Delaware series limited partnership, with respect to the Shares directly and beneficially owned by it;

(ii) VIEX Special Opportunities Fund II, LP ("VSO II"), a Delaware limited partnership, with respect to the Shares directly and beneficially owned by it;

(iii) VIEX GP, LLC ("VIEX GP"), a Delaware limited liability company, as the general partner of Series One;

(iv) VIEX Special Opportunities GP II, LLC ("VSO GP II"), a Delaware limited liability company, as the general partner of VSO II;

(v) VIEX Capital Advisors, LLC ("VIEX Capital"), a Delaware limited liability company, as the investment manager of each of Series One and VSO II; and

(vi) Eric Singer, as managing member of each of VIEX GP, VSO GP II, and VIEX Capital.

Each of the foregoing is referred to as a "Reporting Person" and collectively as the "Reporting Persons." Each of the Reporting Persons is party to that certain Joint Filing Agreement as further described in Item 6. Accordingly, the Reporting Persons are hereby filing a joint Schedule 13D.

(b) The address of the principal office of each of Series One, VSO II, VIEX GP, VSO GP II, VIEX Capital and Mr. Singer is 825 Third Avenue, 33rd Floor, New York, New York 10022.

(c) The principal business of Series One and VSO II is investing in securities. The principal business of VIEX GP is acting as the general partner of Series One. The principal business of VSO GP II is acting as the general partner of VSO II. The principal business of VIEX Capital is serving as the investment manager to Series One and VSO II. The principal occupation of Mr. Singer is serving as the managing member of each of VIEX GP, VSO GP II and VIEX Capital.

(d) No Reporting Person has, during the last five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

CUSIP NO. 290846 20 3

(e) No Reporting Person has, during the last five years, been party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) Each of Series One, VSO II, VIEX GP, VSO GP II and VIEX Capital is organized under the laws of the State of Delaware. Mr. Singer is a citizen of the United States of America.

Item 3. Source and Amount of Funds or Other Consideration.

The Shares purchased by Series One were purchased with working capital (which may, at any given time, include margin loans made by brokerage firms in the ordinary course of business) in open market purchases, except as otherwise noted, as set forth in Schedule A, which is incorporated by reference herein. The aggregate purchase price of the 1,221,281 Shares beneficially owned by Series One is approximately $6,131,197, excluding brokerage commissions.

The Shares purchased by VSO II were purchased with working capital (which may, at any given time, include margin loans made by brokerage firms in the ordinary course of business) in open market purchases, except as otherwise noted, as set forth in Schedule A, which is incorporated by reference herein. The aggregate purchase price of the 751,496 Shares beneficially owned by VSO II is approximately $3,765,011, excluding brokerage commissions.

Item 4. Purpose of Transaction.

The Reporting Persons purchased the Shares based on the Reporting Persons' belief that the Shares, when purchased, were undervalued and represented an attractive investment opportunity. Depending upon overall market conditions, other investment opportunities available to the Reporting Persons, and the availability of Shares at prices that would make the purchase or sale of Shares desirable, the Reporting Persons may endeavor to increase or decrease their position in the Issuer through, among other things, the purchase or sale of Shares on the open market or in private transactions or otherwise, on such terms and at such times as the Reporting Persons may deem advisable.

Despite the Issuer's long stated policy to continually review its capital allocation and previous announcement that it expected to approve a cash dividend or distribution to shareholders, the Reporting Persons are not only disappointed with the Board's decision, hidden in a Current Report on Form 8-K filed with the SEC on March 14, 2016, that the Board has decided not to pay a cash dividend to shareholders, but also with how long it has taken the Board to follow through on its capital allocation plans. In order to ensure the protection of shareholder interests, the Reporting Persons believe that shareholder representatives are needed on the Board of the Issuer.

No Reporting Person has any present plan or proposal which would relate to or result in any of the matters set forth in subparagraphs (a) - (j) of Item 4 of Schedule 13D except as set forth herein or such as would occur upon or in connection with completion of, or following, any of the actions discussed herein. The Reporting Persons intend to review their investment in the Issuer on a continuing basis. Depending on various factors including, without limitation, the Issuer's financial position and investment strategy, the price levels of the Shares, conditions in the securities markets and general economic and industry conditions, the Reporting Persons may in the future take such actions with respect to their investment in the Issuer as they deem appropriate including, without limitation, engaging in communications with management and the Board of the Issuer, engaging in discussions with stockholders of the Issuer and others about the Issuer and the Reporting Persons' investment, making proposals to the Issuer concerning changes to the capitalization, ownership structure, board structure (including board composition) or operations of the Issuer, purchasing additional Shares, selling some or all of their Shares, engaging in short selling of or any hedging or

similar transaction with respect to the Shares, or changing their intention with respect to any and all matters referred to in Item 4.

9

CUSIP NO. 290846 20 3

Item 5. Interest in Securities of the Issuer.

The aggregate percentage of Shares reported owned by each Reporting Person is based upon 25,907,070 Shares outstanding, which is the total number of Shares outstanding as of February 1, 2016 as reported in the Issuer's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on February 4, 2016.

A. Series One

(a) As of the close of business on April 6, 2016, Series One beneficially owned 1,221,281 Shares.

Percentage: Approximately 4.7%

(b) 1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 1,221,281
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 1,221,281

(c) The transactions in the Shares by Series One during the past 60 days are set forth in Schedule A and are incorporated herein by reference.

B. VSO II

(a) As of the close of business on April 6, 2016, VSO II beneficially owned 751,496 Shares.

Percentage: Approximately 2.9%

(b) 1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 751,496
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 751,496

(c) The transactions in the Shares by VSO II during the past 60 days are set forth in Schedule A and are incorporated herein by reference.

C. VIEX GP

(a) VIEX GP, as the general partner of Series One, may be deemed the beneficial owner of the 1,221,281 shares owned by Series One.

Percentage: Approximately 4.7%

(b) 1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 1,221,281
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 1,221,281

(c) VIEX GP has not entered into any transactions in the Shares during the past 60 days. The transactions in the shares on behalf of Series One during the past 60 days are set forth in Schedule A and are incorporated herein by

reference.

10

CUSIP NO. 290846 20 3

D. VSO GP II

(a) VSO GP II, as the general partner of VSO II, may be deemed the beneficial owner of the 751,496 shares owned by VSO II.

Percentage: Approximately 2.9%

(b) 1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 751,496
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 751,496

(c) VSO GP II has not entered into any transactions in the Shares during the past 60 days. The transactions in the Shares on behalf of VSO II during the past 60 days are set forth in Schedule A and are incorporated herein by reference.

E. VIEX Capital

(a) VIEX Capital, as the investment manager of Series One and VSO II, may be deemed the beneficial owner of the (i) 1,221,281 Shares owned by Series One and (ii) 751,496 owned by VSO II.

Percentage: Approximately 7.6%

(b) 1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 1,972,777
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 1,972,777

(c) VIEX Capital has not entered into any transactions in the Shares during the past 60 days. The transactions in the Shares on behalf of each of Series One and VSO II during the past 60 days are set forth in Schedule A and are incorporated herein by reference.

F. Eric Singer

(a) Mr. Singer, as the managing member of VIEX GP and VIEX Capital, may be deemed the beneficial owner of the (i) 1,221,281 Shares owned by Series One and (ii) 751,496 owned by VSO II.

Percentage: Approximately 7.6%

(b) 1. Sole power to vote or direct vote: 0
2. Shared power to vote or direct vote: 1,972,777
3. Sole power to dispose or direct the disposition: 0
4. Shared power to dispose or direct the disposition: 1,972,777

(c) Mr. Singer has not entered into any transactions in the Shares during the past 60 days. The transactions in the Shares on behalf of each of Series One and VSO II during the past 60 days are set forth in Schedule A and are incorporated herein by reference.

11

CUSIP NO. 290846 20 3

The filing of this Schedule 13D shall not be construed as an admission that the Reporting Persons are, for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, the beneficial owners of any of the Shares reported herein. Each Reporting Person disclaims beneficial ownership of such Shares except to the extent of his or its pecuniary interest therein.

(d) No person other than the Reporting Persons is known to have the right to receive, or the power to direct the receipt of dividends from, or proceeds from the sale of, the Shares.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

On April 7, 2016, the Reporting Persons entered into a Joint Filing Agreement in which the Reporting Persons agreed to the joint filing on behalf of each of them of statements on Schedule 13D with respect to the securities of the Issuer to the extent required by applicable law. The Joint Filing Agreement is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Other than as described herein, there are no contracts, arrangements, understandings or relationships among the Reporting Persons, or between the Reporting Persons and any other person, with respect to the securities of the Issuer.

Item 7. Material to be Filed as Exhibits.

99.1 Joint Filing Agreement by and among VIEX Opportunities Fund, LP – Series One, VIEX Special Opportunities Fund II, LP, VIEX GP, LLC, VIEX Special Opportunities GP II, LLC, VIEX Capital Advisors, LLC and Eric Singer dated April 7, 2016.

CUSIP NO. 290846 20 3

SIGNATURES

After reasonable inquiry and to the best of his knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: April 7, 2016

VIEX Opportunities Fund, LP – Series One

By: VIEX GP, LLC
General Partner

By: /s/ Eric Singer
Name: Eric Singer
Title: Managing Member

VIEX GP, LLC

By: /s/ Eric Singer
Name: Eric Singer
Title: Managing Member

VIEX Special Opportunities Fund II, LP

By: VIEX Special Opportunities GP II, LLC
General Partner

By: /s/ Eric Singer
Name: Eric Singer
Title: Managing Member

VIEX Special Opportunities GP II, LLC

By: /s/ Eric Singer
Name: Eric Singer
Title: Managing Member

VIEX Capital Advisors, LLC

By: /s/ Eric Singer
Name: Eric Singer
Title: Managing Member

/s/ Eric Singer

Eric Singer

13

CUSIP NO. 290846 20 3

SCHEDULE A

Transactions in the Shares During the Past Sixty Days

Nature of the Transaction	Securities Purchased/(Sold)	Price Per Share($)	Date of Purchase / Sale
VIEX OPPORTUNITIES FUND, LP – SERIES ONE			
Purchase of Common Stock	15,976	5.2000	03/22/2016
Purchase of Common Stock	221,839	5.0600	03/23/2016
Purchase of Common Stock	254,422	5.0296	03/24/2016
Purchase of Common Stock	500,000	5.0000	03/28/2016
Purchase of Common Stock	21,734	4.9900	03/28/2016
Purchase of Common Stock	65,000	5.0155	03/29/2016
Purchase of Common Stock	75,000	5.0000	03/30/2016
Purchase of Common Stock	50,000	5.0000	03/31/2016
Purchase of Common Stock	17,310	4.9980	04/01/2016
VIEX SPECIAL OPPORTUNITIES FUND II, LP			
Purchase of Common Stock	700,000	4.9999	04/04/2016
Purchase of Common Stock	51,496	5.1476	04/05/2016

Corporate bonds

13,528 13,528

Certificate of deposits

8,077 8,077

Less: restricted investment

(1,004) (1,004)

Auction rate securities

21,457 21,457

Derivative asset

77 77 $196,083 $174,549 $77 $21,457

LIABILITIES:

Derivative financial instruments

$42 $ $42 $42 $ $42

The following table presents a reconciliation of assets classified as Level III measured at fair value using significant unobservable inputs for the three and six months ended September 30, 2010 (in thousands):

	Three Months Ended September 30, 2010	Six Months Ended September 30, 2010
Balance at beginning of period	$ 25,084	$ 28,475
Total gains or (losses) (realized or unrealized)		
Change in accrued interest receivable	25	(11)
Unrealized losses included in accumulated other comprehensive income (loss)		151
Redemptions	(4,000)	(8,300)
Reversal of temporary loss on redeemed securities	348	1,142
Balance at end of period	$ 21,457	$ 21,457

6. Inventories

Inventories are stated at the lower of actual cost or net realizable value. Cost is determined by using the first-in, first-out, or FIFO method. Inventories consist of the following (in thousands):

	September 30, 2010	March 31, 2010
Raw materials	$ 7,139	$ 5,184
Work in process	268	269
Finished goods	4,005	3,728
	$ 11,412	$ 9,181

Table of Contents

7. Goodwill & Acquired Intangible Assets
Goodwill

The carrying amount of goodwill was $128.2 million as of September 30, 2010 and March 31, 2010. The Company s goodwill resulted from the acquisition of Network General Central Corporation, or Network General, in November 2007, the acquisition of substantially all of the assets of Quantiva, Inc. in April 2005 and the acquisition of NextPoint Networks, Inc. in July 2000.

Acquired Intangible Assets

The net carrying amounts of acquired intangible assets were $50.6 million and $53.6 million as of September 30, 2010 and March 31, 2010, respectively. Intangible assets acquired in a business combination are recorded under the purchase method of accounting at their estimated fair values at the date of acquisition. The Company amortizes acquired intangible assets over their estimated useful lives on a straight-line basis, except for the acquired trade name or names, which has an indefinite life and thus is not amortized. The carrying value of the indefinite lived trade name will be evaluated for potential impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Acquired intangible assets consist of the following as of September 30, 2010 (in thousands):

	Cost	Accumulated Amortization	Net
Acquired software	$ 19,900	$ (11,608)	$ 8,292
Customer relationships	29,200	(5,495)	23,705
Indefinite lived trade name	18,600		18,600
Net beneficial leases	336	(303)	33
	$ 68,036	$ (17,406)	$ 50,630

Amortization of acquired software included as cost of product revenue was $995 thousand and $2.0 million for the three and six months ended September 30, 2010, respectively. Amortization of other acquired intangible assets included as operating expense was $477 thousand and $954 thousand for the three and six months ended September 30, 2010, respectively.

Acquired intangible assets consist of the following as of March 31, 2010 (in thousands):

	Cost	Accumulated Amortization	Net
Acquired software	$ 19,900	$ (9,618)	$ 10,282
Customer relationships	29,200	(4,553)	24,647
Indefinite lived trade name	18,600		18,600
Net beneficial leases	336	(292)	44
	$ 68,036	$ (14,463)	$ 53,573

Amortization of acquired software included as cost of product revenue was $995 thousand and $2.0 million for the three and six months ended September 30, 2009, respectively. Amortization of other acquired intangible assets included as operating expense was $491 thousand and $981 thousand for the three and six months ended September 30, 2009 respectively.

Table of Contents

The following is the expected future amortization expense as of September 30, 2010 for the years ended March 31 (in thousands):

2011 (remaining six months)	$ 2,943
2012	5,885
2013	4,206
2014	1,884
2015	1,884
Thereafter	15,228
	$ 32,030

The weighted average useful life of acquired intangible assets is 11 years.

8. Capitalized Software Development Costs

On June 29, 2010, the Company met technological feasibility for nGenius Service Delivery Manager. As of September 30, 2010 and March 31, 2010, respectively, capitalized software development costs for this project totaled $408 thousand and $408 thousand. Beginning in July 2010, the Company commenced amortization of the capitalized software development for the nGenius Service Delivery Manager project costs on a straight-line basis for two years. Amortization of capitalized software development costs included as cost of product revenue was $51 thousand for the three and six months ended September 30, 2010.

9. Derivative Instruments and Hedging Activities

NetScout operates internationally and, in the normal course of business, is exposed to fluctuations in foreign currency exchange rates. The exposures result from costs that are denominated in currencies other than the U.S. dollar, primarily the Euro, British Pound, Canadian Dollar, and Indian Rupee. During the year ended March 31, 2010, the Company began managing its foreign currency transaction risk by hedging forecasted cash flows for operating expenses for up to twelve months, within specified guidelines through the use of forward contracts. The Company enters into foreign currency exchange contracts to hedge cash flow exposures from costs that are denominated in currencies other than the U.S. dollar. These hedges are designated as cash flow hedges at inception.

All of the Company s derivative instruments are utilized for risk management purposes, and the Company does not use derivatives for speculative trading purposes. As of September 30, 2010, the Company had open contracts with notional amounts totaling $5.9 million that mature over the next twelve months.

The location and amounts of derivative fair values on the condensed consolidated balance sheets as of September 30, 2010 and March 31, 2010 were as follows (in thousands):

	Balance Sheet Location	Asset Derivatives September 30, 2010	Asset Derivatives March 31, 2010	Balance Sheet Location	Liability Derivatives September 30, 2010	Liability Derivatives March 31, 2010
Derivatives Designated as Hedging Instruments:						
Forward contracts	Other current assets	$ 77	$ 94	Accrued other liabilities	$ 42	$ 359

13

Table of Contents

The following table provides the effect foreign exchange forward contracts had on other comprehensive income (loss), or OCI, and results of operations as of September 30, 2010 (in thousands):

	Effective Portion			Ineffective Portion	
Derivatives in Cash Flow Hedging Relationships	**Amount of Gain or (Loss) Recognized in OCI on Derivative (a)**	**Location of Gain or (Loss) Reclassified from Accumulated OCI into Income**	**Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (b)**	**Location of Gain (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative (amount excluded from effectiveness Testing) (c)**
Forward contracts	$ (129)	Research and development	$ (7)	Research and development	$ 8
		Sales and marketing	(426)	Sales and marketing	1
	$ (129)		$ (433)		$ 9

(a) The amount represents the change in fair value of derivative contracts due to changes in spot rates.

(b) The amount represents reclassification from other comprehensive income to earnings that occurs when the hedged item affects earnings.

(c) The amount represents the change in fair value of derivative contracts due to changes in the difference between the spot price and forward price that is excluded from the assessment of hedge effectiveness and therefore recognized in earnings. No amounts were recognized in income due to ineffectiveness.

10. Long-term Debt

In December 2007, the Company entered into a credit facility with a syndicate of lenders led by KeyBank National Association, or KeyBank, providing a term loan of $100 million and a $10 million revolving credit facility, or the Credit Facility, pursuant to a Credit Agreement, dated as of December 21, 2007, by and among the Company, KeyBank and the other parties thereto, or the Credit Agreement. The proceeds of the $100 million term loan were used to redeem all of the Company s outstanding senior secured floating rate notes issued in connection with the acquisition of Network General on November 1, 2007. No amounts were outstanding under the revolving credit facility as of September 30, 2010.

At the Company s election, revolving loans and the term loan under the Credit Agreement bear interest at either (1) a rate per annum equal to the greater of KeyBank s prime rate or 0.5% in excess of the federal funds effective rate, or the Alternative Base Rate, or (2) the one-, two-, three-, or six-month per annum LIBOR, as selected by the Company, multiplied by the statutory reserve adjustment, collectively the Eurodollar Rate, in each case plus an applicable margin. The applicable margin varies depending on the Company s consolidated leverage ratio ranging from 175 basis points for Alternative Base Rate loans and 300 basis points for Eurodollar Rate loans if the Company s consolidated leverage ratio is 2.50 to 1.00 or higher, down to 75 basis points for Alternative Base Rate loans and 200 basis points for Eurodollar Rate loans if the Company s consolidated leverage ratio is 1.00 to 1.00 or less. The consolidated leverage ratio is the ratio of funded indebtedness to adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA. For the three months ended September 30, 2010 and 2009 the term loan incurred interest at 2.813% and 3.375%, respectively. Effective September 30, 2010, the interest rate on the term loan was 2.750%, and the Company expects this to be the rate in effect until the next adjustment date of March 1, 2011.

14

Table of Contents

Payments of principal on the term loan commenced on March 31, 2008, and will be made in regular quarterly installments. As of September 30, 2010, the aggregate annual repayment amounts are as follows for the years ended March 31 (in thousands):

2011 (remaining six months)	$ 6,250
2012	15,000
2013	53,106
	$ 74,356

The Credit Agreement contains financial covenants that stipulate a maximum leverage ratio of 3.00 and a minimum fixed-charge coverage ratio of 1.25. As of September 30, 2010, the Company was in compliance with all covenants. Substantially all of the Company s assets serve as collateral under the Credit Agreement. Subject to certain exceptions, the Credit Agreement contains provisions for mandatory prepayments including from (a) 100% of the net proceeds from certain asset sales by the Company and its subsidiaries, (b) 100% of the net proceeds from the issuance of debt, (c) annually, subject to the Company s leverage ratio, either 25% or 50% of the annual excess cash flow of the Company and its subsidiaries as defined in the Credit Agreement, (d) 50% of the net proceeds from the issuance of equity by the Company and its subsidiaries and (e) 100% of the net proceeds from insurance recovery and condemnation events of the Company and its subsidiaries. The Company made a $3.1 million payment during the second quarter of fiscal year 2010 as a result of the annual excess cash flow calculation based on the year ended March 31, 2009 financial results. An excess cash flow payment was not triggered for the year ended March 31, 2010. The Company may also prepay loans under the Credit Agreement, including the term loan, at any time, without penalty, subject to certain notice requirements.

11. Treasury Stock

On September 17, 2001, the Company announced an open market stock repurchase program to purchase up to one million shares of outstanding Company common stock, subject to market conditions and other factors. Any purchases under the Company s stock repurchase program may be made from time to time without prior notice. On July 26, 2006, the Company announced that it had expanded the existing open market stock repurchase program to enable the Company to purchase up to an additional three million shares of the Company s outstanding common stock, bringing the total number of shares authorized for repurchase to four million shares. Through September 30, 2010, the Company had repurchased a total of 486,794 shares of common stock through the open market stock repurchase program. The Company did not repurchase any shares during the six months ended September 30, 2010, under the program.

In connection with the vesting and release of the restriction on previously vested shares of restricted stock, we repurchased 20,234 shares for $290 thousand related to minimum statutory tax withholding requirements on these restricted stock units during the six months ended September 30, 2010. These repurchase transactions do not fall under the repurchase program described above, and therefore do not reduce the amount that is available for repurchase under that program.

Table of Contents

12. Net Income Per Share

Calculations of the basic and diluted net income per share and potential common shares are as follows (in thousands, except per share data):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
Basic:				
Net income	$ 8,248	$ 7,086	$ 15,393	$ 12,323
Weighted average common shares outstanding	41,922	40,395	41,867	40,352
Basic net income per share	$ 0.20	$ 0.18	$ 0.37	$ 0.31
Diluted:				
Net income	$ 8,248	$ 7,086	$ 15,393	$ 12,323
Weighted average common shares outstanding	41,922	40,395	41,867	40,352
Weighted average stock options	315	763	324	705
Weighted average restricted stock units	541	432	435	330
Diluted weighted average shares	42,778	41,590	42,626	41,387
Diluted net income per share	$ 0.19	$ 0.17	$ 0.36	$ 0.30

The following table sets forth options and restricted stock units excluded from the calculation of diluted net income per share, since their inclusion would be antidilutive (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
Stock options	29	224	32	238
Restricted stock units	38	52	51	45
Total	67	276	83	283

13. Comprehensive Income

Other comprehensive income typically consists of unrealized gains and losses on marketable securities and restricted investments and foreign currency translation adjustments. Comprehensive income for the three and six months ended September 30, 2010 and 2009 is as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 8,248	$ 7,086	$ 15,393	$ 12,323

Unrealized gain (loss) on cash equivalents, marketable securities and restricted investment, net of tax	301	33	771	(104)
Unrealized gain on hedge contracts, net of tax	372		187	
Comprehensive income	$ 8,921	$ 7,119	$ 16,351	$ 12,219

14. Income Taxes

The estimated annual effective tax rate as of September 30, 2010 for fiscal year 2011 is 35.6%, compared to an estimated annual effective rate of 35.5% as of September 30, 2009 for fiscal year 2010. The increase in our

effective tax rate is primarily due to the December 31, 2009 expiration of the federal research and development credit partially offset by an increase in the domestic production activities deduction. Generally, the estimated annual effective tax rates differ from the statutory rates primarily due to the impact of federal and state tax credits, state taxes and the qualified production activities deduction.

Significant accounting judgments and estimates are made when determining whether it is more likely than not that the Company s deferred income tax assets will be realized. Management has concluded that deferred income tax assets do not require a valuation allowance. If these judgments and estimates prove to be materially inaccurate, a valuation allowance may be required and the Company s financial results could be materially and adversely impacted in the future. If the Company determines that it will not be able to realize some or all of its deferred income taxes in the future, an adjustment to the deferred income tax assets will be charged to income tax expense in the period such determination is made.

The Company s policy is to include interest and penalties related to unrecognized tax benefits as a component of interest expense on the condensed consolidated statements of operations. Accrued interest and penalties as of September 30, 2010 are $22 thousand.

15. Geographic Information

The Company reports revenues and income under one reportable industry segment. The Company s management assesses operating results on an aggregate basis to make decisions about the allocation of resources.

The Company manages its business in the following geographic areas: United States, Europe (including the United Kingdom, Germany, France, Spain, Italy and Norway), Asia (including China, Hong Kong, Japan, Korea, Malaysia, Singapore and Taiwan) and Rest of World (including South Africa, Australia, Canada, India, Brazil, Mexico and the United Arab Emirates). In accordance with United States export control regulations, the Company does not sell or do business with countries subject to economic sanctions and export controls.

Total revenue by geography is as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
United States	$ 49,523	$ 44,465	$ 102,583	$ 90,257
Europe	10,058	7,761	16,313	13,321
Asia	3,803	3,226	6,626	5,415
Rest of World	6,029	4,239	10,702	8,760
	$ 69,413	$ 59,691	$ 136,224	$ 117,753

The United States revenue includes sales to resellers in the United States. These resellers fulfill customer orders and may subsequently ship the Company s products to international locations. The Company reports these shipments as United States revenue since the Company ships the products to a United States location. Revenue attributable to locations outside of the United States is a result of export sales. Substantially all of the Company s identifiable assets are located in the United States.

16. Subsequent Events

The Company has evaluated subsequent events for potential recognition or disclosure in these financial statements. No material subsequent events have occurred since September 30, 2010 that required recognition or disclosure in these financial statements.

Table of Contents

17. Recently Issued Accounting Pronouncements

Fair Value Disclosures. In January 2010, the Financial Accounting Standards Board, or FASB, issued amended standards requiring additional fair value disclosures. The amended standards require disclosures of transfers in and out of Levels I and II of the fair value hierarchy, as well as requiring gross basis disclosures for purchases, sales, issuances and settlements within the Level III reconciliation which will replace the net presentation format. Additionally, the update clarifies the requirement to determine the level of disaggregation for fair value measurement disclosures and to disclose valuation techniques and inputs used for both recurring and nonrecurring fair value measurements in either Level II or Level III. The Company adopted the new guidance in the fourth quarter of our fiscal year 2010, except for the gross presentation of the Level III rollforward information which is effective for fiscal years beginning after December 15, 2010 (fiscal year 2012 for the Company). Because these new standards are related primarily to disclosures, their adoption has not had and is not expected to have a significant impact on the Company s financial position or results of operations.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Quarterly Report on Form 10-Q. In addition to historical information, the following discussion and other parts of this Quarterly Report contain forward-looking statements that involve risks and uncertainties. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part I, Item 1A. *Risk Factors* in our Annual Report on Form 10-K for our fiscal year ended March 31, 2010 and elsewhere in this Quarterly Report. These factors may cause our actual results to differ materially from any forward-looking statement.

Overview

NetScout was founded in 1984 and is headquartered in Westford, Massachusetts. We design, develop, manufacture, market, sell and support market leading unified service delivery management, service assurance and application and network performance management solutions focused on assuring service delivery for the world s largest, most demanding and complex internet protocol, or 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.

Our operating results are influenced by a number of factors, including, but not limited to, the mix and quantity of products and services sold, pricing, costs of materials used in our products, growth in employee related costs, including commissions, and the expansion of our operations. Factors that affect our ability to maximize our operating results include, but are not limited to, our ability to introduce and enhance existing products, the marketplace acceptance of those new or enhanced products, continued expansion into international markets, development of strategic partnerships, competition, successful acquisition integration efforts and current economic conditions.

Results Overview

We saw continued strength during the six months ending September 30, 2010, with product revenue growth of 21% and overall revenue growth of 16% compared to the prior year period driven by strength in our financial and service provider verticals. Gross margin remained flat at 79% for the six months ending September 30, 2010 and 2009. While operating expenses increased on higher sales and marketing expenses and incentive compensation, we improved our operating margin to 18% for the six months ended September 30, 2010, compared to 17% for the same period in the prior year. Net income and net income per share increased 25% and 19%, respectively compared to the prior year.

We also achieved a cash, cash equivalents and marketable securities balance of $196.0 million at September 30, 2010. This represents an increase of $5.0 million over the previous quarter end on June 30, 2010.

Table of Contents

Use of Non-GAAP Financial Measures

From time to time in press releases regarding quarterly earnings, presentations and other communications, we may provide financial information determined by methods other than in accordance with generally accepted accounting principles, or GAAP. Recent non-GAAP financial measures have included non-GAAP revenue, income from operations, net income and net income per diluted share, each of which were adjusted from amounts determined based on GAAP to exclude the effect of purchase accounting adjustments to reduce to fair value acquired deferred revenue resulting from our acquisition of Network General Central Corporation, or Network General, in November 2007, and to add back the revenue impact of recently adopted accounting guidance, share-based compensation expenses and the amortization of acquired intangible assets, net of related income tax effects.

Management regularly uses supplemental non-GAAP financial measures internally to understand, manage and evaluate its business and to make operating decisions. These non-GAAP measures are among the primary factors that management uses in planning and forecasting future periods. Management believes these non-GAAP financial measures enhance the reader s overall understanding of NetScout s current financial performance and its prospects for the future by providing a higher degree of transparency for certain financial measures and providing a level of disclosure that helps investors understand how the Company plans and measures its business. We believe that providing these non-GAAP measures affords investors a view of our operating results that may be more easily compared to our peer companies and against prior periods by enabling investors to consider our operating results on both a GAAP and non-GAAP basis during periods where GAAP results were affected by non-recurring events, such as our acquisition of Network General.

These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for measures prepared in accordance with GAAP, and may have limitations in that they do not reflect all our results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures. The presentation of non-GAAP information is not meant to be considered superior to, in isolation from or as a substitute for results prepared in accordance with GAAP.

The following table reconciles revenue, net income and net income per share on a GAAP and non-GAAP basis for the three and six months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
GAAP revenue	$ 69,413	$ 59,691	$ 136,224	$ 117,753
Impact of new accounting guidance	(333)		(203)	
Deferred revenue fair value adjustment	39	387	113	996
Non-GAAP revenue	$ 69,119	$ 60,078	$ 136,134	$ 118,749
GAAP net income	$ 8,248	$ 7,086	$ 15,393	$ 12,323
Impact of new accounting guidance	(333)		(203)	
Deferred revenue fair value adjustment	39	387	113	996
Share based compensation expense	1,501	1,284	2,679	2,567
Amortization of acquired intangible assets	1,472	1,486	2,944	2,971
Income tax adjustments	(1,018)	(1,200)	(2,103)	(2,483)
Non-GAAP net income	$ 9,909	$ 9,043	$ 18,823	$ 16,374
GAAP diluted net income per share	$ 0.19	$ 0.17	$ 0.36	$ 0.30
Share impact of non-GAAP adjustments identified above	0.04	0.05	0.08	0.10
Non-GAAP diluted net income per share	$ 0.23	$ 0.22	$ 0.44	$ 0.40

Table of Contents

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America consistently applied. The preparation of these consolidated financial statements requires us to make significant estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. These items are regularly monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates.

While all of our accounting policies impact the consolidated financial statements, certain policies are viewed to be critical. Critical accounting policies are those that are both most important to the portrayal of our financial condition and results of operations and that require management s most subjective or complex judgments and estimates. We consider the following accounting policies to be critical in fully understanding and evaluating our financial results:

- cash, cash equivalents and marketable securities;
- revenue recognition;
- commission expense;
- uncollected deferred product revenue;
- valuation of inventories;
- valuation of goodwill and acquired intangible assets;
- capitalization of software development costs;
- derivative financial instruments;
- share-based compensation; and
- income taxes.

Please refer to the critical accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, filed with the Securities and Exchange Commission, or the SEC on May 28, 2010, for a description of all critical accounting policies.

The critical accounting policies included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010 have not materially changed, other than the following:

The critical accounting policy entitled Revenue Recognition has been changed to reflect the adoption of new authoritative guidance for revenue arrangements with multiple deliverables during the quarter ended June 30, 2010.

The adoption of this guidance did not have a material impact on our financial position or results of operations for the three and six months ended September 30, 2010.

Revenue Recognition

Product revenue consists of sales of our hardware products (which include embedded software that works together with the hardware to deliver the product s essential functionality), licensing of our software products, and sale of hardware bundled with a software license. Product revenue is recognized upon shipment, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or

Table of Contents

determinable and collection of the related receivable is probable. Because many of our solutions are comprised of both hardware and more than incidental software components, we recognize our revenue in accordance with authoritative guidance on both hardware and software revenue recognition.

Service revenue consists primarily of fees from customer support agreements, consulting and training. We generally provide software and hardware support as part of product sales. Revenue related to the initial bundled software and hardware support is recognized ratably over the support period. In addition, customers can elect to purchase extended support agreements for periods after the initial software warranty expiration, typically for 12-month periods. Revenue from customer support agreements is recognized ratably over the support period. Revenue from consulting and training services is recognized as the work is performed.

Multi-element arrangements are concurrent customer purchases of a combination of our product and service offerings that may be delivered at various points in time. For multi-element arrangements comprised only of hardware products and related services, we allocate the total transaction revenue to the multiple elements based on each element s relative fair value compared to the total fair value. Each element s relative fair value is based on management s best estimate of selling price paid by customers when the element is sold separately. We review the sales of all products and services quarterly and update, when appropriate, our best estimate of selling price for each element to ensure that it reflects our recent pricing experience.

For multi-element arrangements comprised only of software products and related services, we allocate a portion of the total purchase price to the undelivered elements, primarily support agreements and training, using vendor-specific objective evidence of fair value of the undelivered elements. The remaining portion of the total transaction value is allocated to the delivered software, referred to as the residual method. Vendor-specific objective evidence of fair value of the undelivered elements is based on the price customers pay when the element is sold separately. We review the separate sales of the undelivered elements on a quarterly basis and update, when appropriate, our vendor-specific objective evidence of fair value for such elements to ensure that it reflects our recent pricing experience.

For multi-element arrangements comprised of a combination of hardware and software elements, the total transaction value is bifurcated between the hardware elements and the software elements based on the relative selling prices of the hardware elements and the software elements as a group. Then, revenue for the hardware and hardware-related services is recognized following the hardware revenue recognition methodology outlined above and revenue for the software and software-related services is recognized following the residual method.

Three Months Ended September 30, 2010 and 2009

Revenue

Product revenue consists of sales of our hardware products and licensing of our software products. Service revenue consists of customer support agreements, consulting and training. No one customer or indirect channel partner accounted for more than 10% of our total revenue during the three months ended September 30, 2010 and 2009.

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Revenue:						
Product	$ 37,301	54%	$ 30,631	51%	$ 6,670	22%
Service	32,112	46	29,060	49	3,052	11%
Total revenue	$ 69,413	100%	$ 59,691	100%	$ 9,722	16%

Table of Contents

Product. The 22%, or $6.7 million, increase in product revenue was due to a $4.1 million increase in our service provider vertical, a $1.1 million increase in our financial vertical and a $1.5 million increase in our other enterprise business vertical. Compared to the same period in the prior year, we realized an increase of approximately 27% in the average selling price per unit of our products due to a shift in product mix towards our Infinistream product line and away from lower priced probes.

Service. The 11%, or $3.1 million, increase in service revenue was due in part to a $1.4 million increase in revenue from maintenance contracts due to increased renewals from a growing support base, a $1.1 million increase in revenue from post-contract customer support in connection with product revenue growth and a $253 thousand increase in other service revenue. In addition, there was a decline of $339 thousand in purchase accounting adjustments to deferred service revenue associated with our acquisition of Network General. As a result of this acquisition, acquired deferred revenue was reduced to fair value to eliminate selling profit from the contracts that were acquired from Network General. As the fair value adjusted deferred revenue amortizes over time, it comprised a smaller proportion of total maintenance revenue during the three months ended September 30, 2010. Subsequent maintenance renewal contracts are recorded at their full value and thus result in higher recorded revenue.

Total product and service revenue from direct and indirect channels are as follows:

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Indirect	$ 45,206	65%	$ 39,054	65%	$ 6,152	16%
Direct	24,207	35	20,637	35	3,570	17%
Total revenue	$ 69,413	100%	$ 59,691	100%	$ 9,722	16%

The 16%, or $6.2 million, increase in indirect channel revenue is primarily the result of an increase in international sales. 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. 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 locations; however, we report these shipments as United States revenue since we ship the products to a domestic location. The 17%, or $3.6 million, increase in direct channel revenue is primarily the result of higher revenue in the United States due to the increase in volume with our larger direct financial services and service provider customers.

Table of Contents

Total revenue by geography is as follows:

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
United States	$ 49,523	71%	$ 44,465	75%	$ 5,058	11%
International						
Europe	10,058	15	7,761	13	2,297	30%
Asia	3,803	5	3,226	5	577	18%
Rest of World	6,029	9	4,239	7	1,790	42%
Subtotal International	19,890	29	15,226	25	4,664	31%
Total revenue	$ 69,413	100%	$ 59,691	100%	$ 9,722	16%

United States revenues increased 11%, or $5.1 million, primarily as a result of strong growth in our financial services and service provider verticals. The 31%, or $4.7 million, increase in international revenue is due to growth in our service provider vertical. 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. In accordance with United States export control regulations we do not sell or do business with countries subject to economic sanctions and export controls.

Cost of Revenue and Gross Profit

Cost of product revenue consists primarily of material components, manufacturing personnel expenses, media duplication, manuals, packaging materials, overhead and amortization of capitalized software and developed product technology. Cost of service revenue consists primarily of personnel, material, overhead and support costs.

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Cost of revenue						
Product	$ 8,808	13%	$ 8,289	14%	$ 519	6%
Service	5,499	8	4,584	8	915	20%
Total cost of revenue	$ 14,307	21%	$ 12,873	22%	$ 1,434	11%
Gross profit:						
Product $	$ 28,493	41%	$ 22,342	37%	$ 6,151	28%
Product gross profit %	76%		73%			
Service $	$ 26,613	38%	$ 24,476	41%	$ 2,137	9%
Service gross profit %	83%		84%			
Total gross profit $	$ 55,106		$ 46,818		$ 8,288	18%
Total gross profit %	79%		78%			

Product. The 6%, or $519 thousand, increase in cost of product revenue was primarily due to the 22% increase in product revenue during the three months ended September 30, 2010 compared to the three months ended September 30, 2009 as well as gross profit improvement. The product gross profit percentage increased three points from 73% to 76% for the three months ended September 30, 2009 and 2010, respectively. This

Table of Contents

increase was primarily due to favorable product mix and the realization of cost savings within our manufacturing organization. Average headcount was 29 and 26 for the three months ended September 30, 2010 and 2009, respectively.

Service. The 20%, or $915 thousand, increase in cost of service revenue was primarily due to a $638 thousand increase in employee related expenses, a $185 thousand increase in inventory used to support customers under service contracts and a $52 thousand increase in travel in our support and consulting groups. The 9%, or $2.1 million, increase in service gross profit corresponds with the 11%, or $3.1 million, increase in service revenue, offset by the 20%, or $915 thousand, increase in cost of services. The service gross profit percentage decreased one point from 84% to 83% for the three months ended September 30, 2009 and 2010, respectively. Average headcount was 113 and 103 for the three months ended September 30, 2010 and 2009, respectively.

Gross profit. Our gross profit increased 18%, or $8.3 million. This increase is attributable to our increase in revenue of 16%, or $9.7 million. The net effect of the combined increases in revenue and cost of revenue was a one point increase in gross profit percentage from the three months ended September 30, 2009 to the three months ended September 30, 2010.

Operating Expenses

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Research and development	$ 9,811	14%	$ 8,670	15%	$ 1,141	13%
Sales and marketing	25,691	37	21,372	36	4,319	20%
General and administrative	5,825	8	4,604	7	1,221	27%
Amortization of acquired intangible assets	477	1	491	1	(14)	(3%)
Total Operating Expenses	$ 41,804	60%	$ 35,137	59%	$ 6,667	19%

Research and development. Research and development expenses consist primarily of personnel expenses, fees for outside consultants, overhead and related expenses associated with the development of new products and the enhancement of existing products.

The 13%, or $1.1 million, increase in research and development expenses is primarily due to increases in incentive compensation and other employee related expenses. Average headcount in research and development was 256 and 234 for the three months ended September 30, 2010 and 2009, respectively.

Sales and marketing. Sales and marketing expenses consist primarily of personnel expenses, including commissions, overhead and other expenses associated with selling activities and marketing programs such as trade shows, seminars, advertising, and new product launch activities.

The 20%, or $4.3 million, increase in total sales and marketing expenses was primarily due to $1.8 million in increased sales commissions commensurate with the higher sales revenue, a $1.4 million increase in other employee related expenses resulting from increased headcount, a $553 thousand increase in recruiting fees, a $332 thousand increase in sales travel expenses due to increased headcount and international travel and a $175 thousand increase in depreciation expense associated with demo units. Average headcount in sales and marketing was 316 and 297 for the three months ended September 30, 2010 and 2009, respectively.

General and administrative. General and administrative expenses consist primarily of personnel expenses for executive, financial, legal and human resource employees, overhead and other corporate expenditures.

Table of Contents

The 27%, or $1.2 million, increase in general and administrative expenses was primarily due to a $728 thousand increase in incentive compensation and other employee related expenses and a $496 thousand increase in business development costs. Average headcount in general and administrative was 111 and 109 for the three months ended September 30, 2010 and 2009, respectively.

Amortization of acquired intangible assets. Amortization of acquired intangible assets consists primarily of amortization of customer relationships related to the acquisition of Network General.

Interest and Other Income (Expense), Net. Interest and other income (expense), net includes interest earned on our cash, cash equivalents, marketable securities and restricted investments, interest expense and other non-operating gains or losses.

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Interest and other income (expense), net	$ (462)	(1)%	$ (715)	(1)%	$ 253	35%

The 35%, or $253 thousand, increase in interest and other income (expense), net was primarily due to a $210 thousand decrease in interest expense due to a reduction in the interest rate as well as a reduction of approximately $10 million on the outstanding principal of our debt due to debt repayments. During the quarters ended September 30, 2010 and 2009, the average interest rates on our outstanding debt were 2.813% and 3.375%, respectively. Additionally, the increase was affected by a $58 thousand increase in interest income due to an increase in market interest rates received on investments. These increases to interest and other income (expense) were partially offset by a $15 thousand decrease from a $13 thousand realized gain on securities during the three months ended September 30, 2009.

Income Tax Expense. We estimate our income tax expense based on our estimated annual effective tax rate. The estimated annual effective tax rate as of September 30, 2010 for fiscal year 2011 is 35.6%, compared to an estimated annual effective tax rate of 35.5% as of September 30, 2009 for fiscal year 2010. The increase in our effective tax rate is primarily due to the expiration of the federal research and development credit partially offset by an increase in the domestic production activities deduction. Generally, the estimated annual effective tax rates differ from the statutory rates primarily due to the impact of federal and state tax credits, state taxes, and the qualified production activities deduction.

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Income tax expense	$ 4,592	7%	$ 3,880	7%	$ 712	18%

Net Income. Net income for the three months ended September 30, 2010 and 2009 is as follows:

	Three Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Net income	$ 8,248	12%	$ 7,086	12%	$ 1,162	16%

Table of Contents

The $1.2 million increase in net income for the three months ended September 30, 2010 was largely attributable to the $8.3 million increase in total gross profit and a $253 thousand decrease in interest and other income (expense) offset by a $6.7 million increase in operating expenses mainly due to increased employee related expenses and incentive compensation.

Six Months Ended September 30, 2010 and 2009

Revenue

Product revenue consists of sales of our hardware products and licensing of our software products. Service revenue consists of customer support agreements, consulting and training. No one direct customer or indirect channel partner accounted for more than 10% of our total revenue during the six months ended September 30, 2010 and 2009.

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Revenue:						
Product	$ 71,273	52%	$ 59,022	50%	$ 12,251	21%
Service	64,951	48	58,731	50	6,220	11%
Total revenue	$ 136,224	100%	$ 117,753	100%	$ 18,471	16%

Product. The 21%, or $12.3 million, increase in product revenue was due to a $7.9 million increase in our financial vertical, a $7.2 million increase in our service provider vertical, offset by a $2.8 million decrease in our other enterprise business vertical. Compared to the same period in the prior year, we realized an increase of approximately 27% in the average selling price per unit of our products due to a shift in product mix towards our Infinistream product line and away from lower priced probes.

Service. The 11%, or $6.2 million, increase in service revenue was due in part to a $2.4 million increase in revenue from post-contract customer support in connection with product revenue growth, a $654 thousand increase in revenue from maintenance contracts due to increased renewals from a growing support base, and a $612 thousand increase in other service revenue. In addition, there was a decline of $865 thousand in purchase accounting adjustments to deferred service revenue associated with our acquisition of Network General. As a result of this acquisition, acquired deferred revenue was reduced to fair value to eliminate selling profit from the contracts that were acquired from Network General. As the fair value adjusted deferred revenue amortizes over time, it comprised a smaller proportion of total maintenance revenue during the six months ended September 30, 2010. Subsequent maintenance renewal contracts are recorded at their full value and thus result in higher recorded revenue. We also recognized $1.4 million in training and consulting revenue during the quarter ended June 30, 2010 from non-refundable expired contracts. Prior to this quarter, the Company had not been able to demonstrate that it had fulfilled its obligations. However, during the quarter, the Company was able to demonstrate that its obligations had been fulfilled related to the non-refundable expired contracts. While the Company will continue to recognize revenue from non-refundable contracts, it does not expect the revenue in future quarters to be significant.

Table of Contents

Total product and service revenue from direct and indirect channels are as follows:

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Indirect	$ 80,940	59%	$ 75,976	65%	$ 4,964	7%
Direct	55,284	41	41,777	35	13,507	32%
Total revenue	$ 136,224	100%	$ 117,753	100%	$ 18,471	16%

The 7%, or $5.0 million, increase in indirect channel revenue is the result of an increase in international sales. 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. 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 locations; however, we report these shipments as United States revenue since we ship the products to a domestic location. The 32%, or $13.5 million, increase in direct channel revenue and change in sales mix between direct and indirect is primarily the result of increased domestic revenue from our telecommunications and financial verticals, as well as the $865 thousand reduction in purchase accounting adjustments related to the Network General acquisition which had the effect of increasing revenue.

Total revenue by geography is as follows:

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
United States	$ 102,583	75%	$ 90,257	77%	$ 12,326	14%
International						
Europe	16,313	12	13,321	11	2,992	22%
Asia	6,626	5	5,415	5	1,211	22%
Rest of World	10,702	8	8,760	7	1,942	22%
Subtotal International	33,641	25	27,496	23	6,145	22%
Total revenue	$ 136,224	100%	$ 117,753	100%	$ 18,471	16%

United States revenues increased 14%, or $12.3 million, primarily as a result of strong growth in our financial services and service provider verticals. The 22%, or $6.1 million, increase in international revenue is due to growth in our service provider verticals. 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. In accordance with United States export control regulations we do not sell or do business with countries subject to economic sanctions and export controls.

Table of Contents

Cost of Revenue and Gross Profit

Cost of product revenue consists primarily of material components, personnel expenses, media duplication, manuals, packaging materials, overhead and amortization of capitalized software and developed product technology. Cost of service revenue consists primarily of personnel, material, overhead and support costs.

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Cost of revenue						
Product	$ 17,659	13%	$ 15,548	13%	$ 2,111	14%
Service	11,223	8	9,493	8	1,730	18%
Total cost of revenue	$ 28,882	21%	$ 25,041	21%	$ 3,841	15%
Gross profit:						
Product $	$ 53,614	39%	$ 43,474	37%	$ 10,140	23%
Product gross profit %	75%		74%			
Service $	$ 53,728	39%	$ 49,238	42%	$ 4,490	9%
Service gross profit %	83%		84%			
Total gross profit $	$ 107,342		$ 92,712		$ 14,630	16%
Total gross profit %	79%		79%			

Product. The 14%, or $2.1 million, increase in cost of product revenue was primarily due to the 21%, or $12.3 million increase in product revenue for the six months ended September 30, 2010 when compared to September 30, 2009 as well as gross profit improvement. The product gross profit percentage increased by one point from 74% to 75% for the six months ended September 30, 2009 compared to the six months ended September 30, 2010. This increase was primarily due to favorable product mix and the realization of cost savings within our manufacturing organization. Average headcount in cost of product revenue was 29 and 27 for the six months ended September 30, 2010 and 2009, respectively.

Service. The 18%, or $1.7 million, increase in cost of service revenue was primarily due to a $1.2 million increase in employee related expenses, a $254 thousand increase in cost of materials used to support customers under service contracts and a $213 thousand increase in travel in our support and consulting groups. The 9%, or $4.5 million, increase in service gross profit corresponds with the 11%, or $6.2 million, increase in service revenue, offset by the 18%, or $1.7 million, increase in cost of services. The service gross profit percentage decreased one point from 84% to 83% for the six months ended September 30, 2010. Average headcount in cost of service revenue was 114 and 104 for the six months ended September 30, 2010 and 2009, respectively.

Gross profit. Our gross profit increased 16%, or $14.6 million. This increase is attributable to our increase in revenue of 16%, or $18.5 million, offset by a 15%, or $3.8 million, increase in cost of revenue. The net effect of the combined increases in revenue and cost of revenue on gross margin remained flat at 79% for both the six months ended September 30, 2009 to the six months ended September 30, 2010.

28

Table of Contents

Operating Expenses

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Research and development	$ 19,589	15%	$ 17,888	15%	$ 1,701	10%
Sales and marketing	50,810	37	43,478	37	7,332	17%
General and administrative	11,122	8	9,834	8	1,288	13%
Amortization of acquired intangible assets	954	1	981	1	(27)	(3%)
Total Operating Expenses	$ 82,475	61%	$ 72,181	61%	$ 10,294	14%

Research and development. Research and development expenses consist primarily of personnel expenses, including incentive compensation, fees for outside consultants, overhead and other expenses associated with the development of new products and the enhancement of existing products.

The 10%, or $1.7 million, increase in research and development expenses is primarily due to increases in incentive compensation and other employee related expenses. Average headcount in research and development was 253 and 237 for the six months ended September 30, 2010 and 2009, respectively.

Sales and marketing. Sales and marketing expenses consist primarily of personnel expenses, including commissions, overhead and other expenses associated with selling activities and marketing programs such as trade shows, seminars, advertising, and new product launch activities.

The 17%, or $7.3 million, increase in total sales and marketing expenses was primarily due to $2.7 million in increased sales commissions commensurate with the higher sales revenue, a $2.2 million increase in other employee related expenses resulting from increased headcount, a $771 thousand increase in recruiting fees, a $713 thousand increase in travel expenses, a $398 thousand increase in depreciation expense associated with demo units and a $354 thousand increase in sales meeting expenses. Average headcount in sales and marketing was 312 and 301 for the six months ended September 30, 2010 and 2009, respectively.

General and administrative. General and administrative expenses consist primarily of personnel expenses for executive, financial, legal and human resource employees, overhead and other corporate expenditures.

The 13%, or $1.3 million, increase in general and administrative expenses was primarily due to an $880 thousand increase in incentive compensation and other employee related expenses and a $496 thousand increase in business development costs. Average headcount in general and administrative was 111 for both the six months ended September 30, 2010 and 2009, respectively.

Amortization of acquired intangible assets. Amortization of acquired intangible assets consists primarily of amortization of customer relationships related to the acquisition of Network General.

Interest and Other Income (Expense), Net. Interest and other income (expense), net includes interest earned on our cash, cash equivalents, marketable securities and restricted investments and interest expense.

	Six Months Ended September 30, (Dollars in Thousands)	
		Change

	2010		2009			
		% of Revenue		% of Revenue	$	%
Interest and other income (expense), net	$ (902)	(1)%	$ (1,434)	(1)%	$ 532	37%

29

Table of Contents

The 37%, or $532 thousand, increase in interest and other income (expense), net was primarily due to the $675 thousand decrease in interest expense due to a reduction in the interest rate and principal amounts outstanding associated with the debt entered into as a result of the acquisition of Network General. During the six months ended September 30, 2010 and 2009, the average interest rate on the term loan was 2.750% and 3.375%, respectively. This increase to interest and other income (expense) was partially offset by an $86 thousand decrease in foreign currency transaction expense due to reductions in translation adjustment losses on foreign currency denominated assets and liabilities, a $41 thousand decrease in interest income due to a decrease in market interest rates received on investments as well as an $11 thousand increase in losses on the disposal of assets.

Income Tax Expense. We estimate our income tax expense based on our estimated annual effective tax rate. The estimated annual effective tax rate as of September 30, 2010 for fiscal year 2011 is 35.6%, compared to an estimated annual effective tax rate of 35.5% as of September 30, 2009 for fiscal year 2010. The increase in our effective tax rate is primarily due to the expiration of the federal research and development credit and a decrease in tax exempt interest. Generally, the estimated annual effective tax rates differ from the statutory rates primarily due to the impact of federal and state tax credits, tax-exempt interest income, state taxes, and qualified production activities deductions.

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Income tax expense	$ 8,572	6%	$ 6,774	6%	$ 1,798	27%

Net income. Net income for the six months ended September 30, 2010 and 2009 is as follows:

	Six Months Ended September 30, (Dollars in Thousands)					
	2010		2009		Change	
		% of Revenue		% of Revenue	$	%
Net income	$ 15,393	11%	$ 12,323	11%	$ 3,070	25%

The $3.1 million increase in net income for the six months ended September 30, 2010 compared to the six months ended September 30, 2009 was largely attributable to the $14.6 million increase in total gross profit and a $532 thousand decrease in interest and other income (expense) offset by a $10.3 million increase in operating expenses mainly due to increased employee related expenses and incentive compensation.

Contractual Obligations

As of September 30, 2010, we had the following contractual obligations:

Payment due by period (Dollars in thousands)

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short and long-term debt obligations (1)	$ 78,156	$ 15,692	$ 62,464	$	$
Unconditional purchase obligations	7,200	7,200			
Operating lease obligations (2)	38,634	3,627	6,929	6,688	21,390
Retirement obligations	3,907	254	2,150	657	846
Total contractual obligations	$ 127,897	$ 26,773	$ 71,543	$ 7,345	$ 22,236

30

(1) Includes accrued interest at an interest rate of 2.750% for our outstanding term loan at September 30, 2010.

(2) We lease facilities and certain equipment under operating lease agreements extending through September 2023 for a total of $38.6 million. Additionally, the payments due by the periods above were computed based on the terms of the renegotiated lease agreements for the Westford office, which was entered in August 2010 and the San Jose office, which was entered in September 2010.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Commitment and Contingencies

From time to time we are subject to legal proceedings and claims in the ordinary course of business. In our opinion, the amount of ultimate expense with respect to any current legal proceedings and claims, if determined adversely, will not have a significant adverse effect on our financial position or results of operations.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities consist of the following (in thousands):

	September 30, 2010	March 31, 2010
Cash and cash equivalents	$ 114,043	$ 63,322
Short-term marketable securities	53,261	69,875
Long-term marketable securities	28,702	37,354
Cash, cash equivalents and marketable securities	$ 196,006	$ 170,551

At September 30, 2010, we had a revolving credit facility with a syndicate of lenders led by KeyBank National Association, or KeyBank, which allows us to borrow up to $10 million for working capital purposes and to obtain letters of credit subject to a sublimit. Amounts outstanding under the facility bear interest at a floating interest rate dependent upon, at our election, LIBOR or KeyBank s prime rate, in each case plus a margin, and are collateralized by substantially all of our assets. Under the agreement, we are required to comply with certain financial covenants which require that we maintain minimum certain amounts of liquidity, the most restrictive of which are a minimum fixed charge coverage ratio of no less than 1.25 to 1.00 and a maximum leverage ratio of less than 3.00 to 1.00. As of September 30, 2010, we were in compliance with such covenants. As of September 30, 2010, no amounts were outstanding under the revolving credit facility.

Cash, cash equivalents, and marketable securities increased by $25.5 million from March 31, 2010 to September 30, 2010. While cash and cash equivalents increased by $50.7 million, short and long-term marketable securities decreased in total by $25.2 million.

Our long-term marketable securities include investments in auction rate securities. Beginning in February 2008 and continuing through September 30, 2010, auctions have failed resulting in a lack of short-term liquidity for these securities, which has caused us to classify them as long term on our consolidated balance sheet. As of September 30, 2010, our auction rate securities consisted of four positions issued by municipal agencies with a total par value of $24.1 million and a current estimated market value totaling $21.5 million. The auction rate securities held by NetScout at September 30, 2010 have maturity dates ranging from December 2032 through

December 2039. As of September 30, 2010, these investments have investment grade ratings ranging from AAA to A. These investments are collateralized by student loans with underlying support by the federal government through the Federal Family Education Loan Program and by monoline insurance companies. We have the ability and intent to hold these securities until a recovery in the auction process or other liquidity event occurs. The fair value of these securities has been estimated by management based on the assumptions disclosed in Note 4 to our consolidated financial statements. We will continue to analyze our auction rate securities each reporting period for impairment, and we may be required to record an impairment charge in the consolidated statement of operations if the decline in fair value is determined to be other-than-temporary. The estimated fair value of our auction rate securities could change significantly based on market and economic conditions, including changes in market rates, the estimated timing until a liquidity event, the discount factor associated with illiquidity and the credit ratings of our securities. There is no assurance as to when liquidity will return to this investment class, and therefore, we continue to monitor and evaluate these securities. Based on our expected operating cash flows, and our other sources of cash, we do not expect the lack of liquidity in these investments to affect our ability to execute our current business plan.

	Six Months Ended September 30, (Dollars in Thousands)	
	2010	**2009**
Net cash provided by operating activities	$ 31,932	$ 17,084
Net cash provided by (used in) investing activities	$ 22,556	$ (8,010)
Net cash used in financing activities	$ (3,767)	$ (6,598)

Net cash provided by operating activities

Net cash provided by operating activities amounted to $31.9 million and $17.1 million during the six months ended September 30, 2010 and 2009, respectively. The primary sources of operating cash flow in the six months ended September 30, 2010 included net income of $15.4 million, adjusted to exclude the effects of non-cash items of $12.0 million, including depreciation and amortization, share-based compensation expense, deferred income taxes and loss on disposal of fixed assets, a $24.1 million decrease in accounts receivable resulting from increased cash collections and decreased billings, offset by a $2.5 million decrease in accrued compensation resulting from the timing of payments for payroll, commissions, and the fiscal 2010 incentive compensation payout, and a $15.0 million decrease in deferred revenue. We entered our fiscal year 2011 with record receivables on strong service billings during the quarter ended March 31, 2010, which included significant early and multi-year maintenance renewals. The overall increase in cash provided by operating activities is attributable to entering the period with a record accounts receivable balance on March 31, 2010. Accounts receivable at March 31, 2010 was $65.6 million, compared to $41.4 million at September 30, 2010.

Net cash provided by investing activities

Net cash provided by investing activities was $22.6 million for the six months ended September 30, 2010. This includes the proceeds from the maturity of marketable securities due to cash management activities of $55.7 million offset by the purchase of marketable securities of $29.1 million and the purchase of fixed assets to support our infrastructure of $4.0 million.

Net cash used in financing activities

Net cash used in financing activities was $3.8 million for the six months ended September 30, 2010. The primary outflow was due to the repayment of $5.0 million of our long-term debt with KeyBank, offset by a tax benefit from stock options exercised of $640 thousand and proceeds from the exercise of stock options in the amount of $593 thousand.

Liquidity

We believe that our cash balances, short-term marketable securities classified as available-for-sale and future cash flows generated by operations will be sufficient to meet our anticipated cash needs for working capital, capital expenditures and scheduled principal and interest payments on our debt for at least the next 12 months. If demand for our product were to decrease substantially, our ability to generate cash flow sufficient for our short-term working capital and expenditure needs could be materially impacted.

Additionally, a portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we evaluate potential acquisitions of such businesses, products or technologies such as our acquisition of Network General. If our existing sources of liquidity are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. The sale of additional equity or debt securities could result in additional dilution to our stockholders.

At September 30, 2010, we had foreign currency forward contracts with notional amounts totaling $5.9 million. The valuation of outstanding foreign currency forward contracts at September 30, 2010 resulted in a liability balance of $42 thousand, reflecting unfavorable contract rates in comparison to current market rates at this date, and an asset balance of $77 thousand, reflecting favorable contract rates in comparison to current market rates. The counterparty to these forward contracts is a large multinational commercial bank, and we believe the risk of nonperformance is not material. However, we cannot be assured that the financial institution will not be impacted by changes in the economic environment.

Recently Issued Accounting Pronouncements

Fair Value Disclosures. In January 2010, the Financial Accounting Standards Board, or FASB, issued amended standards requiring additional fair value disclosures. The amended standards require disclosures of transfers in and out of Levels I and II of the fair value hierarchy, as well as requiring gross basis disclosures for purchases, sales, issuances and settlements within the Level III reconciliation which will replace the net presentation format. Additionally, the update clarifies the requirement to determine the level of disaggregation for fair value measurement disclosures and to disclose valuation techniques and inputs used for both recurring and nonrecurring fair value measurements in either Level II or Level III. We adopted the new guidance in the fourth quarter of our fiscal year 2010, except for the gross presentation of the Level III rollforward information which is effective for fiscal years beginning after December 15, 2010 (fiscal year 2012 for NetScout). Because these new standards are related primarily to disclosures, their adoption has not had and is not expected to have a significant impact on our financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our primary market risk exposures are in the areas of illiquidity of auction rate securities, interest rate risk and foreign currency exchange rate risk. We currently do not hedge interest rate exposure, but do not believe that a fluctuation in interest rates would have a material impact on the value of our cash equivalents and marketable securities. Our long-term marketable securities, which consist primarily of auction rate securities, are stated at fair value based on risk adjusted discounted cash flow calculations. Prior to February 2008, these securities typically were stated at par value. While we continue to earn interest on auction rate securities at the maximum contractual rate, these securities are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, par value no longer approximates the estimated fair value of auction rate securities. As a result of their illiquidity, we have recorded a temporary impairment at September 30, 2010 against the carrying value of our auction rate securities.

Credit Risk. Our cash equivalents and marketable securities consist primarily of money market instruments, U.S. Treasury bills, certificates of deposit, commercial paper, corporate bonds, municipal obligations and student loan backed auction rate securities.

Table of Contents

Additional information regarding auction rate securities held by NetScout at September 30, 2010 is detailed in Note 4 to the consolidated financial statements.

At September 30, 2010 and periodically throughout the year, we have maintained cash balances in various operating accounts in excess of federally insured limits. We limit the amount of credit exposure with any one financial institution by evaluating the creditworthiness of the financial institutions with which we invest.

Interest Rate Risk. We are exposed to market risks related to fluctuations in interest rates related to our term loan with KeyBank. As of September 30, 2010, we owed $74.4 million on this loan with an interest rate of 2.75% effective September 30, 2010 through March 31, 2011, the next LIBOR reset date. A sensitivity analysis was performed on the outstanding portion of our debt obligation as of September 30, 2010 and 2009. Should the current weighted average interest rate increase or decrease by 10%, the resulting annual increase or decrease to interest expense would be approximately $192 thousand and $272 thousand as of September 30, 2010 and 2009, respectively.

Foreign Currency Exchange Risk. As a result of our foreign operations, we face exposure to movements in foreign currency exchange rates, primarily the Euro, British Pound, Canadian Dollar and Indian Rupee. The current exposures arise primarily from expenses denominated in foreign currencies. NetScout currently engages in foreign currency hedging activities in order to limit these exposures.

As of September 30, 2010, we had foreign currency forward contracts with notional amounts totaling $5.9 million. The valuation of outstanding foreign currency forward contracts at September 30, 2010 resulted in a liability balance of $42 thousand, reflecting unfavorable contract rates in comparison to current market rates at this date and an asset balance of $77 thousand reflecting favorable rates in comparison to current market rates. At September 30, 2009, we did not have any foreign currency forward contracts.

We do not use derivative financial instruments for speculative trading purposes. The counterparty to these forward contracts is a multinational commercial bank. We believe the risk of counterparty nonperformance is not material. However, we cannot be assured that the financial institution will not be further impacted by the negative economic environment.

Item 4. Controls and Procedures

As of September 30, 2010, NetScout, under the supervision and with the participation of our management, including the Company s principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2010, our disclosure controls and procedures were effective in ensuring that material information relating to NetScout, including its consolidated subsidiaries, required to be disclosed by NetScout in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal controls that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II: OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended March 31, 2010. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. There have been no material changes to those risk factors since we filed our Annual Report on Form 10-K. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter of fiscal year 2010, the Company did not repurchase any shares of its outstanding common stock pursuant to its open market stock repurchase program further described above in Note 11 to the condensed consolidated financial statements attached hereto.

Item 6. Exhibits

(a) Exhibits

10.1 Third Amendment Agreement, dated August 12, 2010, to that certain Lease, dated August 17, 2000, as amended, between the Company and Westford West I Limited Partnership, as successor to Arturo J. Gutierrez and John A. Cataldo, Trustees of Nashoba Westford Realty Trust, u/d/t dated April 27, 2000 (filed herewith).

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

32.2 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	NETSCOUT SYSTEMS, INC.
Date: November 9, 2010	/s/ Anil K. Singhal Anil K. Singhal President, Chief Executive Officer and Chairman (Principal Executive Officer)
Date: November 9, 2010	/s/ David P. Sommers David P. Sommers Senior Vice President, General Operations and Chief Financial Officer (Principal Financial Officer)
Date: November 9, 2010	/s/ Jean Bua Jean Bua Vice President, Finance and Chief Accounting Officer (Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.1	Third Amendment Agreement, dated August 12, 2010, to that certain Lease, dated August 17, 2000, as amended, between the Company and Westford West I Limited Partnership, as successor to Arturo J. Gutierrez and John A. Cataldo, Trustees of Nashoba Westford Realty Trust, u/d/t dated April 27, 2000 (filed herewith).
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

37