nGeniusONE™

NETSCOUT®

2014 Annual Report to Stockholders

- Letter to Stockholders
- Notice of 2014 Annual Meeting and Proxy Statement
- 2014 Annual Report on Form 10-K

NetScout Today:
Well positioned to leverage major computing trends

Market Leader

Largest market share
Global footprint - in 30 countries

Technology Leader

300 man-years in core (ASI) technology
5 recent acquisitions, 70+ patents

Financial Success Story

$397M in revenues, 25% operating margin
$219M in cash, total liquidity exceeds $465M

Consistent Vision & Execution

Category creator and leader for two decades
...still a nimble, entrepreneurial culture

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nGeniusONE Business Model:
Compelling and scalable value proposition

ONE platform for performance analytics and operational intelligence

ONE product for NPM+APM convergence

ONE interface for all Apps/Services

ONE fully integrated software platform

ONE path to total cost of ownership

2014 Annual Report

2014 Letter to Stockholders

To Our Stockholders:

NetScout delivered very strong performance in fiscal year 2014. We executed well against our strategic plan, achieving another year of mid-teen revenue growth while expanding operating margins and profitability. Our real-time operational intelligence and analytics technology is unique, innovative and patented. Our technology enables our enterprise and service provider customers to capitalize on major computing trends over the next decade, including IP convergence, Network Functions Virtualization (NFV), Software-Defined Networking (SDN), Virtualization, Cloud, Mobility, Bring Your Own Device (BYOD), Web and the evolving Internet. Building on our history of innovation and market execution, NetScout is well positioned for continued growth.

Our success this year is attributable to a journey we began more than two years ago. At that time, NetScout was the leader in network performance management, a $1 billion market that was maturing and was not large enough to sustain our goal of double-digit growth. As a result, we created a strategic initiative that leveraged our core competencies to develop a product platform with enhanced functionality that would allow the company to expand into adjacent, faster-growing markets. During this time, we also acquired five technology companies, gaining valuable expertise and technology in the area of Unified Communications, cybersecurity and packet flow switch. I am happy to report that our investments in our people, products and processes are yielding results, increasing our total addressable market to $4 billion today. Future product launches are anticipated and will expand our market opportunity over the next few years.

In June 2013, we launched nGeniusONE, a new integrated platform powered by our Adaptive Session Intelligence (ASI) software for which we were awarded a U.S. patent in December 2013. nGeniusONE provides real-time operational intelligence and performance analytics to help IT teams maintain network uptime and application availability. ASI takes network traffic, which is the richest data source, and transforms the data into operational intelligence and analytics. In our unique "service triage" approach for identifying the root cause of performance issues, nGeniusONE dramatically reduces "Mean Time To Restore."

We are now expanding the data-capture and intelligence expertise that made us the leader in the network performance management market so we can bring additional value to customers in the application performance management market. We are also adding capabilities to grow into the rapidly expanding cybersecurity market, with applications that include forensics, regulatory compliance as well as early identification and mitigation of sophisticated new threats. Additionally, our ASI software has many potential uses within the realm of "Big Data" which we are exploring.

In the enterprise market, growth is being driven by our customers looking to improve efficiency and meet increased end-user expectations. Today's enterprise networks have become increasingly complex and mission critical to delivering services to customers and employees. Our solutions provide customers a holistic view for assuring user experiences across different devices, applications and next-generation IP networks. We see growing traction around the world as our customers invest in Unified Communications services that combine voice, video and data to improve collaboration and productivity for their employees and customers. Our solution is proven to be effective and scalable, offering a single solution for service assurance that spans legacy and next-generation technologies.

In the service provider market we continue to see strong growth in the wireless, cable and wireline segments driven by technology migrations, demand for new services and increased customer expectations for service delivery. The wireless industry transition to IP networks has been a strong driver of our service provider growth as carriers migrate from 3G to 4G/LTE networks that enable new types of services. At the beginning of calendar year 2014, we launched our multi-generational voice/video/data product. This is an integrated solution addressing data, video, VoLTE, VoIP and circuit-switched voice. Our product offering and brand recognition is expected to drive growth in this vertical globally.

As a result of our evolving strategy, differentiated technology and expanded product portfolio, we have successfully entered new markets and increased our customer penetration. We will continue to enhance our ASI software and nGeniusONE platform to bring additional functionality and value to our customers. By strengthening our position as a key strategic technology partner, we will expand our total addressable market over the coming years.

Successful execution of our strategic initiatives has enabled us to achieve our financial goals as well. In fiscal year 2012, we passed the $300 million revenue mark, in fiscal year 2013, we passed the $350 million revenue mark and in fiscal year 2014, we approached the $400 million revenue mark. Full-year 2014 non-GAAP revenue was $397 million, representing a second consecutive year of mid-teen revenue growth. On a non-GAAP basis, earnings per share for 2014 were $1.53, up 16 percent year-over-year and non-GAAP operating margin increased to 25.4 percent. In addition, non-GAAP product revenue grew by 18 percent for the second consecutive year.

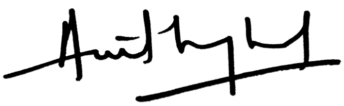
NetScout continues to maintain strong liquidity. At the end of fiscal year 2014, cash and short- and long-term marketable securities amounted to $219 million. We generated $97 million in free cash flow, an increase of $14 million over fiscal year 2013. Over the past five years NetScout has generated more than $337 million in free cash flow. With an available credit facility of $250 million, combined with our current cash position, we have total liquidity exceeding $465 million as of the end of fiscal year 2014. We continued to repurchase our shares in the market and have extended our share repurchase program to allow us to repurchase up to an additional $100 million of our shares. Our financial foundation affords us the ability to continue to invest in our business and further develop our products either through in-house development or acquired technologies.

Our continued market leadership and strong financial performance reflects consistent innovation with high-value solutions that are critical to enabling customers to meet their objectives in a timely and cost-effective manner. The high quality of our data analytics allows customers to cut through increasing complexity to give them the real-time operational intelligence they need to make insightful and timely decisions about network, application, services and user performance.

We have executed well on our strategy; our results reflect market acceptance of our solutions and value proposition. We have demonstrated that we can set and achieve ambitious operating goals. We will continue to expand our total addressable market by adding functionality to our ASI software and nGeniusONE platform, including ongoing development of new products. As we capture more types of data and add richer analytics capabilities, our value proposition and strategic importance to our customers will increase further.

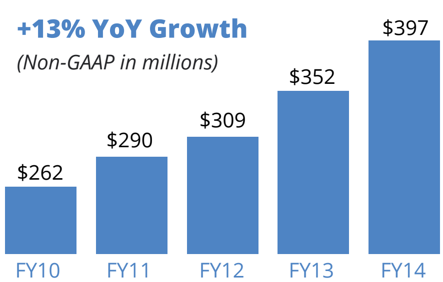
As always, I'd like to thank all employees, customers, investors and stakeholders for their continued support.

Sincerely,

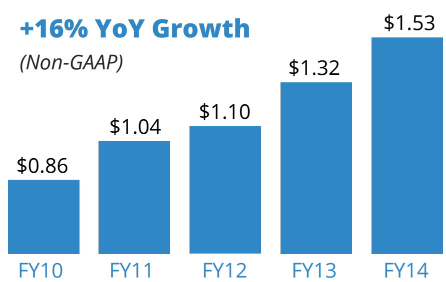


Anil K. Singhal
President, Chief Executive Officer and Chairman of the Board

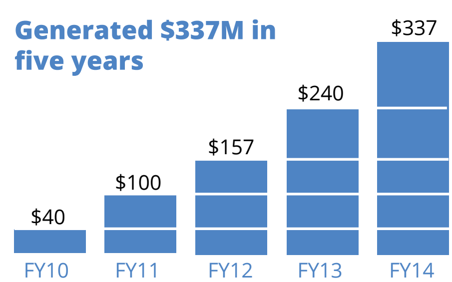
REVENUE



EARNING PER SHARE



CUMULATIVE FREE CASH FLOW



BALANCE SHEET HIGHLIGHTS
(in millions)

	FY14	FY13	FY12	FY11	FY10
Cash and Securities	$219	$154	$214	$229	$171
Accounts Receivable	$61	$74	$70	$63	$66
Total Debt	$0	$0	$62	$68	$79
Total Deferred Revenue	$134	$121	$112	$100	$102
Total Stockholders' Equity	$409	$372	$342	$320	$267
Free Cash Flow	$97	$83	$57	$60	$40

Total liquidity exceeds $465M

Notice of 2014 Annual Meeting
and
Proxy Statement

July 24, 2014

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of NetScout Systems, Inc. on Tuesday, September 9, 2014 at NetScout Systems, Inc., 310 Littleton Road, Westford, Massachusetts.

At the Annual Meeting, you will be asked to:

1. elect one director nominated by our Board,
2. ratify the selection of PricewaterhouseCoopers LLP as auditors for the fiscal year ending March 31, 2015, and
3. approve, on an advisory basis, the compensation of our named executive officers.

The accompanying proxy statement describes these matters in more detail.

It is important that your shares be voted whether or not you attend the meeting. If you received a proxy card or voting instruction form, please complete the proxy card or voting instruction form promptly. If your shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone—please refer to your vote instruction form for instructions. If you attend the meeting, you may vote in person even if you have previously returned your vote in accordance with the foregoing. Your prompt cooperation will be appreciated.

Very truly yours,

Anil K. Singhal
Chairman, President, and Chief Executive Officer

NETSCOUT SYSTEMS, INC.
310 Littleton Road
Westford, MA 01886

NOTICE OF THE 2014 ANNUAL MEETING OF STOCKHOLDERS
To Be Held September 9, 2014

To the Stockholders of NetScout Systems, Inc.:

The Annual Meeting of Stockholders of NetScout Systems, Inc. will be held on Tuesday, September 9, 2014, at 10:00 a.m. at NetScout Systems, Inc., 310 Littleton Road, Westford, Massachusetts 01886, for the following purposes:

1. To elect one Class III director nominated by our Board to serve for a three year term or until his successor is elected and qualified.
2. To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2015.
3. To approve, on an advisory basis, the compensation of our named executive officers, as disclosed in this proxy statement, in accordance with Securities and Exchange Commission rules.
4. To consider other business properly brought before the meeting or any adjournment.

Stockholders of record at the close of business on July 11, 2014, the Record Date for determining stockholders entitled to vote at the annual meeting, will be entitled to vote at the meeting and any adjournments.

To provide faster access, minimize cost, and reduce waste, we are mailing to most of our stockholders a Notice of Internet Availability of Proxy Materials, or Notice, instead of a paper copy of this proxy statement and our Annual Report to Stockholders for the fiscal year ended March 31, 2014, or the 2014 Annual Report. Stockholders who have requested a paper copy of our proxy materials will continue to receive them by mail. The Notice contains instructions on how to access those documents over the internet and how to request a paper copy of this proxy statement, our 2014 Annual Report, and a form of proxy card or voting instruction card.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting you are urged to complete, sign, date, and return the proxy card mailed or made available to you so that your shares can be voted at the Annual Meeting in accordance with your instructions. If your shares are held in a bank or brokerage account, you may be eligible to vote electronically or by phone—please refer to your enclosed vote instruction form. If you attend the meeting, you may vote in person even if you have previously returned your vote in accordance with the foregoing.

Notice regarding the availability of proxy materials for the Annual Meeting to be held on September 9, 2014. This proxy statement, the proxy card, and NetScout's Annual Report to Stockholders for the fiscal year ended March 31, 2014 are all available free of charge as described in the attached materials.

By Order of the Board of Directors,

Anil K. Singhal
Chairman, President, and Chief Executive Officer

Westford, Massachusetts
July 24, 2014

NETSCOUT SYSTEMS, INC.
310 Littleton Road
Westford, MA 01886

PROXY STATEMENT

July 24, 2014

Questions and Answers about the Annual Meeting and Voting

Why did I receive these proxy materials?

We intend to mail the Notice of Internet Availability of Proxy Materials, or the Notice, on or about July 24, 2014 to all stockholders of record entitled to vote at the 2014 Annual Meeting of Stockholders of NetScout Systems, Inc., or the Annual Meeting, and will make available the proxy statement and form of proxy to stockholders on such date. The matters to be voted on at the Annual Meeting are set forth in the Notice of the Annual Meeting of Stockholders.

We are providing access to our proxy materials over the internet. Accordingly, we have sent you the Notice because the Board of Directors, or the Board, of NetScout Systems, Inc., a Delaware corporation, or NetScout, is soliciting your proxy to vote at the Annual Meeting, including at any adjournments or postponements of the meeting. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. The proxy materials include the proxy statement, form of proxy, and 2014 Annual Report, which contains financial statements for the fiscal year ended March 31, 2014.

You are invited to attend the Annual Meeting on Tuesday, September 9, 2014 at 10:00 a.m. local time at NetScout Systems, Inc., 310 Littleton Road, Westford, Massachusetts 01886.

Will I receive any other proxy materials by mail?

We may send you a proxy card, along with a second Notice, on or after August 3, 2014.

What is the purpose of the Annual Meeting?

The purpose of the Annual Meeting is to:

- elect one Class III director nominated by our Board to serve for a three year term or until his successor is elected and qualified;
- ratify the selection of PricewaterhouseCoopers LLP as our an independent registered public accounting firm for the fiscal year ending March 31, 2015;
- obtain advisory approval of the compensation of our named executive officers, as disclosed in this proxy statement in accordance with SEC rules; and
- conduct other business that properly comes before the Annual Meeting or any adjournment.

How does the Board recommend that I vote?

The Board recommends that you vote “FOR” the nominee to our Board, “FOR” the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2015, and “FOR” approval of the compensation of our named executive officers.

Who can vote?

Stockholders of record as of July 11, 2014, or the Record Date, may vote. As of July 11, 2014, 41,042,273 shares of our common stock were issued and outstanding. Holders of common stock are entitled to one vote per share on proposals presented at the Annual Meeting.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

If your shares are registered directly in your name with our transfer agent, Computershare Shareowner Services (formerly BNY Mellon Shareowner Services LLC), you are considered a "stockholder of record" of those shares.

If your shares are held in an account at a bank, broker, or other intermediary, you are not a stockholder of record but instead are a "beneficial owner" of shares held in "street name," in which case the intermediary would be considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your bank, broker, or other intermediary, which we collectively refer to as your "Broker," to vote the shares held in your account.

"Non-routine" matters are matters that may substantially affect stockholder rights, such as mergers, stockholder proposals, and the election of directors. Under securities rules, your Broker is not permitted to vote for non-routine matters.

At the Annual Meeting, the director proposal and the "say on pay" proposal are non-routine, and we therefore encourage you to provide specific voting instructions to your Broker. The only routine matter included in this Proxy Statement is the ratification of our appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending March 31, 2015.

How do I vote my shares?

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy using a proxy card mailed to you. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote in person even if you have already voted by proxy. To vote using the proxy card, simply complete, sign and date the proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your Broker, you should have received a Notice containing voting instructions from that organization rather than from us. Simply follow the voting instructions in the Notice to ensure that your vote is counted. To vote in person at the Annual Meeting, you must obtain a valid proxy from your Broker.

Our Board named Anil K. Singhal and Michael Szabados as attorneys-in-fact in the proxies. If your proxy has been properly executed and returned in time to be counted at the Annual Meeting, the shares represented by your proxy will be voted in accordance with your voting instructions. If you have returned a signed proxy but have not indicated your vote, your proxy will be voted "FOR" the nominee to our Board, "FOR" the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2015, and "FOR" the advisory approval of the compensation of our named executive officers. Our Board knows of no other matters to be presented at the Annual Meeting. For other matters that may properly come before the Annual Meeting, the attorneys-in-fact will use their judgment in voting your shares.

May I change or revoke my proxy?

You may revoke your proxy before it is voted at the Annual Meeting. If you are a stockholder of record, you may do so by (1) filing a written notice of revocation (dated after the original proxy) with the Secretary of NetScout before the vote at the Annual Meeting, (2) completing a later dated proxy, including by internet or phone, and delivering it to the Secretary of NetScout before the vote at the Annual Meeting, or (3) attending the Annual Meeting and voting in person. You should send any written notice of revocation, to be delivered before the Annual Meeting, to NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886, Attention: Secretary. If you hold shares through a Broker, you must contact that Broker directly to revoke any prior voting instructions.

How is a quorum determined?

A quorum of stockholders is necessary to conduct any business at the Annual Meeting. A quorum will be present if a majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting are present at the meeting in person or represented by proxy. On the Record Date, there were 41,042,273 shares outstanding and entitled to vote.

To determine a quorum, we include votes withheld from any nominee, abstentions, and broker “non-votes.” Broker “non-votes” occur when a beneficial owner does not give instructions to the Broker how to vote on matters deemed “non-routine.” As discussed above, if the beneficial owner does not provide voting instructions, the Broker can still vote the shares with respect to matters that are considered to be “routine” but not with respect to “non-routine” matters. Your shares will be counted towards the quorum only if you submit a valid proxy or one is submitted on your behalf by your Broker or if you vote in person at the meeting. If there is no quorum, the meeting may adjourn to another date.

What vote is required to approve each proposal and how are votes counted?

Proposal 1: Election of Director: At this Annual Meeting there is only one director nominee. The nominee to serve as Class III director who receives the most votes (also known as a “plurality” of the votes cast) will be elected. You may vote either FOR the nominee or WITHHOLD your vote from the nominee. Votes that are withheld will not be included in the vote tally for the election of the director. Brokers do not have authority to vote beneficial owners’ unvoted shares for the election of the director. As a result, any shares not voted by a beneficial owner will be treated as a broker non-vote. Such broker non-votes will have no effect on the results of this vote. If the nominee receives a greater number of votes “withheld” from his or her election than votes “for” such election, such nominee will submit his or her offer of resignation for consideration by our Nominating and Corporate Governance Committee in accordance with our majority vote policy as discussed in more detail in the Majority Vote Policy section of this proxy statement.

Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm: The affirmative vote of a majority of the shares present or represented and voting on this proposal is required to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2015. Abstentions will be counted towards the vote total and will have the same effect as “Against” votes. Brokers have authority to vote beneficial owners’ unvoted shares on this proposal. If a Broker does not exercise this authority, such Broker non-votes will have no effect on the results of this vote. We are not required to obtain the approval of our stockholders to appoint PricewaterhouseCoopers LLP as our independent registered public accounting firm. However, if our stockholders do not ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for our fiscal year ending March 31, 2015, the Audit Committee of our Board will consider the results of this vote when selecting auditors in the future.

Proposal 3: Advisory Vote on Executive Compensation: The affirmative vote of a majority of the shares present or represented and voting on this proposal is required to approve the advisory vote on the compensation of our named executive officers. Abstentions will be counted towards the vote total and will have the same effect as “Against” votes. Brokers do not have authority to vote beneficial owners’ unvoted shares on this proposal. As a result, any shares not voted by a beneficial owner will be treated as a broker non-vote. Such broker non-votes will have no effect on the results of this vote.

When Are Stockholder Proposals And Director Nominations Due For Next Year's Annual Meeting?

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing to our principal executive offices at 310 Littleton Road, Westford, Massachusetts 01886, attention: Secretary and must be received by us no later than March 26, 2015. We suggest that you submit your proposals by registered mail, return receipt requested. Proposals must satisfy the procedures set forth in Rule 14a-8 under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

If you wish to submit a proposal for next year's annual meeting that is not to be included in next year's proxy materials or wish to nominate a director, you must submit such proposal or nomination in writing to our executive offices at 310 Littleton Road, Westford, Massachusetts 01886, attention: Secretary, and such proposal or nomination must be received by us no earlier than the close of business of May 12, 2015 and no later than the close of business of June 11, 2015 and must satisfy the requirements described below under "Stockholder Recommendations for Nominees as Directors and the Proposal of Other Business." If the date of next year's Annual Meeting is advanced by more than 30 days or delayed by more than 60 days after the anniversary of our annual meeting with respect to the year ended March 31, 2015, any stockholder recommendation or proposal must be received by us no earlier than the close of business on the 90th day prior to such advanced or delayed annual meeting date and no later than the close of business on the later of (i) the 60th day prior to such advanced or delayed annual meeting date or (ii) the 10th day following the day on which the first public announcement of the meeting date is first made by us.

You are also advised to review our by-laws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

Householding of Annual Meeting Materials

Some Brokers may be "householding" our proxy materials. This means that only one copy of our Notice may have been sent to multiple stockholders in your household. We will deliver a separate copy of those documents to you if you call or write us at our principal executive offices, 310 Littleton Road, Westford Massachusetts 01886, Attn: Investor Relations, telephone: (978) 614-4000. If you want to receive separate copies of the Notice in the future or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your Broker, or you may contact us.

Notice Regarding the Availability of Proxy Materials

Our stockholders will receive the Notice, which will be mailed on or about July 24, 2014. On the date of mailing of the Notice, stockholders will be able to access all of the proxy materials on the internet, free of charge, at www.netscout.com/investors. The Notice will instruct you how to access the proxy materials (including our annual report to stockholders), how to vote by internet or telephone, and how to request a paper copy of the proxy card. If you received a Notice and would like to receive printed copies of the proxy materials, you should follow the instructions for requesting such materials set out in the Notice.

PROPOSAL 1

ELECTION OF DIRECTOR

The following table sets forth the current directors and the nominee to be elected at the Annual Meeting:

Nominee or Director's Name and Year First Became Director	Positions with NetScout	Year Term Will Expire	Class
Nominees:			
Joseph G. Hadzima, Jr. (1998)	Director	2014	III
Continuing Directors:			
Victor A. DeMarines (2004)	Director	2015	I
Vincent J. Mullarkey (2000)	Director	2015	I
Anil K. Singhal (1984)	Chairman, President, and Chief Executive Officer	2016	II
John R. Egan (2000)	Director	2016	II
Robert E. Donahue (2013)	Director	2016	II

The Nominee for Class III Director is Mr. Hadzima

Mr. Hadzima is a Class III director whose term expires at this Annual Meeting and who is a nominee for re-election for a term that would expire upon the election and qualification of directors at the Annual Meeting to be held in 2017. Stephen G. Pearse is a Class III director whose term expires at this Annual Meeting, and he will not be standing for re-election.

Continuing Directors

The Board is also composed of two Class I directors, Messrs. DeMarines and Mullarkey, whose terms expire in 2015, and three Class II directors, Messrs. Singhal, Egan, and Donahue, whose terms expire in 2016.

As of the Record Date, the size of the Board is fixed at seven members. NetScout's by-laws and certificate of incorporation divide the Board into three classes. The members of each class of directors serve for staggered three year terms.

Proposal and Recommendation

Our Board has nominated and recommended that Mr. Hadzima be re-elected as a Class III director, to hold office until the Annual Meeting to be held in the year 2017 or until his successor has been duly elected and qualified or until his earlier resignation or removal.

The Board knows of no reason why the nominee would be unable or unwilling to serve, but if the nominee should be unable or unwilling to serve, the proxies will be voted for the election of such other person for the office of director as the Board may recommend in the place of such nominee. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominee named above.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE NOMINEE FOR DIRECTOR.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for the fiscal year ending March 31, 2015. PricewaterhouseCoopers LLP has served as our auditors since 1993. We expect that a member of PricewaterhouseCoopers LLP will attend the Annual Meeting, will have an opportunity to make a statement if so desired, and will be available to respond to appropriate questions from our stockholders. We are incorporated in Delaware, and Delaware law does not require the ratification of the Audit Committee's selection, but the Audit Committee will consider the results of this vote when selecting auditors in the future.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PROPOSAL 3

ADVISORY VOTE ON EXECUTIVE COMPENSATION

At the 2011 Annual Meeting, our stockholders indicated their preference that the Company solicit a non-binding advisory vote on the compensation of the Company's named executive officers, commonly referred to as a "say-on-pay vote," every year. The Board has adopted a policy that is consistent with that preference. Therefore the Company is asking stockholders to approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in this proxy statement in accordance with SEC rules. This vote is not intended to address any specific item of compensation but rather the overall compensation of the Company's named executive officers and the philosophy, policies, and practices described in this proxy statement. At the 2013 Annual Meeting, stockholders approved the Company's say on pay proposal with 96% of the total votes cast voting in favor.

The goal of the Company's executive officer compensation program is to retain and reward highly qualified, talented leaders who create long term stockholder value. The program is designed to align management's interest with that of stockholders and motivate senior executives to increase our long-term growth and profitability while reducing risks that could result from compensation decisions.

Over the past fiscal year, NetScout met or exceeded its goals as demonstrated by its strong financial performance and ongoing technology leadership. For fiscal year 2014:

- product revenue increased 18% year over year (GAAP and non-GAAP);
- revenue increased 13% year over year (GAAP and non-GAAP);
- net income increased year over year 21% GAAP and 15% non-GAAP; and
- operating margin for the year was 20% (GAAP), up from 19% the prior fiscal year, with non-GAAP operating margin at 25.4%.

The year also saw the successful launch of the flagship nGeniusOne product, continued market share gains in the service provider market, increasing traction in complementary packet flow switches, and ongoing innovation with the newly-patented Adaptive Session Intelligence technology.

As described in this proxy statement, the Compensation Committee weighs the appropriate mix of compensation elements, including the allocation between cash and equity, for each executive officer to help achieve those objectives. The Company's Compensation Discussion and Analysis, or CD&A, contained in this proxy statement describes the Company's executive compensation program and the decisions made by the Compensation Committee in detail.

Accordingly, the Board is asking our stockholders to indicate their support for the compensation of the Company's named executive officers as described in this proxy statement by casting a non-binding advisory vote "FOR" the following resolution:

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion is hereby APPROVED.

As an advisory vote, this proposal is not binding on the Board. Nevertheless, the views expressed by the stockholders, whether through this vote or otherwise, are important to management and the Board, and, accordingly, the Board and the Compensation Committee intend to consider the results of this vote in making determinations in the future regarding executive compensation arrangements.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ADVISORY APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS.

DIRECTORS AND EXECUTIVE OFFICERS

Name	Age	Positions
Anil K. Singhal	60	Chairman, President, Chief Executive Officer, and Director
Michael Szabados	62	Chief Operating Officer
John W. Downing	56	Senior Vice President, Worldwide Sales Operations
Jean Bua	56	Senior Vice President, Chief Financial Officer, and Treasurer
Victor A. DeMarines	77	Director
Robert E. Donahue	66	Director
John R. Egan	56	Director
Joseph G. Hadzima, Jr.	62	Director
Vincent J. Mullarkey	66	Director

Executive Officers

Anil Singhal co-founded the Company in June 1984 and has served as our Chairman, President, and Chief Executive Officer for more than five years. Mr. Singhal has served as a director since our inception. The Company's Nominating and Corporate Governance Committee, or Nominating Committee, believes that as both co-founder and Chief Executive Officer, Mr. Singhal provides extensive technology vision and leadership; historical knowledge of the Company, its customers, and solutions; and a deep understanding of the opportunities and challenges facing the Company today. The Committee further believes that Mr. Singhal's business expertise and dedication to the Company's future success add value to the Company and uniquely qualify him to serve as the Company's Chairman and Chief Executive Officer.

Michael Szabados has served as our Chief Operating Officer for more than five years. During the preceding 11 years he served as Senior Vice President, Product Operations and before that as Vice President, Marketing at NetScout. Prior to NetScout, Mr. Szabados held product management and marketing management positions at UB Networks, SynOptics, Apple Computer, and Intel Corporation.

Jean Bua has served as our Senior Vice President, Chief Financial Officer, and Treasurer since May 2013 and served as our Vice President, Chief Financial Officer, and Treasurer from December 2011 until May 2013. She joined NetScout as Chief Accounting Officer and Vice President of Finance on September 15, 2010. Before that, Ms. Bua served as Executive Vice President, Finance & Treasurer of American Tower Corporation from April 2009 until September 2010.

John W. Downing has served as our Senior Vice President, Worldwide Sales Operations for more than five years. Before that, he served as our Vice President, Worldwide Sales Operations for over five years.

Directors

Victor A. DeMarines has been a NetScout director since June 2004. Mr. DeMarines was the President and Chief Executive Officer of MITRE from 1994 until his retirement in 2000. He continued to serve as a member of the Board of Trustees and as Chairman of the Technology Committee of MITRE until his retirement from the Board in 2010. He continues his relationship as a consultant to MITRE Corporation on its Department of Defense, Homeland Security, and cyber activity initiatives. Since February 2013, he has served as the Chairman of the Board of Directors of Verint Systems Inc., a publicly-held provider of systems to the internet security marketplace. He has been a member of the Board of Directors of Verint Systems since 2002 and is also currently a member of its Corporate Governance and Nominating Committee and its Audit Committee. The Company's Nominating Committee believes that Mr. DeMarines' experience as Chief Executive Officer of MITRE, together with his service on another public company board provide deep federal government sector and global business experience to the Company and qualify him to serve as a director of the Company.

Robert E. Donahue has been a NetScout director since March 2013. He currently serves on the board of directors of Sycamore Networks, Inc., an intelligent optical networking and multiservice access provider, where he has served since July 2007. Mr. Donahue served on the board of directors of Cybersource Corporation, a leading provider of electronic payment and risk management solutions, from November 2007 to August 2010. From August 2004 to November 2007, Mr. Donahue served as the President and Chief Executive Officer of Authorize.Net Holdings, Inc. (formerly Lightbridge Inc.), a leading transaction processing company, before it was acquired by Cybersource Corporation in November 2007. Mr. Donahue also served as a member of Authorize.Net's board of directors from January 2004 until November 2007. The Company's Nominating Committee believes that Mr. Donahue's industry knowledge together with his service on other public company boards provide deep experience to the Company and qualify him to serve as a director of the Company.

John R. Egan has been a NetScout director since October 2000. Mr. Egan is a founding managing partner of Egan-Managed Capital, L.P., a Boston-based venture capital fund specializing in New England, information technology, and early-stage investments, which began in the fall of 1996, and is a managing partner of Carruth Associates. Since 1992, he has been a member of the Board of Directors and is currently the Chairman of the Mergers and Acquisitions Committee and member of the Finance Committee at EMC Corporation, a publicly-held provider of computer storage systems and software. Since 2007, Mr. Egan has served as a member of the Board of Directors and is currently the Chairman of the Mergers and Acquisitions Committee at VMWare, a publicly-held leader in virtualization and cloud infrastructure. Since 2011, Mr. Egan has served as a member of the Board of Directors and currently serves as Non-Executive Chairman of the Board of Directors and serves on the Compensation Committee at Progress Software Corp., a global software company. Since 2012, Mr. Egan has served as a member of the Board of Directors and is currently the Chairman of the Corporate Governance and Nominating Committee at Verint Systems, Inc., a publicly-held provider of systems to the internet security market. Mr. Egan also serves on the Board of Trustees at Boston College and as a director for two other privately held companies. The Company's Nominating Committee believes that Mr. Egan's extensive understanding and involvement in the information technology industry together with his executive leadership roles and his service on other public company boards provide deep experience to the Company and qualify him to serve as a director of the Company.

Joseph G. Hadzima, Jr. has been a NetScout director since July 1998. Mr. Hadzima has been a Managing Director of Main Street Partners, LLC, a venture capital investing and technology commercialization company, since April 1998. Since 2000, he has also been President of IPVision, Inc., a Main Street Partners portfolio company that provides intellectual property analysis systems and services. Mr. Hadzima is also a Senior Lecturer at MIT Sloan School of Management, of counsel at a law firm, and serves as a director on two private company boards. The Company's Nominating Committee believes that Mr. Hadzima's experience with emerging technology companies, his prior legal experience, and his service on other boards provide the Company with valuable business perspective and insight into emerging technologies that may affect the business and strategies of the Company and qualify him to serve as a director of the Company.

Vincent J. Mullarkey has been a NetScout director since November 2000. From May 2005 to June 2007, he was a member of the Board of Directors and the Chairman of the Audit Committee of webMethods, Inc., a then publicly-held business process integration software company that was acquired by Software AG in June 2007. Mr. Mullarkey was the Senior Vice President, Finance and Chief Financial Officer of Digital Equipment Corporation from 1994 until his retirement in September 1998. The Company's Nominating Committee believes that Mr. Mullarkey's board and audit committee experience in other public companies coupled with his financial experience in the technology arena provide the Company with essential business and financial expertise and qualify him to serve as a director of the Company.

There are no family relationships among any of our executive officers and directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of our common stock as of the Record Date by each beneficial owner of more than 5% of our common stock, each named executive officer named in the Summary Compensation Table, each director and nominee for director, and all executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage of Class Beneficially Owned
Anil K. Singhal(2)	2,263,563	5.5%
Michael Szabados(3)	61,828	*
John W. Downing(4)	94,224	*
Victor A. DeMarines(5)	28,379	*
Robert E. Donahue(6)	4,206	*
John R. Egan(7)	65,093	*
Joseph G. Hadzima, Jr.(8)	109,554	*
Vincent J. Mullarkey(9)	70,379	*
Stephen G. Pearse(10)	29,726	*
Jean Bua(11)	24,321	*
Brown Capital Management, LLC(12) 1201 N. Calvert Street Baltimore, Maryland 21202	6,107,522	14.8%
Blackrock, Inc.(13) 40 East 52nd Street New York, New York 10022	3,409,740	8.2%
The Vanguard Group(14) 100 Vanguard Blvd. Malvern, Pennsylvania 19355	2,305,439	5.6%
Sterling Capital Management LLC(15) Two Morrocroft Centre 4064 Colony Road, Suite 300 Charlotte, North Carolina 28211	2,221,110	5.4%
All executive officers and directors as a group (11 persons)(16)	2,646,432	6.6%

* Represents less than one percent of class.

(1) Under applicable SEC rules and regulations, a person is considered to beneficially own our common stock if such person either has the sole or shared power with any other person to either vote or dispose of such common stock. As a result, more than one person may be reported as the beneficial owner of any particular share of our common stock. Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock issuable by the Company to a person or entity named below pursuant to options which may be exercised within 60 days of the Record Date or restricted stock units which may vest within 60 days of the Record Date are deemed to be beneficially owned and outstanding for purposes of calculating the number of shares and the percentage beneficially owned by that person or entity. However, these shares are not deemed to be beneficially owned and outstanding for purposes of computing the percentage beneficially owned by any other person or entity. Unless otherwise noted, the address of each person listed on the table is c/o NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886, and each person has either sole or shared voting or dispositive power over the shares shown below as beneficially owned by such person.

(2) Includes 32,524 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date. As of the Record Date, Mr. Singhal's spouse did not beneficially own at least five percent of the Company's outstanding common stock, and therefore the 1,081,201 shares held by trusts of which Mr. Singhal's spouse is deemed the beneficial owner are reported herein by Mr. Singhal. This amount does

not include an aggregate of 1,078,822 shares held in trusts for the benefit of Mr. Singhal's children for which neither Mr. Singhal nor his spouse is a trustee, and 59,961 shares held in a trust for the benefit of Mr. Singhal's nieces and nephews for which neither Mr. Singhal nor his spouse is a trustee.

(3) Includes 20,859 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(4) Includes 11,467 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(5) Includes 3,486 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(6) Includes 2,905 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(7) Includes 4,648 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(8) Includes 3,486 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(9) Includes 10,000 shares issuable upon the exercise of options exercisable within 60 days of the Record Date and 3,486 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(10) Includes 2,905 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(11) Includes 9,075 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

(12) Based solely on a Schedule 13G/A filed with the SEC on February 13, 2014. Brown Capital Management, LLC has the sole power to vote 3,949,769 shares and sole dispositive power of 6,107,522 shares. Includes 3,399,110 shares beneficially owned by The Brown Capital Management Small Company Fund, a registered investment company which is managed by Brown Capital Management, LLC with respect to which The Brown Capital Management Small Company Fund has the sole power to vote and sole dispositive power.

(13) Based solely on a Schedule 13G/A filed with the SEC on January 30, 2014. Blackrock, Inc. and its affiliates have the sole power to vote 3,296,508 shares and sole dispositive power of 3,409,740 shares.

(14) Based solely on a Schedule 13G/A filed with the SEC on February 12, 2014. Includes 55,066 shares for which such reporting person has the sole power to vote. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc. is the beneficial owner of 52,166 shares as a result of serving as an investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 2,900 shares as a result of its serving as investment manager of Australian investment offerings.

(15) Based solely on a Schedule 13G filed with the SEC on February 8, 2012. Sterling Capital Management LLC has the sole power to vote and sole dispositive power with respect to all 2,221,110 shares beneficially owned.

(16) Includes an aggregate of 10,000 shares issuable upon exercise of options exercisable within 60 days of the Record Date and an aggregate of 81,597 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.

CORPORATE GOVERNANCE

Board Leadership Structure

The Board is currently chaired by the President and Chief Executive Officer of the Company, Mr. Singhal. The Board believes combining the position of Chief Executive Officer and Chairman is in the best interest of the Company and its stockholders. As one of the co-founders of the Company, Mr. Singhal provides extensive technology vision and leadership; historical knowledge of the Company, its customers, and solutions; and a deep understanding of the opportunities and challenges facing the Company today. Those attributes, together with his combined role, place him in the best position to ensure that the Board and management act with a common purpose to execute the Company's strategic initiatives and business plans. To reinforce director independence and provide for leadership separate from the Chairman, the Company's Board appointed Mr. Egan as Lead Independent Director.

Director Independence

Our Board has determined that each of Messrs. DeMarines, Donahue, Egan, Hadzima, Mullarkey, and Pearse is independent within the meaning of the director independence standards of The NASDAQ Global Market, or NASDAQ, and the SEC. Furthermore, our Board has determined that each member of our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee of our Board is independent within the meaning of the Company's, NASDAQ's, and the SEC's independence standards, as applicable.

Executive Sessions of Independent Directors

Our Board holds executive sessions of the independent members of our Board following each regularly scheduled in-person meeting of our Board. The Lead Independent Director, currently Mr. Egan, chairs the executive sessions.

Policies Governing Director Nominations

Director Qualifications

Our Nominating Committee is responsible for reviewing with our Board the appropriate qualities, skills, and characteristics desired of Board members in the context of the needs of the business and current make-up of our Board. This assessment includes consideration of the following minimum qualifications that our Nominating Committee believes must be met by all directors:

- Directors must be individuals of the highest ethical character and integrity and share our values as reflected in our Code of Business Conduct;
- Directors must have reputations, both personal and professional, consistent with our image and reputation;
- Directors must be free of conflicts of interest that would interfere with the proper performance of the responsibilities of a director;
- Directors must have the ability to exercise sound business judgment;
- Directors must be willing and able to devote sufficient time to the affairs of the Company and be diligent in fulfilling the responsibilities of a director and/or committee member, as the case may be;
- Directors must have substantial business or professional experience and expertise and be able to offer meaningful and practical advice and guidance to our management based on that experience and expertise; and
- Directors must have a commitment to enhancing stockholder value.

The Nominating Committee also considers numerous other qualities, skills, and characteristics when evaluating director nominees, such as:

- An understanding of and experience in the network application/performance management solutions market, the market for networking solutions generally and related accounting, legal, finance, product, sales and/or marketing matters;
- Experience on other public or private company boards, unless a director otherwise provides complementary capabilities or qualifies as an "audit committee financial expert" under the rules of the SEC;
- Leadership experience with public companies or other major organizations; and
- Diversity of the Board, taking into account the business and professional experience, educational background, reputation, industry expertise across various market segments and technologies relevant to our business, as well as other relevant attributes of the candidates.

Board members are expected to prepare for, attend, and participate in Board meetings and meetings of committees on which they serve. In addition, directors must stay abreast of our business and markets.

Process for Identifying and Evaluating Director Nominees

The Board is responsible for nominating persons for election as directors of the Company. Our Board delegates the initial selection process to our Nominating Committee, with the expectation that other members of our Board, and of management, will take part in the process as appropriate.

Generally, the Nominating Committee identifies candidates for director nominees in consultation with management, through the use of search firms or other advisers, or through such other methods as our Nominating Committee deems to be helpful to identify candidates. Once candidates have been identified, our Nominating Committee confirms that the candidates meet all of the minimum qualifications for director nominees established by the Nominating Committee and set forth in the Corporate Governance Guidelines. The Nominating Committee may gather information about the candidates through interviews, questionnaires, background checks, or any other means that the Nominating Committee deems to be helpful in the evaluation process. The Nominating Committee then meets to discuss and evaluate the qualities and skills of each candidate in light of the criteria set forth above or established by the Nominating Committee from time to time, both on an individual basis and taking into account the overall composition and needs of our Board. Based on the results of the evaluation process, the Nominating Committee recommends candidates for our Board's approval as director nominees for election to the Board. The Nominating Committee also recommends candidates for the Board's appointment to the committees of our Board.

Stockholder Recommendations For Nominees As Directors and the Proposal of Other Business

Our Nominating Committee will consider recommendations for candidates for nominees as directors and proposals for business other than director nominations that are properly submitted by stockholders. Any recommendation of a nominee for the Board or any proposal for business other than director nominations by our stockholders with respect to our Annual Meeting of Stockholders for the fiscal year ended March 31, 2015, or the 2015 Annual Meeting, must be submitted in writing to our principal executive offices at 310 Littleton Road, Westford, Massachusetts 01886, attention: Secretary, and must be received by us and comply with the requirements set forth in the Company's by-laws.

Any communication with respect to nominees as directors should (i) describe why the candidate meets the Board's criteria described above; (ii) include the candidate's and recommender's names and addresses and provide biographical information about the recommended candidate that would be required to be disclosed in solicitations of proxies for election of directors; (iii) include the proposed nominee's written consent to serve as a nominee, if nominated, and as a director, if elected; and (iv) contain any additional information otherwise required by Regulation 14A under the Exchange Act.

Any communication with respect to the proposal of business other than director nominations should include, among other matters required by our by-laws, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder or any stockholder associated person (as defined in our by-laws), if any, on whose behalf the proposal is made.

The requirements for stockholder director nominations and proposals other than director nominations appear in our by-laws. Only such individuals who are nominated in accordance with the procedures described above and in our by-laws will be eligible for election by stockholders as directors and only such business brought before the meeting in accordance with the procedures set forth above and in our by-laws will be conducted at a meeting of stockholders. We have not received any stockholder recommendations or nominations with respect to our Annual Meeting.

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing to our principal executive offices at 310 Littleton Road, Westford, Massachusetts 01886, attention: Secretary, and must be received by us no later than March 26, 2015. Proposals must satisfy the procedures set forth in Rule 14a-8 under the Exchange Act. If you wish to submit a proposal for the 2015 Annual Meeting but not have it included in next year's proxy materials for such meeting or wish to nominate a director, you must submit such proposal or nomination in writing to our principal executive offices at the address noted above, which must be received by us no earlier than the close of business of May 12, 2015 and no later than the close of business of June 11, 2015 and must satisfy the requirements described above and in our by-laws. In order to curtail controversy as to the date on which a proposal was received by us, we suggest that you submit your proposals by registered mail, return receipt requested.

Policy Governing Security Holder Communications with the Board of Directors

The Board provides to every stockholder the ability to communicate with the Board as a whole and with individual directors through an established process for security holder communication (as that term is defined by the rules of the SEC) as follows:

For communications directed to the Board as a whole or to a specific member of the Board, stockholders may send such communications to the attention of the Chairman of the Board with respect to general communications or to the attention of the specific director, in each case, by one of the three methods listed below:

By U.S. mail (including courier or other expedited delivery service): NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886 Attn: [Chairman of the Board]/[Individual Director], c/o Investor Relations

By facsimile: (978) 614-4004, Attn: [Chairman of the Board]/[Individual Director], c/o Investor Relations

By email: ir@netscout.com

We will forward any such stockholder communications to the Chairman of our Board, as a representative of our Board, and/or to the director to whom the communication is addressed.

Policy Governing Director Attendance at Annual Meetings of Stockholders

Our policy is that one of the regularly scheduled in-person meetings of our Board will be scheduled on the same day as our annual meeting of stockholders, and all directors are encouraged to attend our annual meeting of stockholders. All of the members of our Board attended the Annual Meeting of Stockholders held on August 26, 2013.

Code of Ethics

We have adopted a code of ethics as defined by regulations promulgated under the Securities Act of 1933, as amended, and the Exchange Act, which applies to all of the employees, officers, and directors of the Company and our subsidiaries, including our principal executive officer, principal financial officer, principal accounting officer and controller, and persons performing similar functions. A current copy of the Code of Business Conduct is available at the Corporate Governance section of our website at http://www.netscout.com/investors/. NetScout intends to disclose amendments to or waivers from provisions of the Code of Business Conduct that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions, by posting such information on our website, available at http://www.netscout.com/investors/.

For more corporate governance information, you are invited to visit the Corporate Governance section of our website, available at http://www.netscout.com/investors/. Contents of our website are not part of or incorporated by reference into this proxy statement.

Majority Vote Policy

It is the policy of NetScout that any nominee for election to the Board who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall submit his or her offer of resignation for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee shall consider all of the relevant facts and circumstances and recommend to the Board the action to be taken with respect to such offer of resignation. The Board will then act on the Nominating and Corporate Governance Committee's recommendation.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

The Board met seven times during the fiscal year ended March 31, 2014. Each of the directors attended at least 75% of the total number of meetings of our Board and the committees on which they served during fiscal year 2014. The Board has standing Audit, Compensation, Nominating and Corporate Governance, and Finance Committees.

Audit Committee

The Audit Committee, of which Messrs. DeMarines, Donahue, Egan, Mullarkey, and Pearse are members, is responsible for (1) reviewing and overseeing the financial reports we provide to the SEC, our stockholders, or to the general public, and our accounting policies, internal accounting controls, internal control over financial reporting, auditing functions, and financial reporting practices; (2) appointing, and ensuring the independence of, our independent auditor and thereby furthering the integrity of our financial reporting; and (3) establishing procedures designed to facilitate the receipt, retention, and handling of complaints regarding disclosure controls and procedures, internal control over financial reporting and accounting, internal accounting control or auditing matters; and the receipt of confidential, anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters. Additionally, the Audit Committee reviews and monitors the Company's compliance with its related party transaction approval policy. A copy of the Audit Committee Charter is available at the Corporate Governance section of our website at http://www.netscout.com/investors/. The Audit Committee met eight times during the fiscal year ended March 31, 2014. Mr. Mullarkey serves as the Chairman of the Audit Committee, and he and Mr. Donahue qualify as "audit committee financial experts" under the rules of the SEC. Our Board has determined that each member of our Audit Committee is independent within the meaning of the Corporation's and NASDAQ's director independence standards and the SEC's heightened director independence standards for audit committee members. Following the Annual Meeting, Mr. Pearse will no longer serve as a member of the Audit Committee.

Compensation Committee

The Compensation Committee, of which Messrs. DeMarines, Donahue, Hadzima, and Pearse are members, is responsible for discharging the responsibilities of the Board relating to the compensation of our executives other than our Chief Executive Officer, administering our incentive compensation and stock plans, reviewing and making recommendations with respect to the compensation of our Chief Executive Officer, reviewing our benefit plans and human resource activities, and reviewing with our management and recommending for inclusion in our proxy statements and incorporation by reference in our Annual Reports on Form 10-K the Compensation Disclosure and Analysis. A copy of the Compensation Committee Charter is available at the Corporate Governance section of our website at http://www.netscout.com/investors/. Our Compensation Committee met nine times during the fiscal year ended March 31, 2014. Mr. Hadzima serves as the Chairman of the Compensation Committee. The Board has determined that each member of our Compensation Committee is independent within the meaning of the Corporation's and NASDAQ's director independence standards and is a "non-employee director" as defined by applicable SEC rules and regulations. Following the Annual Meeting, Mr. Pearse will no longer serve as a member of the Compensation Committee.

Nominating and Corporate Governance Committee

The Nominating Committee, of which Messrs. DeMarines, Egan, and Hadzima are members, is responsible for identifying individuals qualified to become directors, recommending to our Board the director nominees for election, and monitoring compliance with and periodically reviewing our Code of Business Conduct and Corporate Governance Guidelines. A copy of the Nominating Committee Charter is available at the Corporate Governance section of our website at http://www.netscout.com/investors/.

Our Nominating Committee met two times during the fiscal year ended March 31, 2014. Mr. Egan serves as the Chairman of the Nominating Committee. The Board has determined that each member of the Nominating Committee is independent within the meaning of the Company's and NASDAQ's director independence standards.

Finance Committee

The Finance Committee, of which Messrs. Mullarkey, DeMarines, Hadzima, and Egan are currently members, considers strategic initiatives and other opportunities that may become available to the Company from time to time. During the fiscal year ended March 31, 2014, the Finance Committee met two times. Mr. DeMarines serves as the Chairman of the Finance Committee.

Report of Audit Committee of the Board of Directors[1]

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended March 31, 2014 with our management and PricewaterhouseCoopers LLP (PwC), our independent registered public accounting firm. Management is responsible for the preparation, presentation and integrity of the financial statements, accounting and financial reporting principles and internal control over financial reporting. PwC is responsible for performing an independent audit of the financial statements in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) and for expressing opinions on the conformity of the financial statements with accounting principles generally accepted in the United States.

The Audit Committee has discussed with PwC the matters required to be discussed by PCAOB AU Section 380, *Communications with Audit Committees*, and has received the written disclosures and the letters from PwC required by applicable requirements of the PCAOB regarding the independent auditor's communications with the Audit Committee concerning independence. The Audit Committee has also discussed with PwC their independence.

Based on its reviews and discussions referred to above, the audit committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 for filing with the SEC.

Respectfully submitted by the Audit Committee

Vincent J. Mullarkey, Chairman
Victor A. DeMarines
Robert E. Donahue
John R. Egan
Stephen G. Pearse

The Board's Role in Risk Oversight

The Board administers risk management and oversight through the Board as a whole, as well as through various Board committees that address risks inherent in their respective areas of oversight. The Board seeks to ensure that risk management principles are incorporated in the Company's strategic planning and management processes and oversees the Company's enterprise risk management program. This comprehensive approach is reflected in the reporting processes by which our management provides timely and comprehensive information to the Board to support the Board's role in oversight, approval, and decision-making.

[1] The material in this report is not "soliciting material," is not deemed "filed" with the Commission and is not to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, other than the Company's Annual Report on Form 10-K, where it shall be deemed "furnished," whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

The Board monitors the information it receives and requests from management and provides oversight and guidance to our senior management team concerning the assessment and management of risk. The Board approves the Company's high level goals, strategies, and policies to set the tone and direction for appropriate risk taking within the business. The Board and its committees then emphasize this tone and direction in its oversight of management's implementation of the Company's goals, strategies and policies.

Our senior executives regularly attend meetings of the Board and its committees and provide the Board and its committees with reports regarding the Company's operations, strategies, and objectives, and the risks inherent within them. Board and committee meetings also provide a forum for directors to discuss issues with, request additional information from, and provide guidance to, senior management. In addition, our directors have direct access to senior management to discuss any matters of interest, including those related to risk. Those members of management most knowledgeable of the issues regularly attend Board and committee meetings to provide additional insight into items being discussed, including risk exposures.

The Board has delegated oversight for matters involving certain specific areas of risk exposure to its three principal committees. Each committee reports to the Board at regularly scheduled Board meetings, and more frequently if appropriate, with respect to the matters and risks for which the committee provides oversight. Each committee is also authorized and empowered to retain independent advisors as the committee deems appropriate to discharge its responsibilities under such committee's charter.

The Audit Committee oversees the integrity of our financial statements, reporting process and internal controls, the relationship with our independent registered public accounting firm, including their qualifications, independence and performance, and the Company's corporate finance matters, including its capital structure. The Audit Committee also provides oversight with respect to the Company's risk management process and litigation and compliance programs, discussing with management the Company's significant financial risk exposures, steps management has taken to monitor, control, and report such exposures, and our policies with respect to risk assessment and risk management.

The Audit Committee oversees the Company's enterprise risk management program, in which the Company has identified strategic, operational, financial, and legal risks as well as emerging risks, considering the likelihood and magnitude of such risks and other criteria management as the Audit Committee deems appropriate. Under the program, management identifies and evaluates the effectiveness of risk management and mitigation methods and periodically reports to the Audit Committee and at least annually to the Board to allow the Audit Committee and Board to monitor and manage the Company's ongoing enterprise risk management process.

Our Compensation Committee is responsible primarily for the design and oversight of the Company's executive compensation policies, plans and practices. A key objective of the Compensation Committee is to ensure that the Company's overall executive compensation program appropriately links pay to performance and aligns the interests of the Company's executives with our stockholders. The Compensation Committee also monitors the design and administration of the Company's overall incentive compensation programs to ensure that they include appropriate safeguards to avoid encouraging unnecessary or excessive risk taking by Company employees. Elements of our executive compensation program that mitigate excessive risk taking, such as our combination of short and long-term incentives, are described below under "Compensation Discussion and Analysis."

The Nominating Committee oversees risks related to our corporate governance, including Board and director performance, director succession, director education, and the Company's Corporate Governance Guidelines and other governance documents. The Nominating Committee also oversees the Company's overall compliance program. The Nominating Committee has conducted Board-wide risk and compliance education.

COMPENSATION AND OTHER INFORMATION
CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

The following summary compensation table sets forth the total compensation paid or accrued for the fiscal year ended March 31, 2014 to our Chief Executive Officer, Chief Financial Officer, and each of our two other most highly compensated executive officers during the fiscal year ended March 31, 2014. The executives listed below may be referred to as our "Named Executive Officers."

Summary Compensation Table for Fiscal Year 2014

Name and Principal Position	Fiscal Year	Salary($)	Restricted Stock Unit Awards(1)($)	Non-Equity Incentive Plan Compensation($)	Change in Pension Value(2)($)	All Other Compensation(3)($)	Total($)
Anil K. Singhal	2014	325,000	1,075,842	881,459	—	64,566	2,346,867
Chairman, Chief Executive	2013	325,000	1,000,007	709,321	—	66,070	2,100,398
Officer, and President	2012	325,000	611,450	360,000	232,000	46,688	1,575,138
Michael Szabados	2014	275,000	645,500	387,222	—	14,590	1,322,312
Chief Operating Officer	2013	275,000	599,989	307,373	—	16,772	1,199,134
	2012	275,000	436,464	156,000	—	12,437	879,901
Jean Bua(4)	2014	262,924	376,533	260,495	—	11,626	911,578
Senior Vice President, Chief	2013	236,667	199,996	189,152	—	10,023	635,838
Financial Officer and Treasurer	2012	200,000	174,586	78,980	—	7,350	460,916
John W. Downing(5)	2014	237,500	376,533	338,709	—	14,052	966,794
Senior Vice President,	2013	237,500	350,006	264,621	—	10,120	862,247
Worldwide Sales Operations	2012	237,500	218,232	183,783	—	7,480	646,995

(1) Amounts shown represent the aggregate full grant date fair value calculated in accordance with FASB ASC 718, disregarding adjustments for forfeitures. The assumptions used to value these awards are set forth in Note 14 to our Annual Report on Form 10-K for the year ended March 31, 2014. The fair value shown above may not be indicative of the value realized on the date the options are exercised or the RSUs vest due to variability in the share price of our common stock. When granted, restricted stock units vest over four years and are valued based upon the closing market price of our common stock at the date of grant.

(2) Change in Pension Value for Mr. Singhal represents vesting in fiscal 2012 towards a future retirement benefit. Total future severance payments are projected at $1,400,000. Mr. Singhal's future retirement benefit also includes a projected $200,000 in payments for future health benefits. Both were fully vested in fiscal year 2012.

(3) Includes 401(k) contributions made by the Company on behalf of the Named Executive Officer. See the All Other Compensation Table below for additional information.

(4) The salary amounts shown for Ms. Bua for fiscal years 2013 and 2014 do not reflect her full base salary due to rate increases which were approved after the start of each fiscal year. Ms. Bua's base salary information was $ 240,000 and $265,000 respectively.

(5) The information presented for Mr. Downing under the "Non-Equity Incentive Plan Compensation" column consists of sales commissions and bonus for the fiscal years ended March 31, 2012, 2013 and 2014.

Option Awards. We did not make any option grants during the fiscal years ended March 31, 2012, 2013, or 2014 to any of our Named Executive Officers. Therefore, we have omitted this column.

Nonqualified Deferred Compensation Earnings. We currently do not provide a non-qualified defined contribution plan or other deferred compensation plan to any of our Named Executive Officers.

All Other Compensation Table for Fiscal Year 2014

Name and Principal Position	Fiscal Year	Car Usage($)	Financial and Legal Counseling($)	401(K) Match($)	Other(1)($)	Total($)
Anil K. Singhal	2014	21,476	29,700	7,500	5,890	64,566
Michael Szabados	2014	—	1,200	7,500	5,890	14,590
Jean Bua	2014	—	—	7,688	3,938	11,626
John W. Downing	2014	—	—	7,880	6,172	14,052

(1) This column reports the total amount of other benefits provided, none of which individually exceeded the greater of $25,000 or 10% of the total amount of All Other Compensation for the Named Executive Officer. These other benefits include the value of supplemental life insurance premiums and spousal attendance at company sponsored events.

Grants of Plan-Based Awards in Fiscal Year 2014

The following table sets forth grants of plan-based awards to each of our Named Executive Officers for the year ended March 31, 2014:

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Possible Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Grant Type	Threshold ($)	Target ($)	Maximum ($)(1)	Threshold (#)	Target (#)	Maximum (#)(2)	($)(3)
Anil K. Singhal	8/26/13	RSU				—	41,667	—	1,075,842
	5/24/13	Cash	—	626,000	—				
Michael Szabados	8/26/13	RSU				—	25,000	—	645,500
	5/22/13	Cash	—	275,000	—				
Jean Bua	8/26/13	RSU				—	14,583	—	376,533
	5/22/13	Cash	—	185,000	—				
John W. Downing	8/26/13	RSU				—	14,583	—	376,533
	5/22/13	Cash	—	287,500	—				

(1) Actual non-equity incentive plan awards are made based on various factors including the Company's overall performance, as described more fully in the Compensation Discussion and Analysis. As described, the Company has not set prescribed maximum payments, and the possible award could exceed 100% of an individual's target if the Company exceeded its goals and the individual met or exceeded his goals. However, the Company expects that awards exceeding 100% would be unusual.

(2) Actual equity incentive plan awards are made based on various factors including the Company's overall performance, as described more fully in the Compensation Discussion and Analysis. As described, the Company has not set prescribed maximum awards.

(3) Amounts shown represent the aggregate full grant date fair value calculated in accordance with FASB ASC 718, disregarding adjustments for forfeitures. The assumptions used to value these awards are set forth in Note 14 to our Annual Report on Form 10-K for the year ended March 31, 2014. The fair value shown above may not be indicative of the value realized on the date the options are exercised or the RSUs vest due to variability in the share price of our common stock.

During the fiscal year ended March 31, 2014, we did not make any "other stock awards" or "other option awards" and have therefore omitted those columns.

Outstanding Equity Awards at Fiscal Year 2014 End Table

		Option Awards				Stock Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options(#) Exercisable	Number of Securities Underlying Unexercised Options(#) Unexercisable	Option Exercise Price($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested(#)	Market Value of Shares or Units of Stock That Have Not Vested($)
Anil K. Singhal	8/26/13	—	—	—	—	41,667	1,565,846
	8/21/12	—	—	—	—	31,044	1,166,634
	9/7/11	—	—	—	—	23,520	883,882
	6/9/10	—	—	—	—	19,056	716,124
Michael Szabados	8/26/13	—	—	—	—	25,000	939,500
	8/21/12	—	—	—	—	18,626	699,965
	9/7/11	—	—	—	—	16,800	631,344
	6/8/10	—	—	—	—	13,604	511,238
Jean Bua	8/26/13	—	—	—	—	14,583	548,029
	8/21/12	—	—	—	—	6,209	233,334
	9/7/11	—	—	—	—	6,720	252,538
	9/15/10	—	—	—	—	6,192	232,695
John W. Downing	8/26/13	—	—	—	—	14,583	548,029
	8/21/12	—	—	—	—	10,866	408,344
	9/7/11	—	—	—	—	8,400	315,672
	6/8/10	—	—	—	—	8,501	319,468

Unearned Equity Incentive Plan Awards. We do not have any unearned equity incentive plan awards for any of our Named Executive Officers and have therefore omitted the corresponding columns.

Option Exercises and Stock Vested in Fiscal Year 2014 Table

The following table sets forth option exercises and vested stock awards for each of our Named Executive Officers for the fiscal year ended March 31, 2014:

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise($)(1)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)(2)
Anil K. Singhal	—	—	10,347	267,780
	—	—	11,760	288,708
	—	—	19,055	463,989
Michael Szabados	—	—	6,208	160,663
	—	—	8,400	206,220
	—	—	13,604	331,257
Jean Bua	—	—	2,069	53,546
	—	—	6,191	158,118
	—	—	3,360	82,488
John W. Downing	—	—	3,621	93,711
	—	—	4,200	103,110
	—	—	8,501	206,999

(1) Value is calculated by multiplying the number of shares times the closing price of a share of our common stock on the exercise date and subtracting from that amount the exercise price multiplied by the number of shares acquired on such exercise date.

(2) Value is calculated by multiplying the number of shares times the closing price of a share of our common stock on the vesting date.

Pension Benefits Table for Fiscal Year 2014

The following table sets forth the payments or other benefits at, following, or in connection with retirement of our Named Executive Officers

Name	Fiscal Year	Number of Years of Credited Service(#)	Present Value of Accumulated Benefit($)	Payments During Last Fiscal Year($)
Anil K. Singhal	2014	87 months	1,600,000	—
	2013	75 months	1,600,000	—
	2012	63 months	1,600,000	—

In January of 2007, we entered into an agreement with Mr. Singhal that provides retirement benefits. Total future severance payments are projected at $1,400,000. Mr. Singhal's retirement benefits also include a projected $200,000 in payments for future health benefits. These benefits are an unfunded obligation.

Non-Qualified Deferred Compensation Table for Fiscal Year 2014

We do not provide a non-qualified defined contribution plan or other deferred compensation plan to any of our Named Executive Officers and have therefore omitted this table.

Director Compensation Table for Fiscal Year 2014

Name	Fees Earned or Paid in Cash($)(1)	Stock Awards($)(2)	All Other Compensation($)(3)	Total($)
Victor A. DeMarines(4)	66,800	90,009	60,000	216,809
Robert E. Donahue(5)	54,000	75,007	22,083	151,090
John R. Egan(6)	90,800	120,011	80,000	290,811
Joseph G. Hadzima(7)	60,800	90,009	60,000	210,809
Vincent J. Mullarkey(8)	66,000	90,009	60,000	216,009
Stephen G. Pearse(9)	54,000	75,007	50,000	179,007

(1) Amounts represent the aggregate dollar amount of fiscal year 2014 fees earned or paid in cash for services as a director, including annual retainer fees and committee fees.
(2) Amounts shown do not reflect compensation actually received by the listed directors but represent the aggregate full grant date fair value of restricted stock unit awards granted to our non-employee directors calculated in accordance with FASB ASC 718, disregarding adjustments for forfeitures. The assumptions used to value these awards are set forth in Note 14 to our Annual Report on Form 10-K for the year ended March 31, 2014.
(3) Amounts represent the cash payment received by the non-employee director to help offset the tax incurred by such non-employee director in connection with the vesting during the fiscal year ended March 31, 2014 of restricted stock units granted to such non-employee director during the fiscal year ended March 31, 2013.
(4) As of March 31, 2014, Mr. DeMarines held unvested RSUs covering 3,486 shares of our common stock.
(5) As of March 31, 2014, Mr. Donahue held unvested RSUs covering 2,905 shares of our common stock.
(6) As of March 31, 2014, Mr. Egan held unvested RSUs covering 4,648 shares of our common stock.
(7) As of March 31, 2014, Mr. Hadzima, Jr. held unvested RSUs covering 3,486 shares of our common stock.
(8) As of March 31, 2014, Mr. Mullarkey held outstanding stock options to purchase 10,000 shares and unvested RSUs covering 3,486 shares of our common stock.
(9) As of March 31, 2014, Mr. Pearse held unvested RSUs covering 2,905 shares of our common stock.

Non-employee directors are compensated $36,000 annually for their services and do not receive any additional compensation for any regular Board meeting attended. The lead non-employee director receives an additional annual retainer of $30,000. Non-employee directors currently receive $10,000 annually for serving on the Audit Committee, $8,000 annually for serving on the Compensation Committee, and $6,000 annually for serving on the Nominating Committee. In addition, directors who are chairpersons of a particular committee are also given additional annual compensation of $20,000 for the Audit Committee, $10,000 for the Compensation Committee, $8,000 for the Nominating Committee, and $6,000 for the Finance Committee. Finance Committee members receive $1,000 for each meeting attended in person and $800 for each meeting attended via telephone. Non-employee directors are also reimbursed for their reasonable out-of-pocket expenses incurred in attending meetings of the Board or of any committee and for attendance at approved director education programs.

Non-employee directors are granted annually equity-based awards in the form of restricted stock units and related cash amounts upon vesting to defray the corresponding tax liability as follows:

	Role/Position		
Element	Lead Directors	Chairperson	Other Directors
Total value (RSU Grant and Cash Offset)	$200,000	$150,000	$125,000
RSU Grant	$120,000	$ 90,000	$ 75,000
Cash Offset	$ 80,000	$ 60,000	$ 50,000

These restricted stock unit awards vest 100% on the date of our annual meeting provided that during such year, such director attends at least 75%, collectively, of the meetings of the Board and any committee of the Board of which such director is a member. In the event that the foregoing attendance requirements are not met, then 100% of these restricted stock units will vest on the third anniversary of the date of grant. No other equity awards are given to our non-employee directors.

Stock Plans

1999 Stock Option and Incentive Plan. Our 1999 Stock Option and Incentive Plan, as amended, or the 1999 Stock Option Plan, was adopted by the Board in April 1999 and was approved by our stockholders in June 1999. The 1999 Stock Option Plan was replaced by our 2007 Plan effective September 12, 2007, and no further grants were made under the 1999 Stock Option Plan after such date. The 1999 Stock Option Plan provided for the grant of stock-based awards to our employees, officers and directors, consultants, or advisors. Under the 1999 Stock Option Plan, we could grant options that were intended to qualify as incentive stock options within the meaning of Section 422 of the Code, options not intended to qualify as incentive stock options, restricted stock, and other stock-based awards. Incentive stock options could be granted only to our employees. A total of 9,500,000 shares were reserved for issuance under the 1999 Stock Option Plan.

The 1999 Stock Option Plan is administered by our Compensation Committee. Payment of the exercise price of an award under the 1999 Stock Option Plan may be made in cash or, if approved by the Compensation Committee, shares of common stock, a combination of cash and stock, a promissory note or by any other method approved by the Compensation Committee. Unless otherwise permitted by the Compensation Committee, awards are not assignable or transferable except by will or the laws of descent and distribution and, during the participant's lifetime, may be exercised only by the participant.

The 1999 Stock Option Plan provides, subject to certain conditions, that upon an acquisition of the Company, 25% of each unvested portion of any awards will accelerate and become exercisable, with the remaining 75% of each unvested portion to continue vesting throughout the term of such awards.

The Compensation Committee may, in its sole discretion, amend, modify or terminate any award granted or made under the 1999 Stock Option Plan, so long as such amendment, modification or termination would not materially and adversely affect the participant. The Compensation Committee may also provide that any option shall become immediately exercisable, in full or in part, or that any restricted stock granted under the 1999 Stock Option Plan shall be free of some or all restrictions.

As of the Record Date, options to purchase an aggregate of 22,350 shares of common stock at an average exercise price of $5.91 per share were outstanding under the 1999 Stock Option Plan, and we had granted restricted stock units representing 1,015,899 shares of common stock, with no shares outstanding.

Amended and Restated 2007 Equity Incentive Plan. Our 2007 Plan was initially adopted by the Board in September 2007 and was initially approved by our stockholders at the September 12, 2007 annual meeting of stockholders. This plan was amended and restated in 2011, to, among other items, increase the number of shares available for issuance under the plan by 8,000,000 shares; the amendment and restatement was approved by our stockholders at the September 7, 2011 annual meeting of stockholders. The 2007 Plan replaced the 1999 Stock Option Plan. The 2007 Plan allows us to grant restricted stock units, stock, stock options, and other equity interests to our and our subsidiaries' employees, officers, directors, consultants, and advisors. Under the 2007 Plan, we may grant options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, options not intended to qualify as incentive stock options, restricted stock, and other stock-based awards. Incentive stock options may be granted only to our employees. The maximum number of shares as to which equity awards may be granted under the 2007 Plan as of the Record Date is 7,205,191 shares (subject to certain adjustments under the 2007 Plan), of which no more than 500,000 shares may be granted to any one person in one fiscal year.

The 2007 Plan is administered by our Compensation Committee. Subject to the provisions of the 2007 Plan, our Compensation Committee has the authority to select the persons to whom awards are granted and to determine the terms of each award, including the number of shares of common stock subject to the award.

Payment of the exercise price of an award may be made in cash or, if approved by the Compensation Committee, shares of common stock, a combination of cash and stock, a promissory note, or by any other method approved by the Compensation Committee. Unless otherwise permitted by the Compensation Committee, awards are not assignable or transferable except by will or the laws of descent and distribution and, during the participant's lifetime, may be exercised only by the participant.

The Compensation Committee may, in its sole discretion, amend, modify or terminate any award granted or made under the 2007 Plan, so long as such amendment, modification or termination would not materially and adversely affect the participant. The Compensation Committee may also provide that any option shall become immediately exercisable, in full or in part, or that any restricted stock granted under the 2007 Plan shall be free of some or all restrictions.

As of the Record Date, we had granted restricted stock units representing 5,667,482 shares of common stock, with 1,523,761 shares outstanding.

2011 Employee Stock Purchase Plan. The 2011 Employee Stock Purchase Plan, or the 2011 Purchase Plan was adopted by the Board in June 2011 and was approved by our stockholders at the September 7, 2011 annual meeting of stockholders. A total of 2,500,000 shares of common stock are reserved for issuance under the 2011 Purchase Plan. The 2011 Purchase Plan grants eligible employees the opportunity to purchase our common stock through payroll deductions.

Under the 2011 Purchase Plan, eligible enrolled employees may, during the offering period, purchase shares of common stock through payroll deductions, not to exceed 20% of an individual employee's compensation during the offering period. The purchase price per share during an offering period is determined by the Board at the beginning of the offering period, but may not be less than 85% of the lesser of the fair market value per share of our common stock on that purchase date or the fair market value per share of our common stock on the first day of the offering period. However, no employee is eligible to participate in the 2011 Purchase Plan if, immediately after the grant of purchase rights, the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of our stock, including any stock which such employee may purchase under all outstanding purchase rights and options. In addition, no employee may purchase more than $25,000 worth of our common stock, valued at the time each purchase right is granted, for each calendar year during which those purchase rights are outstanding.

The Board administers the plan and retains the power to interpret both the 2011 Purchase Plan and the purchase rights granted thereunder, including eligibility to participate and the particular provisions of each offering of rights. The Board, in its sole discretion, has the power to delegate administration of the 2011 Purchase Plan to a committee composed of one or more members of the Board.

As of the Record Date, 2,152,500 shares remain available for purchase under the 2011 Purchase Plan.

The following table sets forth securities authorized for issuance under our stock option plans as of fiscal year ended March 31, 2014:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	**(b)**	**(c)**
Plan category			
Equity compensation plans approved by security holders	1,769,649	5.87	7,029,270
Equity compensation plans not approved by security holders	—	—	—
Total	1,769,649	5.87	7,029,270

Stock Ownership Policy

In 2010, the Compensation Committee approved a Stock Ownership Policy for certain of the Company's executive officers and directors. The Stock Ownership Policy states that within four years of the date the policy became effective, or within four years after becoming an executive officer or director, the executive officers and directors will be subject the following stock ownership requirements:

Title	Ownership Guideline(1)
Chief Executive Officer	4x annual base salary
Chief Operating Officer	3x annual base salary
Section 16 Officers who are Senior Vice Presidents	2x annual base salary
Directors	3x annual board retainer

(1) The ownership guideline for each participant will be converted into a number of shares on the first day of each fiscal year based on the average closing price of a share of NetScout stock for the previous fiscal year.

The Compensation Committee is responsible for monitoring compliance with the guidelines. As of March 31, 2014, each officer and director had met the requirements of the Stock Ownership Policy. Shares that count toward the ownership target include all shares directly or beneficially owned by the director or executive officer, unvested restricted stock units granted under Company's plans (restricted stock units will be applied toward the ownership requirements based on the value of restricted stock units after taking into account any required share withholding), and shares purchased on the open market.

401(k) Plan

We maintain a 401(k) plan qualified under Section 401 of the Code. All of our employees who are at least 18 years of age and work at least 20 hours per week are eligible to participate in the 401(k) plan. Under the 401(k) plan, a participant may contribute a maximum of 80% of his or her pre-tax salary, commissions and bonuses through payroll deductions, up to the statutorily prescribed annual limit, which was $17,500 (or $23,000 for individuals at least 50 years of age) in calendar year 2013, to the 401(k) plan. At the discretion of our Board, we may make matching contributions to the 401(k) plan. During the plan year ended December 31, 2013, we matched 50% of employee contributions up to 6% of compensation. Employer contributions vest over four years at a rate of 25% per year of service. In addition, at the discretion of our Board, we may, but have not done so to date, make profit-sharing contributions to the 401(k) plan for all eligible employees.

Employment and Other Agreements

Mr. Singhal assumed the role of Chairman of our Board, effective January 19, 2007. In conjunction with his additional responsibilities, we entered into a new employment agreement with Mr. Singhal, which provides that he will receive an annual base salary of at least $300,000. The employment agreement provides for a three-year term commencing January 19, 2007 with automatic one-year renewals. During the term of this agreement, Mr. Singhal will also be eligible to receive an annual bonus based on Company performance and individual objectives. The employment agreement is terminable at will by either party and provides that if we elect not to renew the agreement for any reason, or if Mr. Singhal's employment is terminated by us without due cause as defined in the agreement, by Mr. Singhal at any time following the consummation of a sale of the Company, or upon the death or disability of Mr. Singhal, Mr. Singhal, or his estate, is entitled to receive in a lump sum, a payment equal to the net present value of $16,208 per month for seven years. If Mr. Singhal terminates his employment with us for any reason prior to the consummation of a sale of the Company, he is entitled to such lump sum payment for the period for which his severance benefits have vested (not to exceed seven years). Mr. Singhal will also receive continued health and dental benefits during such period. Mr. Singhal's employment agreement was amended in May 2012 to address technical requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

We also entered into amended and restated severance agreements in May 2012 with our Named Executive Officers other than Mr. Singhal, each of which are described under the heading "Post Termination Compensation" in Compensation Discussion and Analysis below.

Each of these agreements was approved by a majority of our Board and by a majority of the disinterested members of our Board. All future transactions, if any, with our executive officers, directors, and affiliates will be approved in accordance with our related party transaction policy discussed below under "Transactions with Related Persons."

Potential Payments Upon Termination or Change of Control

The table below sets forth the estimated amount of payments and other benefits each Named Executive Officer would be entitled to receive upon the occurrence of the indicated event, assuming that the event occurred on March 31, 2014. The information is provided relative to the Named Executive Officer's termination or change of control arrangements as of the Record Date and assumes such arrangements were actually in effect as of March 31, 2014. The values relating to vesting of stock options and restricted stock unit awards are based upon a per share fair market value of our common stock of $37.58 the closing price reported on the NASDAQ Global Market on March 31, 2014, the last trading day of the year ended March 31, 2014. Actual payments made at any future date will vary based on various factors including, salary and bonus levels, the vesting schedules of the various equity-based awards, and the price of our common stock at the time of termination or change of control. For purposes of the payments associated with a change of control set forth in following table, we have assumed that the respective Named Executive Officer was terminated on March 31, 2014 and that such arrangements were actually in effect as of such date.

Please refer to the heading “Post Termination Compensation” below in Compensation Discussion and Analysis for a discussion of the particular terms of the applicable termination or change or control arrangements reflected in the table below.

Name	Termination Event*	Salary and Other Cash Payments ($)	Vesting of Stock Options ($)	Vesting of RSUs ($)(4)	Health and Dental Benefits ($)
Anil K. Singhal	Termination without cause by the Company at any time, or termination by Mr. Singhal for any reason prior to or following a change of control	1,400,000(1)	—	—	200,000
Michael Szabados	Termination without cause or resignation for good reason other than in the context of a change of control	275,000(2)	—	—	—
	Termination without cause or resignation for good reason within one year following a change of control	550,000(3)	—	1,295,120	—
Jean Bua	Termination without cause or resignation for good reason other than in the context of a change of control	265,008(2)	—	—	—
	Termination without cause or resignation for good reason within one year following a change of control	450,008(3)	—	573,734	—
John W. Downing	Termination without cause or resignation for good reason other than in the context of a change of control	237,500(2)	—	—	—
	Termination without cause or resignation for good reason within one year following a change of control	525,000(3)	—	750,397	—

* All agreements include a clawback provision releasing the Company from its obligation to make additional payments and requiring the relevant executive to repay the Company for amounts paid in the event an investigation by Company reveals the executive engaged in fraudulent, dishonest, or criminal acts. The agreements provide for notice and an opportunity to cure.

(1) See description of Mr. Singhal’s employment arrangement under “Post-Termination Compensation” for details regarding these potential payments.

(2) Payments to be made in equal installments over a 12 month period following termination. In the event of death within the 12 month period, payments will be accelerated and made to the deceased’s estate within 30 days.

(3) Represents one year current base salary plus the prorated amount of the officer’s maximum annual target bonus, based on the months elapsed in the year of termination (which may not be less than 50% of such officer’s maximum annual target bonus). This amount to be paid in equal installments over the 12 month period following termination.

(4) Upon a termination without cause or a resignation for good reason within one year following a change in control, Ms. Bua and Messrs. Szabados and Downing are entitled to acceleration of certain unvested equity-based awards. All of such unvested equity-based awards with respect to such Named Executive Officers are assumed to have accelerated as of March 31, 2014, the last trading day of the year ended March 31, 2014. There were no outstanding stock options for the Named Executive Officers on March 31, 2014. For vesting of RSUs, the amount shown in this column represents the fair market value of unvested RSUs based on $37.58, the closing price for our common stock on March 31, 2014, the last trading day of the year ended March 31, 2014.

Compensation Discussion and Analysis

Executive Summary

The goal of NetScout's executive officer compensation program is to retain and reward highly qualified, talented leaders who create long-term stockholder value. The program is designed to align management's interests with those of stockholders and to motivate senior executives to increase our long-term growth and profitability while minimizing risks that could result from compensation decisions. As described below, NetScout, acting through our Compensation Committee in consultation with our Chief Executive Officer, weighs the appropriate mix of compensation elements, including the allocation between cash and equity, for each executive officer to help achieve those objectives.

Over the past fiscal year, NetScout met or exceeded its goals as demonstrated by its strong financial performance and ongoing technology leadership. For fiscal year 2014:

- product revenue increased 18% year over year (GAAP and non-GAAP);
- revenue increased 13% year over year (GAAP and non-GAAP);
- net income increased year over year 21% GAAP and 15% non-GAAP; and
- operating margin for the year was 20% (GAAP), up from 19% the prior fiscal year, with non-GAAP operating margin at 25.4%.

The year also saw the successful launch of the flagship nGeniusOne product, continued market share gains in the service provider market, increasing traction in complementary packet flow switches, and ongoing innovation with the newly-patented Adaptive Session Intelligence technology.

At the 2013 Annual Meeting, stockholders approved the Company's say on pay proposal with 96% of the total votes cast voting in favor. Consistent with stockholder wishes, the Company's policy is to hold annual say on pay votes.

The Company emphasizes pay for performance. For example, named executive officers are not eligible for bonus payments until after corporate revenue and profit objectives are met. Other points that underscore the alignment between shareholders and officer performance include, among other items, no guaranteed bonuses, no tax gross ups, and stock holding requirements, as well as oversight of risks potentially associated with compensation policies and practices.

Compensation Objectives

NetScout uses its compensation program to achieve the following objectives:

- To provide compensation opportunities that attract, motivate, and retain the best talent and highest caliber people possible to serve our customers and achieve our strategic objectives.
- To align management's interests with our success, by linking compensation and performance, based on the attainment of both Company goals and individual goals and by including long-term equity incentives.
- To increase our revenue, to increase our profitability, and accordingly to increase stockholder value.
- To foster an environment of teamwork and shared success among executives and the entire NetScout workforce.

Compensation Policies

To achieve NetScout's compensation objectives, the Compensation Committee has developed an executive compensation program comprised of the following elements: cash compensation in the form of base salary and annual incentive cash bonuses, long-term incentive awards in the form of equity grants, and certain benefits. The Compensation Committee reviews the program over the course of several meetings each year to evaluate whether the program supports NetScout's long-term goals.

The Compensation Committee reviews annually the total mix of the elements of compensation, such as short-term versus long-term compensation and cash versus equity compensation, in light of NetScout's overall compensation goals. The Compensation Committee also takes into account NetScout's past financial performance and future goals, individual performance and experience, and overall compensation levels. With respect to specific financial goals, which consist of revenue and profit targets, the Compensation Committee places greater emphasis on achieving those goals, but the Compensation Committee does not assign specific weights, formulas, or rankings to the factors. The Committee instead makes a determination of each executive's compensation based on consideration of all of these factors as well as the progress made with respect to NetScout's long-term goals and strategies. In addition, the Compensation Committee uses the following principles to guide its decisions regarding executive compensation:

Pay for Performance

Total compensation should reflect a "pay for performance" philosophy in which a substantial portion of executive compensation should be tied to the achievement of performance objectives of both NetScout and the individual. Payment of our short term incentive bonus awards are directly tied to the achievement of performance objectives, and past performance by the executives is considered in determining the size of annual grants of long term incentive equity awards.

It bears emphasizing that overall compensation for NetScout's named executive officers is heavily weighted toward bonuses, which in turn are dependent upon achievement of company-wide revenue and earnings targets.

Alignment with Stockholders' Interests

Total compensation levels should include a component that reflects NetScout's overall performance through the use of equity-based awards in order to align executive officer and stockholder interests.

Internal Parity

To the extent practicable, and based on individual performance and position, base salaries and short- and long-term incentive targets for similarly-situated executives within NetScout should be comparable to avoid divisiveness and encourage teamwork, collaboration, and a cooperative working environment.

External Competitiveness

Executives' total compensation should be competitive with peer companies so that we can attract and retain high performing key executive talent. To achieve this goal within market ranges, our Compensation Committee periodically reviews the compensation practices of other companies in our peer group, as discussed in the "Third Party Data/Peer Group" section below.

Avoidance of Excessive Perquisites

Although we will consider certain perquisites that are common and appropriate for similarly-situated executives of public companies, as a general matter we intend to avoid the payment of excessive, unusual, or unnecessary perquisites to executives.

Elements of our Executive Compensation Program

Base salary

Although overall compensation levels for each of NetScout's executive officers, including the Chief Executive Officer, are generally set within the range of salaries that the Compensation Committee believes are paid to executive officers with comparable qualifications, experience, and responsibilities at similar companies, base salaries are generally set lower than those of executives at similar companies, consistent with the Company's compensation philosophy of pay for performance. The Compensation Committee exercises full discretion in setting base salary levels for named executive officers and in making recommendations to the Board in the case of the Chief Executive Officer, subject to certain limits with respect to Mr. Singhal, whose base salary may not be reduced below $300,000 without his consent under the terms of his employment agreement with NetScout. Salary decisions for NetScout's executive officers are generally made near the beginning of each fiscal year.

Short-term cash incentive

Short-term cash incentive goal and philosophy

Short-term incentive in the form of an annual cash bonus is intended to motivate executives to achieve both financial operating goals and the individual's annual performance goals which may include financial and non-financial objectives. The target amount for the annual bonus opportunity is established shortly after the start of the fiscal year, and, consistent with our pay for performance approach, is intended to be at or above the median percentage offered to similarly-situated executives in the large company peer group used in connection with setting the bonus targets with respect to fiscal year 2014. Once the Company-wide bonus pool has been accrued, as described further below, executive officer bonuses are then determined based on attainment of individual goals, contribution to the company-wide goals, and other criteria as may be determined by the Compensation Committee, such as teamwork, ethical behavior, and adherence to our corporate values and policies.

Short-term cash incentive (bonus) accrual process

Bonuses are paid annually shortly after the end of the fiscal year to which they relate. Bonus pool accruals are made quarterly during the fiscal year, depending on NetScout's financial performance, but bonus pool targets are set near the beginning of the fiscal year. Our non-GAAP revenue and non-GAAP EPS targets are usually expressed in ranges, and performance is measured based on being above, below, or within the ranges specified. Specifically, if NetScout has met its quarterly non-GAAP revenue and non-GAAP earnings per share, or EPS, targets, which means that our performance has been within the non-GAAP revenue and EPS ranges selected, the Company accrues funds with respect to that quarter in its company-wide bonus pool. However, if NetScout's performance is below the bottom of the ranges selected, no bonus funds would be accrued in that quarter resulting in a lower than targeted bonus pool for the year. Similarly, if performance is above the ranges selected, bonus funds accrued in that quarter could exceed 100% of the target set at the beginning of the fiscal year, resulting in the annual targeted bonus pool exceeding 100%. The total amount of the annual Company-wide bonus pool available after the end of each fiscal year is based on the sum of the bonus compensation accrued each quarter within such fiscal year. Given that our non-GAAP revenue and non-GAAP EPS targets are generally expressed in ranges and given that our accruals are not formulaic (for financial performance above the bottom of the ranges), our quarterly bonus accrual can require subjective adjustments based on our performance after considering primarily the degree of achievement of targets as well as other factors such as seasonality and changes in business conditions.

As an example of how the Company accrues bonuses, if we did not meet the bottom of the range for our financial targets in the first quarter of our fiscal year but met the targets each of the following three quarters, no bonus amounts would accrue for the first quarter, bonus amounts would accrue for the next three quarters, and the resulting total available pool would be 75% of the eligible bonus amount, subject to discretionary adjustments as discussed. As a result, it is possible for an individual to meet his or her individual annual performance goals including those related to full year financial results but still not receive a full bonus because quarterly accruals were less than 100% of the quarterly bonus accrual target. In this way, each executive shares the objective of meeting the Company's financial performance targets. As noted also, if we exceeded the top of the range for our financial targets in a quarter, bonus amounts for that quarter could be accrued over 100%, and assuming on target performance in the other three quarters the annual accrual could exceed 100%. As a result, assuming the individual met his or her individual performance goals, that person could receive an annual bonus greater than 100% of eligible target.

GAAP vs. non-GAAP measures

As disclosed in NetScout's press releases regarding annual and quarterly earnings and other communications, NetScout provides financial information using methods in addition to those prescribed by generally accepted accounting principles (GAAP), such as non-GAAP revenue, product revenue, net income, net income per diluted share, and product margin. Non-GAAP revenue eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation. Non-GAAP net income includes the foregoing adjustment and also removes inventory fair value adjustments, expenses related to the amortization of acquired intangible assets, stock-based compensation, restructuring, certain expenses relating to acquisitions including compensation for post-combination services and business development charges, net of related income tax effects. Non-GAAP diluted net income per share also excludes these expenses as well as the related impact of all these adjustments on the provision for income taxes. Management regularly uses supplemental non-GAAP financial measures internally to understand, plan, manage, and evaluate its business and to make operating decisions. Throughout this Compensation Discussion and Analysis section, reference to revenue and EPS targets will be deemed to refer to non-GAAP measures.

Fiscal Year 2014 Bonus Accrual

For fiscal year 2014, the Board established corporate bonus accrual targets that were expected to range from 50% to 100% of target each quarter, but could have equaled zero percent if the bottom of the range of the financial performance goals were not reached. In light of the significant revenue growth quarter over quarter and year over year required to achieve the 100% accrual level, the Compensation Committee believed at the time (the beginning of the fiscal year) that the bonus accruals at 100% were difficult, but not impossible, to achieve. NetScout's fiscal year 2014 full year bonus accrual for all eligible employees, including executives, was 146%, primarily because the Company exceeded its revenue targets and its EPS targets.

Although the company-wide bonus accrual was 146%, the Chief Executive Officer determined that full bonus accrual for named executive officers should be 141%, so that more funding would be available for non-executive employees. In other words, the Chief Executive Officer determined that less bonus pool funding should be allocated to his and other named executive officers potential bonus payments, instead reserving those funds for additional payments to non-named executive officers. The Compensation Committee made its decisions on named executive officer compensation based on the somewhat smaller bonus pool for named executive officers.

Long-term incentive

The Compensation Committee believes that NetScout's equity incentive program is an important element of our overall compensation program as it contributes to the goal of attracting and retaining highly qualified individuals who can contribute to our success and helps to align the interests of management and stockholders. Toward that end, the Compensation Committee, which administers the 2007 Plan, has determined that grants, in the form of restricted stock units, should be more concentrated but still fairly broad-based, with high performing and high potential employees receiving the bulk of the grants. With respect to named executive officer grants, in addition to an executive's past performance, NetScout's desire to retain an individual is of paramount importance in the determination of stock-based grants, which is why time-based vesting has been used historically. The Committee also refers to internal guidelines in determining the equity grants to officers, but the guidelines are considered as just one part of the mix of information used to determine equity awards. We believe that long-term awards also help manage risk by vesting a longer-term stake in the success of the Company. To further our long term incentive goals even more, the Compensation Committee approved in 2010 a Stock Ownership Policy for certain executive officers and directors, as described in this proxy statement under "Stock Ownership Policy."

Benefits/Perquisites

We seek to provide perquisites that are common and appropriate for similarly-situated executives of public companies, including health insurance and NetScout's 401(k) Plan. Executive officers are also eligible for life insurance policies that provide for three times cash compensation (salary and bonus) up to a $1.5 million cap with evidence of insurability, which differs from the two times salary and bonus and $500,000 cap available to non-sales employees and two times salary and commission and $750,000 cap available to sales employees. Mr. Singhal is entitled to other benefits discussed below.

Executive Compensation Review and Process

General

The Compensation Committee meets at least four times annually to coincide with regularly scheduled Board meetings and usually holds several additional meetings during the year. The Compensation Committee met nine times during the fiscal year ended March 31, 2014. Each year, the Committee reviews compensation objectives and practices in connection with the annual review and approval of executive officer compensation. Our Chief Executive Officer often participates in discussions and deliberations regarding the compensation of our executive officers. However, the Compensation Committee exercises complete discretion and has ultimate authority with respect to executive compensation matters, except in the case of the compensation of the Chief Executive Officer, which is approved by the full Board after receiving a recommendation from the Compensation Committee. The Chief Executive Officer assists the Compensation Committee in providing recommendations with respect to executives other than the Chief Executive Officer. The other executives do not play a role in determining their compensation, other than in discussing their performance with the Chief Executive Officer and the Chief Operating Officer, who makes his own recommendations to the Chief Executive Officer for the Chief Executive Officer's consideration. The Chief Operating Officer has no role in determining his own compensation, other than providing the Chief Executive Officer with an assessment of his own performance. Our Chief Executive Officer is not present and does not participate in discussions or deliberations regarding his own compensation, performance, or objectives, whether at Compensation Committee or Board meetings.

Use of Compensation Consultants

In April 2013, our Compensation Committee engaged Pearl Meyer & Partners, an independent compensation consulting firm, to assist with peer group analysis and to collect compensation information pertaining to executive compensation matters. The Compensation Committee has determined that Pearl Meyer is free from conflicts of interest. In April 2013, the Compensation Committee revised the peer group, based on information provided by the compensation consultant to ensure the relevance of the peer group, but the Committee did not rely specifically on any particular data arising out of the peer group data related to executive compensation in making decisions about compensation for named executive officers. The Committee considers peer group data as one of several factors when examining and making decisions about officer compensation. The Compensation Committee may continue to work with compensation consultants during fiscal year 2015 to analyze and consider modifications to our compensation practices. For fiscal year 2014, the process that the Compensation Committee followed, similar to prior years, is described immediately below.

Compensation Decision Processes

Evaluation of executive performance

The Compensation Committee reviews annually, over a series of meetings, the performance and compensation of each of our executive officers, including the Chief Executive Officer. The Compensation Committee takes into account NetScout's financial performance and future expectations, individual performance and experience, and overall compensation levels. The Compensation Committee has not typically assigned specific weights, formulas, or rankings to these factors, but instead makes a determination based on consideration of all of these factors as well as the progress made with respect to NetScout's long-term goals and strategies, except that the Compensation Committee does place greater emphasis on the achievement of the Company's overall corporate financial targets in making its determinations and considers those financial targets as shared objectives for all executives.

Although overall compensation levels for each of NetScout's executive officers, including the Chief Executive Officer, are generally set within the range of salaries that the Compensation Committee believes are paid to executive officers with comparable qualifications, experience, and responsibilities at similar companies, base salaries are set lower than those of executives at similar companies. Consistent with the Company's compensation philosophy of pay for performance, executive officers' total compensation mix provides for a significant bonus incentive component which, upon achievement, makes total compensation comparable to compensation paid to executives at similar companies. Typically, base salary levels for each of NetScout's executive officers, other than the Chief Executive Officer, are determined after considering the evaluations and recommendations made by the Chief Executive Officer, who applies his own judgment in making compensation recommendations after reviewing our performance, the performance of the executive officer against corporate and individual goals, the executive's career with the Company, the amounts of current and long-term compensation, and special circumstances such as strategic alliances or acquisitions.

With respect to short term cash incentive compensation, generally the corporate level performance goals consist of Board-approved non-GAAP revenue and non-GAAP EPS targets. The Chief Executive Officer and the other named executive officers are eligible for bonuses only after NetScout meets or exceeds company-wide revenue and EPS targets, except for Mr. Downing whose short term cash incentive compensation consists of both commissions based on sales and a bonus component. If NetScout meets or exceeds the targets, the Chief Executive Officer and other named executive officers are eligible for bonuses, but the amounts are then based on attainment of individual goals, contribution to the company-wide goals, and other criteria that may be established by the Compensation Committee, such as teamwork, ethical behavior, and adherence to our corporate values and policies.

Establishing performance goals for the next fiscal year

The corporate level performance goals and the individual performance goals are set shortly after the beginning of each fiscal year. Discussions of next year's goals begin during the fourth quarter of the current fiscal year, in conjunction with management's development of proposed strategic and operating plans and budget for the next fiscal year. The Compensation Committee endeavors to establish goals for executive officers consistent with NetScout's strategic plan, financial goals, and operating budget for the year. Accordingly, the Compensation Committee generally has the expectation that we will achieve our corporate level goals for the year. In addition, the Chief Executive Officer works with each executive officer to establish individual annual performance goals and then presents proposed goals for each executive officer to the Compensation Committee for review and evaluation. The Compensation Committee or the Board provides advice and comments on the individual executive goals and approves the goals with any requested changes. Individual executive performance goals are not established or scored in as rigid a manner as the overall corporate level performance goals. The Compensation Committee believes that the Chief Executive Officer is in the best position to evaluate the day to day performance of the executives who report to him and to the Chief Operating Officer, and the Compensation Committee believes that deference to the Chief Executive Officer's evaluation of such executives and his related recommendations is generally appropriate.

When establishing stock-based grant levels for executive officers and other employees, the Compensation Committee considers the existing levels of stock ownership, previous equity grants, vesting schedules of previously granted restricted stock units, options and other stock-based awards, and the current stock price. The Compensation Committee annually reviews, with the use of tally sheets, stock-based grants to executive officers and considers the level of outstanding awards as a factor in its determinations with respect to overall compensation for each of the executive officers and the effectiveness of additional awards or other forms of compensation in achieving NetScout's compensation goals.

NetScout intends to make equity awards to executive officers at their appointment and then annually, depending upon performance. During the fiscal year ended March 31, 2014 the Committee approved equity grants to the named executive officers in an amount equal to 95,833 shares in the aggregate, as further discussed below.

Performance Goal Achievement for Fiscal Year 2014

Corporate level achievement

Corporate level goals generally consist of revenue and EPS targets, on a non-GAAP basis, as approved by the Board of Directors. Each named executive officer is measured based on these shared performance objectives. Such information is extremely confidential and disclosure of the same could cause competitive harm to NetScout. Please refer to the previous discussion under “Fiscal Year 2014 Bonus Accrual.” As noted also, the shared revenue and EPS objectives establish the bonus accrual, regardless of individual performance, and for fiscal year 2014 the Company exceeded both revenue and EPS targets.

Individual level achievement

The individual goals for the fiscal year ended March 31, 2014 were adopted at the beginning of the fiscal year and are set forth below with respect to each applicable officer. To the extent individual goals include revenue, EPS, bookings, or other financial metrics, strategically sensitive information, or specific technical product information, the data has been omitted given their confidential nature.

The following lists the fiscal year 2014 individual performance goals which the Compensation Committee determined were achieved for each named executive officer, and the Board determined was achieved for the Chief Executive Officer, except for goal six regarding voice solution and an additional technology in the service provider market in which the Board noted delay in certain specified product releases but which was otherwise largely achieved.

Executive Officer	Goal
Anil K. Singhal, President, Chief Executive Officer, and Chairman of the Board	Identify and deploy appropriate additions and changes to our four year strategy in response to our experience in the first year of implementation.
	Assess organic or acquisition-based fulfillment of the strategic initiatives.
	Assess effectiveness of organizational focus on the service provider and enterprise markets, respectively.
	Complete and refine succession plans in the context of the strategic plan.
	Review progress and updates at specified Board meeting.
	Extend our service provider market leadership by bringing to market a complete voice solution and additional specified technology.
	Initial release of nGenius nSV by specified date.
	Initial new technology solution deployed by certain date (delayed but with explanation).
	Drive NetScout’s strategy to successfully transition from the NPM to the NPM+APM space (note in progress).

Executive Officer	Goal
Michael Szabados, Chief Operating Officer	Drive NetScout's entry into the APM market. Achieve specified attendance increase at APM-focused 2014 enterprise customer meeting. Drive rapid nGeniusONE adoption in the installed base with specified number of customer deployments. Increase NetScout's market perception as a recognized leader in specified markets, with evidence of same presented to Board. Fully integrate the recent acquisitions and streamline their acquisitions and streamline their operations within the NetScout organization as reflected by complete absorption of new employees and products into the appropriate functional organizations and company processes, respectively, with timetables specified per selected acquisitions. Research the feasibility and or need to conduct an Employee Engagement Survey to measure the NetScout employee comprehension of the strategic goals and direction of the company. Report back to the committee in Q3.
John W. Downing, Senior Vice President Worldwide Sales	Achieve new bookings growth during fiscal year 2014 with specified dollar and percentage targets. Reach specified dollar target in renewal bookings in fiscal year 2014. Achieve overall sales productivity growth of specified percentage. Build a sales organization capable of new business bookings in excess of specified dollar amount in the following two years of the strategic plan, along with strategic organization plan, strategic training and process plan, and strategic compensation plan, such plans to be presented to the CEO and COO for acceptance by the October Board meeting. Drive the growth of the packet flow switch portfolio to a specified dollar amount in fiscal year 2014.
Jean Bua, Senior Vice President, Chief Financial Officer, Chief Accounting Officer, and Treasurer	Develop metrics and story to measure progress on the NPM-APM growth stage to shareholders, with metrics and communications plan to be presented at July Board meeting. Continue the improvement in back office efficiency through workflow simplification and increased interdepartmental collaboration, principally focusing on the a.) Order entry—cash to quote cycle b.) Employee information cycle (integrate payroll and HR system) with progress to be reported at the April 2014 Board meeting. Develop "best practices" in operational controls, educate and implement within the applicable functions: a.) In the inventory purchasing cycle b.) Operating purchasing cycles c.) Capital expenditures with progress to be reported at the April 2014 Board meeting.

Executive Officer	Goal
	Assess and develop strategies to optimize NetScout's global tax position. Report and make recommendations to the Audit Committee in October 2013.

For those goals that are capable of direct measurement the Compensation Committee considers the percentage of goal achievement taking into account developments during the year, including both internal and external factors affecting the Company. For goals that are qualitative in nature or are not as susceptible to financial or numerical measurement, the Compensation Committee relies primarily on its judgment, knowledge of the business, and information obtained through interactions with management throughout the year, recognizing that qualitative criteria can still be measured as having been achieved or not achieved. The Compensation Committee views the compensation determination process as an important opportunity to engage in strategic discussions with the Chief Executive Officer on the appropriate factors and criteria that should be focused on for the attainment of long-term stockholder value.

Third Party Data/Peer Group

NetScout uses third party executive pay surveys and peer group data to assist in compensation decisions. NetScout and the Compensation Committee believe the data are helpful but consider such information as part of a range of factors in determining appropriate compensation levels. Generally, the data are used to confirm that NetScout executives are paid competitively. The comparison is intended to inform the Compensation Committee's discussion, but it is not intended to determine compensation in any formulaic way. The Compensation Committee looks to the peer data to ensure that NetScout is paying compensation that is appropriate to accomplish its objectives. As noted above, the Compensation Committee engaged Pearl Meyer, an independent third party consultant, to assist with the development of the peer company group and during the past fiscal year to review that group. During that process, the Compensation Committee adjusted the peer group to account for two companies that had been acquired and a company that was no longer relevant as a comparable while adding three replacement companies, as noted below. The old and new peer groups are shown below.

As has been the case in prior years, the Compensation Committee concluded that the prior peer group data and third party survey data confirmed that overall compensation for NetScout's executive officers at full plan achievement is generally competitive with that paid to executive officers at similar companies, with an emphasis on target bonus opportunities that if realized result in competitive compensation but if not will result in below market median compensation. The new peer group data will be used to analyze our compensation practices and consider modifications to our compensation practices with respect to future years.

The set of publicly traded peer companies has been determined and periodically reevaluated based on revenue, market capitalization, net income, number of employees, and similar industry/related technology. Additional factors over the past two years have included revenue growth over one and three years and total shareholder return over one and three years. Thus, for comparison purposes we have reviewed compensation data for a group of small companies and for a group of larger companies, because the Company competes with both groups for employees and because there had been few direct comparison companies at the Company's current size. Those peer companies include the following, divided into companies that are smaller than NetScout based on revenue, net income, and number of employees and companies that are larger than NetScout based on the same criteria:

April 2013 Peer Group

Previously, Pearl Meyer recommended and the Compensation Committee approved a new peer group for executive compensation purposes, as listed below. Due to the Company's growth, recent acquisitions, and global nature of the business as well as NetScout's market for executive talent, the Compensation Committee continues to review the peer group. The revenue and market capitalizations of the peer group companies generally fit within a range of 1/3-3 times that of NetScout. The previous (April 2013) peer group consisted of the following companies:

Small Peer Group	Large Peer Group
Accelrys, Inc.	Ixia
Broadsoft, Inc.	Microstrategy, Inc.
Calix, Inc.	Riverbed Technology, Inc.
CommVault Systems, Inc.	SolarWinds, Inc.
Interactive Intelligence Group, Inc.	Sourcefire, Inc.
	Synchronoss Technologies, Inc.
	TIBCO Software, Inc.
	Tyler Technologies, Inc.
	Websense, Inc.

Peer Group for Fiscal Year 2014

In March 2014 and as part of its ongoing review, based on information provided by Pearl Meyer, the Compensation Committee approved a revised peer group for executive compensation purposes. The adoption of the new peer group, set out below, was completed before the Committee and Board's review and approval of fiscal year 2014 named executive officer bonuses and fiscal year 2015 base salary and bonus targets and was thus the operative group the Committee considered in considering fiscal year 2014 bonuses and fiscal year 2015 compensation amounts. The new peer group continues to reflect NetScout's market for executive talent, and the selection criteria included similar industry/related technology and company size, as measured by annual revenue, market capitalization, revenue growth over one and three years and total shareholder return over one and three years. The revenue and market capitalizations of the peer group companies generally fit within a range of one-third to three times that of NetScout. The peer group consists of the following companies:

Small Peer Group	Large Peer Group
Accelrys, Inc.	CommVaults Systems, Inc.
Broadsoft, Inc.	Ixia
Bottomline Technologies (de), Inc.	MicroStrategy, Inc.
Interactive Intelligence Group, Inc.	Pegasystems, Inc.
SolarWinds, Inc.	Riverbed Technology, Inc.
Sonus Networks, Inc.	TIBCO Software, Inc.
Synchronoss Technologies, Inc.	Tyler Technologies, Inc.

In comparison to the prior (April 2013) peer company group, two companies, Sourcefire and Websense, were removed as each was acquired, and one company, Calix, was removed as it fell outside the market capitalization range for peers. Three new companies were added to the group, as reflected above: Bottomline Technologies, Pegasystems, and Sonus Networks.

Recent Compensation Decisions With Respect To Our Named Executive Officers

In May 2014, the Compensation Committee approved fiscal year 2014 bonuses, fiscal year 2015 base salary rates, and fiscal year 2015 bonus targets for each of our named executive officers, and the Board approved the same items for Mr. Singhal.

Chief Executive Officer Compensation

Base Salary. Although our fiscal 2014 financial performance was strong and the Company was successful in many areas, Mr. Singhal requested that he not receive, and he was not granted, a base salary increase for the fiscal year ending March 31, 2015. This is the seventh consecutive year in which the Compensation Committee, Board, and Mr. Singhal have reviewed together and determined, for the reasons stated and because of his significant share ownership position, that Mr. Singhal's base compensation would not increase. Mr. Singhal's current base salary is $325,000 per year. Mr. Singhal entered into an employment agreement dated as of January 3, 2007, as amended, with a three-year term that automatically renews each year unless either party elects to terminate the agreement. The agreement provides for an annual base salary of at least $300,000, which base may be increased as determined by the Compensation Committee and approved by the Board and an annual bonus determined by the Compensation Committee in consultation with Mr. Singhal and also subject to Board approval.

Fiscal 2014 Bonus Amount. NetScout substantially exceeded its annual revenue targets and exceeded its annual EPS targets set at the beginning of the year, leading to a full year company-wide bonus accrual of 146%, with the pool for named executive officers set at 141% so as to reserve more funds for non-executive employees, as described in "Fiscal Year 2014 Bonus Accrual" above.

The Compensation Committee considered the amount of incentive compensation that should be paid to the Chief Executive Officer based on consideration of a number of factors that it deemed relevant to Mr. Singhal's performance in fiscal year 2014. In determining Mr. Singhal's bonus, the Compensation Committee considered NetScout's financial performance and Mr. Singhal's leadership, ongoing development and execution of the Company's strategy, and non-financial individual goal achievement, experience, and responsibility. The Committee considered the level of the company-wide bonus accrual, in light of the positive results achieved in several areas including:

- product revenue increase 18% year over year (GAAP and non-GAAP);
- revenue increase 13% year over year (GAAP and non-GAAP);
- net income increase year over year 21% GAAP and 15% non-GAAP;
- operating margins at 20% GAAP and over 25% non-GAAP;
- the successful launch of the flagship nGeniusOne product;
- continued market share gains in the service provider market;
- increasing traction in complementary packet flow switches; and
- ongoing innovation with the newly-patented Adaptive Session Intelligence technology.

Following review of NetScout's overall performance and Mr. Singhal's attainment of individual objectives, the Committee recommended to the Board that Mr. Singhal be granted a bonus at 141% of his full year $626,000 target bonus that had previously been set at the beginning of the year. Mr. Singhal's fiscal year 2014 bonus was $881,459.

Fiscal 2015 Target Bonus Amount. As noted, NetScout typically puts greater weight toward executives' short term cash incentive compensation compared to base salary. In May 2014 the Board approved, based on the recommendation of the Compensation Committee, a fiscal year 2015 target bonus for Mr. Singhal of $651,000. This bonus opportunity is an increase of $25,000 from the prior year bonus opportunity, reflecting a 2.6% increase for on target earnings, or OTE (base salary and bonus combined), assuming achievement of corporate and individual goals. In order to be awarded a bonus for fiscal year 2015 NetScout would have to achieve the non-GAAP revenue and EPS targets set by the Board, the terms of which are not disclosed because they represent confidential information, the disclosure of which would result in harm to our ability to compete. The bonus accruals are expected to range from 50% to 100% of target each quarter, but could be zero if the bottom of the range of the financial performance goals are not reached, and, conversely, could exceed 100% if performance warranted it.

If NetScout meets or exceeds the company-wide performance goals, which are shared among the named executive officers, the Chief Executive Officer bonus with respect to the 2015 fiscal year will be based upon the attainment of the following individual goals:

- Develop extended strategic plan and organize Board Strategy Day to present, discuss, and approve the plan;
- Organize quarterly briefings with key departments to support Board education of company strategy as well as interactions with the next level of management (below Section 16 Officers); and
- Launch our entry into two specified markets (not disclosed here due to nature of information and effect on competition) by the second half of FY 2015.

Fiscal Years 2014 and 2015 Equity Awards. NetScout intends to make equity awards to executive officers at their appointment and then every year, depending upon performance. During the fiscal year ended March 31, 2014 the Committee approved equity grants to the named executive officers, including the Chief Executive Officer, in an amount equal to 95,833 shares in the aggregate, with a grant to Mr. Singhal of 41,667 restricted stock units, or RSUs. All grants are made pursuant to the 2007 Plan and vest as follows: 25% on the first anniversary of the date of grant with the balance vesting in equal increments annually over the following three years. The Committee has not, to date, approved awards to the executive officers for fiscal year 2015.

The fiscal year 2014 equity awards to the executive officers including the Chief Executive Officer were determined based on numerous factors including existing levels of stock ownership, previous equity grants, vesting schedules, current stock price, place in overall compensation mix, and effectiveness of different elements of compensation in achieving the Company's compensation goals. Allocations were limited by the total annual equity pool available for award to all employees including executive officers, pursuant to a Board-approved limit set as a percentage of shares outstanding the precise number of which is considered confidential. The Committee also referred to internal guidelines for equity grants to officers. The guidelines, developed with a review of peer company practices, survey data, and the Committee's own assessment of reasonable grant amounts, are considered as just one part of the mix of information used to determine equity awards.

Based on the factors described above, the fiscal year 2014 equity awards for each named executive officer, including Mr. Singhal, represented a percentage of the eligible equity amount provided by the guidelines (approximately the same percentage was used for each named executive officer) and resulted in the total set out in the Grants of Plan-Based Awards in Fiscal Year 2014 table above.

Other Named Executive Officers' Compensation

Fiscal Year 2014 Base Salary. Ms. Bua and Messrs. Szabados and Downing were not granted a base salary increase for the fiscal year ending March 31, 2014. The base salary information for all officers can be found in the Summary Compensation Table.

Fiscal 2014 Bonus Amount. In determining the bonus amounts for executive officers, in addition to the considerations set out in "Fiscal Year 2014 Bonus Accrual" above, the Compensation Committee considered NetScout's financial performance and each officer's non-financial individual goal achievement, experience, and responsibility. The Committee recognized the success over the full year and the positive results achieved in several areas including those listed in the "Fiscal 2014 Bonus Amount" discussion above for Mr. Singhal.

Following review of NetScout's overall performance which exceeded annual revenue and EPS targets set at the beginning of the year as previously discussed, accrual of the annual corporate-wide bonus pool at 146% of target, and the extent of each officer's attainment of individual objectives, the Compensation Committee granted bonuses to each of the other named executive officers at 141% of total eligible bonus. As noted before, the pool for named executive officers was set at 141% so as to reserve more funds for non-executive employees. The total bonus amounts for all Named Executive Officers are provided in the Summary Compensation Table. The Compensation Committee believed this allocation was appropriate given the roughly comparable performances by such executive officers, mainly within a narrow range to avoid divisiveness and encourage teamwork, collaboration, and a cooperative working environment. For fiscal year 2014, as it had done in prior years, the Compensation Committee considered the appropriate balance between Mr. Downing's commission-based incentive and corporate bonus incentive that emphasizes the corporate goals that Mr. Downing was expected to achieve. Mr. Downing's sales targets for fiscal year 2014 represent confidential information, the disclosure of which would result in harm to our ability to compete. For fiscal year 2014, with respect to the corporate bonus incentive, based on review of his individual performance, the Compensation Committee granted a bonus to Mr. Downing at 141% of target.

Fiscal 2015 Base Salary. The NetScout base salaries for the Named Executive Officers remained the same, emphasizing the Company's focus on pay for performance by tying on target earnings significantly to bonus realization.

Fiscal 2015 Target Bonus Amount. NetScout puts great weight toward executives' short term cash incentive compensation compared to base salary. In May 2014, the Compensation Committee approved fiscal year 2015 target bonuses with a $25,000 increase for each of the named executive officers. In order for executive officers to be awarded a bonus for fiscal year 2015, NetScout has to achieve the non-GAAP revenue and non-GAAP EPS goals set by the Board within the approved ranges, the terms of which are not disclosed because they represent confidential information, the disclosure of which would result in harm to our ability to compete. The bonus accruals are expected to range from 50% to 100% of target each quarter, but could be zero if the bottom of the range of the financial performance metrics are not reached. Each executive explicitly shares the non-GAAP revenue and EPS objectives. If NetScout meets or exceeds the company-wide performance targets, Messrs. Szabados and Downing and Ms. Bua's bonus amounts will be based upon the attainment of the individual goals discussed below:

Michael Szabados (COO)	Expand market recognition by increasing external messaging relevance, consistency, and intensity to all external audiences. Conduct regular surveys to measure and report progress. Develop staffing model and infrastructure plan to achieve FY 2019 targets at industry leading productivity levels. Drive field enablement by building out dependable training, tool, and content delivery processes with built in quality assurance and feedback mechanisms within a specified time. Deliver major nGeniusONE capabilities completing certain functionality in release 5.3 within a specified time.

John Downing (SVP Worldwide Sales)	Drive enterprise growth of greater than a certain undisclosed percentage through network performance management and application performance management selling focus, with organizational structure to increase APM selling effectiveness and design and implementation of sales management process to review APM+NPM activities and progress. Achieve greater than specified but undisclosed percentage growth in service providers and the Cable/MSO segments combined. Build Sales strategic plan in support of our long term company strategic plan.
Jean Bua (CFO)	Continue the improvement in back office efficiency by progressing to "business intelligence" infrastructure. Information/metrics to be delivered along with comparisons, and frequency will be developed before the end of the fiscal year. Develop IR strategy and capabilities to effectively convey the potential of our NetScout 3.0 strategy to the investment community. Coordinate investor messaging with marketing and employee messaging for complete alignment with the company's direction and strategy. Deliver the new messaging at the May Investor Day in New York. Hire VP IR by end of first quarter. In conjunction with the business, prepare the financial plan for the next five years for presentation at the September board meeting.

Fiscal 2014 Equity Award. In August 2013, the Compensation Committee approved grants to Ms. Bua and Messrs. Szabados and Downing of RSUs equal to the following shares of our common stock pursuant to our 2007 Plan:

Name	RSU Grant (shares)
Michael Szabados	25,000
Jean Bua	14,583
John W. Downing	14,583

For all of the above grants, the RSUs vest as follows: 25% vests on the first anniversary of the date of grant, and the balance vest in equal installments annually thereafter over the next three years. The Compensation Committee believes that the foregoing annual grants were appropriate in furtherance of our philosophy that total executive compensation should be more heavily weighted toward long-term incentive compensation to ensure that the interests of our executives are aligned with those of our stockholders. In addition, the Compensation Committee felt it was important to ensure that Ms. Bua and Messrs. Szabados and Downing have a significant ongoing equity stake in NetScout so that each has appropriate incentives and has long-term interests are aligned with those of our stockholders.

Other Benefits

NetScout also maintains various broad-based employee benefit plans. Executive officers participate in these plans on the same terms as eligible, non-executive employees, subject to legal limits on the amounts that may be contributed or paid to executive officers under these plans. One exception to this broad-based eligibility is that executive officers at the vice president level and above are eligible for life insurance policies that provide for three times cash compensation (salary and bonus) up to a $1.5 million cap with evidence of insurability, which differs from the two times salary and bonus and $750,000 cap available to non-sales employees and two times salary and commission and $750,000 cap available to sales employees. The company also offers a 401(k) plan that allows all employees to invest in a wide array of funds on a pre-tax basis. The 401(k) plan allows employees to put aside the lesser of 80% of their eligible compensation or $17,500 (or $23,000 for individuals at least 50 years of age) for calendar year 2013. NetScout matches 50% of each employee's contribution up to 6% of such employee's annual salary. The matching amount vests 25% per year over four years. After four years of service, the employee match is 100% vested. Employees are eligible to participate on the 401(k) plan on date of hire.

Under his current employment agreement, Mr. Singhal is entitled to the following benefits: disability insurance of no less than 100% of base salary, paid vacation, group life insurance not to exceed $1.5 million, and NetScout's generally available medical, dental, and vision plans as well as any other benefits generally available to senior executives of NetScout. In addition, NetScout will reimburse Mr. Singhal for tax and estate planning and for leasing and maintaining a car.

Post-Termination Compensation

Mr. Singhal's employment agreement provides that if any of the following three events occur (1) NetScout terminates Mr. Singhal's employment for any reason other than due cause (as defined in the agreement), (2) Mr. Singhal terminates his employment for any reason at any time following the consummation of a sale of NetScout, or (3) upon the death or disability of Mr. Singhal, then Mr. Singhal, or his estate, is entitled to receive in a lump sum, a payment equal to the net present value of $16,208 per month for a period of seven years. If Mr. Singhal terminates his employment with NetScout for any reason prior to the consummation of a sale of NetScout, he is entitled to such lump sum payment for the period for which his severance benefits have vested (not to exceed seven years). Mr. Singhal will also receive continued health and dental benefits during such period. Mr. Singhal's severance benefits, including health and dental benefits, are fully vested, and the Company has projected its future payments for this unfunded obligation at approximately $1.6 million in the aggregate. Mr. Singhal's employment agreement was amended in May 2012 to update certain provisions with respect to the application of Section 409A of the Internal Revenue Code of 1986, as amended, or the Code, but such amendment did not affect any of the provisions described above.

In May 2012, NetScout entered into amended and restated severance agreements with its Named Executive Officers, other than its Chief Executive Officer. These agreements are intended to help NetScout retain key executives and to reinforce the continued attention and dedication of management in event of a change of control and to provide protection so that such executives can act in the best interests of NetScout without distraction. For each of the Named Executive Officers, the amended and restated severance agreements provide certain payments in the event that such officer is terminated without cause (as defined in the applicable agreement) or resigns for good reason (as defined in the applicable agreement) at any time prior to a change in control of NetScout (as defined in the applicable agreement) or within one year thereafter. In such event, such officer will receive 12 months of his or her then current salary, and, if such termination occurs after a change of control, such officer will also receive a prorated amount of his maximum annual target bonus, based on the months elapsed in such year that in any event will not be less than 50% of his or her maximum annual target bonus and accelerated vesting of any outstanding unvested equity awards under the 2007 Plan, or any successor thereto, that would have vested or become exercisable within one year of such termination.

With respect to the severance agreement with Mr. Downing, if such termination occurs after a change of control, such payments will also include accrued but unpaid sales commissions plus a prorated amount of his maximum target sales commissions (without double counting for previously paid commissions) that in any event will not be less than 50% of his maximum target sales commissions.

Each of the amended and restated severance agreements listed above contain a one year initial term with one year automatic renewal terms unless NetScout or the respective executive officer elects not to renew the agreement.

The agreements also contain forfeiture provisions requiring repayment of severance amounts if it is ultimately determined that the executive officer committed certain prohibited conduct while employed by NetScout or materially breached any of the officer's agreements with NetScout.

Regulatory Requirements

Tax Deductibility of Executive Compensation

Under Section 162(m) of the Internal Revenue Code NetScout cannot deduct, for federal income tax purposes, compensation in excess of $1,000,000 paid to certain executive officers. This deduction limit does not apply to compensation that constitutes "qualified performance-based compensation" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder. While our Compensation Committee recognizes the potential benefit to NetScout's financial performance of the full deductibility of compensation, our Compensation Committee believes that compensating our executive officers in ways that best promote NetScout's corporate objectives are the more critical objective than fitting constraints imposed under Section 162(m).

Other Key Regulations Affecting Compensation Plans

Post-termination compensation is designed to minimize the effect of additional taxes imposed by Section 409A of the Code.

Management of Risk

Following review and discussion, the Compensation Committee believes that any risks arising from our compensation policies and practices for our employees will not have a material adverse effect on NetScout. In addition, the Compensation Committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risks. The considerations which led the Compensation Committee to this conclusion include the following:

- We provide executives with a reasonable base salary. We believe these base salary levels mitigate risk-taking behavior by providing reasonable predictability in the level of income earned by each executive and alleviating pressure on executives to focus exclusively on stock price performance to the detriment of other important business metrics.
- We use a mixture of compensation elements that is intended to discourage short-term risk taking. Further, the executive team overall has a long tenure and significant experience, enabling it to deal with business cycles.
- Short term incentives in the form of annual performance bonus payouts are generally established at 100% of the target amount, unless the Compensation Committee or the Board determines that extraordinary performance warrants a higher payout, a process that the Compensation Committee believes mitigates the likelihood that our executives will take excessive risks.
- Equity incentive awards are generally granted annually and generally vest over four years, so executives have a significant amount of unvested awards that could decrease significantly in value if our business is not managed for the long-term. As noted, there are Stock Holding Guidelines designed to reinforce that long-term view.
- We have a robust system of internal controls and a comprehensive compliance program, which includes extensive training of all employees, which we believe promotes a culture of ethical behavior and compliance, as well as an appropriate attitude toward risk-taking. The Compensation Committee retains discretion to adjust compensation based on adherence to our values and compliance with programs, among other things.

Report of Compensation Committee of the Board of Directors[2]

The Compensation Committee has reviewed the Compensation Discussion and Analysis portion of this proxy statement and discussed such section with management. Based on its review and discussions and its ongoing involvement with executive compensation matters, the Compensation Committee recommended to the Board that the CD&A portion of this proxy statement be included in NetScout's proxy statement and incorporated into NetScout's Annual Report on Form 10-K for the fiscal year ended March 31, 2014. This report is provided by the following independent directors, who comprise the Compensation Committee:

Joseph G. Hadzima, Chair
Victor A. DeMarines
Robert E. Donahue
Stephen G. Pearse

Compensation Committee Interlocks and Insider Participation

Neither Mr. Hadzima, Mr. DeMarines, Mr. Donahue, nor Mr. Pearse was, during the past fiscal year, an officer or employee of the Company or any of our subsidiaries, was formerly an officer of the Company or any of our subsidiaries, or had any relationship with us requiring disclosure herein. During the past fiscal year, none of our executive officers served as:

- a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, of whose executive officers served on our Compensation Committee;
- a director of another entity, one of whose executive officers served on our Compensation Committee; or
- a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as one of our directors.

Transactions with Related Persons

The Company has a written policy with respect to "Related Persons Transactions." Except as specifically provided below, all "Related Person Transactions" require approval or ratification by either our Audit Committee (provided that the transaction involves terms comparable to terms that could be obtained from unrelated third parties), the majority of independent members of our Board, or, in the case of transactions that involve compensation, our Compensation Committee or a majority of our Board. Like other company policies, our Policy with respect to Related Person Transactions is managed on a day to day basis by our management team, including our General Counsel, and to the extent necessary, related matters are discussed with our Board (or a committee thereof) or our outside counsel.

For NetScout, a "Related Person Transaction" is broadly defined as any transaction between NetScout and any Related Person (as defined below), including any transactions requiring disclosure under Item 404 of Regulation S-K under the Exchange Act, unless such transaction is available to all of our employees generally or if such transaction, when aggregated with any other transactions with such person during such fiscal year, involves less than $5,000.

A "Related Person" means:

i. a director or executive officer of NetScout, as well as any nominee for director proposed to be elected at the next annual meeting of stockholders;

[2] The material in this report is not "soliciting material," is furnished to, but not deemed "filed" with, the SEC and is not deemed to be incorporated by reference in any filing of the Company under the Exchange Act, other than the Company's Annual Report on Form 10-K, where it shall be deemed to be "furnished," whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

ii. a stockholder owning in excess of five percent of NetScout (or its controlled affiliates);

iii. an immediate family member of the persons listed in i and ii above ("immediate family" as defined under Item 404 of Regulation S-K under the Securities Exchange Act of 1934); and

iv. an entity which is owned or controlled by someone listed in i, ii, or iii above, or an entity in which someone listed in i, ii, or iii above has a substantial ownership interest or control of such entity.

Our Board has determined that our Audit Committee is generally best suited to review and approve Related Person Transactions. If Audit Committee approval is not possible (because it involves terms that are not comparable to terms that could be obtained from unrelated third parties or because of logistical difficulties), or if a transaction involves compensation, such approval may be obtained as provided in the first paragraph of this response. Such Related Person Transactions may be presented for approval or preliminarily entered into by our management subject to ratification by the applicable committee or our Board, provided that if ratification does not occur, our management is obliged to take all reasonable efforts to cancel or annul such transaction. Transactions with Related Persons other than our management cannot be entered into on a preliminary basis.

In determining whether or not to approve a Related Person Transaction, the applicable committee or our Board will also consider whether such transaction would affect the status of a member of our Board as an "independent director" as promulgated by the Securities and Exchange Commission, the Financial Industry Regulatory Authority, any exchange upon which our securities are traded, or any governmental or regulatory body exercising authority over us. If the result of any such Related Person Transaction is that a majority of our Board would no longer be deemed to be "independent directors" then such transaction will not be approved. Other than as described under "Employment and Other Agreements" and "Post Termination Compensation" above, the Company is not party to any Related Person Transactions with respect to the fiscal year ended March 31, 2014.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers, and holders of more than 10% of our common stock, or collectively, Reporting Persons, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Such persons are required by SEC regulations to furnish us with copies of all such filings. Based on our review of the copies of such filings received by us with respect to the fiscal year ended March 31, 2014 and written representations from certain Reporting Persons, we believe that all Section 16(a) filing requirements were complied with on a timely basis during the fiscal year ended March 31, 2014.

AUDITORS FEES AND SERVICES

The following sets forth the aggregate fees billed to us by our independent registered public accounting firm during the fiscal years ended March 31, 2014 and 2013:

Audit Fees

Fees for audit services were approximately $702,400 and $737,760 for the fiscal years ended March 31, 2014 and 2013, respectively, including fees associated with the integrated audit of the consolidated financial statements included in our Annual Report on Form 10-K, the reviews of our Quarterly Reports on Form 10-Q, and statutory audits required of our foreign subsidiaries.

Audit-Related Fees

Fees for audit-related services were approximately $16,500 and $230,276 for the fiscal years ended March 31, 2014 and 2013, respectively, including fees associated with services related to review of accounting for significant transactions.

Tax Fees

Total fees for tax services were approximately $134,278 and $36,384 for the fiscal years ended March 31, 2014 and 2013, respectively, consisting of tax compliance and preparation fees and other domestic and international tax advisory services.

All Other Fees

Total all other fees were approximately $41,000 and $3,956 for the fiscal years ended March 31, 2014 and March 31, 2013, respectively, consisting of fees related to training and research services.

Policy on Audit Committee Pre-approval of Audit and Non-Audit Services

Our Audit Committee has implemented procedures under our Audit Committee Pre-Approval Policy for Audit and Non-Audit Services, or the Pre-Approval Policy, to ensure that all audit and permitted non-audit services provided to us are pre-approved by the Audit Committee. Specifically, the Audit Committee pre-approves the use of our independent registered public accounting firm for specific audit and non-audit services within approved monetary limits. If a proposed service has not been pre-approved pursuant to the Pre-Approval Policy, then it must be specifically pre-approved by our Audit Committee before it may be provided by our independent registered public accounting firm. Any pre-approved services exceeding the pre-approved monetary limits require specific approval by our Audit Committee. The Audit Committee delegated authority to management to approve expense items up to $50,000 provided all such amounts are reported to the Audit Committee. All of the audit-related, tax, and all other services provided by our independent registered public accounting firm in fiscal years 2014 and 2013 were approved by the Audit Committee by means of specific pre-approvals or pursuant to the procedures contained in the Pre-Approval Policy. All non-audit services provided in fiscal years 2014 and 2013 were reviewed with our Audit Committee, which concluded that the provision of such services by our independent registered public accounting firm was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

EXPENSES AND SOLICITATION

We will bear the cost of solicitation of proxies, and, in addition to soliciting stockholders by mail through our regular employees, we may request banks, brokers, and other custodians, nominees, and fiduciaries to solicit their customers who have our stock registered in the names of a nominee, and, if so, will reimburse such banks, brokers, and other custodians, nominees, and fiduciaries for their reasonable out-of-pocket costs. Solicitation by our officers and employees may also be made of some stockholders in person or by mail, telephone, or telegraph following the original solicitation. We may retain a proxy solicitation firm to assist in the solicitation of proxies. We will bear all reasonable solicitation fees and expenses if such a proxy solicitation firm is retained.

NETSCOUT®

2014 Annual Report on Form 10-K

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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to__________

Commission file number 0000-26251

NETSCOUT SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**04-2837575**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

310 Littleton Road, Westford, MA 01886
(978) 614-4000

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.001 Par Value
Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of common stock held by non-affiliates of the registrant as of September 30, 2013 (based on the last reported sale price on the Nasdaq Global Market as of such date) was approximately $973,710,881. As of May 15, 2014, there were 41,060,298 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Registrant's Proxy Statement for the fiscal year 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Except as expressly incorporated by reference, the proxy statement is not deemed to be part of this report.

NETSCOUT SYSTEMS, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED MARCH 31, 2014
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PART I

Item 1. Business

Overview

We are an industry leader for advanced network, application and service assurance solutions, providing high-quality performance analytics and operational intelligence solutions that facilitate the evolution toward new computing paradigms, including virtualization, mobility and cloud. We design, develop, manufacture, market, license, sell and support products focused on assuring service delivery quality, performance and availability for some of the world's largest, most demanding and complex internet protocol (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.

With a sustained history of 30 years of technology innovation, we continue to lead the market and are changing how organizations manage and optimize the delivery of business applications and services and assure user experience across global IP networks. We have continually improved our product portfolio to meet the needs of organizations by providing solutions to manage dynamic network and application environments and by improving user experience by assuring service availability, quality and reliability. Our solution is a highly scalable and flexible real-time service delivery management platform that supports a wide-range of enterprise information technology (IT) operations and management organizations including network operations.

Our solutions are intended to help users in various roles to: quickly analyze data, achieve real-time visibility into and intelligence about their organization's operations, identify service delivery issues early, improve service levels, reduce operational costs, mitigate security risks, and drive better business decisions. Our value proposition to our customers is helping them to achieve their objectives regarding return on investments and risk mitigation as they develop their IT infrastructure to support their business needs. Our proactive intelligence and analytics provides our customer with knowledge regarding potential issues before their users are impacted.

Our mission is to enable IT groups and service providers to realize maximum benefit with minimal risk from technological advances, like IP convergence, network function virtualization (NFV), software defined networking (SDN), virtualization, cloud, mobility, bring your own device (BYOD), web, and the evolving Internet by managing the inherent complexity in a cost-effective manner. Our Adaptive Session Intelligence (ASI) technology, which we have developed in support of this mission, has the potential of not only expanding our leadership in the network performance management and application performance management (NPM+APM) space, but can also serve as a gateway for future intelligence solutions including cyber and business intelligence.

Many of the largest service providers, cloud based businesses and enterprise customers rely on us to assure service delivery and the user experience of their customers. Our customers are in just about every vertical market including financial, health care, utilities, Internet, manufacturing, retail, as well as the service providers. We are a market leader in helping service provider's get a return on their 4G/LTE investment by providing them with the intelligence they need about aspects of service delivery from handset performance to user preferences to network speed.

Our solutions support a wide-range of enterprise IT operations and management organizations including network operations, application managers, network operations centers, network engineering, security operations and service delivery teams. Within the service provider segment, our solutions support a broad range of operational users including network operations, group network engineering, service operations, application groups, customer care, marketing, chief technology officers and advanced engineering groups.

We market and distribute our products globally through our own direct sales force and through strategic channel partners that include distributors, value added resellers and systems integrators. We have three primary customer groups, enterprise customers, service provider customers and government customers. For our enterprise customers, we focus on the Global 5000, which includes diverse industries such as financial, healthcare, manufacturing, retail, technology, utilities, high-tech and education. Our government customers include domestic agencies of federal, state and local governments as well as international government agencies. In the service provider customer group, we sell to mobile operators, wireline operators and cable multi-service operators globally.

We have a single operating segment and substantially all of our identifiable assets are located in the United States. Financial information about our operating segment and geographic areas is presented in Item 7, Management Discussion and Analysis and Note 18 of our Notes to Consolidated Financial Statements.

Markets

Enterprise Markets

Within the enterprise environment, NetScout's nGenius® and Sniffer technologies enable IT organizations to protect and improve service delivery quality with a model that is able to identify and address business service performance issues before they become serious and affect large numbers of users. Some of the current enterprise IT initiatives our solutions support include:

- *Data Center Consolidation* – We enable IT organizations to manage the delivery of services across virtual and physical environments, providing a comprehensive, unified view of application and network performance. Intelligent early warning of emerging issues with the ability to analyze both physical and virtual services within the data center enables organizations to optimize datacenter infrastructure investments, protect against service degradations, and simplify the operation of complex, multi-tier application environments in consolidated data centers.
- *Unified Communications* – We deliver deep application-level unified visibility into voice, data and video services side-by-side in order to understand the interrelationships of all services that traverse the network infrastructure and assess quality and performance of the delivery of these services.
- *Branch Office Visibility* – We bring extended visibility into the performance of applications and networks at and between locations, including cloud-based services, with a unified view of end-to-end service delivery enabling collaborative problem-solving and uniform planning, enabling IT organizations to reduce the cost of managing their remote sites.
- *CyberSecurity* – Cyberattacks are becoming more sophisticated and target users, applications, infrastructure, and mobile devices. We provide an additional layer of visibility that provides insight into potential emerging security issues missed by traditional security tools. We also provide incident response activities with deep-dive network forensics and other investigative capabilities.
- *IT Operational Excellence* – We deliver real-time and historical information that provides the necessary insight to restore service, manage capacity, and understand the quality of the users' experience.

Government Markets

Similar to our enterprise markets, government agencies are focused on streamlining and transforming IT into more efficient and more easily managed environments. To accomplish this, agencies are turning to IT solutions that will help simplify managing and assuring their IT environments as well as reduce costs. However, governmental markets differ from enterprise markets in that their purchasing cycles are driven by a political process and allocated funding.

Telecommunication Service Provider Markets

Today's service providers are focused on creating a compelling set of services, with a high quality user experience, while also keeping an eye on reducing operational complexity and costs. This, coupled with the challenge of IP transformation activities and emerging new technologies LTE, Internet Protocol Television (IP-TV) and cloud services drives the need for a more automated and unified approach to managing service delivery and the subscriber experience. Service providers must reduce the cost of service delivery, address increasing complexity, scale globally and adapt to emerging technologies such as cloud services, virtualization and unified communication services while assuring high quality user experiences to retain their revenue base.

- *For Mobile Operators* – The fundamental transformation of the mobile network to all-IP enables mobile operators to build highly-scalable service delivery environments to offer new services to meet the growing subscriber demand for data, voice and video-centric services and to consolidate and simplify network operations. However, to capitalize fully on the value of IP and the significant market opportunities, mobile operators need detailed IP packet-level insight and core-to-access visibility.
- *For Fixed-line and Cable Operators* – The growing demand for high-bandwidth triple-play services, broadband connectivity, content anywhere, IP-TV, on-demand video traffic, new extended WiFi initiatives and carrier Ethernet services presents service providers with significant revenue opportunities. IP has become the *de facto* convergence mechanism for access, distribution and core networks, enabling new service offerings, simplifying network operations while reducing total cost of operations. To realize these benefits, operators need comprehensive insight into IP services, service usage, service availability, application awareness, traffic load, network availability and network performance.

Products & Technology Overview

NetScout continuously develops its solutions to meet the increasing demands and ever changing technology landscape of IP networks, service and applications. Typically, these types of changes result in modest increases in the functionality of the products that do not meet the criteria for capitalization. In recent years, we have delivered major product upgrades across our product lines, more tightly integrating deep packet analysis and forensics into our top-down performance management workflows, improving the flexibility of our industry-leading intelligent early warning capabilities, and adding support for new sources of user experience and performance related metrics. For accounting purposes, these investments have not been capitalized because of the development methodology employed, because the developments are added individually to the core code over a period of time but marketed as a release once all portions were complete.

Specific new products and enhancements introduced during our Fiscal Year 2014 include the nGeniusONE™ Unified Performance Management platform.

nGenius Service Assurance Solution

The nGenuis Service Assurance Solution delivers comprehensive, high definition visibility into end-to-end performance of the network, applications, services and users using a family of unified software-based analytics modules and rich packet-flow based metadata. The nGenius Service Assurance Solution provides the following capabilities:

- Service visualization and intelligent early warning;
- Application and network performance management;
- Service and policy validation;
- Service optimization and capacity planning;
- Advanced trending and reporting capabilities; and
- Deep forensics and historical analysis.

The nGenius Service Assurance Solution is a fully integrated platform that uses a number of specialized software analytics modules and distributed intelligent data sources consisting of:

- *nGeniusONE™ Unified Performance Management platform* – The nGeniusONE™ Unified Performance Management platform was announced in June 2013. This platform converges APM and NPM into a single unified platform and introduces a new approach to IT service management that helps dramatically shorten the time required to solve application and network performance problems in enterprise network environments. Leveraging packet-flow data, the platform combines simple, straightforward workflows with relevant performance and quality information in business service context, presenting predictive and actionable information to IT operations users enabling them to quickly identify and triage performance problems. nGeniusONE offers ease of use, scalability, and value delivered to a wide range of IT operational teams including network, application, server, and service delivery managers. Announced in February 2014, the nGeniusONE unified performance management platform was extended to service providers, delivering next generation service assurance and operational intelligence capabilities for data, multi-generational voice and video service delivery environments. Extending NetScout's data analysis capabilities, the nGeniusONE platform provides comprehensive support for mobile and fixed line voice services, including Voice over Long Term Evolution (VoLTE), Internet Protocol Multimedia Subsystem (IMS), Voice over IP (VoIP) and legacy circuit switched voice deployments.

- *nGenius Performance Manager* – Our core analytics module that analyzes and correlates the metadata delivered by a comprehensive range of nGenius intelligent data sources (hardware devices and software agents) for integrated application and service performance monitoring, response time analysis, troubleshooting, capacity planning and trending and reporting, enabling end-to-end visibility and assurance of service delivery.

- *nGenius Service Delivery Manager* – A real-time business service dashboard that provides unified visibility into service delivery in the context of how services are delivered and consumed to produce timely, actionable management insight. Combining real-time and historical views of service domains the dashboard automates the detection of service quality problems and emerging security threats across physical, virtual, and cloud-based services from the application hosting environment, through the network, to the user.

- *nGenius Voice | Video Manager* – An advanced unified communication (UC) performance management and analysis analytics module enabling IT staff to proactively manage the performance and user experience for a broad range of collaboration, enabling real time communications services, such as telepresence, video, and voice. The solution delivers network performance and granular application-specific metrics for IP-based voice and video session transmission and conversation quality to reveal real-time service performance and the true user experience. As a result, IT organizations can achieve the required actionable visibility into the end-to-end behavior and quality UC applications and services.

- *nGenius Enterprise Intelligence* – Extends the session-level analysis capabilities of the nGenius Service Assurance Solution to provide granular hop-by-hop views into performance and latency of a users' application session as complex application traffic crosses multiple data centers and cloud environments to provide a unified perspective of user experience. Leveraging the real-time data mining capabilities of NetScout's ASI technology, nGenius Enterprise Intelligence automates, accelerates and simplifies the creation of a true representation of an end-to-end user data or voice session.

- *nGenius Subscriber Intelligence* – Designed for mobile operators, nGenius Subscriber Intelligence provides datacenter-to-core-to-access visibility for managing mobile data sessions in general packet radio service (GPRS), in universal mobile telecommunications systems (UMTS), code division multiple access (CDMA) and LTE mobile networks. nGenius Subscriber Intelligence incorporates NetScout's ASI technology built into our nGenius InfiniStream appliances to provide unmatched, real-time correlation of related user plane and control plane sessions across both the core and access portions of the network.

- *nGenius Trading Intelligence* – A high-performance, latency-management solution purpose-built for trading environments that addresses the specialized visibility needs of exchanges and trading market firms. nGenius Trading Intelligence provides real-time visibility into complex trade order execution, market data feed latency and performance for trading environments enabling trade engineers to isolate delays, compare venue execution routes, monitor trade activity, and track client access to better optimize the performance of high-speed trading platforms.

- *Sniffer Analysis Software Suite* – The Sniffer Analysis Software Suite provides a direct connection to nGenius InfiniStream appliances for highly optimized forensic analysis and packet data mining to exploit fully the valuable information contained within network packets. The Sniffer Analysis software suite provides a powerful view deep into IP network packets revealing granular information about network and application interactions and response time and latency metrics to speed post event troubleshooting and support a wide-range of cybersecurity incident response and investigation analysis activities.
- *nGenius Performance Manager for Flows and nGenius Analytics for Flows* – nGenius Performance Manager and Analytics for Flows support Cisco NetFlow, sFlow, IP service level agreement data for analysis and reporting of performance problems, analysis and reporting for application utilization and conversation-level statistics and management information base (MIB II) data collected by nGenius Collectors.
- *Sniffer Portable Analyzer Product Family* – A stand-alone field service analysis module that provides portable network and application analysis capabilities for field troubleshooting activities. Built on widely deployed Sniffer technology, the software-based analysis tool is deployed on individual technician laptops to support segment-specific portable analysis and troubleshooting activities enabling the rapid isolation of issues for wired and wireless networks. The Sniffer Global version of the product is integrated with Cisco's Mobility Services Engine to enable location-based visibility for wireless end-points.
- *nGenius Intelligent Data Sources* – nGenius Intelligent Data Sources provide the capabilities of gathering and analyzing information rich packet-flow data from across the network to enable the granular analysis and reporting capabilities of the nGenius Service Assurance Solution. The nGenius Intelligent Data Sources consist of: (1) the nGenius InfiniStream appliances, which provide hardware-based data capture and metadata creation for the nGenius Service Assurance Solution and support 1 Gigabit and 10 Gigabit network connections and scale from one to 96 terabytes of packet storage capability; (2) the nGenius Virtual Agent, which enables granular network and application visibility from within virtual server environments; (3) the nGenius Integrated Agent, which integrates into network equipment, such as the Cisco® Integrated Services Router and Cisco Unified Computing express™ system to enable extended visibility into network and application performance from branch offices; and (4) nGenius Collectors, which support collection of network-based statistics from network equipment supporting standards-based data such as Cisco NetFlow, jFlow and sFlow.
- *Adaptive Session Intelligence ™ (ASI) Technology* – provides the extensible technology foundation for the nGenius Service Assurance Solution's rich real-time analytics capabilities. The patented ASI technology enables the creation of statistical metadata, session transaction records and adaptive session traces enabling the monitoring of all users, all applications and all services consistently across the network. ASI technology is a critical differentiating technology that enables the performance at scale and real-time flexibility needed to address large and complex service delivery environments.
- *nGenius 3900 Series Packet Flow Switch* – the nGenius 3900 series packet flow switch is a modular chassis-based network monitoring switch that expands upon NetScout's initial entry into the market with the nGenius 1500 series packet flow switch. The nGenius 3900 series packet flow switch enables scalable, highly available access to network traffic across distributed networks for use by the nGenius Service Assurance Solution or any network monitoring, performance management or security system. The nGenius 3900 series packet flow switch delivers market-leading advances in performance and capacity with the highest 10 and 40 Gigabit Ethernet (GbE) port densities per rack unit, and per chassis, with an architecture ready to support 100 GbE interfaces. The nGenius 3900 series switch delivers intelligent traffic conditioning features on every port with sustained line rate performance, and ultra-low latency.

nGenius Forensic Intelligence **–** Sold into specialized markets, NetScout's nGenius Forensic Intelligence product supports session trace and reconstruction. nGenius Forensic Intelligence accelerates forensic analysis of network traffic with automated, accurate and contextual session reconstruction and visual replay for security-focused investigations.

Integration with third-party solutions

To have greater operational impact on assuring performance of applications and service delivery, NetScout has integrated its technology with third-party management consoles and business service management systems. This integration allows organizations to receive alarms on impending performance problems and to link into the nGenius solution in order to perform detailed problem analysis and troubleshooting. By providing seamless integration into management platforms, NetScout fills a significant gap in the third party product functionality and visibility into the interaction of applications, services and infrastructure resources from a packet-based network vantage point. NetScout collaborates with technology partners to provide integrated solutions and extend the value of the nGenius Service Assurance Solution for application and network performance management across the organization. Using packet-flow data, key performance indicators and other sources of performance information derived from the nGenius Service Assurance Solution, an organization's ability to optimize, simplify and protect the service delivery environment are enhanced.

- **Cisco Systems** – NetScout is a member of the Cisco Developer Network Program for Mobility, Unified Communications and Advanced Routing. NetScout has integrated its widely deployed nGenius probe technology into the Cisco Integrated Services Router (ISR) platform enabling our joint customers to leverage the end-to-end capabilities of our service assurance solution from the datacenter to the branch office. We have received certification of our compatibility and interoperability with Cisco's Unified Communications platform. NetScout has also integrated its Sniffer Global product with the Cisco 3300 series Mobility Services Engine, to provide contextual location information to simplify and improve management of wireless networks.
- **Cisco Sourcefire** – NetScout has integrated its nGenius solution with Sourcefire's Next-Generation Intrusion Prevention System (NGIPS) for advanced forensic event analysis. This integration combines perimeter security technology with performance management functionality by linking the NGIPS event information to the nGenius solution's in-depth, real-time and historic event analysis capabilities. The integrated solution helps IT organizations to enhance situational awareness and improve incident response activities for security threats.
- **Citrix** – NetScout is a Citrix Ready Alliance Partner. NetScout's nGeniusONE platform is certified by Citrix to provide technology and solutions for end-to-end performance and availability monitoring for Citrix XenApp and XenDesktop Virtual Desktop Infrastructure (VDI) services. The nGeniusONE platform offers proactive, scalable, and efficient service delivery monitoring across network infrastructure, application tiers, virtualization components, and business services in Citrix VDI environments.
- **EMC** – NetScout is an EMC Corp. Velocity2 partner and provides integration between the nGenius Solution and the EMC Ionix Service Assurance Manager, EMC Ionix IP Availability Manager and EMC Ionix Discovery Manager. Integration between the nGenius solution and EMC Ionix solution provides our joint customers with complementary visibility into the packet-flow data within the service delivery environment.
- **Hewlett-Packard** – NetScout is a Gold Business Partner in Hewlett-Packard's Enterprise Management Alliance Program, and provides integration between the nGenius solution, the HP Business Service Management Software and the HP Network Node Manager i (NNMi). Together the integration provides our joint customers with a "single-pane-of-glass" approach to troubleshooting to speed problem identification and resolution and assure the user experience. NetScout is also a Silver Business Partner for Enterprise Security Products (ESP), which provides integration of the nGenius solution with the HP ArcSight Enterprise Security Management (ESM) platform. This integration enables the

delivery of alerts to the ArcSight platform from the nGenius environment and provides contextual linkage to events within the nGenius platform facilitating drill-down to quickly identify the root-cause of a security event.

- **IBM Tivoli** – NetScout is an International Business Machine, PartnerWorld member, and has been awarded "Ready for IBM Tivoli Software" validation status to the nGenius service assurance solution for its integration with IBM Tivoli® NetView®, IBM Tivoli Enterprise Console® and IBM Tivoli Netcool®/OMNIbus. The integration between NetScout and IBM platforms provides our joint customers with expanded reach of IBM's Event Management Systems by combining integrated fault management and service delivery assurance into a single integrated console view with a seamless troubleshooting workflow.
- **VMware** – NetScout is an Elite tier Technology Alliance Partner of VMware. The nGenius solution and nGenius Integrated Agent technology seamlessly extends high-performance packet-flow analysis capabilities deeper into the data center and private and hybrid clouds – enabling IT organizations to achieve true end-to-end visibility of application traffic within and between virtual servers.

Growth Strategy

Our key objectives have been to continue to gain market share in the wireless service provider market and to accelerate our enterprise growth by extending into the application performance management segment. In addition, given the nature of the customers in our government segment, we believe future cybersecurity products would be effective in this market. Key elements of our strategy include:

- *Drive technology innovation to extend our market leadership* – We are continuing our investment in research and development to expand and enhance our unified service delivery management (USDM) capabilities that capitalize on our extensive experience with global enterprise, service provider and government organizations with very large, high-capacity IP-based networks. We intend to take advantage of our unique position in these three markets to cross-leverage our technology development for these markets to enable greater capabilities for our current and new customers. We will continue to enhance and extend our product line to meet the increasing challenges of managing a diverse range of services over an increasingly global network environment.
- *Continued portfolio enhancements* – We plan to continue to enhance our products and solutions to address the management challenges associated with virtualization, cloud computing, service-oriented architectures, VoIP, video, and telepresence technologies. In addition, we will continue to drive our solutions to help IT organizations address the challenges of complex service delivery, datacenter consolidation, branch office consolidation and optimization, increasing mobility and the move to a more process-oriented operating environment.
- *Enabling pervasive visibility* – We intend to continue to expand our intelligent data source family to enable our customers to achieve more visibility in more places across their end-to-end network environment. We are expanding our nGenius InfiniStream appliance family to enable greater levels of storage and processing capacity and to expand our software-based nGenius Virtual Agent and nGenius Integrated Agent technology to enable wider deployment of our technology within virtual computing environments, network devices and computing platforms. We intend to continue to greatly enhance our ability to scale and to generate real-time metadata to meet the need for addressing a rapidly growing level of data traffic and an increasingly complex application environment. This includes extending and strengthening our market and technology lead by supporting new and innovative ways to address the ongoing technology challenges associated with the increasing volume of data traffic and enable scalable support for 40 Gigabit, 100 Gigabit topologies and increasing global deployments of IPv6.
- *Expand our customer base in both enterprise and service provider markets* – It is our intention to substantially grow our presence in both the enterprise and service provider markets. In the enterprise market, we are growing our installed base to include a broader number of top-tier enterprise customers

as well as extending to reach mid-market enterprise customers. We intend to increase the use of our products across the IT organization to include new operational groups by expanding their capabilities and value. In the service provider market, we are expanding our presence by winning new service provider customers. We are also expanding our service provider footprint further out into the radio access network and deeper into the core.

- *Increase market relevance and awareness* – To generate increased demand for our products we will continue to promote and position our technology, products and solutions to both the enterprise and service provider market and drive our vision and strategy of USDM. In addition, we will continue to drive industry initiatives around managing service delivery.
- *Scale and grow our direct sales force* – Our direct sales force was structured to effectively target the enterprise, service provider and government markets. Each of these markets has different technology issues, challenges and sales cycles. Consequently, NetScout is very well positioned with a well aligned field organization that will enable us to better meet the needs of these diverse markets.
- *Extend our technology partner alliance ecosystem* – We plan to continue to enhance our technology value, product capabilities and customer relevance through the continued integration of our products into technology partner products. This includes both interoperability integration efforts, as well as embedding our technology into alliance partner products to gain a more pervasive footprint across both enterprise and service provider networks.

Support Services

Customer satisfaction is a key driver of NetScout's success. NetScout's MasterCare™ support programs offer customers various levels of high quality support services to assist in the deployment and use of our solutions. We have support personnel strategically deployed across the globe to deliver 24/7 telephone support to our premium MasterCare customers. Some of the support services, such as on-site support activities, are provided by qualified third party support partners. In addition many of our certified resellers provide Partner Enabled Support to NetScout end-users. This is especially prevalent in international locations where time zones and language, among other factors, make it more efficient for end-users to have the reseller provide initial support functions. MasterCare support also includes updates to our software and firmware at no additional charge, if and when such updates are developed and made generally available to our commercial customer base. If ordered, MasterCare support commences upon expiration of the standard warranty for software. For software, which also includes firmware, the standard warranty commences upon shipment and expires 90 days thereafter. With regard to hardware, the standard warranty commences upon shipment and expires 12 months thereafter. We believe our warranties are consistent with commonly accepted industry standards.

Manufacturing

Our manufacturing operations consist primarily of final product assembly, configuration and testing. We purchase components and subassemblies from suppliers and construct our hardware products in accordance with NetScout standard specifications. We inspect, test and use process control to ensure the quality and reliability of our products. In February 1998, we obtained ISO 9001 quality systems registration, a certification showing that our corporate procedures and manufacturing facilities comply with standards for quality assurance and process control. In July 2003, we obtained ISO 9001:2000 quality systems registration, a certification showing that our corporate procedures comply with standards for continuous improvement and customer satisfaction.

Although we generally use standard parts and components for our products, which are available from various suppliers, each of the computer network interface cards used in our devices is currently available only from separate single source suppliers. We have generally been able to obtain adequate supplies of components in a timely manner from current suppliers. While currently we purchase from specific suppliers, we believe that, in most cases, alternate suppliers can be identified if current suppliers are unable to fulfill our needs. Our reliance on single source suppliers is further described in Item 1A "Risk Factors."

We manufacture our products based upon near-term demand estimates resulting from sales forecasts and historical fulfillment information. Due to the fact that these forecasts have a high degree of variability because of such factors as time of year, overall economic conditions and employee incentives, we maintain inventory levels in advance of receipt of firm orders to ensure that we have sufficient stock to satisfy incoming orders.

Sales and Marketing

Sales

We sell our products, support and services through a direct sales force and an indirect reseller and distribution channel.

Our direct sales force uses a "high-touch" sales model that consists of face-to-face meetings with customers to understand and identify their unique business challenges and requirements. Our sales teams then translate those requirements into tailored business solutions that allow the customer to maximize the performance of its infrastructure and service delivery environment. Due to the complexity of the systems and the capital expenditure involved, our sales cycle typically takes three to twelve months. We build strategic relationships with our customers by continually enhancing our solution to help them address their evolving service delivery management challenges. In addition to providing a comprehensive solution to meet these needs, we continually provide software enhancements to our customers as part of their maintenance contracts with us. These enhancements are designed to provide additional and ongoing value to our existing customers to promote loyalty and the expansion of their deployment of our products. Existing customer growth is also driven by the expansion and changes in their networks as they add new infrastructure elements, new users, new locations, new applications and experience increasing service traffic volumes.

We also maintain an indirect reseller and distribution channel. Sales to customers outside the United States are primarily export sales through channel partners. Our channel partners assist us by improving our reach to customers, extending our presence in new markets, and marketing and selling our products to a broad array of organizations globally. We sell through a range of channel partners including value added resellers, value added distributors, resellers, and system integrators, to our enterprise, service provider and government customers. Historically and currently, we have used indirect distribution channels principally as intermediaries on contractual terms for customers with whom we have no contract. Our sales force meets with end user customers to present NetScout products and solutions, conduct demonstrations, provide evaluation equipment, recommend detailed product solutions, develop product deployment designs and timelines, and assist in establishing financial and other justification for the proposed solution. During this selling process, a channel partner, who has contracts with both the end customer and NetScout, may be brought in to facilitate the transaction and to provide fulfillment services. In the case of international channel partners, those services usually also include currency translation and support. In the U.S., fulfillment services are usually limited to invoicing and cash collection. Under this approach, we have limited dependence upon channel partners for the major elements of the selling process. In many cases, there are multiple channel partners with the required contractual relationships, so dependence on any single channel partner is not significant.

Total revenue from indirect channels represented 49%, 49% and 54% of our total revenue for the fiscal years ended March 31, 2014, 2013 and 2012, respectively. During the fiscal year ended March 31, 2014, one direct customer accounted for more than 10% of total revenue, while no single indirect channel partner accounted for more than 10% of total revenue. During the fiscal years ended March 31, 2013 and 2012, no single direct customer or indirect channel partner accounted for more than 10% of total revenue.

Our sales force is organized into four main geographic teams covering sales around the globe: United States, Europe, Asia and the rest of the world. Revenue from sales outside the United States represented 24%, 25% and 25% of our total revenue in the fiscal years ended March 31, 2014, 2013 and 2012, respectively. For additional information regarding our sales by geographic location, see Note 18 of our Notes to Consolidated Financial Statements.

Marketing

Our marketing organization drives our market strategy, product positioning and messaging and produces and manages a variety of programs such as advertising, trade shows, industry events, public and analyst relations, direct mail, seminars, sales promotions, and web marketing to promote the sale and acceptance of our solutions and to build the NetScout and nGenius brand names in the marketplace. We host an annual worldwide user conference as a way to engage with existing customers, to provide education and awareness, and to promote expanded use of our software with these customers.

Key elements of our marketing strategy focus on thought leadership, market education, go to market strategies, reputation management, demand generation, and the acceleration of our strategic selling relationships with local and global resellers, systems integrators, and our technology alliance partners.

Research and Development

Our continued success depends significantly on our ability to anticipate and create solutions that will meet emerging customer requirements. We have invested significant financial resources and personnel into the development of our products and technology. Our continued investment in research and development is crucial to our business and our continued success in the market. We have assembled a team of highly skilled engineers with expertise in various technologies associated with our business and the technologies being deployed by our customers. We plan to continue to expand our product offerings and capabilities in the near future, and, therefore, plan to continue to invest and dedicate significant resources to our research and development activities. In addition, as we continue to expand our position in the service provider market, we will need to continue to expand our offerings and focused capabilities for these customers. We will continue to make substantial investments in growing our service provider technology expertise to maintain and grow our market and technology lead for this rapidly growing market opportunity.

We predominantly develop our products internally, with some limited third party contracting. We have also acquired developed technology through business acquisitions. To promote industry standards and manifest technology leadership, we participate in and support the activities and recommendations of industry standards bodies, such as the Internet Engineering Task Force, the 3rd Generation Partnership Project and we also engage in close and regular dialogue with our key customers and alliance partners. These activities provide early insight into the direction of network and applications performance requirements for current and emerging technologies.

Seasonality

We have experienced, and expect to continue to experience, quarterly variations in our order bookings as a result of a number of factors, including the length of the sales cycle, complexity of customer environments, new product introductions and their market acceptance and seasonal factors affected by customer projects and typical IT buying cycles. Due to these factors, we historically have experienced stronger bookings during our fiscal third and fourth quarters than in the first and second quarters.

Customers

We sell our products to enterprises, service providers and governmental agencies with large- and medium-sized high-speed IP computer networks. Our enterprise customers cover a wide variety of industries, such as financial services, technology, manufacturing, healthcare, utilities, education and retail. In the telecommunications service provider customer group we address mobile operators, wireline operators and cable operators. A significant number of our service provider customers are mobile operators.

NetScout solutions are deployed at more than 20,000 of the world's largest enterprises, government agencies, and more than 165 service providers, on over one million physical and 2,000 virtual network segments.

Backlog

We produce our products on the basis of our forecast of near-term demand and maintain inventory in advance of receipt of firm orders from customers. We configure our products to customer specifications and generally deliver products shortly after receipt of the purchase order. Service engagements are also included in certain orders. Customers generally may reschedule or cancel orders with little or no penalty. We believe that our backlog at any particular time is not meaningful because it is not necessarily indicative of future sales levels.

Our combined product backlog at March 31, 2014, consisting of orders booked or received prior to our year end, was $37.4 million compared to an immaterial amount at March 31, 2013.

Competition

We compete with many companies in the markets we serve. The service assurance and performance management market is highly competitive, rapidly evolving, and fragmented with overlapping technologies and competitors. Consequently, there are a number of companies that deliver some elements of our solutions.

Principal competitive factors in our market include scalability; ability to address a large number of applications, locations and users; product performance; the ability to easily deploy into existing network environments; and the ability to administer and manage the solution.

We believe that we compete favorably on the basis of these factors. We believe we are currently the only vendor providing a comprehensive and end-to-end service delivery management solution that is capable of addressing the needs of both enterprise and service provider customers and can scale to meet the challenges of today’s dynamic service delivery environments. We believe that our solutions provide superior data and perform better than competitive products as measured by a broad range of metrics including the ability to recognize and track a large number of applications, scalability to support high and increasing levels of data and network traffic, the ability to look at both data and control plane traffic across an entire network, and the ability to provide real-time information about service performance and real-time alerts to emerging service problems.

In the enterprise market, our larger competitors include companies such as Computer Associates and Riverbed Technology Inc., along with a number of smaller private companies and new market entrants. In addition, we both compete with and partner with large enterprise management vendors, such as IBM, HP, and EMC, who currently offer generalized performance management solutions but could provide enhanced solutions in the future.

In the service provider market our primary large competitors include Tektronix, a division of Danaher, and JDSU, who provide operational management systems based primarily on monitoring legacy signaling data, along with a number of smaller private companies and new market entrants.

Our ability to sustain such a competitive advantage depends on our ability to deliver continued technology innovation and adapt to meet the evolving needs of our customers. Competitive factors in our industry are further described in Item 1A “Risk Factors.”

Intellectual Property Rights

We rely on patent, copyright, trademark, and trade secret laws and contract rights to establish and maintain our rights in our technology and products. While our intellectual property rights are an important element in our success, our business as a whole does not depend on any one particular patent, trademark, copyright, trade secret, license, or other intellectual property right.

NetScout uses contracts, statutory laws, domestic and foreign intellectual property registration processes, and international intellectual property treaties to police and protect its intellectual property portfolio and rights from infringement. From a contractual perspective, NetScout uses license agreements and non-disclosure agreements to control the use of our intellectual property and protect NetScout trade secrets from unauthorized use and disclosure. In addition to license agreements, NetScout relies on U.S. and international copyright law to protect against unauthorized copying of software programs, in the U.S. and abroad. NetScout has obtained U.S. and foreign trademark registrations to preserve and protect certain trademarks and trade names. NetScout has also filed and obtained U.S. patents and international counterparts to protect certain unique NetScout inventions from being unlawfully exploited by other parties. However, there is no assurance that pending or future patent applications will be granted, that we will be able to obtain patents covering all of our products, or that we will be able to license, if needed, patents from other companies on favorable terms or at all. Our proprietary rights are subject to other risks and uncertainties described under Item 1A "Risk Factors."

Employees

As of March 31, 2014, we had a total of 1,021 employees, 660 of whom were employed in the United States. The majority of our employees are not subject to a collective bargaining agreement. In accordance with applicable law, employees in certain international jurisdictions are subject to collective bargaining agreements. Employees by department as of March 31, 2014 were as follows:

Function	Number of Employees
Sales and marketing	366
Research and development	351
Support services	157
General and administrative	115
Manufacturing	32
	1,021

Corporate information

Our corporate headquarters are located at 310 Littleton Road, Westford, Massachusetts, and our telephone number is (978) 614-4000. NetScout was incorporated in Delaware in 1984.

NetScout's internet address is http://www.netscout.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), are made available free of charge on or through our website at www.netscout.com as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the SEC). None of the information posted on our website is incorporated by reference into this Annual Report.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations web-site. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, as part of our investor relations web-site. The contents of these web-sites are not intended to be incorporated by reference into this report or in any other report or document we file.

Item 1A. Risk Factors.

In addition to the other information in this report, the following discussion should be considered carefully in evaluating NetScout and our business. This Annual Report on Form 10-K contains forward-looking statements under Section 21E of the Exchange Act and other federal securities laws. These statements relate to future events or our future financial performance and are identified by terminology such as "may," "will," "could," "should," "expects," "plans," "intends," "seeks," "anticipates," "believes," "estimates," "potential" or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially. Factors that may cause such differences include, but are not limited to, the factors discussed below and in our other filings with the SEC. These factors may cause our actual results to differ materially from any forward-looking statement.

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. Except for the historical information in this report, the matters contained in this report include forward-looking statements that involve risk and uncertainties. The following factors are among many that could cause actual results to differ materially from those contained in or implied by forward-looking statements made in this report. These statements involve the risks and uncertainties identified below as well as additional risks and uncertainties that are not yet identified or that we currently think are immaterial but may also impact our business operations. Such factors are among many that may have a material adverse impact upon our business, results of operations and financial condition.

Our quarterly revenue and operating results may fluctuate. Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Our quarterly revenue may fluctuate as a result of a variety of factors, many of which may be outside of our control, including the following:

- technology spending by current and potential customers;
- uneven demand for service delivery and application performance management solutions;
- the timing and size of orders from customers, especially in light of our lengthy sales cycle;
- the timing and market acceptance of new products or product enhancements by us or our competitors;
- the timing of hiring sales personnel and the speed at which such personnel become productive;
- our ability to anticipate or adapt effectively to developing markets and rapidly changing technologies and technology requirements;
- changes in the number and size of our competitors and changes in the prices and capabilities of competitors' products;
- customer ability to implement our products;
- changes in foreign currency exchange rates;
- attrition of key employees; and
- economic slowdowns and the occurrence of unforeseeable global events, which contribute to such slowdowns.

Most of our expenses, such as employee compensation, benefits and rent, are relatively fixed in the short term. Moreover, our expense levels are based, in part, on our expectations regarding future revenue levels. As a result, if revenue for a particular quarter is below our expectations, we may not be able to reduce operating expenses proportionately for that quarter, and, therefore, this revenue shortfall would have a disproportionately negative impact on our operating results for that quarter.

If we fail to introduce new products or enhance our existing products to keep up with rapid technological change, demand for our products may decline. The market for application and network performance management and service assurance solutions is characterized by rapid changes in technology, evolving industry standards, changes in customer requirements and frequent product introductions and enhancements. Our success is dependent upon our ability to meet our customers' needs, which are driven by changes in computer networking technologies, new application technologies and the emergence of new industry standards. In addition, new technologies may shorten the life cycle for our products or could render our existing or planned products obsolete. If we are unable to develop and introduce new network and application performance management and service assurance products or enhancements to existing products in a timely and successful manner, this inability could have a material and adverse impact on our business, operating results and financial condition.

We have introduced and intend to continue to introduce new products. If the introduction of these products is significantly delayed or if we are unsuccessful in bringing these products to market, our business, operating results and financial condition could be materially and adversely impacted.

We face significant competition from other technology companies. The service assurance and performance management market is a highly competitive, rapidly evolving, and fragmented market that has overlapping technologies and competitors, both large and small. We believe customers make service management system purchasing decisions based primarily upon the following factors:

- product performance, functionality and price;
- name and reputation of vendor; and
- alliances with industry partners.

We compete with a growing number of smaller providers of application performance management solutions and providers of portable network traffic analyzers and probes. In addition, leading network equipment and application technology vendors offer their own generalized management solutions, including products which they license from other competitors. Some of our current and potential competitors have greater name recognition and substantially greater financial, management, marketing, service, support, technical, distribution and other resources than we do. Further, in recent years some of our competitors have been acquired by larger companies that are seeking to enter or expand in the markets in which we operate. Therefore, given their larger size and greater resources our competitors may be able to respond more effectively than we can to new or changing opportunities, technologies, standards and customer requirements.

As a result of these and other factors, we may not be able to compete effectively with our current or future competitors, which could have a material and adverse impact on our business, operating results and financial condition.

Our success depends, in part, on our ability to manage and leverage our distribution channels. Sales to our distribution channels, which include resellers, original equipment manufacturers, distributors, systems integrators and service providers, accounted for 49%, 49%, and 54% of our total revenue for the fiscal years ended March 31, 2014, 2013 and 2012, respectively. To increase our sales we need to continue to enhance our indirect sales efforts, to continue to manage and expand these existing distribution channels and to develop new indirect distribution channels. Our channel partners have no obligation to purchase any products from us. In addition, they could internally develop products that compete with our solutions or partner with our competitors or bundle or resell competitors' solutions, possibly at lower prices. The potential inability to develop new relationships or to expand and manage our existing relationships with partners, the potential inability or unwillingness of our partners to market and sell our products effectively or the loss of existing partnerships could have a material and adverse impact on our business, operating results and financial condition. Our international operations, including our operations in the United Kingdom, mainland Europe, India, Asia-Pacific and other regions, are generally also subject to the risk of longer sales cycles through our international distribution channels. Sales to customers outside the United States accounted for 24%, 25%, and 25% of our total revenue for the fiscal years ended March 31, 2014, 2013 and 2012, respectively.

If our products contain errors, they may be costly to correct, revenue may be delayed, we could be sued and our reputation could be harmed. Despite testing by our customers and us, errors may be found in our products after commencement of commercial shipments. If errors are discovered, we may not be able to correct them in a timely manner or at all. In addition, we may need to make significant expenditures to eliminate errors and failures. Errors and failures in our products could result in loss of or delay in market acceptance of our products and could damage our reputation. If one or more of our products fail, a customer may assert warranty and other claims for substantial damages against us. The occurrence or discovery of these types of errors or failures could have a material and adverse impact on our business, operating results and financial condition.

Increased customer demands on our technical support services may adversely affect our relationships with our customers and our financial results. We offer technical support services with many of our products. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. We also may be unable to modify the format of our support services to compete with changes in support services provided by competitors. Further customer demand for these services, without corresponding revenues, could have a material and adverse impact on our financial condition and results of operations.

We must hire and retain skilled personnel, and plan for and manage the succession of key executives. Our future success depends in large part upon our ability to attract, train, motivate and retain highly skilled employees, particularly executives, sales and marketing personnel, software engineers, and technical support personnel. If we are unable to attract and retain the highly skilled technical personnel that are integral to our sales, marketing, product development and technical support teams, the rate at which we can generate sales and develop new products or product enhancements may be limited. This inability could have a material and adverse impact on our business, operating results and financial condition. In addition, we must maintain and periodically increase the size of our sales force in order to increase our direct sales and support our indirect sales channels. Because our products are very technical, sales people require a comparatively long period of time to become productive, typically three to twelve months. This lag in productivity, as well as the challenge of attracting qualified candidates, may make it difficult to meet our sales force growth targets. Further, we may not generate sufficient sales to offset the increased expense resulting from growing our sales force. If we are unable to maintain and periodically expand our sales capability, our business, operating results and financial condition could be materially and adversely impacted.

Loss of key personnel could adversely impact our business. Our future success depends to a significant degree on the skills, experience and efforts of Anil Singhal, our President, Chief Executive Officer, and co-founder, and our other key executive officers and senior managers to work effectively as a team. The loss of one or more of our key personnel could have a material and adverse impact on our business, operating results and financial condition. We must, therefore, plan for and manage the succession of key executives due to retirement, illness or competitive offers elsewhere.

The success of our business depends, in part, on the continued growth in the market for and the continued commercial demand for service delivery service assurance solutions focused on the performance monitoring and management of applications and networks. We derive nearly all of our revenue from the sale of products and services that are designed to allow our customers to assure the delivery of services through the management of the performance of applications across IP networks. Therefore, we must be able to predict the appropriate features and prices for future products to address the market, the optimal distribution strategy and the future changes to the competitive environment. In order for us to be successful, our potential customers must recognize the value of more sophisticated application management solutions, decide to invest in the management of their networked applications and, in particular, adopt our management solutions. Any failure of this market to continue to be viable would materially and adversely impact our business, operating results and financial condition. Additionally, businesses may choose to outsource the operations and management of their networks to managed service providers. Our business may depend on our ability to continue to develop relationships with these service providers and successfully market our products to them.

We may not successfully complete acquisitions or integrate acquisitions we do make, which could impair our ability to compete and could harm our operating results. We may need to acquire complementary businesses, products or technologies to remain competitive or expand our business. We actively investigate and evaluate potential acquisitions of complementary businesses, products and technologies in the ordinary course of business. We may compete for acquisition opportunities with entities having significantly greater resources than us. As a result, we may not succeed in acquiring some or all businesses, products or technologies that we seek to acquire. Our inability to effectively consummate acquisitions on favorable terms could significantly impact our ability to compete effectively in our targeted markets and could negatively affect our results of operations.

Acquisitions that we do complete could adversely impact our business. The potential adverse consequences from acquisitions include:

- the potentially dilutive issuance of common stock or other equity instruments;
- the incurrence of debt and amortization expenses related to goodwill and acquired intangible assets;
- the potentially costly and disruptive impact of assuming unfavorable pre-existing contractual relationships of acquired companies that we would not have otherwise entered into and potentially exiting or modifying such relationships;
- the potential litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition including claims from terminated employees, customers, third parties or enforcement actions by various regulators;
- the incurrence of significant costs and expenses; and
- the potentially negative impact of poor performance of an acquisition on our earnings per share.

Acquisition transactions also involve numerous business risks. These risks from acquisitions include:

- difficulties in assimilating the acquired operations, technologies, personnel and products;
- difficulties in managing geographically dispersed operations;
- difficulties in assimilating diverse financial reporting and management information systems;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the diversion of management's attention from other business concerns;
- use of cash to pay for acquisitions that may limit other potential uses of our cash, including stock repurchases and retirement of outstanding indebtedness;
- substantial accounting charges for restructuring and related expenses, write-off of in-process research and development, impairment of goodwill, amortization or impairment of intangible assets and share-based compensation expense;
- the potential disruption of our business;
- the potential loss of key employees, customers, distributors or suppliers;
- the inability to generate sufficient revenue to offset acquisition or investment costs; and
- the potential for delays in customer purchases due to uncertainty and the inability to maintain relationships with customers of the acquired businesses.

Failure to manage growth properly and to implement enhanced automated systems could adversely impact our business. The growth in size and complexity of our business and our customer base has been and will continue to be a challenge to our management and operations. To manage further growth effectively, we must integrate new personnel and manage expanded operations. If we are unable to manage our growth effectively, our costs, the quality of our products, the effectiveness of our sales organization, attraction and retention of key personnel, our business, our operating results and financial condition could be materially and adversely impacted. Any disruptions or ineffectiveness relating to our systems implementations and enhancements could adversely affect our ability to process customer orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations, and otherwise run our business.

Our success depends, in part, on our ability to manage our international research and development operations. We must continue to enhance our existing products and introduce new products in order to keep up with rapid technological change. Our international research and development teams play a critical role in these efforts. We must attract, train, motivate and retain our international research and development team members. To maintain this stable international employee research and development talent, we believe we must provide our international engineers with compelling and strategically significant work, coupled with technical and architectural ownership of their respective development projects. We must develop the leaders of these international teams, while ensuring their frequent inclusion and participation in corporate strategic and operational planning.

If we violate the U.S. Foreign Corrupt Practices Act or applicable anti-bribery laws in other countries, or if we fail to comply with U.S. export controls and government contracting laws, our business could be harmed. We earn a significant portion of our total revenues from international sales. As a result, we are subject to the U.S. Foreign Corrupt Practices Act (FCPA), which generally prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment and requires companies to maintain appropriate record-keeping and internal accounting practices to accurately reflect the transactions of the company. Under the FCPA, U.S. companies may be held liable for actions taken by agents or local partners or representatives. In addition, regulators may seek to hold us liable for successor liability FCPA violations committed by companies which we acquire. We are also subject to the U.K. Bribery Act and may be subject to certain anti-corruption laws of other countries in which we do business. We are also subject to the export and re-export control laws of the U.S., including the U.S. Export Administration Regulations (EAR). We are also subject to U.S. government contracting laws, rules and regulations, and may be subject to government contracting laws of other countries in which we do business. If we or our intermediaries fail to comply with the FCPA, the EAR or U.S. government contracting laws, or the anti-corruption, export or governmental contracting laws of other countries, governmental authorities in the U.S. or other countries could seek to impose civil and/or criminal penalties, which could have a material adverse effect on our business, results of operations, financial conditions and cash flows.

The current economic and geopolitical environment may impact some specific industries into which we sell. Many of our customers are concentrated in certain industries, including financial services, public sector, healthcare, and the service provider market segment. Certain industries may be more acutely affected by economic, geopolitical and other factors than other sectors. Our public sector customers are affected by federal, state and local budget decisions. To the extent that one or more of the sectors in which our customer base operates is adversely impacted, whether as a result of general conditions affecting all sectors or as a result of conditions affecting only those particular sectors, our business, financial condition and results of operations could be materially and adversely impacted.

Uncertain conditions in the global economy and constraints in the global credit market may adversely affect our revenue and results of operations. Disruptions in the global economy and constraints in the global credit market may cause some of our customers to reduce, delay, or cancel spending on capital and technology projects, resulting in reduced spending with us. While some industry sectors such as government and telecommunications may be less susceptible to the effects of an economic slowdown, our enterprise customers may be adversely affected, especially in financial services and consumer industries. Continued volatility in, or disruption of financial markets could limit customers' ability to obtain adequate financing to maintain operations and result in a decrease in sales volume that could have a negative impact on our results of operations. Further, competitors may respond to economic conditions by lowering their prices, which could put pressure on our pricing. We could also experience lower than anticipated order levels, cancellations of orders in backlog, defaults on outstanding accounts receivable and extended payment or delivery terms.

The price of our common stock may fluctuate with market volatility. The market price of our common stock has been volatile and may continue to fluctuate in response to a number of factors, some of which are beyond our control. Trading activity of our stock has historically been relatively thin, in part as a result of officers and directors and institutional stockholders holding a significant percentage of our stock. Broad market fluctuations could adversely affect the market price of our common stock, which in turn could cause impairment of goodwill that could materially and adversely impact our financial condition and results of operations.

It is not uncommon when the market price of a stock has been volatile for holders of that stock to institute securities class action litigation against the company that issues that stock. If any of our stockholders brought such a lawsuit against us, even if the lawsuit is without merit, we could incur substantial costs defending the lawsuit beyond any insurance coverage which we may have for such risks. Such a lawsuit could also divert the time and attention of our management.

We may fail to secure necessary additional financing. Our future success may depend in part on our ability to obtain additional financing to support our continued growth and operations. If our existing sources of liquidity are insufficient to satisfy our operating requirements, we may need to seek to raise capital by:

- issuing additional common stock or other equity instruments;
- acquiring additional bank debt;
- issuing debt securities; or
- obtaining lease financings.

However, we may not be able to obtain additional capital when we want or need it, or capital may not be available on satisfactory terms. Furthermore, any additional capital may have terms and conditions that adversely affect our business, such as new financial or operating covenants, or that may result in additional dilution to our stockholders.

Our effective tax rate may increase or fluctuate, which could increase our income tax expense and reduce our net income. Our effective tax rate could be adversely affected by several factors, many of which are outside of our control, including:

- Changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- Changing tax laws, regulations, and interpretations in multiple jurisdictions in which we operate as well as the requirements of certain tax rulings;
- Changes in accounting and tax treatment of share-based compensation;
- The valuation of generated and acquired deferred tax assets and the related valuation allowance on these assets;
- The tax effects of purchase accounting for acquisitions and restructuring charges that may cause fluctuations between reporting periods; and
- Tax assessments or any related tax interest or penalties that could significantly affect our income tax expense for the period in which the settlements take place.

An adverse change in our effective tax rate could have a material and adverse effect on our financial condition and results of operations.

Our estimates and judgments related to critical accounting policies could be inaccurate. We consider accounting policies related to marketable securities, revenue recognition, valuation of goodwill and acquired intangible assets and share-based compensation to be critical in fully understanding and evaluating our financial results. Management makes accounting judgments and estimates related to these policies. Our business, operating results and financial condition could be materially and adversely impacted in future periods if our accounting judgments and estimates related to these critical accounting policies prove to be inaccurate.

Our reliance on sole source suppliers could adversely impact our business. Specific components that are necessary for the hardware assembly of our instruments are obtained from separate sole source suppliers or a limited group of suppliers. These components include our network interface cards and proprietary NetScout hardware. Our reliance on sole or limited suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and the inability to exercise control over pricing, quality and timely delivery of components. It is our practice to mitigate these risks by partnering with key suppliers, including distributors, to establish a variety of supply continuity practices. These practices may include, among other approaches, establishing buffer supply requiring suppliers to maintain adequate stocks of materials, bonding agreements with distributors, and use-based and kanban programs to set supply thresholds. We also enter into escrow arrangements for certain technologies. Where possible, we use widely-available off the shelf hardware and work with large suppliers with multiple factories and other risk management practices. However, failure of supply or failure to execute effectively on any of these programs could result in our inability to obtain adequate deliveries or the occurrence of any other circumstance that would require us to seek alternative sources of these components would impact our ability to ship our products on a timely basis. This could damage relationships with our current and prospective customers, cause shortfalls in expected revenue, and could materially and adversely impact our business, operating results and financial condition.

Necessary licenses for third-party technology may not be available to us or may be very expensive. We currently and will in the future license technology from third parties that we use to produce or embed in our products. While we have generally been able to license required third-party technology to date, future required third-party licenses may not be available to us on commercially reasonable terms or at all. Third parties who hold exclusive rights to technology that we seek to license may include our competitors. If we are unable to obtain any necessary third-party licenses, we would be required to redesign our product or obtain substitute technology, which may not perform as well, be of lower quality or be more costly.

Our success depends on our ability to protect our intellectual property rights. Our business is heavily dependent on our intellectual property. We rely upon a combination of patent, copyright, trademark and trade secret laws and registrations and non-disclosure and other contractual and license arrangements to protect our intellectual property rights. The reverse engineering, unauthorized copying, or other misappropriation of our intellectual property could enable third parties to benefit from our technology without compensating us. Legal proceedings to enforce our intellectual property rights could be burdensome and expensive and could involve a high degree of uncertainty. In addition, legal proceedings may divert management's attention from growing our business. There can be no assurance that the steps we have taken to protect our intellectual property rights will be adequate to deter misappropriation of proprietary information, or that we will be able to detect unauthorized use by third parties and take appropriate steps to enforce our intellectual property rights. Further, we also license software from third parties for use as part of our products, and if any of these licenses were to terminate, we might experience delays in product shipment until we develop or license alternative software.

Others may claim that we infringe on their intellectual property rights. From time to time we may be subject to claims by others that our products infringe on their intellectual property rights, patents, copyrights or trademarks. These claims, whether or not valid, could require us to spend significant sums in litigation, pay damages or royalties, delay product shipments, reengineer our products, rename our products and rebuild name recognition or acquire licenses to such third-party intellectual property. We may not be able to secure any required licenses on commercially reasonable terms or secure them at all. Any of these claims or resulting events could have a material and adverse impact on our business, operating results and financial condition.

The effectiveness of our disclosure and internal controls may be limited. Our disclosure controls and procedures and internal control over financial reporting may not prevent all material errors and intentional misrepresentations. Any system of internal control can only provide reasonable assurance that all control objectives are met. Some of the potential risks involved could include, but are not limited to, management judgments, simple errors or mistakes and willful misconduct regarding controls or misinterpretation. Under Section 404 of the Sarbanes-Oxley Act we are required to evaluate and determine the effectiveness of our internal control over financial reporting. Compliance with this legislation requires management's attention and expense. Management's assessment of our internal control over financial reporting may or may not identify weaknesses that need to be addressed in our internal control system. If we are unable to conclude that our internal control over financial reporting is effective, investors could lose confidence in our reported financial information which could have an adverse effect on the market price of our stock or impact our borrowing ability. In addition, changes in operating conditions and changes in compliance with policies and procedures currently in place may result in inadequate internal control over financial reporting in the future.

We or our suppliers may be impacted by new regulations related to climate change. We or our suppliers may become subject to new laws enacted with regards to climate change. In the event that new laws are enacted or current laws are modified in countries in which we or our suppliers operate, our flow of product may be impacted which could have a material and adverse effect on our financial condition and results of operations.

Uncertainties of regulation of the Internet and data traveling over the Internet could have a material and adverse impact on our financial condition and results of operations. Currently, few laws or regulations apply directly to access to or commerce on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we operate. Such regulations could include matters such as net neutrality. Further, governments may regulate or restrict the sales, licensing, distribution, and export or import of certain technologies to certain countries. The adoption of regulation of the Internet and Internet commerce could decrease demand for our products and, at the same time, increase the cost of selling our products, which could have a material and adverse effect on our financial condition and results of operations. In addition, the enactment of new federal, state, or foreign data privacy laws and regulations could cause customers not to be able to take advantage of all the features or capabilities of our products which in turn could reduce demand for certain of our products.

A security breach or cyber attack of our IT networks and systems, or any of our products, could interrupt our operations or harm our reputation. Although we believe we have sufficient controls and security measures in place to prevent such attacks, our IT networks and systems, and our products, may still be vulnerable to data theft, computer viruses, programming errors, attacks by third parties or similar problems. If we, or our customers using our products, were to experience a security breach or cyber attack, we could be required to incur substantial costs and liabilities, including but not limited to, expenses attributable to rectifying the security breach or cyber attack including the cost of repairing any damage to our, or our customers' systems, liability for stolen assets or information, lost revenue and income resulting from any system or product downtime, increased costs for cyber security protection, and damage to our reputation causing customers and possibly investors to lose confidence in us. Similarly, an actual or perceived breach of our customers' network security allowing access to our customers' data centers or other parts of their IT environments, regardless of whether the breach is attributable to our products, may cause contractual disputes and could require significant expenditures of our capital and diversion of our resources from development efforts.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease approximately 175,000 square feet of space in an office building in Westford, Massachusetts, for our headquarters. The current lease will expire in September 2023, and we have an option to extend the lease for two additional five-year terms. We lease office space in twenty-nine international cities for our sales and support personnel, as well as 72,742 square feet of space in San Jose, California. We lease 63,296 square feet of office space for our engineering and support personnel in India. We believe that our existing facilities are adequate to meet our foreseeable requirements or that suitable additional or substitute space will be available on commercially reasonable terms.

Item 3. Legal Proceedings

From time to time, NetScout is subject to legal proceedings and claims in the ordinary course of business. In the opinion of management, 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 condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

We completed our initial public offering on August 17, 1999. Since that time, our common stock has traded on the Nasdaq Global Market and its predecessor, the Nasdaq National Market, under the symbol NTCT. The following table sets forth, for the periods indicated, the high and low intraday sales prices for our common stock. Such information reflects inter-dealer price, without retail mark-up, markdown or commission and may not represent actual transactions.

Quarter Ended	High	Low
Fiscal Year 2013		
June 30, 2012	$21.85	$17.75
September 30, 2012	$26.59	$18.96
December 31, 2012	$26.31	$23.05
March 31, 2013	$28.28	$23.74
Fiscal Year 2014		
June 30, 2013	$24.92	$21.22
September 30, 2013	$27.55	$23.22
December 31, 2013	$30.76	$24.04
March 31, 2014	$39.10	$28.64

Stockholders

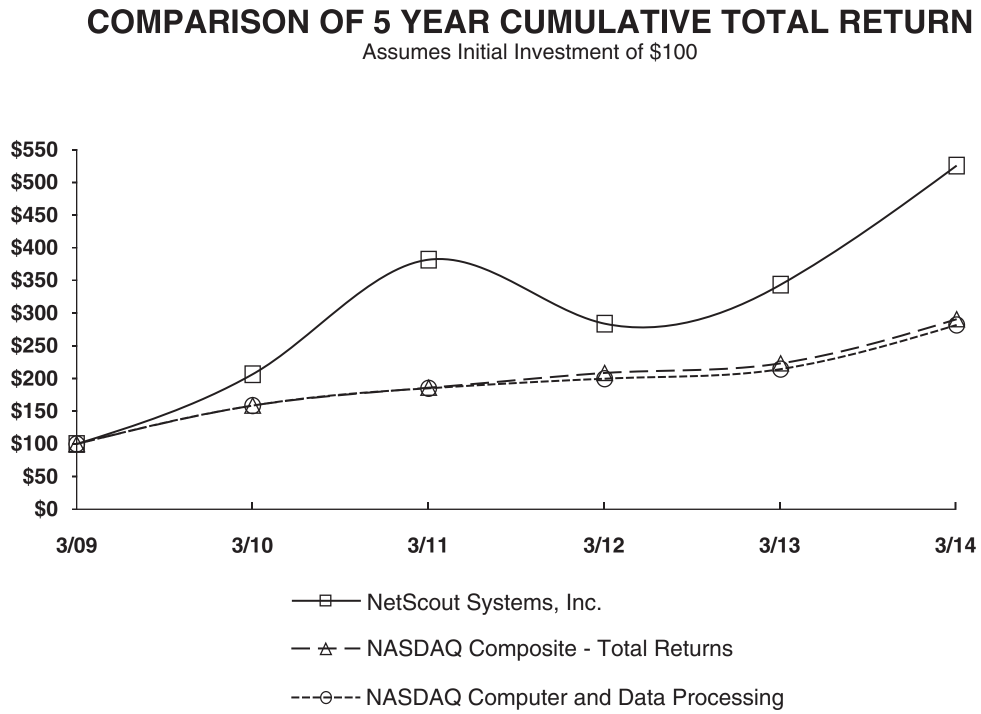
As of May 14, 2014, we had 80 stockholders of record. We believe that the number of beneficial holders of our common stock exceeds 6,000.

Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of NetScout under the Exchange Act or the Securities Act of 1933, as amended.

The Stock Performance Graph set forth below compares the yearly change in the cumulative total stockholder return on our common stock during the five year period from March 31, 2009 through March 31, 2014 with the cumulative total return of the Nasdaq Composite Index and the Nasdaq Computer & Data Processing Index. The comparison assumes $100 was invested on March 31, 2009 in our common stock or in the Nasdaq Composite Index and the Nasdaq Computer & Data Processing Index and assumes reinvestment of dividends, if any.

The stock price performance shown on the graph below is not necessarily indicative of future price performance. Information used in the graph was obtained from Zacks Investment Research, Inc.



	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013	3/31/2014
NetScout Systems, Inc.	$100.00	$206.56	$381.56	$284.08	$343.16	$524.86
NASDAQ Composite – Total Returns	$100.00	$158.32	$185.32	$208.14	$223.01	$290.32
NASDAQ Computer and Data Processing	$100.00	$158.86	$185.13	$199.91	$214.31	$282.02

Dividend Policy

In fiscal years 2014 and 2013, we did not declare any cash dividends and do not anticipate declaring cash dividends in the foreseeable future. In addition, the terms of our credit facility limit our ability to pay cash dividends on our capital stock. It is our intention to retain all future earnings for reinvestment to fund our expansion and growth, as well as for our stock buyback program further described under Item 7 “Liquidity and Capital Resources.” Any future cash dividend declaration will be at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, general financial conditions, capital requirements, existing bank covenants and general business conditions.

Purchases of Equity Securities by the Issuer

The following table provides information about purchases we made during the quarter ended March 31, 2014 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
1/1/2014 thru 1/31/2014	41,576	$34.51	35,604	457,696
2/1/2014 thru 2/28/2014	173,175	36.12	172,705	284,991
3/1/2014 thru 3/31/2014	41,691	38.38	41,691	243,300
Total	256,442	$36.23	250,000	243,300

(1) We purchased an aggregate of 6,442 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock during the period. These purchases reflected in the table do not reduce the maximum number of shares that may be purchased under the plan.

(2) On April 22, 2014, our board of directors approved an additional stock repurchase program. This share repurchase program authorizes us to make additional repurchases of our outstanding common stock of up to $100 million with no pre-established end date.

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with our audited consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included under Item 7 of this Annual Report on Form 10-K. The consolidated statement of operations data for the fiscal years ended March 31, 2014, 2013 and 2012 and the consolidated balance sheet data as of March 31, 2014 and 2013 are derived from audited consolidated financial statements included under Item 8 of this Annual Report on Form 10-K. The consolidated statement of operations data for the fiscal years ended March 31, 2011 and 2010 and the consolidated balance sheet data as of March 31, 2012, 2011 and 2010 have been derived from audited consolidated financial statements of NetScout that do not appear in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the operating results to be expected in the future.

	Year Ended March 31,				
	2014	2013(1)	2012(2)	2011	2010
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue:					
Product	$234,268	$198,749	$168,141	$159,948	$142,113
Service	162,379	151,801	140,538	130,592	118,229
Total revenue	396,647	350,550	308,679	290,540	260,342
Cost of revenue:					
Product	51,219	45,752	39,271	38,175	35,564
Service	33,294	28,256	26,401	23,186	20,500
Total cost of revenue	84,513	74,008	65,672	61,361	56,064
Gross profit	312,134	276,542	243,007	229,179	204,278
Operating expenses:					
Research and development	70,454	61,546	49,478	40,628	36,650
Sales and marketing	129,611	116,807	109,624	105,271	99,059
General and administrative	30,623	29,718	27,488	23,308	20,609
Amortization of acquired intangible assets	3,432	2,877	2,131	1,907	2,057
Restructuring charges	—	1,065	603	—	—
Total operating expenses	234,120	212,013	189,324	171,114	158,375
Income from operations	78,014	64,529	53,683	58,065	45,903
Interest and other expense, net	(158)	(793)	(2,765)	(1,772)	(2,832)
Income before income tax expense	77,856	63,736	50,918	56,293	43,071
Income tax expense	28,750	23,127	18,490	19,028	15,154
Net income	$ 49,106	$ 40,609	$ 32,428	$ 37,265	$ 27,917
Basic net income per share	$ 1.19	$ 0.97	$ 0.77	$ 0.89	$ 0.69
Diluted net income per share	$ 1.17	$ 0.96	$ 0.76	$ 0.87	$ 0.67
Weighted average common shares outstanding used in computing:					
Net income per share – basic	41,366	41,665	42,035	42,059	40,691
Net income per share – diluted	41,955	42,322	42,750	42,973	41,915

(1) During the fiscal year ended March 31, 2013, NetScout completed the acquisitions of ONPATH Technologies, Inc. and Accanto Systems, S.r.l. for approximately $51.8 million.

(2) During the fiscal year ended March 31, 2012, NetScout completed the acquisitions of Psytechnics, Ltd., Fox Replay BV and Simena LLC for approximately $47.3 million collectively.

	March 31,				
	2014	2013(1)	2012(2)	2011	2010
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short- and long-term marketable securities	$218,794	$154,091	$213,516	$228,478	$170,551
Working capital	$115,798	$ 92,141	$155,596	$147,136	$ 91,174
Total assets	$607,763	$552,176	$567,757	$527,570	$482,601
Debt	$ —	$ —	$ 62,000	$ 68,106	$ 79,356
Total stockholders' equity	$409,161	$371,903	$342,369	$319,559	$266,843

(1) During the fiscal year ended March 31, 2013, NetScout completed the acquisitions of ONPATH Technologies, Inc. and Accanto Systems S.r.l. for approximately $51.8 million, including $527 thousand in cash.

(2) During the fiscal year ended March 31, 2012, NetScout completed the acquisitions of Psytechnics, Ltd., Fox Replay BV and Simena LLC for approximately $47.3 million, including $616 thousand in cash.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the audited consolidated financial information and the notes thereto included in this Annual Report on Form 10-K. In addition to historical information, the following discussion and other parts of this Annual 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 discussed in Item 1A. "Risk Factors" and elsewhere in this Annual 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 are an industry leader for advanced network, application and service assurance solutions, providing high-quality performance analytics and operational intelligence solutions that facilitate the evolution toward new computing paradigms, such as virtualization, mobility and cloud. We design, develop, manufacture, market, license, sell and support these products focused on assuring service delivery quality, performance and availability for some of the world's largest, most demanding and complex internet protocol (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 solutions are intended to help users in various roles to: quickly analyze data, achieve real-time visibility into and intelligence about their organization's operations, identify service delivery issues early, improve service levels, reduce operational costs, mitigate security risks, and drive better business decisions. Our value proposition to our customers is helping them to achieve their objectives regarding return on investments and risk mitigation as they develop their IT infrastructure to support their business needs. Our proactive intelligence and analytics provides our customer with knowledge regarding potential issues before their users are impacted.

Our mission is to enable information technology (IT) and service providers to realize maximum benefit with minimal risk from technology advances, like IP convergence, network function virtualization (NFV), software defined networking (SDN), virtualization, cloud, mobility, bring your own device (BYOD), web, and the evolving Internet by managing the inherent complexity in a cost-effective manner. Our Adaptive Session Intelligence (ASI) technology, which we have developed in support of this mission, has the potential of not only expanding our leadership in the network performance management and application performance management (NPM+APM) space, but can also serve as a gateway for future intelligence solutions including cyber and business intelligence.

Many of the largest service providers, cloud based businesses, enterprise and government customers rely on us to assure service delivery and the user experience of their customers. Our customers are in just about every vertical market including financials, health care, utilities, Internet, manufacturing, retail, as well as the service providers. We are a market leader in helping service provider's get a return on their 4G/LTE investment by providing them with the intelligence they need about aspects of service delivery from handset performance to user preferences to network speed.

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, our ability to achieve expense reductions and make structural improvements and current economic conditions.

During the first quarter of our fiscal year 2014, NetScout announced the release of the nGeniusONE Unified Performance Management platform. The nGeniusONE platform converges application and network performance management functionality into a single unified platform that delivers a top-down, serviced-focused perspective of performance characteristics of all infrastructure and application elements associated with service delivery. This product is based on our unique ASI technology, which provides real-time performance analytics and operational intelligence.

Our key objectives have been to continue to gain market share in the wireless service provider market and to accelerate our enterprise growth by extending into the application performance management segment. A common component of both initiatives has been the acceptance of our unified services delivery management strategy. This strategy has been bolstered by our acquisitions and integration of both voice/video and packet flow or monitoring switch technology.

During the first quarter of our fiscal year 2014, management performed a review of its summation of revenue by industry. As a result, we changed our method of apportioning revenue to our revenue sectors, and the categorization of certain customers to different sectors. This change in the manner of describing fluctuations by sector will not affect our total net revenues, total product and service revenues, or revenue by geography.

Results Overview

We saw continued growth during the fiscal year ended March 31, 2014, with product revenue growth of 18% and overall revenue growth of 13% compared to the prior fiscal year. Our diluted net income per share for the fiscal year ended March 31, 2014 were $1.17 per share, representing a $0.21, or 22%, increase over the same period in the prior year. Our business maintained strong gross profit margins. Our gross margin for the fiscal year ended March 31, 2014 remained flat at 79% compared to the same period in the prior year.

Our success during the fiscal year ended March 31, 2014 was the result of a few factors. First, within our traditional enterprise customer base, we have continued to create value with the product launch and successful traction of nGeniusONE. During our fiscal year ended March 31, 2014, our product revenue grew 11% in the enterprise sector. Second, we continue to be successful in the service provider market driven by our success in LTE, and Voice over LTE deployments and capturing new services being deployed over these 4G networks. During the fiscal year ended March 31, 2014 our product revenue growth in the service provider sector was 22%. Additionally, in our packet flow switch product line, which complements our packet flow instrumentation product line, we were successful in executing our strategy and gaining market share. The natural integration of packet flow switch technology with our packet flow instrumentation provided unique opportunities and clear differentiation for our customer base.

At March 31, 2014, we had cash, cash equivalents and marketable securities of $218.8 million. This represents an increase of $64.7 million over the previous fiscal year ended March 31, 2013.

Use of Non-GAAP Financial Measures

We supplement the generally accepted accounting principles (GAAP) financial measures we report in quarterly and annual earnings announcements, investor presentations and other investor communications by reporting the following non-GAAP measures: non-GAAP revenue, non-GAAP net income and non-GAAP net income per diluted share. Non-GAAP revenue eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation. Non-GAAP net income includes the foregoing adjustment and also removes inventory fair value adjustments, expenses related to the amortization of acquired intangible assets, share-based compensation, restructuring, certain expenses relating to acquisitions including compensation for post-combination services and business development charges, net of related income tax effects. Non-GAAP diluted net income per share also excludes these expenses as well as the related impact of all these adjustments on the provision for income taxes.

These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for measures prepared in accordance with GAAP (revenue, net income and diluted net income per share), 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.

Management believes these non-GAAP financial measures enhance the reader's overall understanding of our 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 we plan and measure our 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 also enables investors to consider our operating results on both a GAAP and non-GAAP basis during and following the integration period of our acquisitions. Presenting the GAAP measures on their own may not be indicative of our core operating results. Furthermore, management believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures provide useful information to management and investors regarding present and future business trends relating to our financial condition and results of operations.

The following table reconciles revenue, net income and net income per share on a GAAP and non-GAAP basis for the years ended March 31, 2014, 2013 and 2012:

	Year Ended March 31, (Dollars in Thousands, Except per Share Data)		
	2014	2013	2012
GAAP revenue	$396,647	$350,550	$308,679
Deferred revenue fair value adjustment	558	1,215	312
Non-GAAP revenue	$397,205	$351,765	$308,991
GAAP net income	$ 49,106	$ 40,609	$ 32,428
Revenue adjustments	558	1,215	312
Inventory fair value amortization	—	453	—
Share-based compensation expense	12,930	9,580	8,702
Amortization of acquired intangible assets	6,765	7,424	6,782
Business development and integration expense	523	1,618	4,715
Compensation for post combination services	2,215	2,721	438
Restructuring charges	—	1,065	603
Loss on extinguishment of debt	—	—	690
Income tax adjustments	(7,879)	(8,671)	(7,700)
Non-GAAP net income	$ 64,218	$ 56,014	$ 46,970
GAAP diluted net income per share	$ 1.17	$ 0.96	$ 0.76
Share impact of non-GAAP adjustments identified above	0.36	0.36	0.34
Non-GAAP diluted net income per share	$ 1.53	$ 1.32	$ 1.10

Critical Accounting Policies

We consider accounting policies related to marketable securities, revenue recognition, valuation of goodwill, intangible assets and other acquisition accounting items, and share based compensation to be critical in fully understanding and evaluating our financial results. The application of these policies involves significant judgments and estimates by us.

Marketable Securities

We measure the fair value of our marketable securities at the end of each reporting period. Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Marketable securities are recorded at fair value and have been classified as Level 1 or 2 within the fair value hierarchy. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in accessible active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.

Investments and marketable securities are considered to be impaired when a decline in fair value below cost basis is determined to be other-than-temporary. We periodically evaluate whether a decline in fair value below cost basis is other-than-temporary by considering available evidence regarding these investments including, among other factors, the duration of the period that, and extent to which, the fair value is less than cost basis, the financial health of and business outlook for the issuer, including industry and sector performance and operational and financing cash flow factors, overall market conditions and trends and our intent and ability to retain our investment in the security for a period of time sufficient to allow for an anticipated recovery in market value.

Once a decline in fair value is determined to be other-than-temporary, a write-down is recorded and a new cost basis in the security is established. Assessing the above factors involves inherent uncertainty. Write-downs, if recorded, could be materially different from the actual market performance of investments and marketable securities in our portfolio if, among other things, relevant information related to our investments and marketable securities was not publicly available or other factors not considered by us would have been relevant to the determination of impairment.

Revenue Recognition

Product revenue consists of sales of our hardware products (which include required embedded software that works together with the hardware to deliver the hardware'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 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 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. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates and bug fixes. Reimbursements of out-of-pocket expenditures incurred in connection with providing consulting services are included in services revenue, with the offsetting expense recorded in cost of service revenue. Training services include on-site and classroom training. Training revenues are recognized as the related training services are provided.

Generally, our contracts are accounted for individually. However, when contracts are closely interrelated and dependent on each other, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts.

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 arrangement consideration to the multiple elements based on each element's selling price compared to the total relative selling price of all the elements. Each element's selling price is based on management's best estimate of selling price (BESP) paid by customers based on the element's historical pricing when VSOE or third party evidence (TPE) does not exist. We have established BESP for product elements as the average selling price the element was sold for over the past six quarters, whether sold alone or sold as part of a multiple element transaction. Our internal list price for products, reviewed quarterly by senior management, with consideration in regards to changing factors in our technology and in the marketplace, is generated to target the desired gross margin from sales of product after analyzing historical discounting trends. We review sales of the product elements on a quarterly basis and update, when appropriate, BESP for such elements to ensure that it reflects recent pricing experience. We have established VSOE for services related undelivered elements based on historical stand-alone sales.

For multi-element arrangements comprised only of software products and related services, we allocate a portion of the total arrangement consideration to the undelivered elements, primarily support agreements and training, using VSOE of fair value for the undelivered elements. The remaining portion of the total arrangement consideration is allocated to the delivered software, referred to as the residual method. VSOE 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 VSOE of fair value for such elements to ensure that it reflects recent pricing experience. If we cannot objectively determine the

VSOE of the fair value of any undelivered software element, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

For multi-element arrangements comprised of a combination of hardware and software elements, the total arrangement consideration is bifurcated between the hardware and hardware related deliverables and the software and software related deliverables based on the relative selling prices of all deliverables as a group. Then, arrangement consideration for the hardware and hardware-related services is recognized upon delivery or as the related services are provided outlined above and revenue for the software and software-related services is allocated following the residual method and recognized based upon delivery or as the related services are provided.

Our product is distributed through our direct sales force and indirect distribution channels through alliances with resellers. Revenue arrangements with resellers are recognized on a sell-in basis; that is, when we deliver the product to the reseller. We record consideration given to a reseller as a reduction of revenue to the extent we have recorded revenue from the reseller. We do not offer contractual rights of return, stock balancing, or price protection to our resellers, and actual product returns from them have been insignificant to date. In addition, we have a history of successfully collecting receivables from the resellers. As a result, we do not maintain reserves for reseller product returns.

Valuation of Goodwill, Intangible Assets and Other Acquisition Accounting Items

The carrying value of goodwill was $203.4 million and $202.5 million as of March 31, 2014 and 2013, respectively. We have two reporting units: (1) Unified Service Delivery and (2) Test Automation. Goodwill is tested for impairment at a reporting unit level at least annually, or on an interim basis if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting segment below its carrying value. Because NetScout, and our two reporting units, did not experience any significant adverse changes in our business or reporting structures, we performed the qualitative Step 0 assessment. In performing the qualitative Step 0 assessment, we considered certain events and circumstances specific to the entity at the reporting unit level, such as macroeconomic conditions, industry and market considerations, overall financial performance and cost factors when evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. No indicators of impairment were noted as of January 31, 2014. Additionally, the market capitalization of NetScout as a whole significantly exceeded its carrying value.

The carrying value of intangible assets was $58.5 million and $63.8 million as of March 31, 2014 and 2013, respectively. Intangible assets acquired in a business combination are recorded under the acquisition method of accounting at their estimated fair values at the date of acquisition. We amortize intangible assets over their estimated useful lives, except for the acquired tradename which resulted from the Network General acquisition, which has an indefinite life and thus, is not amortized. The carrying value of the indefinite lived tradename is evaluated annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Indefinite-lived intangible assets are tested for impairment at a reporting unit level at least annually, or on an interim basis if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting segment below its carrying value. To test impairment, we first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If based on our qualitative assessment we conclude that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if we conclude otherwise, quantitative impairment testing is not required. We completed our annual impairment test of the indefinite lived intangible as of January 31, 2014 using the qualitative Step 0 assessment described above, which largely mirrors the Unified Service Delivery analysis, as the tradenames apply to a majority of the products and branding within that reporting unit. No impairment indicators were observed as of January 31, 2014.

We have acquired five companies during the three year period ended March 31, 2014. The acquisition method of accounting requires that we estimate the fair value of the assets and liabilities acquired as part of these transactions. In order to estimate the fair value of acquired intangible assets we use a relief from royalty model which requires management to estimate: future revenues expected to be generated by the acquired intangible assets, a royalty rate which a market participant would pay related to the projected revenue stream, a present value factor which approximates a risk adjusted rate of return for a market participant purchasing the assets, and a technology migration curve representing a period of time over which the technology assets or some portion thereof are still being used. We are also required to develop the fair value for customer relationships acquired as part of these transactions which requires that we create estimates for the following items: a projection of future revenues associated with the acquired company's existing customers, a turnover rate for those customers, a margin related to those sales, and a risk adjusted rate of return for a market participant purchasing those relationships.

The acquisition of Simena LLC on November 18, 2011 also contained contingent consideration based on the ultimate settlement of assets and liabilities acquired as part of transaction, and the former owners' future period of employment with the Company. Contingent consideration accounting requires the Company to estimate the probability of various settlement scenarios, the former owners' expected period of employment with NetScout, and a risk adjusted interest rate to present value to the payment streams.

Share-based Compensation

We recognize compensation expense for all share-based payments. Under the fair value recognition provisions, we recognize share-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line basis over the requisite service period of the award.

We are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period.

Based on historical experience, we assumed an annualized forfeiture rate of 0% for awards granted to our directors, and an annualized forfeiture rate of 10% for awards granted to our senior executives and remaining employees. We will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior expense if the actual forfeitures are higher than estimated.

Results of Operations

Comparison of Years Ended March 31, 2014 and 2013

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. During the fiscal year ended March 31, 2014, one direct customer accounted for more than 10% of total revenue, while no single indirect channel partner accounted for more than 10% of total revenue. During the fiscal year ended March 31, 2013, no single direct customer or indirect channel partner accounted for more than 10% of total revenue.

	Fiscal Year Ended March 31, (Dollars in Thousands)				Change	
	2014		2013			
		% of Revenue		% of Revenue	$	%
Revenue:						
Product	$234,268	59%	$198,749	57%	$35,519	18%
Service	162,379	41	151,801	43	10,578	7%
Total revenue	$396,647	100%	$350,550	100%	$46,097	13%

Product. The 18%, or $35.5 million, increase in product revenue was primarily due to a $17.9 million increase in revenue from our service provider sector, an $11.0 million increase in revenue from our general enterprise sector and a $6.7 million increase in revenue from our government enterprise sector.

Compared to the same period in the prior year, we realized a 16% increase in units shipped and a 7% increase in the average selling price per unit of our products.

We expect continued growth in our service provider sector through the fiscal year ending March 31, 2015. We also expect accelerated growth in our general enterprise market for the fiscal year ending March 31, 2015.

Service. The 7%, or $10.6 million, increase in service revenue was primarily due to an $8.0 million increase in revenue from new maintenance contracts and renewals from a growing support base and a $3.3 million increase in premium support contracts. These were partially offset by a $443 thousand decrease in consulting revenue. We expect single digit percentage growth in our service revenues. We expect this to be generated by product revenue growth which increases our installed base and therefore our related maintenance contracts.

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

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2014		2013		Change	
		% of Revenue		% of Revenue	$	%
Indirect	$195,484	49%	$172,136	49%	$23,348	14%
Direct	201,163	51	178,414	51	22,749	13%
Total revenue	$396,647	100%	$350,550	100%	$46,097	13%

The 14%, or $23.3 million, increase in indirect channel revenue is the result of the increases in sales to our general enterprise sectors across all geographies. Sales to customers outside the United States are export sales typically 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 13%, or $22.7 million, increase in direct revenue is primarily the result of increased domestic revenue from our service provider customers.

Total revenue by geography is as follows:

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2014		2013		Change	
		% of Revenue		% of Revenue	$	%
United States	$303,364	76%	$262,020	75%	$41,344	16%
International:						
Europe	45,837	12	42,884	12	2,953	7%
Asia	20,646	5	18,107	5	2,539	14%
Rest of the world	26,800	7	27,539	8	(739)	(3)%
Subtotal international	93,283	24	88,530	25	4,753	5%
Total revenue	$396,647	100%	$350,550	100%	$46,097	13%

United States revenues increased 16%, or $41.3 million, primarily as a result of an increase in our service provider sector. The 5%, or $4.8 million, increase in international revenue is primarily due to an increase in our general enterprise sector in Asia. 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 to, 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, packaging materials, overhead and amortization of capitalized software, acquired software and core technology. Cost of service revenue consists primarily of personnel, material, overhead and support costs.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2014		2013		Change	
		% of Revenue		% of Revenue	$	%
Cost of revenue:						
Product	$ 51,219	13%	$ 45,752	13%	$ 5,467	12%
Service	33,294	8	28,256	8	5,038	18%
Total cost of revenue	$ 84,513	21%	$ 74,008	21%	$10,505	14%
Gross profit:						
Product $	$183,049	46%	$152,997	44%	$30,052	20%
Product gross profit %	78%		77%		1%	
Service $	129,085	33%	123,545	35%	5,540	4%
Service gross profit %	79%		81%		(2)%	
Total gross profit $	$312,134		$276,542		$35,592	13%
Total gross profit %	79%		79%		— %	

Product. The 12%, or $5.5 million, increase in cost of product revenue was primarily due to the 18%, or $35.5 million increase in product revenue for the fiscal year ended March 31, 2014 when compared to the fiscal year ended March 31, 2013. In addition, there was a $641 thousand increase in employee related expenses due to increased headcount as well as increased incentive compensation, a $189 thousand increase in depreciation expense, a $154 thousand increase in allocated overhead, and a $152 thousand increase in testing services due to new product introduction for the fiscal year ended March 31, 2014. These were partially offset by a $1.2 million decrease in amortization of intangible assets, a $453 thousand decrease in inventory fair value adjustment related to inventory recorded from the acquisition of ONPATH, and a $169 thousand decrease in obsolescence charges as we did not discontinue or make plans to discontinue, any product during the fiscal year ended March 31, 2014. The product gross profit percentage increased by one percentage point to 78% during the fiscal year ended March 31, 2014 as compared to the same period in the prior year. Average headcount in cost of product revenue was 32 and 29 for the years ended March 31, 2014 and 2013, respectively.

Service. The 18%, or $5.0 million, increase in cost of service revenue was primarily due to a $3.5 million increase in employee related expenses resulting in part from increased headcount to support our growing installed base, as well as from increased share-based compensation and increased incentive compensation. In addition, there was a $889 thousand increase in cost of materials used to support customers under service contracts, a $320 thousand increase in software licenses, a $266 thousand increase in travel expenses, and a $200 thousand increase in allocated overhead. These increases were partially offset by a $348 thousand decrease in consulting expenses. The service gross profit percentage decreased by two percentage points to 79% for the fiscal year ended March 31, 2014 when compared to the fiscal year ended March 31, 2013. The 4%, or $5.5 million, increase in service gross profit corresponds with the 7%, or $10.6 million, increase in service revenue, offset by the 18%, or $5.0 million, increase in cost of services. Average headcount in cost of service revenue was 146 and 132 for the years ended March 31, 2014 and 2013, respectively.

Gross profit. Our gross profit increased 13%, or $35.6 million. This increase is attributable to our increase in revenue of 13%, or $46.1 million, partially offset by a $10.5 million, or 14%, increase in cost of revenue. The gross margin percentage remained flat at 79% during the fiscal year ended March 31, 2014 when compared to the same period in the prior year. Overall we expect our gross margin percentage to remain relatively flat in future periods with increased sales volumes offset by corresponding increases in product and service costs.

Operating Expenses

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2014		2013		Change	
		% of Revenue		% of Revenue	$	%
Research and development	$ 70,454	18%	$ 61,546	18%	$ 8,908	14%
Sales and marketing	129,611	32	116,807	33	12,804	11%
General and administrative	30,623	8	29,718	8	905	3%
Amortization of acquired intangible assets	3,432	1	2,877	1	555	19%
Restructuring charges	—	—	1,065	—	(1,065)	(100)%
Total operating expenses	$234,120	59%	$212,013	60%	$22,107	10%

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 14%, or $8.9 million, increase in research and development expenses is due to a $6.4 million increase in employee related expenses resulting in part from increased headcount as well as from increased share-based compensation and increased incentive compensation, an $818 thousand increase in non-recurring engineering expenses, an $804 thousand increase in depreciation expense, a $493 thousand increase in temporary hire expenses, a $358 thousand increase in travel expense, a $285 thousand increase in software licenses, a $222 thousand increase in computer supplies and a $183 thousand increase in research and development supplies. These expenses were partially offset by a $728 thousand decrease in deal related compensation related to the acquisition of Simena and a $197 thousand decrease in meeting expenses. Average headcount in research and development was 352 and 338 for the fiscal years ended March 31, 2014 and 2013, 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 11%, or $12.8 million, increase in total sales and marketing expenses was due to $6.0 million increase in employee related expenses resulting in part from increased headcount as well as from increased share-based compensation and increased incentive compensation, a $5.1 million increase in commissions due to an increase in higher quota attainment and special incentive programs related to the nGeniusOne product introduction during the fiscal year ended March 31, 2014 as compared to the fiscal year ended March 31, 2013. In addition, there was a $957 thousand increase in trade show expenses, a $916 thousand increase in travel expenses, a $437 thousand increase in marketing related expenses, a $295 thousand increase allocated overhead, a $292 thousand increase related to the NetScout user conference, and a $180 thousand increase in consulting expenses. These expenses were partially offset by a $524 thousand decrease in recruitment expenses, a $495 thousand decrease in depreciation expense, a $352 thousand decrease in sales meeting expenses, a $326 thousand decrease in temporary help, and a $298 thousand decrease in employee training expenses. Average headcount in sales and marketing was 358 and 340 for the fiscal years ended March 31, 2014 and 2013, 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 3%, or $905 thousand, increase in general and administrative expenses was due to a $1.7 million increase in employee related expenses as a result of increased headcount as well as from increased share-based compensation and increased incentive compensation, a $282 thousand increase in tax and accounting related services, a $169 thousand increase in office expenses, a $153 thousand increase in compensation for post combination services, and a $122 thousand increase in expenses for software licenses. These increases were partially offset by a $1.1 million decrease in business development expenses, and a $294 thousand decrease in bad debt expense. Average headcount in general and administrative was 118 and 115 for the fiscal years ended March 31, 2014 and 2013, respectively.

Amortization of acquired intangible assets. Amortization of acquired intangible assets consists primarily of amortization of customer relationships related to the acquisitions of ONPATH, Accanto, Simena, Replay, Psytechnics and Network General Central Corporation (Network General).

The 19%, or $555 thousand, increase in amortization of acquired intangible assets is due to the increase of expense recorded related to the acquisitions of ONPATH and Accanto.

Restructuring charges. During the fiscal year ended March 31, 2013, we restructured part of our international sales organization related to an overlap of personnel acquired as part of the Accanto acquisition. As a result, we recorded $1.2 million of restructuring charges during the fiscal year ended March 31, 2013 related to severance costs.

Overall, in future periods we expect our operating margin to remain consistent with historical ranges.

Interest and Other Expense, Net

Interest and other expense, net includes interest earned on our cash, cash equivalents and marketable securities, interest expense and other non-operating gains or losses.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2014		2013		Change	
		% of Revenue		% of Revenue	$	%
Interest and other expense, net	$(158)	— %	$(793)	— %	$635	80%

The 80%, or $635 thousand, decrease in interest and other income (expense), net was primarily due to a $523 thousand decrease in interest expense due to the repayment of our outstanding debt during the fiscal year ended March 31, 2013, as well as a $315 thousand decrease in foreign currency exchange expense. These decreases to interest and other expense, net were partially offset by a $199 thousand decrease in interest income received on investments.

Income Tax Expense

The annual effective tax rate for fiscal year 2014 is 36.9%, compared to an annual effective tax rate of 36.3% for fiscal year 2013. Generally, the annual effective tax rates differ from statutory rates primarily due to the impact of the domestic production activities deduction, the impact of state taxes, and federal, foreign and state tax credits. Our effective tax rate for the fiscal year ended March 31, 2014 is higher than the comparable prior year period primarily due to the exclusion of certain foreign losses for which a benefit cannot be realized, offset by decreases to the state tax rate and income generated in jurisdictions that have a lower tax rate than the statutory U.S. rate.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2014		2013		Change	
		% of Revenue		% of Revenue	$	%
Income tax expense	$28,750	7%	$23,127	7%	$5,623	24%

Comparison of Years Ended March 31, 2013 and 2012

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 single direct customer or indirect channel partner accounted for more than 10% of our total revenue during the fiscal years ended March 31, 2013 and 2012.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2013		2012		Change	
		% of Revenue		% of Revenue	$	%
Revenue:						
Product	$198,749	57%	$168,141	54%	$30,608	18%
Service	151,801	43	140,538	46	11,263	8%
Total revenue	$350,550	100%	$308,679	100%	$41,871	14%

Product. The 18%, or $30.6 million, increase in product revenue was due to a $19.4 million increase in revenue from our general enterprise sector and an $18.8 million increase in our service provider sector. These increases were offset by a $7.6 million decrease in our government enterprise sector. Compared to the same period in the prior year, we realized a 7% increase in units shipped and a 6% increase in the average selling price per unit of our products. The increase in average selling price is due to product mix.

Service. The 8%, or $11.3 million, increase in service revenue was due to a $10.8 million increase in revenue from maintenance contracts due to increased new maintenance contracts and renewals from a growing support base and a $1.7 million increase in premium support contracts. These were offset by a $1.3 million decrease in consulting revenue.

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

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2013		2012		Change	
		% of Revenue		% of Revenue	$	%
Indirect	$172,136	49%	$166,483	54%	$ 5,653	3%
Direct	178,414	51%	142,196	46%	36,218	25%
Total revenue	$350,550	100%	$308,679	100%	$41,871	14%

The 3%, or $5.7 million, increase in indirect channel revenue is the result of the increase in sales in Europe to our service provider customers. Sales to customers outside the United States are export sales typically 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 25%, or $36.2 million, increase in direct revenue is the result of increased domestic revenue from our service provider and domestic general enterprise customers.

Total revenue by geography is as follows:

	Fiscal Year Ended March 31, (Dollars in Thousands)				Change	
	2013		2012			
		% of Revenue		% of Revenue	$	%
United States	$262,020	75%	$230,359	75%	$31,661	14%
International:						
Europe	42,884	12	32,998	10	9,886	30%
Asia	18,107	5	17,637	6	470	3%
Rest of the world	27,539	8	27,685	9	(146)	(1)%
Subtotal international	88,530	25	78,320	25	10,210	13%
Total revenue	$350,550	100%	$308,679	100%	$41,871	14%

United States revenues increased 14%, or $31.7 million, as a result of an increase in our service provider and general enterprise sectors. The 13%, or $10.2 million, increase in international revenue is primarily due to an increase in our service provider sector in Europe as well as our general enterprise sector throughout the world. 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 to, 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, manuals, packaging materials, overhead and amortization of capitalized software, acquired software and core technology. Cost of service revenue consists primarily of personnel, material, overhead and support costs.

	Fiscal Year Ended March 31, (Dollars in Thousands)				Change	
	2013		2012			
		% of Revenue		% of Revenue	$	%
Cost of revenue:						
Product	$ 45,752	13%	$ 39,271	13%	$ 6,481	17%
Service	28,256	8	26,401	8	1,855	7%
Total cost of revenue	$ 74,008	21%	65,672	21%	8,336	13%
Gross profit:						
Product $	$152,997	44%	$128,870	42%	24,127	19%
Product gross profit %	77%		77%		— %	
Service $	123,545	35%	114,137	37%	9,408	8%
Service gross profit %	81%		81%		— %	
Total gross profit $	$276,542		$243,007		$33,535	14%
Total gross profit %	79%		79%		— %	

Product. The 17%, or $6.5 million, increase in cost of product revenue was primarily due to the 18%, or $30.6 million increase in product revenue for the fiscal year ended March 31, 2013 when compared to the fiscal year ended March 31, 2012. In addition, there was a $453 thousand increase due to the amortization of a fair value adjustment related to inventory recorded from the acquisition of ONPATH.

The product gross profit percentage remained flat at 77% during the fiscal year ended March 31, 2013 as compared to the same period in the prior year. Average headcount in cost of product revenue was 29 and 26 for the years ended March 31, 2013 and 2012, respectively.

Service. The 7%, or $1.9 million, increase in cost of service revenue was primarily due to a $1.7 million increase in employee related expenses resulting from increased headcount to support our growing installed base as well as increased incentive compensation. The 8%, or $9.4 million, increase in service gross profit corresponds with the 8%, or $11.3 million, increase in service revenue, offset by the 7%, or $1.9 million, increase in cost of services. The service gross profit percentage remained flat at 81% for the fiscal year ended March 31, 2013 when compared to the same period in the prior year. Average headcount in cost of service revenue was 132 and 125 for the years ended March 31, 2013 and 2012, respectively.

Gross profit. Our gross profit increased 14%, or $33.5 million. This increase is attributable to our increase in revenue of 14%, or $41.9 million, offset by a $8.3 million, or 13%, increase in cost of revenue. The gross margin percentage remained flat at 79% during the fiscal year ended March 31, 2013 when compared to the same period in the prior year.

Operating Expenses

	Fiscal Year Ended March 31, (Dollars in Thousands)				Change	
	2013		2012			
		% of Revenue		% of Revenue	$	%
Research and development	$ 61,546	18%	$ 49,478	16%	$12,068	24%
Sales and marketing	116,807	33	109,624	35	7,183	7%
General and administrative	29,718	8	27,488	9	2,230	8%
Amortization of acquired intangible assets	2,877	1	2,131	1	746	35%
Restructuring charges	1,065	—	603	—	462	77%
Total operating expenses	$212,013	60%	$189,324	61%	$22,689	12%

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 24%, or $12.1 million, increase in research and development expenses is due to a $9.0 million increase in employee related expenses due to increased headcount and incentive compensation, a $1.2 million increase in compensation for post combination services related to the acquisitions of Simena, Replay and ONPATH, a $536 thousand increase in consulting costs, a $495 thousand increase in travel expenses, a $443 thousand increase in allocated overhead, a $417 thousand increase in rent expense, a $333 thousand increase in depreciation and a $259 thousand increase in meeting expenses. These were offset by a $1.5 million decrease in business development expenses. Average headcount in research and development was 338 and 291 for the fiscal years ended March 31, 2013 and 2012, 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 7%, or $7.2 million, increase in total sales and marketing expenses was due to a $2.3 million increase in employee related expenses due to increased headcount, a $1.6 million increase in marketing related expenses, a $1.1 million increase in sales meeting costs, a $1.0 million increase in depreciation expense, a $891 thousand increase in expenses related to the NetScout user conference as this was not held during the fiscal year ended March 31, 2012, a $581 thousand increase in recruitment and a $534 thousand increase in employee training. Average headcount in sales and marketing was 340 and 317 for the fiscal years ended March 31, 2013 and 2012, 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 8%, or $2.2 million, increase in general and administrative expenses was due to a $1.4 million increase in employee related expenses related to an increase in incentive compensation, a $973 thousand increase in deal related compensation associated with acquisitions and a $971 thousand increase in software license expenses. These expenses were offset by an $853 thousand decrease in business development costs associated with acquisitions. Average headcount in general and administrative was 115 and 117 for the fiscal years ended March 31, 2013 and 2012, respectively.

Amortization of acquired intangible assets. Amortization of acquired intangible assets consists primarily of amortization of customer relationships related to the acquisitions of ONPATH, Accanto, Simena, Replay, Psytechnics and Network General.

The 35%, or $746 thousand, increase in amortization of acquired intangible assets is due to the increase of expense recorded related to the acquisitions of ONPATH, Accanto, Simena and Replay. The amortization related to the acquisitions ONPATH and Accanto were not recorded during the prior fiscal year ended March 31, 2012 as the acquisitions have occurred within the past twelve months. In addition, there were increases related to the acquisitions of Simena and Replay during the fiscal year ended March 31, 2013 as compared to the prior fiscal year primarily related to recording an entire year of amortization in the current year.

Restructuring charges. During the fiscal year ended March 31, 2013, we restructured part of our international sales organization related to an overlap of personnel acquired as part of the Accanto acquisition. As a result, we recorded $1.2 million of restructuring charges during the fiscal year ended March 31, 2013 related to severance costs.

Interest and Other Expense, Net

Interest and other expense, net includes interest earned on our cash, cash equivalents, marketable securities and restricted investments, interest expense and other non-operating gains or losses.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2013		2012		Change	
		% of Revenue		% of Revenue	$	%
Interest and other expense, net	$(793)	— %	$(2,765)	(1)%	$1,972	71%

The 71%, or $2.0 million, decrease in interest and other income (expense), net was due to a $690 thousand decrease related to the loss on extinguishment of debt in connection with the refinancing of our previous credit facility during the fiscal year ended March 31, 2012, a $718 thousand decrease in foreign currency transaction expense, a $475 thousand decrease in interest expense due to a decrease in the interest rate as well as the payment of our outstanding debt during the fiscal year ended March 31, 2013. In addition, there was an $89 thousand increase in interest income.

Income Tax Expense

The annual effective tax rate for fiscal year 2013 is 36.3%, compared to an annual effective tax rate of 36.3% for fiscal year 2012. Generally, the annual effective tax rates differ from statutory rates primarily due to the impact of the domestic production activities deduction, the impact of state taxes, and federal, foreign and state tax credits.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2013		2012		Change	
		% of Revenue		% of Revenue	$	%
Income tax expense	$23,127	7%	$18,490	6%	$4,637	25%

Contractual Obligations

As of March 31, 2014, 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
Unconditional purchase obligations	$ 6,912	$ 6,912	$ —	$ —	$ —
Operating lease obligations (1)	34,166	5,797	10,080	6,961	11,328
Contingent purchase consideration	4,291	—	—	4,291	—
Retirement obligations	1,604	233	441	456	474
Total contractual obligations	$46,973	$12,942	$10,521	$11,708	$11,802

As of March 31, 2014, the total amount of net unrecognized tax benefits for uncertain tax positions and the accrual for the related interest was $502 thousand. We are unable to make a reliable estimate when cash settlement, if any, will occur with a tax authority as the timing of examinations and ultimate resolution of those examinations is uncertain. We have also excluded long-term deferred revenue of $24.6 million as such amounts will be recognized as services are provided.

(1) We lease facilities and certain equipment under operating lease agreements extending through September 2023 for a total of $34.2 million.

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

We account for claims and contingencies in accordance with authoritative guidance that requires us to record an estimated loss from a claim or loss contingency when information available prior to issuance of our consolidated financial statements indicates that it is probable that a liability has been incurred at the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. If we determine that it is reasonably possible but not probable that an asset has been impaired or a liability has been incurred or if the amount of a probable loss cannot be reasonably estimated, then in accordance with the authoritative guidance, we disclose the amount or range of estimated loss if the amount or range of estimated loss is material. Accounting for claims and contingencies requires us to use our judgment. We consult with legal counsel on those issues related to litigation and seek input from other experts and advisors with respect to matters in the ordinary course of business. See Note 17 for a discussion of contingencies.

We recorded two contingent liabilities related to the acquisition of Simena. One relates to future consideration to be paid to the former owner which had an initial fair value of $8.0 million at the time of acquisition and another relates to contractual non-compliance liabilities incurred by Simena with an initial fair value of $1.6 million at the time of acquisition. At March 31, 2014, the present value of the future consideration was $4.3 million and the contractual non-compliance liability was $49 thousand.

Warranty and Indemnification

We warrant that our software and hardware products will substantially conform to the documentation accompanying such products on their original date of shipment. For software, which also includes firmware, the standard warranty commences upon shipment and expires 90 days thereafter. With regard to hardware, the standard warranty commences upon shipment and expires 12 months thereafter. Additionally, this warranty is subject to various exclusions which include, but are not limited to, non-conformance resulting from modifications made to the software or hardware by a party other than NetScout; customers' failure to follow our installation, operation or maintenance instructions; and events outside of our reasonable control. We also warrant that all support services will be performed in a good and workmanlike manner. We believe that our product and support service warranties are consistent with commonly accepted industry standards. No warranty cost information is presented and no warranty costs are accrued since service revenue associated with warranty is deferred at the time of sale and recognized ratably over the warranty period.

Contracts that we enter into in the ordinary course of business may contain standard indemnification provisions. Pursuant to these agreements, we may agree to defend third party claims brought against a partner or direct customer claiming infringement of such third party's (i) U.S. patent and/or European Union (EU), or other selected countries' patents, (ii) Berne convention member country copyright, and/or (iii) U.S., EU, and/or other selected countries' trademark or intellectual property rights. Moreover, this indemnity may require us to pay any damages awarded against the partner or direct customer in such type of lawsuit as well as reimburse the partner or direct customer for reasonable attorney's fees incurred by them from the lawsuit.

We may also agree from time to time to provide other forms of indemnification to partners or direct customers, such as indemnification that would obligate us to defend and pay any damages awarded to a third party against a partner or direct customer based on a lawsuit alleging that such third party has suffered personal injury or tangible property damage legally determined to have been caused by negligently designed or manufactured products.

We have agreed to indemnify our directors and officers and our subsidiaries' directors and officers if they are made a party or are threatened to be made a party to any proceeding (other than an action by or in the right of NetScout) by reason of the fact that the indemnified are an agent of NetScout or by reason of anything done or not done by them in any such capacity. The indemnity is for any and all expenses and liabilities of any type (including but not limited to, judgments, fines and amounts paid in settlement) reasonably incurred by the directors or officers in connection with the investigation, defense, settlement or appeal of such proceeding, provided they acted in good faith.

Liquidity and Capital Resources

Substantially all of our cash, cash equivalents and marketable securities are located in the United States. Cash, cash equivalents, and marketable securities consist of the following:

	As of March 31, (Dollars in Thousands)		
	2014	2013	2012
Cash and cash equivalents	$102,076	$ 99,930	$117,255
Short-term marketable securities	75,234	37,338	79,617
Long-term marketable securities	41,484	16,823	16,644
Cash, cash equivalents and marketable securities	$218,794	$154,091	$213,516

Cash, cash equivalents and marketable securities

At March 31, 2014 cash, cash equivalents and marketable securities totaled $218.8 million, up $64.7 million from $154.1 million at March 31, 2013 due primarily to cash flow from operations of $110.9 million, partially offset by $34.3 million of cash used to repurchase shares of our common stock and $13.1 million of cash used for capital expenditures.

Substantially all of our cash, cash equivalents and marketable securities are located in the United States. At March 31, 2014, cash and short-term and long-term investments in the United States was $217.1 million, while cash held offshore was approximately $1.7 million.

Cash and cash equivalents were impacted by the following:

	Year Ending March 31, (Dollars in Thousands)		
	2014	2013	2012
Net cash provided by operating activities	$110,946	$ 95,412	$ 68,307
Net cash (used in) provided by investing activities	$ (76,581)	$(21,742)	$ 9,208
Net cash used in financing activities	$ (31,963)	$(91,004)	$(27,418)

Net cash provided by operating activities.

Fiscal year 2014 compared to fiscal year 2013

Cash provided by operating activities was $110.9 million during the fiscal year ended March 31, 2014, compared to $95.4 million of cash provided by operating activities in the fiscal year ended March 31, 2013. This $15.5 million increase was due in part to accounts receivable, which had a favorable impact in the fiscal year ended March 31, 2014 as compared to the fiscal year ended March 31, 2013. Accounts receivable days sales outstanding was 47 days at March 31, 2014 compared to 68 days at March 31, 2013. In addition, there was an $8.5 million increase in profitability, a $5.3 million favorable impact from deferred revenue due to increased sales of our products, a $3.8 million increase from accounts payable, a $3.3 million increase from share-based compensation, a $1.3 million increase from deferred income taxes and a $563 thousand increase from income taxes payable. These increases were offset by an $8.2 million decrease as a result of an increase in inventory balances to support increases in sales volume, an $8.2 million decrease from prepaid expenses and other assets largely due to a $5.6 million increase from prepaid income taxes and $1.2 million from an increase in prepaid royalties, and a $4.0 million decrease from accrued compensation and other expenses during the fiscal year ended March 31, 2014 when compared to the fiscal year ended March 31, 2013 largely due to the timing of accruals and payments for incentive compensation as a result of an increase in the payout for fiscal year 2013 incentive compensation during the fiscal year ended March 31, 2014 as compared to the payout for the fiscal year 2012 during the fiscal year ended March 31, 2013, as well as severance activities related to restructuring.

Fiscal year 2013 compared to fiscal year 2012

Cash provided by operating activities was $95.4 million during the fiscal year ended March 31, 2013, compared to $68.3 million of cash provided by operating activities in the fiscal year ended March 31, 2012. This $27.1 million increase was due to a $9.1 million increase from accrued compensation and other expenses during the fiscal year ended March 31, 2013 when compared to the fiscal year ended March 31, 2012 largely due to the timing of accruals for incentive compensation as a result of achieving performance-based targets during fiscal year 2013 while such targets were not achieved during fiscal year 2012, accruals for the employee stock purchase plan which began in March 2012, as well as accrued commissions. In addition, there was an $8.2 million increase in profitability, a $6.3 million favorable impact from prepaid expenses and other assets largely due $6.0 million favorable impact from a decrease in prepaid income taxes, a $4.1 million favorable impact from accounts receivable in the fiscal year ended March 31, 2013 as compared to the fiscal year ended March 31, 2012 and a $2.3 million increase as a result of a decrease in inventories. These were offset by a $2.7 million unfavorable impact from deferred revenue. Accounts receivable days sales outstanding was 68 days at March 31, 2013 compared to 70 days at March 31, 2012.

Net cash (used in) provided by investing activities.

	Year Ending March 31, (Dollars in Thousands)		
	2014	**2013**	**2012**
Cash (used in) provided by investment activities included the following:			
Purchase of marketable securities	$(128,122)	$(121,133)	$(117,682)
Proceeds from maturity of marketable securities	65,570	163,416	184,899
Purchase of fixed assets	(13,066)	(11,671)	(11,088)
Purchase of intangible assets	(1,086)	(277)	(200)
Acquisition of businesses, net of cash acquired	—	(51,273)	(46,721)
Increase in deposits	123	(804)	—
	$ (76,581)	$ (21,742)	$ 9,208

Cash used in investing activities increased by $54.8 million to $76.6 million during the fiscal year ended March 31, 2014, compared to $21.7 million of cash used in investing activities during the fiscal year ended March 31, 2013. Cash used for investing activities was $21.7 million during the fiscal year ended March 31, 2013, compared to $9.2 million of cash provided by investing activities during the fiscal year ended March 31, 2012.

During the fiscal years ended March 31, 2013 and 2012, we paid $51.3 million and $46.7 million for acquisitions, respectively.

Net cash flow relating to the purchase and sales of marketable securities was down $104.8 million during the fiscal year ended March 31, 2014 when compared to the fiscal year ended March 31, 2013 as we invested our operating cash flow in securities as opposed to funding acquisitions. Net inflow relating to the purchase and sales of marketable securities was down $24.9 million during the fiscal year ended March 31, 2013 when compared to the fiscal year ended March 31, 2012 relating to the amount of investments held at each balance sheet date. In addition, during the fiscal year ended March 31, 2013, redemptions by the issuers for our remaining auction rate securities totaling $19.3 million were settled. As a result of the settlements, we reversed the remaining valuation reserve of $190 thousand. We held no investments in auction rate securities at March 31, 2014 and March 31, 2013.

Our investments in property and equipment consist primarily of computer equipment, demonstration units, office equipment and facility improvements. We plan to continue to invest in capital expenditures to support our infrastructure in our fiscal year 2015.

Purchases of intangible assets increased by $809 thousand during the fiscal year ended March 31, 2014 compared to the fiscal year ended March 31, 2013. During the fiscal year ended March 31, 2014, we acquired certain rights to Accanto software for $500 thousand not previously purchased as part of the acquisition transaction in fiscal year 2013. In addition, we made an agreement to acquire a technology license for $300 thousand.

Net cash used in financing activities.

	Year Ending March 31, (Dollars in Thousands)		
	2014	2013	2012
Cash used in financing activities included the following:			
Issuance of common stock under stock plans	$ 812	$ 575	$ 473
Payment of contingent consideration	(841)	(4,038)	(846)
Treasury stock repurchases	(34,322)	(27,448)	(20,595)
Proceeds from issuance of long-term debt, net of issuance costs	—	—	60,691
Repayment of long-term debt	—	(62,000)	(68,106)
Excess tax benefit from share-based compensation awards	2,388	1,907	965
	$(31,963)	$(91,004)	$(27,418)

Cash used in financing activities was down $59.0 million to $32.0 million during the fiscal year ended March 31, 2014, compared to $91.0 million of cash used in financing activities during the fiscal year ended March 31, 2013.

During the fiscal year ended March 31, 2013, we paid down our outstanding credit facility in the amount of $62.0 million. As of March 31, 2014, there were no amounts outstanding under this credit facility. During the fiscal year ended March 31, 2012, we repaid $7.4 million under the terms of our previous credit facility.

During the fiscal years ended March 31, 2014, 2013 and 2012, we paid $841 thousand, $4.0 million and $846 thousand, respectively, related to the contingent purchase consideration related to the acquisition of Simena.

Our Board of Directors has periodically authorized us to repurchase shares of our common stock. We are currently authorized to repurchase up to four million shares with cash from operations. We repurchased 1,000,407 shares for $28.8 million, 999,499 shares for $23.5 million and 1,270,000 shares for $16.2 million under this program during the fiscal years ended March 31, 2014, 2013 and 2012, respectively. On April 22, 2014, Netscout's Board of Directors approved an additional stock repurchase program. This program authorizes management to make additional repurchases of NetScout outstanding common stock of up to $100 million. The share repurchase authorization does not have an expiration date and the pace and timing of repurchases will depend on factors such as cash generation from operations, cash requirements for acquisitions, economic and market conditions, stock price and legal and regulatory requirements. In addition, in connection with the vesting and release of the restriction on previously vested shares of restricted stock units, the Company repurchased 216,198 shares for $5.5 million, 169,531 for $3.9 million and 216,882 shares for $4.4 million related to minimum statutory tax withholding requirements on these restricted stock units during the fiscal years ended March 31, 2014, 2013 and 2012. Future repurchases of shares will reduce our cash balances.

We generated $2.4 million, $1.9 million and $965 thousand during the fiscal years ended March 31, 2014, 2013 and 2012, respectively, of excess tax benefits from share-based compensation awards.

Credit Facility

On November 22, 2011, we entered into a credit facility with a syndicate of lenders led by KeyBank National Association (KeyBank) which provides us with a $250 million revolving credit facility, which may be increased to $300 million at any time up to 90 days before maturity. The revolving credit facility includes a swing line loan sub-facility of up to $10 million and a letter of credit sub-facility of up to $10 million. The credit facility matures on November 21, 2016. At March 31, 2014 there were no amounts outstanding under the credit facility.

Expectations for Fiscal Year 2015

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 and capital expenditures for at least the next 12 months. In addition, we expect that cash provided by operating activities will continue to increase due to an expected increase in cash collections related to anticipated higher revenues, partially offset by an anticipated increase in operating expenses that require cash outlays such as salaries and commissions. Capital expenditures in our fiscal year 2015 are currently anticipated to be in line with previous years' trend.

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. 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.

Recent Accounting Standards

We have reviewed and considered recent accounting pronouncements through Accounting Standards Update 2014-07 and believe there are none that could potentially have a material impact on our financial condition, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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 and municipal obligations.

At March 31, 2014 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.

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. We do not use derivative financial instruments for speculative trading purposes.

As of March 31, 2014, we had foreign currency forward contracts with notional amounts totaling $17.5 million. The valuation of outstanding foreign currency forward contracts at March 31, 2014 resulted in a liability balance of $139 thousand, reflecting unfavorable contract rates in comparison to current market rates at this date and an asset balance of $368 thousand reflecting favorable rates in comparison to current market rates. As of March 31, 2013, we had foreign currency forward contracts with notional amounts totaling $17.1 million. The valuation of outstanding foreign currency forward contracts at March 31, 2013 resulted in a liability balance of $249 thousand, reflecting unfavorable contract rates in comparison to current market rates at this date and an asset balance of $71 thousand reflecting favorable rates in comparison to current market rates.

Item 8. Financial Statements and Supplementary Data

NetScout's Consolidated Financial Statements and Schedule and Report of Independent Registered Public Accounting Firm appear beginning on page F-1 attached to this report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with accountants on accounting or financial disclosure matters.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of March 31, 2014, 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 Exchange Act. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2014 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 Securities Exchange Commission'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.

Changes in Internal Control over Financial Reporting

During the year ended March 31, 2014, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting was designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework in 1992. Based on our assessment, we concluded that our internal control over financial reporting was effective as of March 31, 2014.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein at page F-2 of this Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 will be included under the captions "Directors and Executive Officers," "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Code of Ethics," "The Board of Directors and its Committees" and "Corporate Governance" in our definitive Proxy Statement with respect to our 2014 Annual Meeting of Stockholders to be filed with the SEC no later than 120 days after the end of the fiscal year and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this Item 11 will be included under the caption "Compensation and Other Information Concerning Directors and Executive Officers" in our definitive Proxy Statement with respect to our 2014 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 will be included under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our definitive Proxy Statement with respect to our 2014 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 will be included, as applicable, under the captions "Director Independence," "Employment and Other Agreements" and "Transactions with Related Persons" in our definitive Proxy Statement with respect to our 2014 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 will be included under the captions "Auditors Fees and Services" and "Policy on Audit Committee Pre-approval of Audit and Non-Audit Services" in our definitive Proxy Statement with respect to our 2014 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Consolidated Financial Statements.

2. Financial Statement Schedule.

No other financial statement schedules have been included because they are either not applicable or the information is in the consolidated financial statements.

3. List of Exhibits.

We hereby file as part of, or incorporate by reference into, this Annual Report on Form 10-K the exhibits listed on the index to exhibits immediately following the financial statements.

(b) We hereby file as part of this Annual Report on Form 10-K the exhibits listed in Item 15(a)(3) above.

(c) We hereby file as part of this Annual Report on Form 10-K the financial statement schedule listed in Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ ANIL K. SINGHAL

Anil K. Singhal
President, Chief Executive Officer, and Chairman

Date: May 20, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ ANIL K. SINGHAL **Anil K. Singhal**	President, Chief Executive Officer, and Chairman (Principal Executive Officer)	May 20, 2014
/s/ JEAN BUA **Jean Bua**	Senior Vice President and Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)	May 20, 2014
/s/ VICTOR A. DEMARINES **Victor A. DeMarines**	Director	May 20, 2014
/s/ JOHN R. EGAN **John R. Egan**	Director	May 20, 2014
/s/ JOSEPH G. HADZIMA, JR. **Joseph G. Hadzima, Jr.**	Director	May 20, 2014
/s/ VINCENT J. MULLARKEY **Vincent J. Mullarkey**	Director	May 20, 2014
/s/ STEPHEN PEARSE **Stephen Pearse**	Director	May 20, 2014
/s/ ROBERT E. DONAHUE **Robert E. Donahue**	Director	May 20, 2014

NetScout Systems, Inc.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NetScout Systems, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of NetScout Systems, Inc. and its subsidiaries at March 31, 2014 and March 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
May 20, 2014

NetScout Systems, Inc.

Consolidated Balance Sheets
(In thousands, except share and per share data)

	March 31, 2014	March 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 102,076	$ 99,930
Marketable securities	75,234	37,338
Accounts receivable, net of allowance for doubtful accounts of $313 and $971 at March 31, 2014 and 2013, respectively	60,518	73,900
Inventories	12,580	7,563
Prepaid income taxes	1,012	—
Deferred income taxes	15,846	9,538
Prepaid expenses and other current assets	11,496	9,043
Total current assets	278,762	237,312
Fixed assets, net	23,098	19,678
Goodwill	203,446	202,453
Intangible assets, net	58,513	63,827
Deferred income taxes	—	9,211
Long-term marketable securities	41,484	16,823
Other assets	2,460	2,872
Total assets	$ 607,763	$552,176
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,541	$ 10,161
Accrued compensation	34,901	31,585
Accrued other	6,430	8,256
Income taxes payable	791	114
Deferred revenue	109,301	95,055
Total current liabilities	162,964	145,171
Other long-term liabilities	2,370	2,249
Deferred tax liability	2,757	941
Accrued long-term retirement benefits	1,581	1,757
Long-term deferred revenue	24,639	25,907
Contingent liabilities, net of current portion	4,291	4,248
Total liabilities	198,602	180,273
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, $0.001 par value: 5,000,000 shares authorized; no shares issued or outstanding at March 31, 2014 and 2013	—	—
Common stock, $0.001 par value: 150,000,000 shares authorized; 49,922,959 and 49,007,491 shares issued and 41,165,784 and 41,466,921 shares outstanding at March 31, 2014 and 2013, respectively	50	49
Additional paid-in capital	273,574	253,202
Accumulated other comprehensive income	2,772	671
Treasury stock at cost, 8,757,175 and 7,540,570 shares at March 31, 2014 and 2013, respectively	(117,802)	(83,480)
Retained earnings	250,567	201,461
Total stockholders' equity	409,161	371,903
Total liabilities and stockholders' equity	$ 607,763	$552,176

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

NetScout Systems, Inc.

Consolidated Statements of Operations
(In thousands, except per share data)

	Year Ended March 31, 2014	2013	2012
Revenue:			
Product	$234,268	$198,749	$168,141
Service	162,379	151,801	140,538
Total revenue	396,647	350,550	308,679
Cost of revenue:			
Product	51,219	45,752	39,271
Service	33,294	28,256	26,401
Total cost of revenue	84,513	74,008	65,672
Gross profit	312,134	276,542	243,007
Operating expenses:			
Research and development	70,454	61,546	49,478
Sales and marketing	129,611	116,807	109,624
General and administrative	30,623	29,718	27,488
Amortization of acquired intangible assets	3,432	2,877	2,131
Restructuring charges	—	1,065	603
Total operating expenses	234,120	212,013	189,324
Income from operations	78,014	64,529	53,683
Interest and other expense, net:			
Interest income	309	508	419
Interest expense	(768)	(1,291)	(1,766)
Other income (expense), net	301	(10)	(728)
Loss on extinguishment of debt	—	—	(690)
Total interest and other expense, net	(158)	(793)	(2,765)
Income before income tax expense	77,856	63,736	50,918
Income tax expense	28,750	23,127	18,490
Net income	$ 49,106	$ 40,609	$ 32,428
Basic net income per share	$ 1.19	$ 0.97	$ 0.77
Diluted net income per share	$ 1.17	$ 0.96	$ 0.76
Weighted average common shares outstanding used in computing:			
Net income per share – basic	41,366	41,665	42,035
Net income per share – diluted	41,955	42,322	42,750

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

NetScout Systems, Inc.

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended March 31,		
	2014	2013	2012
Net income	$49,106	$40,609	$32,428
Other comprehensive income:			
Cumulative translation adjustments	1,887	460	(385)
Changes in market value of investments:			
Changes in unrealized gains, net of taxes of $0, $73 and $810	5	109	1,357
Total net change in market value of investments	5	109	1,357
Changes in market value of derivatives:			
Changes in market value of derivatives, net of taxes (benefit) of $33, ($146) and ($129)	62	(258)	(210)
Reclassification adjustment for net gains included in net income, net of taxes of $62, $91 and $78	147	148	126
Total net change in market value of derivatives	209	(110)	(84)
Other comprehensive income	2,101	459	888
Comprehensive income	$51,207	$41,068	$33,316

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

NetScout Systems, Inc.

Consolidated Statements of Stockholders' Equity
(In thousands, except share data)

	Common stock Voting		Additional	Accumulated Other	Treasury stock			Total
	Shares	Par Value	Paid In Capital	Comprehensive Income (Loss)	Shares	Stated Value	Retained Earnings	Stockholders' Equity
Balance, March 31, 2011	47,441,879	$ 47	$227,201	$ (676)	4,884,658	$ (35,437)	$128,424	$319,559
Net Income							32,428	32,428
Unrealized net investment gains				1,357				1,357
Unrealized net losses on derivative financial instruments				(84)				(84)
Cumulative translation adjustments				(385)				(385)
Issuance of common stock pursuant to exercise of options	84,502	—	472					472
Issuance of common stock pursuant to vesting of restricted stock units	659,350	1						1
Stock-based compensation expense for restricted stock units granted to employees			8,651					8,651
Repurchase of treasury stock					1,486,882	(20,595)		(20,595)
Tax benefits of disqualifying dispositions of incentive stock options			965					965
Balance, March 31, 2012	48,185,731	48	237,289	212	6,371,540	(56,032)	160,852	342,369
Net Income							40,609	40,609
Unrealized net investment gains				109				109
Unrealized net losses on derivative financial instruments				(110)				(110)
Cumulative translation adjustments				460				460
Issuance of common stock pursuant to exercise of options	86,892	—	574					574
Issuance of common stock pursuant to vesting of restricted stock units	549,932	1						1
Stock-based compensation expense for restricted stock units granted to employees			8,887					8,887
Issuance of common stock under employee stock plan	184,936		4,545					4,545
Repurchase of treasury stock					1,169,030	(27,448)		(27,448)
Tax benefits of disqualifying dispositions of incentive stock options			1,907					1,907
Balance, March 31, 2013	49,007,491	49	253,202	671	7,540,570	(83,480)	201,461	371,903
Net Income							49,106	49,106
Unrealized net investment gains				5				5
Unrealized net gains on derivative financial instruments				209				209
Cumulative translation adjustments				1,887				1,887
Issuance of common stock pursuant to exercise of options	117,650	—	811					811
Issuance of common stock pursuant to vesting of restricted stock units	635,254	1						1
Stock-based compensation expense for restricted stock units granted to employees			12,178					12,178
Issuance of common stock under employee stock purchase plan	162,564		4,995					4,995
Repurchase of treasury stock					1,216,605	(34,322)		(34,322)
Tax benefits of disqualifying dispositions of incentive stock options			2,388					2,388
Balance, March 31, 2014	49,922,959	$ 50	$273,574	$2,772	8,757,175	$(117,802)	$250,567	$409,161

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

NetScout Systems, Inc.

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended March 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 49,106	$ 40,609	$ 32,428
Adjustments to reconcile net income to cash provided by operating activities, net of the effects of acquisitions:			
Depreciation and amortization	18,260	17,464	16,642
Loss on extinguishment of debt	—	—	553
Loss on disposal of fixed assets	39	104	168
Deal related compensation expense and accretion charges	151	263	106
Share-based compensation expense associated with equity awards	12,930	9,591	8,651
Net change in fair value of contingent and contractual liabilities	(303)	466	—
Deferred income taxes	5,214	3,909	5,437
Other gains	(86)	(3)	(53)
Changes in assets and liabilities			
Accounts receivable	13,451	82	(3,997)
Inventories	(6,798)	1,433	(892)
Prepaid expenses and other assets	(2,841)	5,391	(875)
Accounts payable	1,498	(2,345)	(2,195)
Accrued compensation and other expenses	6,734	10,739	1,637
Contingent liabilities	—	—	389
Income taxes payable	677	114	—
Deferred revenue	12,914	7,595	10,308
Net cash provided by operating activities	110,946	95,412	68,307
Cash flows from investing activities:			
Purchase of marketable securities	(128,122)	(121,133)	(117,682)
Proceeds from maturity of marketable securities	65,570	163,416	184,899
Purchase of fixed assets	(13,066)	(11,671)	(11,088)
Purchase of intangible assets	(1,086)	(277)	(200)
Acquisition of businesses, net of cash acquired	—	(51,273)	(46,721)
Decrease (increase) in deposits	123	(804)	—
Net cash (used in) provided by investing activities	(76,581)	(21,742)	9,208
Cash flows from financing activities:			
Issuance of common stock under stock plans	812	575	473
Payment of contingent consideration	(841)	(4,038)	(846)
Treasury stock repurchases	(34,322)	(27,448)	(20,595)
Proceeds from issuance of long-term debt, net of issuance costs	—	—	60,691
Repayment of long-term debt	—	(62,000)	(68,106)
Excess tax benefit from share-based compensation awards	2,388	1,907	965
Net cash used in financing activities	(31,963)	(91,004)	(27,418)
Effect of exchange rate changes on cash and cash equivalents	(256)	9	(10)
Net (decrease) increase in cash and cash equivalents	2,146	(17,325)	50,087
Cash and cash equivalents, beginning of year	99,930	117,255	67,168
Cash and cash equivalents, end of year	$ 102,076	$ 99,930	$ 117,255
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ —	$ 325	$ 1,253
Cash paid for income taxes	$ 21,456	$ 13,326	$ 13,163
Non-cash transactions:			
Transfers of inventory to fixed assets	$ 1,781	$ 583	$ 1,910
Additions to property, plant and equipment included in accounts payable	$ 124	$ 154	$ 569
Fair value of contingent consideration related to acquisitions, included in contingent liabilities	$ —	$ —	$ 8,000
Debt issuance costs settled through the issuance of additional debt	$ —	$ —	$ 1,184
Interest settled through issuance of additional debt	$ —	$ —	$ 125
Gross (decrease) in contractual liability relating to fair value adjustment	$ (197)	$ (184)	$ (900)
Gross (decrease) increase in contingent consideration liability relating to fair value adjustment	$ (106)	$ 650	$ 900
Issuance of common stock under employee stock purchase plans	$ 4,995	$ 4,545	$ —

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

NOTE 1 – NATURE OF BUSINESS

NetScout Systems, Inc., or NetScout or the Company, is an industry leader for advanced network, application and service assurance solutions, providing high-quality performance analytics and operational intelligence solutions that facilitate the evolution toward new computing paradigms, including virtualization, mobility and cloud. NetScout's products allow our customers to ensure that applications are running smoothly across their networks. NetScout designs, develops, manufactures, markets, licenses, sells and supports products focused on assuring service delivery quality, performance and availability for some of the world's largest, most demanding and complex internet protocol (IP) based service delivery environments. NetScout manufactures and markets these products in integrated hardware and software solutions that are used by commercial enterprises, large governmental agencies and telecommunication service providers worldwide. NetScout has a single operating segment and substantially all of its identifiable assets are located in the United States.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of NetScout and its wholly-owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

Segment Reporting

The Company reports as a single operating segment with the Chief Executive Officer (CEO) being the Company's chief operating decision maker. The Company's CEO reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, the Company has one business activity and there are no segment managers who are held accountable for operations, operating results or components below the consolidated unit level.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in these financial statements include revenue recognition, valuation of goodwill and acquired intangible assets and share-based compensation. These items are continuously monitored and analyzed by management for changes in facts and circumstances and material changes in these estimates could occur in the future.

Cash and Cash Equivalents and Marketable Securities

Under current authoritative guidance, NetScout has classified its investments as "available-for-sale" which are carried at fair value based on quoted market prices and associated unrealized gains or losses are recorded as a separate component of stockholders' equity until realized. NetScout considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents and those investments with original maturities greater than three months to be marketable securities.

At March 31, 2014 and periodically throughout the year, NetScout has maintained cash balances in various operating accounts in excess of federally insured limits. NetScout limits the amount of credit exposure by investing only with credit worthy institutions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

We exercise judgment and use estimates in connection with determining the amounts of product and services revenues to be recognized in each accounting period.

Product revenue consists of sales of NetScout's hardware products (which include required embedded software that works together with the hardware to deliver the hardware's essential functionality), licensing of its 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 determinable and collection of the related receivable is probable. Because many of NetScout's solutions are comprised of both hardware and more than incidental software components, the Company recognizes 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. NetScout generally provides 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. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates and bug fixes. Reimbursements of out-of-pocket expenditures incurred in connection with providing consulting services are included in services revenue, with the offsetting expense recorded in cost of service revenue. Training services include on-site and classroom training. Training revenues are recognized as the related training services are provided.

Generally, the Company's contracts are accounted for individually. However, when contracts are closely interrelated and dependent on each other, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts.

Multi-element arrangements are concurrent customer purchases of a combination of NetScout's 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, the Company allocates the total arrangement consideration to the multiple elements based on each element's selling price compared to the total relative selling price of all the elements. Each element's selling price is based on management's best estimate of selling price (BESP) paid by customers based on the element's historical pricing when VSOE or third party evidence (TPE) does not exist. The Company has established BESP for product elements as the average selling price the element was sold for over the past six quarters, whether sold alone or sold as part of a multiple element transaction. The Company's internal list price for products, reviewed quarterly by senior management, with consideration in regards to changing factors in its technology and in the marketplace, is generated to target the desired gross margin from sales of product after analyzing historical discounting trends. The Company reviews sales of the product elements on a quarterly basis and updates, when appropriate, its BESP for such elements to ensure that it reflects recent pricing experience. The Company has established VSOE for services related undelivered elements based on historical stand-alone sales.

For multi-element arrangements comprised only of software products and related services, the Company allocates a portion of the total arrangement consideration to the undelivered elements, primarily support agreements and training, using vendor-specific objective evidence of fair value for the undelivered elements. The remaining portion of the total arrangement consideration is allocated to the delivered software, referred to as the residual method. VSOE of fair value of the undelivered elements is based on the price customers pay when the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

element is sold separately. The Company reviews the separate sales of the undelivered elements on a quarterly basis and updates, when appropriate, its VSOE of fair value for such elements to ensure that it reflects recent pricing experience. If the Company cannot objectively determine the VSOE of the fair value of any undelivered software element, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

For multi-element arrangements comprised of a combination of hardware and software elements, the total arrangement consideration is bifurcated between the hardware and hardware related deliverables and the software and software related deliverables based on the relative selling prices of all deliverables as a group. Then, arrangement consideration for the hardware and hardware-related services is recognized upon delivery or as the related services are provided outlined above and revenue for the software and software-related services is allocated following the residual method and recognized based upon delivery or as the related services are provided.

The Company's product is distributed through its direct sales force and indirect distribution channels through alliances with resellers. Revenue arrangements with resellers are recognized on a sell-in basis; that is, when NetScout delivers the product to the reseller. The Company records consideration given to a reseller as a reduction of revenue to the extent the Company has recorded revenue from the reseller. The Company does not offer contractual rights of return, stock balancing, or price protection to its resellers, and actual product returns from them have been insignificant to date. In addition, the Company has a history of successfully collecting receivables from the resellers. As a result, the Company does not maintain reserves for reseller product returns.

Commission Expense

The Company recognizes commission expense related to the renewal of maintenance contracts at the time an order is booked. As a result, commission expense can be recognized in full even though the related revenue may not be fully recognized. Base commission expense on product revenue and corresponding new maintenance contracts is recognized in the same period as related product revenue, typically upon shipment.

Uncollected Deferred Product Revenue

Because of NetScout's revenue recognition policies, there are circumstances for which the Company does not recognize revenue relating to sales transactions that have been billed, but the related account receivable has not been collected. While the receivable represents an enforceable obligation, for balance sheet presentation purposes, the Company has not recognized the deferred revenue or the related account receivable and no amounts appear in the consolidated balance sheets for such transactions. The aggregate amount of unrecognized accounts receivable and deferred revenue was $9.0 million and $1.0 million at March 31, 2014 and 2013, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentration of credit risk consist primarily of investments, trade accounts receivable and accounts payable. Our cash, cash equivalents, and marketable securities are placed with financial institutions with high credit standings.

At March 31, 2014, the Company had one direct customer which accounted for more than 10% of the accounts receivable balance, while no single indirect channel partner accounted for more than 10% of the accounts receivable balance. At March 31, 2013, one direct customer accounted for more than 10% of the accounts receivable balance, while no single indirect channel partner accounted for more than 10% of the accounts receivable balance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the fiscal year ended March 31, 2014, one direct customer accounted for more than 10% of total revenue, while no single indirect channel partner accounted for more than 10% of total revenue. During the fiscal years ended March 31, 2013 and 2012, no single direct customer or indirect channel partner accounted for more than 10% of total revenue. Historically, the Company has not experienced any significant failure of its customers to meet their payment obligations nor does the Company anticipate material non-performance by its customers in the future; accordingly, the Company does not require collateral from its customers. However, if the Company's assumptions are incorrect, there could be an adverse impact on its allowance for doubtful accounts.

Trade Receivable Valuations

Accounts receivable are stated at their net realizable value. The allowance against gross trade receivables reflects the best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information.

Inventories

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

Fixed Assets

Fixed assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or anticipated useful life of the improvement. Gains and losses upon asset disposal are recognized in the year of disposition. Expenditures for replacements and building improvements are capitalized, while expenditures for maintenance and repairs are charged against earnings as incurred.

Valuation of Goodwill, Intangible Assets and Other Acquisition Accounting Items

The Company has two reporting units: (1) Unified Service Delivery and (2) Test Automation. Goodwill is tested for impairment at a reporting unit level at least annually, or on an interim basis if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting segment below its carrying value. Because the Company, and its two reporting units, did not experience any significant adverse changes in their business or reporting structures, the Company performed the qualitative Step 0 assessment. In performing the qualitative Step 0 assessment, the Company considered certain events and circumstances specific to the entity at the reporting unit level, such as macroeconomic conditions, industry and market considerations, overall financial performance and cost factors when evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company completed its annual impairment test of goodwill as of January 31, 2014. No indicators of impairment were noted as of January 31, 2014. Additionally, the market capitalization of the Company as a whole significantly exceeded its carrying value.

Indefinite-lived assets are tested for impairment at a reporting unit level at least annually, or on an interim basis if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting segment below its carrying value. To test impairment, the Company first assesses qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If based on the Company's qualitative assessment that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if the Company concludes otherwise, quantitative impairment testing is not required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NetScout amortizes acquired intangible assets over their estimated useful lives, except for an acquired tradename which has an indefinite life and thus, is not amortized. The carrying value of the indefinite lived tradename is evaluated annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company completed its annual impairment test of the indefinite lived intangible as of January 31, 2014 using the qualitative Step 0 assessment described above, which largely mirrors the Unified Service Delivery goodwill impairment assessment, as the tradenames apply to a majority of the products and branding within that reporting unit. No impairment indicators were identified as of January 31, 2014.

The Company acquired five companies during the three year period ended March 31, 2014. The acquisition method of accounting requires an estimate of the fair value of the assets and liabilities acquired as part of these transactions. In order to estimate the fair value of acquired intangible assets the Company uses a relief from royalty model which requires management to estimate: future revenues expected to be generated by the acquired intangible assets, a royalty rate which a market participant would pay related to the projected revenue stream, a present value factor which approximates a risk adjusted rate of return for a market participant purchasing the assets, and a technology migration curve representing a period of time over which the technology assets or some portion thereof are still being used. The Company is also required to develop the fair value for customer relationships acquired as part of these transactions which requires that we create estimates for the following items: a projection of future revenues associated with the acquired company's existing customers, a turnover rate for those customers, a margin related to those sales, and risk adjusted rate of return for a market participant purchasing those relationships.

The acquisition of Simena LLC on November 18, 2011 also contained contingent features based on the ultimate settlement of assets and liabilities acquired as part of the transaction, and the former owners future period of employment with the Company. Contingent consideration accounting requires the Company to estimate the probability of various settlement scenarios, the former owners expected period of employment with NetScout, and a risk adjusted interest rate to present value to the payment streams.

Capitalized Software Development Costs

Costs incurred in the research and development of the Company's products are expensed as incurred, except for certain software development costs. Costs associated with the development of computer software are expensed prior to the establishment of technological feasibility and capitalized thereafter until the related software products are available for first customer shipment. Such costs are amortized using the straight-line method over the estimated economic life of the product, which generally does not exceed three years. Capitalized software development costs are periodically assessed for recoverability in the event of changes to the anticipated future revenue for the software products or changes in product technologies. Unamortized capitalized software development costs that are determined to be in excess of the net realizable value of the software products would be expensed in the period in which such a determination is made.

Amortization included as cost of product revenue was $0 thousand and $51 thousand for the years ended March 31, 2014 and 2013, respectively. The Company did not capitalize any software development costs in the years ended March 31, 2014 and 2013.

Derivative Financial Instruments

Under authoritative guidance for derivative instruments and hedging activities, all hedging activities must be documented at the inception of the hedge and must meet the definition of highly effective in offsetting changes to future cash flows in order for the derivative to qualify for hedge accounting. Under the guidance, if an instrument

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

qualifies for hedge accounting, the changes in the fair value each period for open contracts, measured as of the end of the period, are recorded to other comprehensive income. Otherwise, changes in the fair value are recorded in earnings each period. Management must perform initial and ongoing tests in order to qualify for hedge accounting. In accordance with the guidance, the Company accounts for its instruments under hedge accounting. The effectiveness and a measurement of ineffectiveness of qualifying hedge contracts are assessed by the Company quarterly. The Company records the fair value of its derivatives in other current assets and other current liabilities. The effective portion of gains or losses resulting from changes in the fair value of qualifying hedges are recorded in other comprehensive income (loss) until the forecasted transaction occurs, with any ineffective portion classified directly to the Company's consolidated statement of operations based on the expense categories of the items being hedged. When forecasted transactions occur, unrealized gains or losses associated with the effective portion of the hedge are reclassified to the respective expense categories in the Company's consolidated statement of operations. Gains or losses related to hedging activity are included as operating activities in the Company's consolidated statement of cash flows. If the underlying forecasted transactions do not occur, or it becomes probable that they will not occur, the gain or loss on the related cash flow hedge is recognized immediately in earnings.

Contingencies

NetScout accounts for claims and contingencies in accordance with authoritative guidance that requires an estimated loss to be recorded from a claim or loss contingency when information available prior to issuance of our consolidated financial statements indicates that it is probable that a liability has been incurred at the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. If NetScout determines that it is reasonably possible but not probable that an asset has been impaired or a liability has been incurred or if the amount of a probable loss cannot be reasonably estimated, then in accordance with the authoritative guidance, we disclose the amount or range of estimated loss if the amount or range of estimated loss is material. Accounting for claims and contingencies requires NetScout to use its judgment. NetScout consults with legal counsel on those issues related to litigation and seeks input from other experts and advisors with respect to matters in the ordinary course of business. See Note 17 for a discussion of contingencies.

Contingent liabilities includes contingent consideration in connection with the Company's acquisitions and contingent contractual non-compliance liability. Contingent consideration represents earnout payments in connection with the Company's acquisitions and is recognized at fair value on the acquisition date and remeasured each reporting period with subsequent adjustments recognized in the consolidated statements of income. The Company discounts the contingent purchase consideration and contingent non-contractual liabilities to present value using a risk adjusted interest rate at each reporting period. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. The Company believes its estimates and assumptions are reasonable, however, there is significant judgment involved.

Changes in the fair value of contingent liabilities may result from changes in discount periods. The Company reflects changes in fair value due to probability changes in earnings in the consolidated statements of income. Earnout payments are reflected in cash flows from financing activities and the changes in fair value are reflected in cash flows from operating activities in the consolidated statements of cash flows.

Share-based Compensation

NetScout recognizes compensation expense for all share-based payments granted. Under the fair value recognition provisions, share-based compensation is calculated net of an estimated forfeiture rate and compensation cost is only recognized for those shares expected to vest on a straight-line basis over the requisite service period of the award.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency

NetScout accounts for its reporting of foreign operations in accordance with guidance which establishes guidelines for the determination of the functional currency of foreign subsidiaries. A majority of NetScout's foreign subsidiaries are an extension of NetScout's U.S. operations. In accordance with the guidance, NetScout has determined its functional currency for those foreign subsidiaries to be the U.S. Dollar. Foreign subsidiary expenses that are denominated in a currency other than the U.S. Dollar functional currency are translated at the foreign exchange rate in effect at the time the transaction is recorded.

The Company does consolidate European subsidiaries which use the Euro as a functional currency. Accordingly, the assets and liabilities of those entities are translated into United States dollars using the period-end exchange rate, and income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses associated with non-Euro denominated balances held by those entities are charged to operations.

NetScout will experience currency exchange risk with respect to foreign currency denominated expenses. In order to partially offset the risks associated with the effects of certain foreign currency exposures, NetScout has established a program that utilizes foreign currency forward contracts. Under this program, increases or decreases in foreign currency exposures are partially offset by gains or losses on forward contracts, to mitigate the impact of foreign currency transaction gains or losses. The Company does not use forward contracts to engage in currency speculation. All outstanding foreign currency forward contracts are recorded at fair value at the end of each fiscal period.

The Company had a foreign currency gain of $315 thousand, a gain of $3 thousand and a loss of $625 thousand for the years ended March 31, 2014, 2013 and 2012, respectively, and are included in other (income) expense, net.

Advertising Expense

NetScout recognizes advertising expense as incurred. Advertising expense was $2.4 million, $1.1 million and $273 thousand for the years ended March 31, 2014, 2013 and 2012, respectively.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) typically consists of unrealized gains and losses on marketable securities and restricted investments, unrealized gain (loss) on hedge contracts and foreign currency translation adjustments.

Income Taxes

NetScout accounts for its income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as the effect of any net operating loss and tax credit carryforwards. Income tax expense is comprised of the current tax liability or benefit and the change in deferred tax assets and liabilities. We evaluate the recoverability of deferred tax assets by considering all positive and negative evidence relating to future profitability. We weight objective and verifiable evidence more heavily in this analysis. In situations where we conclude that we do not have sufficient objective and verifiable evidence to support the realizability of the asset we create a valuation allowance against it.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Standards

The Company has reviewed and considered recent accounting pronouncements through Accounting Standards Update 2014-07 and believes there are none that could potentially have a material impact on its financial condition, results of operations or cash flows.

NOTE 3 – CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash and cash equivalents consisted of money market instruments and cash maintained with various financial institutions at March 31, 2014 and 2013.

The following is a summary of marketable securities held by NetScout at March 31, 2014 classified as short-term and long-term (in thousands):

	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Type of security:			
U.S. government and municipal obligations	$ 53,854	$ 26	$ 53,880
Commercial paper	14,581	—	14,581
Corporate bonds	6,772	1	6,773
Total short-term marketable securities	75,207	27	75,234
U.S. government and municipal obligations	37,875	2	37,877
Corporate bonds	3,611	(4)	3,607
Total long-term marketable securities	41,486	(2)	41,484
Total marketable securities	$116,693	$ 25	$116,718

The following is a summary of marketable securities held by NetScout at March 31, 2013, classified as short-term and long-term (in thousands):

	Amortized Cost	Unrealized Gains	Fair Value
Type of security:			
U.S. government and municipal obligations	$17,416	$ 11	$17,427
Commercial paper	12,390	—	12,390
Corporate bonds	2,559	2	2,561
Certificates of deposit	4,960	—	4,960
Total short-term marketable securities	37,325	13	37,338
U.S. government and municipal obligations	14,211	7	14,218
Corporate bonds	2,605	—	2,605
Total long-term marketable securities	16,816	7	16,823
Total marketable securities	$54,141	$ 20	$54,161

NOTE 3 – CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES (Continued)

Contractual maturities of the Company's marketable securities held at March 31, 2014 and March 31, 2013 were as follows (in thousands):

	March 31, 2014	March 31, 2013
Available-for-sale securities:		
Due in 1 year or less	$ 75,234	$37,338
Due after 1 year through 5 years	41,484	16,823
	$116,718	$54,161

NOTE 4 – FAIR VALUE MEASUREMENTS

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant non-observable inputs. The following tables present the Company's financial assets and liabilities measured on a recurring basis using the fair value hierarchy as of March 31, 2014 and 2013 (in thousands). The Company has revised the level designation for certain prior year investments to correct an immaterial misstatement.

	Fair Value Measurements at March 31, 2014			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash and cash equivalents	$ 82,079	$ 19,997	$ —	$102,076
U.S. government and municipal obligations	21,992	69,765	—	91,757
Commercial paper	—	14,581	—	14,581
Corporate bonds	10,380	—	—	10,380
Certificate of deposits	—	—	—	—
Derivative financial instruments	—	368	—	368
	$114,451	$104,711	$ —	$219,162
LIABILITIES:				
Contingent consideration	$ —	$ —	$(4,291)	$ (4,291)
Contingent contractual non-compliance liability	—	—	(49)	(49)
Derivative financial instruments	—	(139)	—	(139)
	$ —	$ (139)	$(4,340)	$ (4,479)

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at March 31, 2013			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash and cash equivalents	$ 99,930	$ —	$ —	$ 99,930
U.S. government and municipal obligations	19,288	12,357	—	31,645
Commercial paper	—	12,390	—	12,390
Corporate bonds	5,166	—	—	5,166
Certificate of deposits	—	4,960	—	4,960
Derivative financial instruments	—	71	—	71
	$124,384	$29,778	$ —	$154,162
LIABILITIES:				
Contingent consideration	$ —	$ —	$(5,087)	$ (5,087)
Contingent contractual non-compliance liability	—	—	(246)	(246)
Derivative financial instruments	—	(249)	—	(249)
	$ —	$ (249)	$(5,333)	$ (5,582)

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including marketable securities and derivative financial instruments.

The Company's Level 1 investments are classified as such because they are valued using quoted market prices or alternative pricing sources with reasonable levels of price transparency.

The Company's Level 2 investments are classified as such because fair value is being calculated using data from similar but not identical sources, or a discounted cash flow model using the contractual interest rate as compared to the underlying interest yield curve. The Company's derivative financial instruments consist of forward foreign exchange contracts and are classified as Level 2 because the fair values of these derivatives are determined using models based on market observable inputs, including spot prices for foreign currencies and credit derivatives, as well as an interest rate factor. Commercial paper and certificate of deposits are classified as Level 2 because the Company uses market information from similar but not identical instruments and discounted cash flow models based on interest rate yield curves to determine fair value. For further information on the Company's derivative instruments refer to Note 9.

The Company's contingent purchase consideration and contingent contractual non-compliance liability at March 31, 2014 and 2013 were classified as Level 3 in the fair value hierarchy. They are valued by probability weighting expected payment scenarios and then applying a discount based on the present value of the future cash flow streams. The Company has elected to account for the contractual non-compliance liability at fair value. This election has been made as both contingent liabilities are related. The fair value election created parity between the two items during the settlement period. These liabilities are classified as Level 3 because the probability weighting of future payment scenarios is based on assumptions developed by management.

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth a reconciliation of changes in the fair value of the Company's Level 3 financial liabilities for the year ended March 31, 2014 (in thousands):

	Contingent Purchase Consideration	Contingent Contractual Non-compliance Liability
Balance at March 31, 2013	$(5,087)	$(246)
(Increase) / decrease in fair value and accretion expense (included within research and development expense)	(45)	197
Payments	841	—
Balance at March 31, 2014	$(4,291)	$ (49)

The Company has updated the probabilities used in the fair value calculation of the contingent liabilities at March 31, 2014 which reduced the liability by $303 thousand and is included as part of earnings for the fiscal year ended March 31, 2014. The fair value of the contingent purchase consideration was estimated by applying a probability based model, which utilizes significant inputs that are unobservable in the market. Key assumptions include a 3.3% discount rate, and a percent weighted-probability of the settlement of the contingent contractual non-compliance liability. Deal related compensation expense, accretion charges and changes related to settlements of contractual non-compliance liabilities for the fiscal year ended March 31, 2014 was $151 thousand and was included as part of earnings.

During the fiscal year ended March 31, 2014, $841 thousand related to the contingent purchase consideration as part of the acquisition of Simena was paid to the former owner.

The following table sets forth a reconciliation of changes in the fair value of the Company's Level 3 financial assets for the year ended March 31, 2013 (in thousands):

	Auction Rate Securities	Contingent Purchase Consideration	Contingent Contractual Non-compliance Liability
Balance at March 31, 2012	$ 1,461	$(8,213)	$(700)
(Increase) / decrease in fair value and accretion expense (included within research and development expense)	—	(912)	184
ARSs redeemed by issuers at par	(1,650)	—	—
Unrealized gains included in accumulated other comprehensive income	190	—	—
Unrealized gain (loss) included in earnings	(1)	—	—
Payments	—	4,038	270
Balance at March 31, 2013	$ —	$(5,087)	$(246)

The Company had updated the probabilities used in the fair value calculation of the contingent liabilities at March 31, 2013 which resulted in an additional liability of $466 thousand included as part of earnings for the fiscal year ended March 31, 2013. The fair value of the contingent consideration was estimated by applying a probability based model, which utilizes significant inputs that are unobservable in the market. Key assumptions

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

include a 3.3% discount rate, a stay period of two or three years and a percent weighted-probability of the settlement of the contingent contractual non-compliance liability. Deal related compensation expense, accretion charges and changes related to settlements of contractual non-compliance liabilities for the fiscal year ended March 31, 2013 was $263 thousand and was included as part of earnings.

During the fiscal year ended March 31, 2013, $4.0 million related to the contingent purchase consideration as part of the acquisition of Simena was paid to the former owner.

During the fiscal year ended March 31, 2013, the Level 3 liability related to the contractual non-compliance liability was paid and resulted in a $270 thousand decrease. All amounts were accurately reflected in purchase accounting and there was no impact to earnings in the post-acquisition period.

NOTE 5 – INVENTORIES

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

	March 31,	
	2014	2013
Raw materials	$ 6,025	$3,986
Work in process	161	272
Finished goods	6,394	3,305
	$12,580	$7,563

NOTE 6 – FIXED ASSETS

Fixed assets consist of the following (in thousands):

	Estimated Useful Life in Years	March 31,	
		2014	2013
Furniture and fixtures	3-7	$ 3,693	$ 3,337
Computer equipment and internal use software	3-5	62,045	52,170
Demonstration and spare part units	2	10,755	8,041
Leasehold improvements (1)	up to 12	13,141	11,920
		89,634	75,468
Less – accumulated depreciation		(66,536)	(55,790)
		$ 23,098	$ 19,678

(1) Leasehold improvements are depreciated over the shorter of the lease term or anticipated useful life of the improvement.

Depreciation expense was $11.4 million, $9.8 million and $9.6 million for the years ended March 31, 2014, 2013 and 2012, respectively.

NOTE 7 – ACQUISITIONS

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to value the assets acquired and liabilities assumed on the acquisition date, its estimates and assumptions are subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. The Company records adjustments to the assets acquired and liabilities assumed subsequent to the purchase price allocation period in the Company's operating results in the period in which the adjustments were determined. The results of operations of the acquired businesses described below have been included in the Company's consolidated financial statements beginning on their respective acquisition dates unless indicated otherwise below.

ONPATH

On October 31, 2012, the Company acquired ONPATH Technologies, Inc. (ONPATH), an established provider of scalable packet flow switching technology for high-performance networks for the aggregation and distribution of network traffic for data, voice, video testing, monitoring, performance management and cybersecurity deployments. ONPATH's packet flow switch technology is synergistic with the Company's network monitoring switch strategy. The acquisition of the packet flow switch technology further strengthens the Company's Unified Service Delivery Management strategy by enabling scalable access to all relevant network traffic across highly distributed network environments for use by any network monitoring, performance management and security system. ONPATH's test automation technology is used to monitor networks in test environments which simulate existing and planned network environments. The results of ONPATH's operations have been included in the consolidated financial statements since October 31, 2012. The total cash transferred and to be transferred of $41.0 million consisted entirely of cash consideration, of which $8.2 million will be paid to employees and directors of ONPATH pursuant to ONPATH's transaction bonus and retention plan. Approximately $4.0 million of the transaction bonuses are considered compensation and are therefore not included as consideration within the table below.

The following table summarizes the allocation of the purchase price (in thousands):

Allocation of the purchase consideration:	
Current assets, including cash and cash equivalents of $527	$ 8,356
Fixed assets	784
Identifiable intangible assets	10,970
Goodwill	19,897
Deferred tax asset	7,329
Other assets	1,432
Total assets acquired	48,768
Current liabilities	(6,387)
Deferred revenue	(921)
Deferred income tax liabilities	(4,660)
	$36,800

Goodwill was recognized for the excess purchase price over the fair value of the assets acquired. Goodwill of $17.5 million from the ONPATH acquisition was included within the Company's existing Unified Service Delivery reporting unit and $2.4 million was included within the Test Automation reporting unit. Both reporting units resulting from the acquisition of ONPATH were included in the Company's annual impairment review on January 31, 2014.

NOTE 7 – ACQUISITIONS (Continued)

The fair values of intangible assets were based on valuations using an income approach, with estimates and assumptions provided by management of ONPATH and the Company. These assumptions include estimates of future revenues associated with the technology purchased as part of the acquisition and the migration of the current technology to more advanced versions of the software. This fair value measurement was based on significant inputs not observable in the market and thus represents Level 3 fair value measurements. The following table reflects the fair value of the acquired identifiable intangible assets and related estimates of useful lives (in thousands, except for years):

	Fair Value	Useful Life (Years)
Developed technology	$ 4,970	8
Customer relationships	6,000	7
	$10,970	

The weighted average useful life of identifiable intangible assets acquired from ONPATH is 7.5 years. Acquired software is amortized using an accelerated amortization method. Customer relationships are amortized on a straight-line basis.

Goodwill and intangible assets recorded as part of the ONPATH acquisition are not deductible for tax purposes.

The Company notes that it acquired net operating losses from ONPATH. ONPATH has represented to the Company that there were no historical changes in control that would limit NetScout's ability to utilize these net operating losses in its consolidated federal return. During the fourth quarter of the Company's fiscal year ended March 31, 2013, the Company completed a 382 study with its tax advisors and concluded that ONPATH's representations were correct. The Company also notes that ONPATH did not claim research and development credits for historical tax returns. NetScout believes that certain ONPATH activities qualify for a research and development credit, and in the second quarter of fiscal year 2014, performed an analysis on the historical periods to identify and claim credits for historical research and development activities. A net tax credit of $517 thousand has been recorded within the acquisition allocation related to ONPATH's research and development activities.

Accanto

On July 20, 2012, the Company acquired certain assets, technology and employees of Accanto Systems, S.r.l. (Accanto), a supplier of service assurance solutions for telecommunication service providers which enables carriers to monitor and manage the delivery of voice services over converged, next generation telecom architectures. Accanto's technology is synergistic with the Company's packet flow strategy and brings voice service monitoring capabilities for legacy environments and for next generation network voice services. The Company maintains a relationship with the selling entity such that the selling entity serves as a distributor for the Company. The results of Accanto's operations, related to those assets, technology and employees acquired, have been included in the consolidated financial statements since that date. The total purchase price of $15.0 million consisted entirely of cash consideration. The goodwill recognized primarily relates to the value in combining Accanto's product with our customer base.

NOTE 7 – ACQUISITIONS (Continued)

The following table summarizes the allocation of the purchase price (in thousands):

Allocation of the purchase consideration:	
Current assets	$ 389
Fixed assets	237
Identifiable intangible assets	5,280
Goodwill	11,157
Total assets acquired	17,063
Current liabilities	(839)
Deferred revenue	(240)
Deferred income tax liabilities	(984)
	$15,000

Goodwill was recognized for the excess purchase price over the fair value of the assets acquired. Goodwill from the Accanto acquisition is included within the Company's Unified Service Delivery reporting unit and was included in the Company's annual impairment review. The acquired software intangible had a tax basis of approximately $2.1 million which carried over as part of the acquisition and will be deductible for tax purposes. The remaining value of the acquired software intangible asset and the full value of the customer relationship intangible asset and goodwill is not deductible for tax purposes.

The fair values of intangible assets were based on valuations using an income approach, with estimates and assumptions provided by management of Accanto and the Company. These assumptions include estimates of future revenues associated with the technology purchased as part of the acquisition and the migration of the current technology to more advanced versions of the software. This fair value measurement was based on significant inputs not observable in the market and thus represents Level 3 fair value measurements. The following table reflects the fair value of the acquired identifiable intangible assets and related estimates of useful lives (in thousands, except for years):

	Fair Value	Useful Life (Years)
Developed technology	$3,500	8
Distributor relationships	1,780	6
	$5,280	

The weighted average useful life of identifiable intangible assets acquired from Accanto is 7.3 years. Acquired software is amortized using an accelerated amortization method. Distributor relationships are amortized on a straight-line basis.

Simena

On November 18, 2011, the Company completed the acquisition of Simena, LLC (Simena), an established provider of high performance, low-latency IP packet flow-based network monitoring switching technology. The Company paid the sellers $10.1 million at closing and became obligated to pay the seller up to $10.8 million in additional purchase consideration subject to adjustment based on the final determination of certain assets and liabilities.

NOTE 7 – ACQUISITIONS (Continued)

The contingent liability was recorded at its fair value of $8.0 million at the acquisition date. The Company has re-measured the fair value at March 31, 2014 and will re-measure the fair value of the consideration at each subsequent reporting period and recognize any adjustment to fair value as part of earnings.

Replay

On October 3, 2011, the Company completed the acquisition of Fox Replay BV (Replay), a leading provider of session reconstruction and replay technology, for $20.2 million in cash.

Psytechnics

On April 1, 2011, the Company completed the acquisition of Psytechnics, Ltd. (Psytechnics), a supplier of voice video network monitoring software. The total purchase price of $17.0 million consisted entirely of cash consideration.

The following table presents unaudited pro forma results of the historical Consolidated Statements of Operations of the Company and ONPATH, Accanto, Simena and Replay for the years ended March 31, 2013 and 2012, giving effect to the mergers as if they occurred on April 1, 2011 (in thousands, except per share data):

	Year Ended March 31, (unaudited)	
	2013	2012
Pro forma revenue	$361,086	$338,720
Pro forma net income	$ 34,589	$ 10,594
Pro forma income per share:		
Basic	$ 0.83	$ 0.25
Diluted	$ 0.82	$ 0.25
Pro forma shares outstanding		
Basic	41,665	42,035
Diluted	42,322	42,750

The pro forma results for the years ended March 31, 2013 and 2012 primarily include adjustments for amortization of intangible assets. This pro forma information does not purport to indicate the results that would have actually been obtained had the acquisition been completed on the assumed date, or which may be realized in the future.

During the fiscal year ended March 31, 2014, the Company has recorded $12.9 million of revenue directly attributable to ONPATH and Accanto within its consolidated financial statements.

NOTE 8 – GOODWILL & INTANGIBLE ASSETS

Goodwill

The Company has two reporting units: (1) Unified Service Delivery and (2) Test Automation. As of March 31, 2014 and March 31, 2013, goodwill attributable to the Unified Service Delivery reporting unit was $201.0 million and $199.5 million, respectively. Goodwill attributable to the Test Automation reporting unit was $2.4 million and $3.0 million as of March 31, 2014 and March 31, 2013, respectively. Goodwill is tested for impairment at a reporting unit level at least annually, or on an interim basis if an event occurs or circumstances

NOTE 8 – GOODWILL & INTANGIBLE ASSETS (Continued)

change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. The Company completed its annual impairment test on January 31, 2014. No indicators of impairment were noted at that time. Additionally, the market capitalization of the Company as a whole significantly exceeded its carrying value.

The changes in the carrying amounts of goodwill for the fiscal years ended March 31, 2014 and 2013 are due to the addition of goodwill resulting from acquisitions, purchase accounting adjustments and the impact of foreign currency translation adjustments related to asset balances that are recorded currencies other than the U.S. Dollar.

The changes in the carrying amount of goodwill for the fiscal years ended March 31, 2014 and 2013 are as follows (in thousands):

Balance as of March 31, 2012	$170,384
Goodwill recorded in connection with business acquisitions	31,747
Foreign currency translation impact	322
Balance as of March 31, 2013	$202,453
Purchase accounting adjustments	(665)
Foreign currency translation impact	1,658
Balance as of March 31, 2014	$203,446

Intangible Assets

The net carrying amounts of intangible assets were $58.5 million and $63.8 million as of March 31, 2014 and 2013, respectively. Intangible assets acquired in a business combination are recorded under the acquisition method of accounting at their estimated fair values at the date of acquisition. The Company amortizes intangible assets over their estimated useful lives, except for the acquired trade name which resulted from the Network General acquisition, which has an indefinite life and thus is not amortized. The carrying value of the indefinite lived trade name is evaluated for potential impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

During the fiscal year ended March 31, 2014, the Company acquired certain rights to Accanto software not previously purchased as part of the acquisition transaction in fiscal year 2013 for $500 thousand. This amount is included within developed technology as of March 31, 2014 and will be amortized using the economic benefit period over 6.3 years.

During the fiscal year ended March 31, 2014, the Company made an agreement to acquire a technology license for $300 thousand. This amount is included within developed technology as of March 31, 2014 and will be amortized using the economic benefit period over 3.0 years.

The Company completed its annual impairment test of the indefinite lived intangible as of January 31, 2014, using the qualitative Step 0 assessment described above which largely mirrors the Unified Service Delivery goodwill impairment assessment, as the tradenames apply to a majority of the products and branding within that reporting unit. No impairment indicators were observed as of January 31, 2014. As such the Company concluded the indefinite lived intangible was not impaired.

NOTE 8 – GOODWILL & INTANGIBLE ASSETS (Continued)

Intangible assets include an indefinite lived trade name with a carrying value of $18.6 million and the following amortizable intangible assets as of March 31, 2014 (in thousands):

	Cost	Accumulated Amortization	Net
Developed technology	$31,946	$(23,524)	$ 8,422
Customer relationships	38,801	(14,046)	24,755
Distributor relationships	2,014	(568)	1,446
Core technology	7,572	(2,701)	4,871
Non-compete agreements	355	(295)	60
Other	769	(410)	359
	$81,457	$(41,544)	$39,913

Intangible assets include an indefinite lived trade name with a carrying value of $18.6 million and the following amortizable intangible assets as of March 31, 2013 (in thousands):

	Cost	Accumulated Amortization	Net
Developed technology	$30,848	$(21,343)	$ 9,505
Customer relationships	38,718	(11,038)	27,680
Distributor relationships	1,895	(219)	1,676
Core technology	7,446	(1,455)	5,991
Non-compete agreements	334	(167)	167
Other	483	(275)	208
	$79,724	$(34,497)	$45,227

Amortization of software and core technology included as cost of product revenue was $3.3 million, $4.5 million and $4.7 million for the fiscal years ended March 31, 2014, 2013 and 2012, respectively. Amortization of other intangible assets included as operating expense was $3.6 million, $3.1 million and $2.2 million for the fiscal years ended March 31, 2014, 2013 and 2012, respectively.

The following is the expected future amortization expense as of March 31, 2014 for the years ended March 31 (in thousands):

2015	$ 7,205
2016	6,636
2017	6,023
2018	5,134
2019	4,112
Thereafter	10,803
Total	$39,913

The weighted average amortization period of acquired software and core technology is 6.7 years. The weighted average amortization period for customer relationships is 13.3 years. The weighted average amortization period for amortizing all intangible assets is 10.1 years.

NOTE 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. The Company manages its foreign cash flow risk by hedging forecasted cash flows for operating expenses denominated in foreign currencies 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. These contracts will mature over the next twelve months and are expected to impact earnings on or before maturity.

The notional amounts and fair values of derivative instruments in the consolidated balance sheets as of March 31, 2014 and 2013 were as follows (in thousands):

	Notional Amounts (a)		Other Current Assets		Accrued Other Liabilities	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Derivatives Designated as Hedging Instruments:						
Forward contracts	$17,483	$17,071	$368	$71	$139	$249

(a) Notional amounts represent the gross contract/notional amount of the derivatives outstanding.

The following table provides the effect foreign exchange forward contracts had on other comprehensive income (loss), (OCI) and results of operations as of March 31, 2014 and 2013 (in thousands):

	Effective Portion					Ineffective Portion		
	Gain (Loss) Recognized in OCI on Derivative (a)		Gain (Loss) Reclassified from Accumulated OCI into Income (b)			Gain (Loss) Recognized in Income (Amount Excluded from Effectiveness Testing) (c)		
Derivatives in Cash Flow Hedging Relationships	March 31, 2014	March 31, 2013	Location	March 31, 2014	March 31, 2013	Location	March 31, 2014	March 31, 2013
Forward contracts	$95	$(404)	Research and development	$(373)	$(307)	Research and development	$245	$152
			Sales and marketing	164	68	Sales and marketing	1	(4)
	$95	$(404)		$(209)	$(239)		$246	$148

(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 gains or losses were reclassified as a result of discontinuance of cash flow hedges.

NOTE 10 – RESTRUCTURING CHARGES

During the fiscal year ended March 31, 2013, the Company restructured part of its international sales organization related to an overlap of personnel acquired as part of the Accanto acquisition. The Company recorded $1.2 million of restructuring charges related to severance costs.

During the fiscal year ended March 31, 2012, the Company implemented a plan to restructure parts of its general and administrative organization to centralize operations as well as its international sales organization to better align resources with forecasted sales opportunities. As a result of the restructuring program, the Company eliminated 12 employees. The Company recorded $603 thousand of restructuring charges related to severance costs.

The following table provides a summary of the activity related to these restructuring plans and the related liability included as accrued compensation on the Company's consolidated balance sheet (in thousands):

	Employee Severance
Balance at March 31, 2012	$ 360
Restructuring charges to operations	1,140
Other adjustments	(87)
Cash payments	(503)
Balance at March 31, 2013	$ 910
Other adjustments	(49)
Cash payments	(790)
Balance at March 31, 2014	$ 71

The balance is expected to be paid in full by December 31, 2014.

NOTE 11 – LONG-TERM DEBT

On October 29, 2012, the Company paid down its outstanding balance in the amount of $62.0 million on its credit facility. As of March 31, 2014, there were no amounts outstanding under this credit facility.

On November 22, 2011, the Company entered into a credit facility (the Credit Agreement) with a syndicate of lenders led by KeyBank National Association (KeyBank) providing the Company with a $250 million revolving credit facility, which may be increased to $300 million at any time up to 90 days before maturity. The revolving credit facility includes a swing line loan sub-facility of up to $10 million and a letter of credit sub-facility of up to $10 million. The credit facility under the Credit Agreement matures on November 21, 2016.

At the Company's election, revolving loans under the Credit Agreement bear interest at either (a) a rate per annum equal to the highest of (1) KeyBank's prime rate, (2) 0.50% in excess of the federal funds effective rate, or (3) one hundred (100.00) basis points in excess of the London Interbank Offered Rate for one-month interest periods, or the Base Rate; or (b) the one-, two-, three-, or six-month per annum London InterBank Offered Rate (LIBOR), as selected by the Company, multiplied by the statutory reserve adjustment, or collectively, the Eurodollar Rate, in each case plus an applicable margin. Swing line loans will bear interest at the Base Rate plus the applicable Base Rate margin. Beginning with the delivery of the Company's financial statements for the quarter ended December 31, 2011, the applicable margin began to depend on the Company's leverage ratio, ranging from 100 basis points for Base Rate loans and 200 basis points for Eurodollar Rate loans if the Company's consolidated leverage ratio is 2.50 to 1.00 or higher, down to 25 basis points for Base Rate loans and 125 basis points for Eurodollar Rate loans if the Company's consolidated leverage ratio is 1.00 to 1.00 or less.

NOTE 11 – LONG-TERM DEBT (Continued)

The Company may prepay loans under the Credit Agreement at any time, without penalty, subject to certain notice requirements. Debt is recorded at the amount drawn on the revolving credit facility plus interest based on floating rates reflective of changes in the market which approximates fair value.

The loans are guaranteed by each of the Company's domestic subsidiaries and are collateralized by all of the assets of the Company and its domestic subsidiaries, as well as 65% of the capital stock of the Company's foreign subsidiaries directly owned by the Company and its domestic subsidiaries. The Credit Agreement generally prohibits any other liens on the assets of the Company and its subsidiaries, subject to certain exceptions as described in the Credit Agreement. The Credit Agreement contains certain covenants applicable to the Company and its subsidiaries, including, without limitation, limitations on additional indebtedness, liens, various fundamental changes (including mergers and dispositions of assets), dividends and distributions, capital expenditures, investments (including acquisitions and investments in foreign subsidiaries), transactions with affiliates, sale-leaseback transactions, hedge agreements, payment of junior financing, material changes in business, and other limitations customary in senior secured credit facilities. In addition, the Company is required to maintain certain consolidated leverage and interest coverage ratios as well as a minimum liquidity amount. As of March 31, 2014, the Company was in compliance with all of these covenants.

NOTE 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 for per share data):

	Year Ended March 31,		
	2014	2013	2012
Numerator:			
Net income	$49,106	$40,609	$32,428
Denominator:			
Denominator for basic net income per share – weighted average common shares outstanding	41,366	41,665	42,035
Dilutive common equivalent shares:			
Weighted average stock options	54	122	154
Weighted average restricted stock units	535	535	561
Denominator for diluted net income per share – weighted average shares outstanding	41,955	42,322	42,750
Net income per share:			
Basic net income per share	$ 1.19	$ 0.97	$ 0.77
Diluted net income per share	$ 1.17	$ 0.96	$ 0.76

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):

	Year Ended March 31,		
	2014	2013	2012
Restricted stock units	—	41	82

NOTE 12 – NET INCOME PER SHARE (Continued)

Basic EPS is calculated by dividing net income by the weighted average number of shares outstanding during the period. Unvested restricted shares, although legally issued and outstanding, are not considered outstanding for purposes of calculating basic earnings per share. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding plus the dilutive effect, if any, of outstanding stock options, restricted shares and restricted stock units using the treasury stock method. The calculation of the dilutive effect of outstanding equity awards under the treasury stock method includes consideration of proceeds from the assumed exercise of stock options, unrecognized compensation expense and any tax benefits as additional proceeds.

NOTE 13 – 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 March 31, 2014, the Company had repurchased a total of 3,756,700 shares of common stock through the open market stock repurchase program. The Company repurchased 1,000,407 shares for $28.8 million, 999,499 shares for $23.5 million and 1,270,000 shares for $16.2 million under the program during the fiscal years ended March 31, 2014, 2013 and 2012.

In connection with the vesting and release of the restriction on previously vested shares of restricted stock, the Company repurchased 216,198 shares for $5.5 million, 169,531 shares for $3.9 million and 216,882 shares for $4.4 million related to minimum statutory tax withholding requirements on these restricted stock units during the fiscal years ended March 31, 2014, 2013 and 2012. 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.

NOTE 14 – STOCK PLANS

2011 Employee Stock Purchase Plan

On September 7, 2011, the Company's stockholders approved the 2011 Employee Stock Purchase Plan (the ESPP), under which 2,500,000 shares of the Company's common stock have been reserved for issuance. The Company implemented the ESPP on March 1, 2012. Eligible employees may purchase shares of the Company's common stock through regular payroll deductions of up to 20% of their eligible compensation. Under the terms of the offering under the ESPP, the number of shares of the Company's common stock which a participant could purchase during any purchase period is limited to 2,000. In addition, the fair market value of shares purchased by an individual participant in the plan may not exceed $25,000 in any calendar year. Under the ESPP, shares of the company's common stock may be purchased on the last day of each bi-annual offering period at 85% of the fair market value on the last day of such offering period. The offering periods run from March 1 through August 31 and from September 1 through February 28 of each year. During the fiscal year ended March 31, 2014, employees purchased 162,564 shares under the ESPP with a weighted average purchase price per share of $30.72. As of March 31, 2014, 2,152,500 shares were available for future issuance under the ESPP.

NOTE 14 – STOCK PLANS (Continued)

1999 Stock Option and Incentive Plan

In April 1999, NetScout adopted the 1999 Stock Option and Incentive Plan (1999 Stock Option Plan). The 1999 Stock Option Plan, which was replaced by the 2007 Equity Incentive Plan effective September 12, 2007, provided for the grant of share-based awards to employees, officers and directors, consultants or advisors. Under the 1999 Stock Option Plan, NetScout could grant options that were intended to qualify as incentive stock options, options not intended to qualify as incentive stock options, restricted stock and other share-based awards. Incentive stock options could be granted only to employees of NetScout. As of March 31, 2014, options to purchase an aggregate of 31,350 shares of common stock at a weighted average exercise price of $5.87 per share were outstanding under the 1999 Stock Option Plan. No additional grants can be made under the 1999 Stock Option Plan.

2007 Equity Incentive Plan

In September 2007, the 2007 Equity Incentive Plan (2007 Plan), replaced the 1999 Stock Option Plan. The 2007 Plan permits the granting of stock options, restricted stock and restricted stock units, collectively referred to as "share-based awards." Periodically, the Company grants share-based awards to employees and officers of the Company and its subsidiaries. The Company accounts for these share-based awards in accordance with GAAP, which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to its employees and directors. Share-based award grants are generally measured at fair value on the date of grant based on the number of shares granted and the quoted price of the Company's common stock. Such value is recognized as a cost of revenue or an operating expense over the corresponding vesting period. On September 7, 2011, the Company's stockholders approved an amendment and restatement of the 2007 Equity Incentive Plan (the Amended 2007 Plan) to increase the shares of common stock reserved for issuance by 8,000,000 shares. A total of 13,000,000 shares are reserved for issuance under the Amended 2007 Plan. In addition, any shares not delivered to a participant because an award is exercised through a reduction of shares subject to the award (cashless exercise) will not be available for issuance under the Amended 2007 Plan and any shares reacquired by the Company to cover withholding taxes upon exercise of a stock option or stock appreciation right or as consideration for the exercise of a stock option or stock appreciation right will not become available for issuance under the Amended 2007 Plan. Shares withheld to cover tax liabilities of restricted stock unit grants will be restored to the available reserve on the 2 for 1 amount. Furthermore, the share reserve under the Amended 2007 Plan is reduced one share for each share of common stock issued pursuant to a stock option or stock appreciation right and two shares for each share of common stock issued pursuant to restricted stock, restricted stock units, performance stock awards, or other stock awards granted under the Amended 2007 Plan on or after March 31, 2011. As of March 31, 2014, an aggregate of 1,738,299 equity awards were outstanding under the Amended 2007 Plan.

The 2007 Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee operates under guidelines established by the Board of Directors. The Compensation Committee had the authority to select the employees and consultants to whom awards are granted (except for directors and executive officers) and determine the terms of each award, including the number of shares of common stock subject to the award.

Share-based awards generally vest over four years. The exercise price of incentive stock options shall not be less than 100% of the fair market value of the common stock at the date of grant (110% for incentive stock options granted to holders of more than 10% of the voting stock of NetScout). The term of options granted cannot exceed ten years (five years for incentive stock options granted to holders of more than 10% of the voting stock of NetScout).

NOTE 14 – STOCK PLANS (Continued)

Based on historical experience, the Company assumed an annualized forfeiture rate of 0% for awards granted to its directors during fiscal years 2014, 2013 and 2012, and an annualized forfeiture rate of 10% for awards granted to its senior executives and remaining employees during fiscal years 2014, 2013 and 2012.

The following is a summary of share-based compensation expense including restricted stock units and employee stock purchases made under our employee stock purchase plan (ESPP) based on estimated fair values within the applicable cost and expense lines identified below (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Cost of product revenue	$ 228	$ 235	$ 192
Cost of service revenue	741	342	227
Research and development	4,361	2,944	2,486
Sales and marketing	3,791	3,035	3,052
General and administrative	3,809	3,024	2,745
	$12,930	$9,580	$8,702

Transactions under the 1999 Stock Option Plan and the 2007 Equity Incentive Plan during the fiscal years ended March 31, 2014, 2013 and 2012 are summarized as follows:

	Stock Options		Restricted Stock Units	
	Number of Shares	Weighted Average Exercise Price	Number of Awards	Weighted Average Fair Value
Outstanding – March 31, 2011	325,519	$6.35	1,418,859	$12.35
Granted	—	—	1,071,131	13.36
Exercised (Options)/Issued (RSU's)	(84,502)	5.58	(659,350)	11.26
Canceled	(125)	5.26	(75,315)	13.60
Outstanding – March 31, 2012	240,892	$6.63	1,755,325	$13.33
Granted	—	—	764,893	24.19
Exercised (Options)/Issued (RSU's)	(86,892)	6.62	(549,932)	12.52
Canceled	—	—	(99,460)	16.10
Outstanding – March 31, 2013	154,000	$6.63	1,870,826	$17.85
Granted	—	—	602,359	25.75
Exercised (Options)/Issued (RSU's)	(117,650)	6.91	(635,254)	25.35
Canceled	(5,000)	3.76	(99,632)	17.61
Outstanding – March 31, 2014	31,350	$5.87	1,738,299	$20.95

As of March 31, 2014, there were 7,029,270 shares of common stock available for grant under the 2007 Plan.

Shares issued upon exercise of options are issued from new shares of the Company. The Company does not currently expect to repurchase shares from any source to satisfy its obligations under the 2007 Plan.

NOTE 14 – STOCK PLANS (Continued)

The aggregate intrinsic values of stock options and restricted stock units as of March 31, 2014, 2013 and 2012 were as follows (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Total intrinsic value of stock options exercised	$ 756	$ 2,763	$ 3,303
Total fair value of restricted stock unit awards vested	$65,433	$46,007	$35,645

As of March 31, 2014, there was no unrecognized compensation cost related to stock options.

As of March 31, 2014, the total unrecognized compensation cost related to restricted stock unit awards was $12.2 million, which is expected to be amortized over a weighted-average period of 1.7 years.

NOTE 15 – RETIREMENT PLAN

In 1996, NetScout established an employee savings plan, which is intended to qualify under Section 401(k) of the Internal Revenue Code of 1986, as amended. NetScout matches 50% of the employee's contribution up to 6% of the employee's salary. NetScout contributions vest at a rate of 25% per year of service. NetScout made matching contributions of $2.5 million, $1.9 million and $2.1 million to the plan for the years ended March 31, 2014, 2013 and 2012, respectively.

NOTE 16 – INCOME TAXES

Income before income tax expense consisted of the following (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Domestic	$80,515	$66,735	$49,525
Foreign	(2,659)	(2,999)	1,393
	$77,856	$63,736	$50,918

The components of the income tax expense are as follows (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Current income tax expense:			
Federal	$20,123	$15,826	$10,585
State	2,260	2,266	1,421
Foreign	1,174	1,035	1,032
	23,557	19,127	13,038
Deferred income tax expense (benefit):			
Federal	5,347	5,161	5,603
State	96	320	44
Foreign	(250)	(1,481)	(195)
	5,193	4,000	5,452
	$28,750	$23,127	$18,490

NOTE 16 – INCOME TAXES (Continued)

The income tax expense computed using the federal statutory income tax rate differs from NetScout's effective tax rate primarily due to the following:

	Year Ended March 31,		
	2014	2013	2012
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	2.8	3.6	3.2
Research and development tax credits	(1.9)	(2.1)	(2.1)
Tax rate differential of foreign operations	0.2	0.7	0.1
Domestic production activities deduction	(2.7)	(2.9)	(2.4)
Change in valuation allowance	2.0	0.4	0.4
Transaction costs	—	0.7	1.5
Other	1.5	0.9	0.6
	36.9%	36.3%	36.3%

The components of net deferred tax assets are as follows (in thousands):

	Year Ended March 31,	
	2014	2013
Assets:		
Accrued expenses	$ 3,954	$ 5,290
Depreciation	140	—
Deferred revenue	8,873	6,752
Reserves	1,006	1,325
Net operating loss carryforwards	23,730	26,096
Tax credit carryforwards	3,628	2,284
Share-based compensation	2,125	1,550
Other	233	352
	43,689	43,649
Liabilities:		
Intangible assets	(25,659)	(21,934)
Valuation allowance	(4,941)	(3,795)
Depreciation	—	(113)
	$ 13,089	$ 17,807

Deferred tax assets and liabilities are recognized based on the anticipated future tax consequences, attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. We evaluate the recoverability of deferred tax assets by considering all positive and negative evidence relating to future profitability. We weigh objective and verifiable evidence more heavily in this analysis. In situations where we conclude that we do not have sufficient objective and verifiable evidence to support the realizability of the asset we create a valuation allowance against it. A valuation allowance has been established for the deferred tax assets related to Psytechnics Ltd., NetScout Systems Italy Srl. and for certain deferred tax assets related to the acquisition of ONPATH, as well as for the federal foreign tax credits acquired as part of the Network General acquisition, as the Company has determined

NOTE 16 – INCOME TAXES (Continued)

there is not sufficient objective evidence to support the realizability of these tax assets. If it is later determined the Company is able to use all or a portion of the deferred tax assets for which a valuation allowance has been established, then the Company may be required to recognize these deferred tax assets through a tax benefit recorded in the period such determination is made.

As of March 31, 2014, undistributed earnings of non-U.S. subsidiaries totaled $18.4 million. No provision for U.S. income and foreign withholding taxes has been made for these permanently invested foreign earnings because it is expected that such earnings will be reinvested indefinitely. If these earnings were distributed to the United States in the form of dividends or otherwise, they would be included in the Company's U.S. taxable income. The amount of unrecognized deferred income tax liability related to these earnings is approximately $1.5 million.

At March 31, 2014, the Company had United States federal net operating loss carryforwards of $42.1 million, state net operating loss carryforwards of approximately $71.2 million and gross federal and state research and development tax carryforwards of $4.4 million. The net operating loss and credit carryforwards will expire at various dates beginning in 2023 and extending through 2033, if not utilized. The Company also had foreign net operating loss carryforwards of approximately $22.4 million as of March 31, 2014. The majority of foreign net operating losses have no expiration dates. Utilization of the net operating losses and credits are subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state tax provisions.

The Company files U.S. federal tax returns and files returns in various state, local and foreign jurisdictions. With respect to the U.S. federal and primary state jurisdictions, the Company is no longer subject to examinations by tax authorities for tax years before 2010, although carryforward attributes that were generated prior to 2010 may still be adjusted upon examination if they either have been or will be used in a future period. The Company also receives inquiries from various tax jurisdictions during the year, and some of those inquiries may include an audit of the tax return previously filed. In the normal course of business, NetScout and its subsidiaries are examined by various taxing authorities, including the IRS in the United States. As of March 31, 2014, the Company remained subject to examination in the United States for the 2010, 2011 and 2012 tax years.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the fiscal years ended March 31, 2014, 2013 and 2012 is as follows (in thousands):

	Year Ended March 31,		
	2014	2013	2012
Balance at April 1,	$370	$335	$383
Additions based on tax positions related to the current year	51	35	34
Decrease relating to settlements with taxing authorities	—	—	(82)
Balance at March 31,	$421	$370	$335

The Company notes that a majority of the unrecognized tax benefits are in the appeals process in foreign jurisdictions. We are unable to make a reliable estimate when cash settlement, if any, will occur with a tax authority as the timing of examinations and ultimate resolution of those examinations is uncertain. All of the unrecognized tax benefits would affect the effective tax rate if recognized.

The Company includes interest and penalties accrued in the consolidated financial statements as a component of the tax provision.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Acquisition related

The Company recorded two contingent liabilities related to the acquisition of Simena, one relates to future consideration to be paid to the former owner which had an initial fair value of $8.0 million at the time of acquisition and another relates to contractual non-compliance liabilities incurred by Simena with an initial fair value of $1.6 million at the time of acquisition. At March 31, 2014, the present value of the future consideration was $4.3 million and the contractual non-compliance liability was $49 thousand.

Legal

From time to time, NetScout is subject to legal proceedings and claims in the ordinary course of business. In the opinion of management, 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 the Company's financial condition, results of operations or cash flows.

Leases

NetScout leases office space under non-cancelable operating leases. Total rent expense under the leases was $6.0 million, $5.7 million and $5.6 million for the fiscal years ended March 31, 2014, 2013 and 2012, respectively.

As of March 31, 2014, future non-cancelable minimum lease commitments (including office space, copiers and automobiles) are as follows (in thousands):

Year Ending March 31,	
2015	$ 5,797
2016	5,062
2017	5,018
2018	4,167
2019	2,794
Remaining years	11,328
Total minimum lease payments	$34,166

NOTE 18 – SEGMENT AND GEOGRAPHIC INFORMATION

The Company reports revenues and income under one reportable segment. The consolidated financial information is used by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company manages its business in the following geographic areas: United States, Europe, Asia and the rest of the world. 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.

NOTE 18 – SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

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

	Year Ended March 31,		
	2014	2013	2012
United States	$303,364	$262,020	$230,359
Europe	45,837	42,884	32,998
Asia	20,646	18,107	17,637
Rest of the world	26,800	27,539	27,685
	$396,647	$350,550	$308,679

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. A majority of 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.

NOTE 19 – SUBSEQUENT EVENTS

On April 22, 2014, the Company's board of directors approved an additional stock repurchase program. This program authorizes management to make additional repurchases of NetScout outstanding common stock of up to $100 million. The share repurchase authorization does not have an expiration date and the pace and timing of repurchases will depend on factors such as cash generation from operations, cash requirements for acquisitions, economic and market conditions, stock price and legal and regulatory requirements.

NOTE 20 – QUARTERLY RESULTS OF OPERATIONS – UNAUDITED

The following table sets forth certain unaudited quarterly results of operations of NetScout for the fiscal years ended March 31, 2014 and 2013. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the quarterly information when read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The quarterly operating results are not necessarily indicative of future results of operations.

	Three Months Ended (in thousands, except per share data)							
	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012
Revenue	$112,317	$110,428	$92,097	$81,805	$98,077	$91,567	$84,545	$76,361
Gross profit	$ 88,032	$ 86,826	$72,393	$64,883	$77,037	$72,403	$67,604	$59,498
Net income	$ 16,676	$ 17,294	$ 9,883	$ 5,253	$14,553	$11,138	$ 9,910	$ 5,008
Diluted net income per share	$ 0.40	$ 0.41	$ 0.24	$ 0.12	$ 0.34	$ 0.26	$ 0.23	$ 0.12

NetScout Systems, Inc.
Schedule II – Valuation and Qualifying Accounts
(in thousands)

	Balance at Beginning of Year	Additions Resulting in Charges to Operations	Charges to Other Accounts	Deductions Due to Write-Offs	Balance at End of Year
Year ended March 31, 2012					
Allowance for doubtful accounts	$ 346	$ 96	$ 63	$(279)	$ 226
Deferred tax asset valuation allowance	$ 249	$—	$3,280[(1)]	$ —	$3,529
Year ended March 31, 2013					
Allowance for doubtful accounts	$ 226	$560	$ 284	$ (99)	$ 971
Deferred tax asset valuation allowance	$3,529	$101	$ 165	$ —	$3,795
Year ended March 31, 2014					
Allowance for doubtful accounts	$ 971	$250	$ (40)	$(868)	$ 313
Deferred tax asset valuation allowance	$3,795	$837	$ 309	$ —	$4,941

(1) Recorded in connection with the acquisition of Psytechnics.

NetScout Systems, Inc

Index to Exhibits

2.1	Agreement and Plan of Merger dated October 31, 2012 by and among NetScout Systems, Inc., Gold Merger Sub, Inc., OnPATH Technologies Inc., and Blueprint Ventures Management I, LLC, solely in its capacity as the representative of certain holders of OnPATH's securities (filed as Exhibit 2.1 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on November 1, 2012 and incorporated herein by reference)
3.1, 4.1	Third Amended and Restated Certificate of Incorporation of NetScout (filed as Exhibit 3.3, 4.1 to NetScout's Registration Statement on Form S-1, SEC File No. 333-76843, and incorporated herein by reference).
3.2, 4.2	Composite copy of Amended and Restated By-laws of NetScout (filed as Exhibit 3.1 to NetScout's current Report on Form 8-K, SEC File No. 000-2651, filed on December 5, 2011 and incorporated herein by reference).
4.3	Specimen Certificate for shares of NetScout's Common Stock (filed as Exhibit 4.3 to NetScout's Annual Report on Form 10-K for the fiscal year ended March 31, 2001, SEC File No. 000-26251, filed on June 29, 2001, and incorporated herein by reference).
10.1*	Form of Amended and Restated Indemnification Agreement between NetScout and each director and executive officer filed as Exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2013, SEC File No. 000-26251, filed January 28, 2014, and incorporated herein by reference).
10.2*	Form of Incentive Stock Option Agreement – Incorporated Terms and Conditions pursuant to 1999 Stock Option and Incentive Plan, as amended (filed as Exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, SEC File No 000-26251, filed November 4, 2004 and incorporated herein by reference).
10.3	Lease between Arturo J. Gutierrez and John A. Cataldo, Trustees of Nashoba Westford Realty Trust, u/d/t dated April 27, 2000 and recorded with the Middlesex North Registry of Deeds in Book 10813, Page 38 and NetScout for Westford Technology Park West, as amended (filed as Exhibit 10.26 to NetScout's Annual Report on Form 10-K for the fiscal year ended March 31, 2001, SEC File No. 000-26251, filed on June 29, 2001, and incorporated herein by reference).
10.4*	Agreement Relating to Employment, dated January 3, 2007, by and between NetScout and Anil K. Singhal (filed as Exhibit 10.2 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on January 5, 2007 and incorporated herein by reference).
10.5*	Amendment No. 1 to Agreement Relating to Employment, dated February 2, 2007, by and between the Company and Anil K. Singhal (filed as exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2006, SEC File No. 000-26251, filed February 5, 2007 and incorporated herein by reference).
10.6*	Amendment No. 2 to Agreement Relating to Employment, dated December 22, 2008, by and between the Company and Anil K. Singhal (filed as exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2008, SEC File No. 000-26251, filed February 6, 2009 and incorporated herein by reference).
10.7*	Amendment No. 3, dated May 28, 2012, to Agreement Relating to Employment, dated December 22, 2008, by and between the Company and Anil K. Singhal (filed as Exhibit 10.2 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on June 1, 2012 and incorporated herein by reference).
10.8*	NetScout Systems, Inc. Amended and Restated 2007 Equity Incentive Plan (incorporated by reference to Appendix A of NetScout's definitive proxy statement, SEC File No. 000-26251, filed with the SEC on July 26, 2011).

10.9*	NetScout Form of Restricted Stock Unit Agreement with respect to the NetScout 2007 Equity Incentive Plan (filed as Exhibit 99.2 to NetScout's Registration Statement on Form S-8, SEC File No. 333-148364, filed on December 27, 2007 and incorporated herein by reference).
10.10	Credit and Security Agreement, dated as of November 22, 2011, by and among NetScout Systems, Inc., KeyBank National Association, as joint lead arranger, sole book runner and administrative agent, Wells Fargo Bank, National Association, as joint lead arranger and co-syndication agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arranger, Bank of America, N.A., as co-syndication agent, and Silicon Valley Bank and Comerica Bank, as co-documentation agents, and the Lenders party thereto. (filed as Exhibit 10.1 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on December 31, 2007 and incorporated herein by reference).
10.11*	Form of Amended and Restated Severance Agreement for Named Executive Officers (other than the CEO and CFO) (filed as Exhibit 10.1 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on June 1, 2012 and incorporated herein by reference).
10.12*	Amended and Restated Severance Agreement, dated May 28, 2012, by and between the Company and Jean Bua (filed as Exhibit 10.2 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on June 1, 2012 and incorporated herein by reference).
10.13	First Amendment Agreement, dated as of December 4, 2009, to the Credit and Security Agreement, dated as of December 21, 2007, by and among NetScout, Keybank National Association, as lead arranger, sole book runner and administrative agent, Silicon Valley Bank and Wells Fargo Foothill, LLC, as co-syndication agents, and Comerica Bank, as documentation agent, and the Lenders party thereto (filed as Exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2009, SEC File No. 000-26251, filed February 5, 2010 and incorporated herein by reference).
10.14	Amendment Agreement, dated August 10, 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 as Exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010, SEC File No. 000-26251, filed November 9, 2010 and incorporated herein by reference).
10.15*	NetScout Systems, Inc. Amended and Restated 2011 Employee Stock Purchase Plan (filed as Exhibit 10.1 to NetScout's Current Report on Form 8-K, SEC File No. 000-26251, filed on February 14, 2012 and incorporated herein by reference) .
10.16*	Summary of Non-Employee Director Compensation (filed as Exhibit 10.3 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, SEC File No. 000-26251, filed on November 4, 2011 and incorporated herein by reference).
21	Subsidiaries of NetScout (filed herewith).
23	Consent of PricewaterhouseCoopers LLP (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).
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates a management contract or compensatory plan or arrangement.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

CORPORATE INFORMATION

Board of Directors

Anil K. Singhal
Chairman of the Board, President
and Chief Executive Officer
NetScout Systems, Inc.

Victor A. DeMarines
President and Chief Executive Officer (Retired)
MITRE Corporation

Robert E. Donahue
Director
Sycamore Networks, Inc.

John R. Egan
Managing Partner
Egan-Managed Capital, L.P.

Joseph G. Hadzima, Jr.
Managing Director
Main Street Partners, LLC

Vincent J. Mullarkey
Senior Vice President, Finance
and Chief Financial Officer (Retired)
Digital Equipment Corporation

Stephen G. Pearse
Principal
Yucatan Rock, Inc. and Common Angels

Executive Officers

Anil K. Singhal
Founder, Chairman of the Board,
President and Chief Executive Officer

Michael Szabados
Chief Operating Officer

Jean Bua
Senior Vice President,
Chief Financial Officer and Treasurer

John W. Downing
Senior Vice President, Worldwide Sales Operations

Corporate Headquarters

310 Littleton Road
Westford, MA 01886
Telephone (978) 614-4000
Fax (978) 614-4004
Web: www.netscout.com

Form 10-K

Stockholders may obtain copies of the exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission at the SEC's Web site www.sec.gov or by contacting NetScout Investor Relations or by visiting our Web site: www.netscout.com/investors

Investor Relations

NetScout Systems, Inc.
310 Littleton Road
Westford, MA 01886 USA
Telephone (978) 614-4000
Email: IR@netscout.com

Annual Meeting

The Annual Meeting of Stockholders of the Company will be held on Tuesday, September 9, 2014

Legal Counsel

Cooley LLP
Boston, MA

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Boston, MA

Transfer Agent

Computershare
P.O. Box 43006
Providence, RI 02940-3006
Stockholder Inquiries:
Telephone (877) 239-1247
TDD for hearing impaired (800) 231-5469
Foreign Shareowners (201) 680-6578
TDD Foreign Shareowners (201) 680-6610
http://www.computershare.com/investor

Common Stock

Common stock of NetScout Systems, Inc. is traded on the Nasdaq Global Select Market under the symbol "NTCT"

NTCT
NASDAQ
GLOBAL SELECT

Corporate Headquarters
310 Littleton Road
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Telephone (978) 614-4000
Fax (978) 614-4004
Web: www.netscout.com