

# NETSCOUT®

ANNUAL REPORT 2017



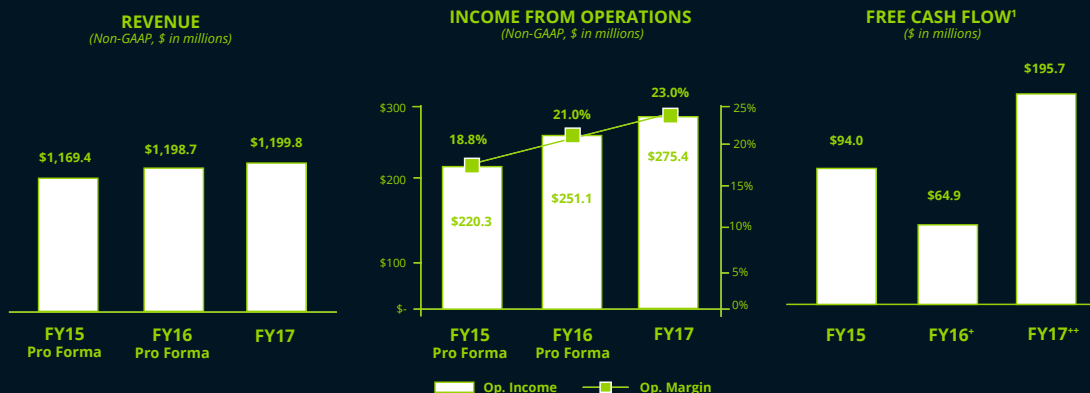


### **NETSCOUT SYSTEMS, INC. (NASDAQ: NTCT)**

*Regardless of whether we are at home, at the office or on the go, we live in an increasingly connected world. As a result, we expect uninterrupted connectivity — to business applications that help us do our jobs, to websites that make it easier for us to buy and sell a myriad of products and services as well as stay informed and entertained, to devices and apps that enable us to communicate, play and socialize with one another ... Sophisticated, ever-evolving networks are at the heart of making our connected world possible. As the volume of network traffic surges and the number of connected devices grows, NETSCOUT technology is playing an important role in ensuring the efficiency, reliability and security of the world's largest and most complex networks, and the applications and services that are delivered over them.*

NETSCOUT's portfolio of service assurance, cybersecurity and business intelligence solutions deliver true business assurance, enabling leading service providers and enterprises to effectively and efficiently monitor, manage and protect their networks. The Company's market-leading products continuously monitor state-of-the-art technology infrastructures to optimize network performance, deliver high-quality applications and services, protect the network against attack, gain insight into the end-user experience and make smarter, faster and more informed business and technology decisions. With our patented Adaptive Service Intelligence™ (ASI) at the core of our expanding product portfolio, customers instantly convert network traffic into the actionable intelligence required to maximize network reliability, quickly troubleshoot issues that compromise service quality, and effectively identify and resolve potential security threats. As a result, NETSCOUT is well positioned to help customers around the globe drive compelling returns on their infrastructure investments, advance their digital transformation initiatives with confidence and ultimately support today's increasingly connected world.

# FINANCIAL HIGHLIGHTS



<sup>1</sup> Free cash flow is defined as cash flow provided by operating activities less purchases of fixed and intangible assets

\*Includes ~\$24m in one-time payments related to the acquisition of the Danaher Communications Business and ~\$17 million associated with the timing of reimbursements owed to NetScout by Danaher Corporation

\*\*Includes cash provided by operations related to the acquisition of the Danaher Communications Business totaling ~\$30 million

	FY15 (\$ in millions, except percentage data)	GAAP	Non-GAAP	Pro Forma, GAAP	Pro Forma, Non-GAAP
Revenue	\$ 453.7	\$ 453.7	\$ 453.7	\$ 1,169.4	\$ 1,169.4
Income from Operations	\$ 96.8	\$ 133.7	\$ 133.7	\$ 136.1	\$ 220.3
Income from Operations %	21.3%	29.5%	29.5%	11.6%	18.8%
Free Cash Flow	\$ 94.0	-	-	-	-

	FY16 (\$ in millions, except percentage data)	GAAP	Non-GAAP	Pro Forma, GAAP	Pro Forma, Non-GAAP
Revenue	\$ 955.4	\$ 1,024.6	\$ 1,024.6	\$ 1,129.5	\$ 1,198.7
Income from Operations	\$ (25.6)	\$ 246.8	\$ 246.8	\$ (29.9)	\$ 251.1
Income from Operations %	-	24.1%	24.1%	-	21.0%
Free Cash Flow	\$ 64.9	-	-	-	-

	FY17 (\$ in millions, except percentage data)	GAAP	Non-GAAP
Revenue	\$ 1,162.1	\$ 1,199.8	\$ 1,199.8
Income from Operations	\$ 62.1	\$ 275.4	\$ 275.4
Income from Operations %	5.3%	23.0%	23.0%
Free Cash Flow	\$ 195.7	-	-

The pro forma results on both a GAAP and non-GAAP basis for fiscal years 2015 and 2016 assume that the acquisition of the Danaher Communications Business was completed on April 1, 2014. A reconciliation of each non-GAAP metric with the applicable GAAP metric is available on page R-1.





## TO OUR STOCKHOLDERS

NETSCOUT achieved a number of key strategic, operational and financial targets during fiscal year 2017. We made notable progress integrating the Danaher Communications Business assets we acquired in mid-July 2015, began introducing new offerings and capabilities as part of an exciting new product cycle, supported our extensive base of customers around the globe and delivered on the revenue, profitability and free cash flow goals that we outlined entering the year. Importantly, our efforts have further strengthened our ability to fulfill our mission that began 3+ decades ago: to help our customers around the globe convert their network traffic into actionable intelligence to effectively and efficiently navigate the technology challenges impacting their businesses today and well into the future. It is gratifying to see our solutions play an increasingly critical role in helping customers worldwide optimize network performance, deliver high-quality applications and services, protect the network against attack, gain insight into the end user experience and make smarter, faster and more informed business and technology decisions.

### **Fiscal Year 2017 Financial Performance Highlights**

We continued to manage through a challenging service provider spending environment that impacted our ability to drive organic top-line growth in fiscal year 2017. Nevertheless, we further improved the underlying profitability of our business to deliver a solid earnings per share performance and significantly stronger free cash flow. We used our strong balance sheet throughout the fiscal year to return value to shareholders by repurchasing more than 3.1 million shares, totaling \$80.0 million.

### **An Exciting New Era of Innovation to Leverage Our “Smart Data” Approach**

Fiscal year 2017 was marked by significant progress on a major new product cycle. Our development roadmap leverages our patented Adaptive Service Intelligence™ (ASI) technology, which converts high-volume network traffic into highly structured, multi-dimensional metadata in real time at the collection point. ASI instantly transforms wire data into “smart data” that can power a broader array of analytics spanning network performance, application performance, cybersecurity and big data. With ASI, we are seamlessly integrating the key products and technologies acquired from the Danaher Communications Business, including best-in-class analytics for session trace forensics, radio access network optimization, customer experience management, WiFi monitoring, infrastructure performance management and advanced security threats. As a result, we are further elevating our value proposition to both enterprise and service provider customers worldwide as they look to our solutions to help them extend visibility from the core of their networks to the edge and advance major digital transformation initiatives.



The first proof point of our product integration efforts was the September 2016 introduction of our InfiniStreamNG real-time information platform, which is available in multiple form factors and deployment options. We are seeing good traction with this new platform, particularly in the software form factor with service provider customers seeking to maximize the utilization of their service assurance budgets. Throughout fiscal year 2017, we continued to invest in enhancing and expanding our capabilities in ways that are aimed at leveraging our “smart data” approach and our new real-time information platform. Moving into fiscal year 2018, we intend to complete this new product cycle with new offerings to help customers with private and public cloud migration initiatives and gain deeper visibility into their application infrastructure; new analytics for business intelligence; new tools to monitor the performance of servers, network devices and software-as-a-service applications; and new capabilities that help enterprise security teams to quickly and accurately detect and confirm hidden threats.

### **Outlook**

Looking ahead, we anticipate that the service provider marketplace will remain challenging as certain large tier-one carriers seek to monetize the build out of their 4G/LTE infrastructures. At the same time, we are excited by the near-term growth opportunities we see for our cybersecurity and enterprise solutions. While we expect total revenue to remain relatively unchanged in fiscal year 2018, our goal is to exit the year in an excellent position to resume top-line growth in fiscal year 2019 and beyond. Nevertheless, we believe that our ability to drive service provider adoption of our new platform in fiscal year 2018 will play an important role in boosting our gross margins, which are expected to lead to another year of improved operating profitability, EPS growth and strong free cash flow.

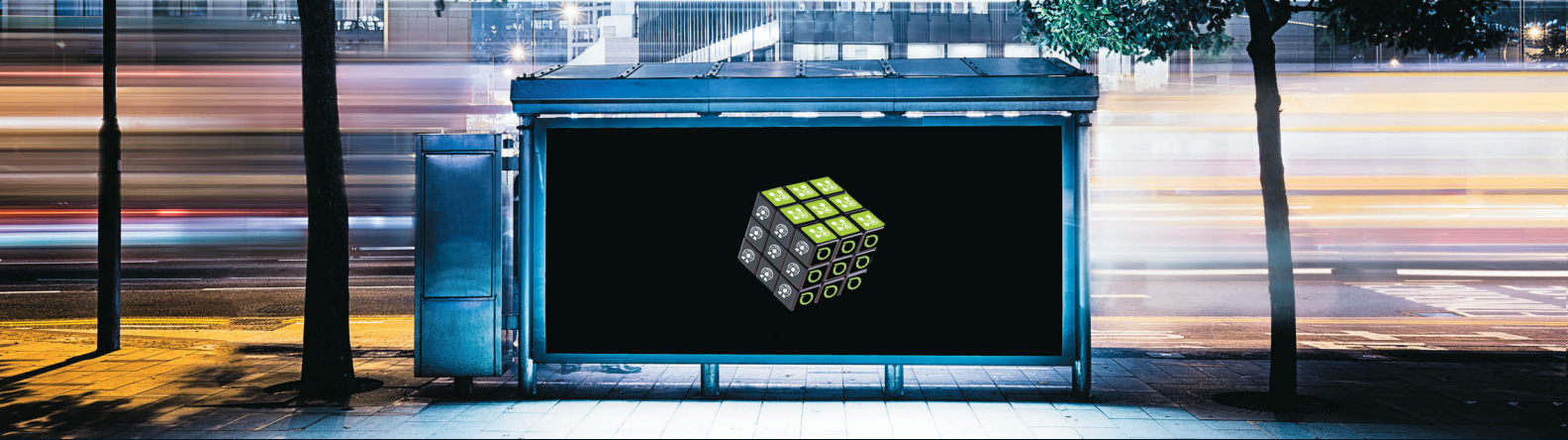
We move forward with confidence in our strategic direction as well as in our people, products, partners and programs. I'd like to thank my colleagues across NETSCOUT for their efforts in fiscal year 2017 and our shareholders for their continued support. We look forward to sharing news of our progress and achievements in fiscal year 2018 with you.

Sincerely,



Anil K. Singhal  
President, Chief Executive Officer and  
Chairman of the Board  
July 21, 2017





## **BUILDING ON MARKET AND TECHNOLOGY LEADERSHIP WITH EXCITING NEW PRODUCT CYCLE**

Today's leading service providers and enterprises understand that network and application downtime, poor service quality and compromised security can cost their organizations dearly in terms of lost revenue, higher expenses, lower productivity, reduced efficiency, increased customer churn, damaged brand reputation and more. NETSCOUT has responded to this challenge with solutions that are trusted by its customers to help them monitor, manage and protect the world's largest and most complex networks, and the applications and services that are delivered over them. The acquisition of the Danaher Communications Business assets in July 2015 brought a robust set of network-centric analytical capabilities to NETSCOUT.

NETSCOUT has invested aggressively to seamlessly integrate the acquired capabilities as part of an exciting new product cycle that will help customers apply network traffic to address a broad range of use cases that span service assurance, cybersecurity and business intelligence applications. At the core of NETSCOUT's development roadmap and supporting its expanding portfolio of business assurance solutions is its patented Advanced Service Intelligence™ (ASI) technology, which converts network traffic — wire data — into highly structured metadata — smart data — in real time at the collection point.

The Company is in the midst of completing this new product cycle, having introduced its new real-time information platform, the InfiniStreamNG, along with an expansive range of new products and enhanced analytic capabilities. As a result, customers can leverage their historic investments in NETSCOUT technology and their related workflows, while further benefiting from innovative new capabilities that extend visibility into public and private cloud environments, determine infrastructure performance, uncover and validate hidden security threats, and much more. With a strong financial foundation and an extensive reservoir of technical expertise, NETSCOUT is well positioned to continue innovating and further elevating its value proposition to the marketplace.



**SERVICE ASSURANCE**



**CYBERSECURITY**



**BIG DATA**

# NETSCOUT®

## Reconciliation of GAAP to Non-GAAP Financial Measures

(\$ in millions)	NETSCOUT FY15 Reported	DHR Comms Business FY15 Reported	NETSCOUT FY15 Pro Forma <sup>1</sup>	NETSCOUT FY16 Reported	DHR Comms Business FY16 Reported	NETSCOUT FY16 Pro Forma <sup>1</sup>	NETSCOUT FY17 Reported
Revenue:							
Product	\$ 272.9	\$ 486.6	\$ 759.5	\$ 634.3	\$ 109.6	\$ 743.9	\$ 735.5
Service	180.8	229.2	409.9	321.2	64.5	385.6	426.6
Total GAAP revenue	\$ 453.7	\$ 715.8	\$ 1,169.4	\$ 955.4	\$ 174.1	\$ 1,129.5	\$ 1,162.1
<i>Non-GAAP adjustments</i>	0.0	-	0.0	69.2	-	69.2	37.7
Non-GAAP product revenue	272.9	486.6	759.5	651.8	109.6	761.4	753.8
Non-GAAP service revenue	180.8	229.2	410.0	372.8	64.5	437.3	446.1
Total Non-GAAP revenue	\$ 453.7	\$ 715.8	\$ 1,169.4	\$ 1,024.6	\$ 174.1	\$ 1,198.7	\$ 1,199.8
Total GAAP cost of revenue	94.6	221.6	316.2	328.5	57.3	385.8	346.1
<i>Non-GAAP adjustments</i>	(5.2)	(12.1)	(17.3)	(82.8)	(3.2)	(86.0)	(48.1)
Total Non-GAAP cost of revenue	89.4	209.5	298.9	245.7	54.1	299.8	298.0
Gross profit - GAAP	359.1	494.1	853.2	627.0	116.8	743.7	816.0
<i>Non-GAAP adjustments</i>	5.2	12.1	17.3	151.9	3.2	155.1	85.8
Gross profit - Non-GAAP	\$ 364.3	\$ 506.3	\$ 870.6	\$ 778.9	\$ 119.9	\$ 898.8	\$ 901.8
<i>Non-GAAP gross profit margin</i>	80.3%	70.7%	74.4%	76.0%	68.9%	75.0%	75.2%
Total operating expenses - GAAP	262.3	454.8	717.1	652.5	121.1	773.6	753.9
<i>Non-GAAP adjustments</i>	(31.8)	(35.0)	(66.8)	(120.4)	(5.5)	(125.9)	(127.5)
Total operating expenses - Non-GAAP	230.5	419.8	650.3	532.1	115.6	647.7	626.4
Income from operations - GAAP	96.8	39.3	136.1	(25.6)	(4.3)	(29.9)	62.1
<i>Non-GAAP adjustments</i>	37.0	47.2	84.2	272.3	8.7	281.0	213.3
Income from operations - Non-GAAP	\$ 133.7	\$ 86.5	\$ 220.3	\$ 246.8	\$ 4.4	\$ 251.1	\$ 275.4
<i>Non-GAAP income from operations margin</i>	29.5%	12.1%	18.8%	24.1%	2.5%	21.0%	23.0%
Net cash provided by operating activities	\$ 106.9			\$ 95.3			\$ 227.8
Purchase of fixed assets and intangible assets	(13.0)			(30.4)			(32.1)
Free cash flow	\$ 94.0			\$ 64.9			\$ 195.7

Certain numbers may not total due to rounding.

<sup>1</sup> The pro forma results on both a GAAP and non-GAAP basis for fiscal years 2015 and 2016 assumes that the acquisition of the Danaher Communications Business (DHR Comms Business) was completed on April 1, 2014.

Non-GAAP adjustments include revenue related to deferred revenue revaluation, revenue affected by the timing of the delayed transfer of certain acquired foreign entities, revenue impacted by the amortization of intangible assets, expenses related to the amortization of acquired intangible assets, stock-based compensation, certain expenses relating to acquisitions including inventory fair value adjustments, depreciation costs, compensation for post-combination services, business development, integration, and restructuring costs. For the specific detail on the value of each non-GAAP adjustment, please refer to the Company's quarterly earnings press releases available on the IR section of [www.netscout.com](http://www.netscout.com).



## Detailed Reconciliation of Adjustments: GAAP to Non-GAAP Financial Measures

	FY15 Reported	FY15 Pro Forma <sup>1</sup>	FY16 Reported	FY16 Pro Forma <sup>1</sup>	FY17 Reported
Revenue (GAAP)	\$ 453.7	\$ 1,169.4	\$ 955.4	\$ 1,129.5	\$ 1,162.1
Product deferred revenue fair value adjustment	-	-	10.2	10.2	6.8
Service deferred revenue fair value adjustment	0.0	0.0	51.6	51.6	19.5
Delayed transfer entity adjustment	-	-	0.6	0.6	-
Amortization of acquired intangible assets	-	-	6.7	6.7	11.4
Total adjustments	0.0	0.0	69.2	69.2	37.7
Revenue (non-GAAP)	\$ 453.7	\$ 1,169.4	\$ 1,024.6	\$ 1,198.7	\$ 1,199.8
Income from operations (GAAP)	\$ 96.8	\$ 136.1	\$ (25.6)	\$ (29.9)	\$ 62.1
Product deferred revenue fair value adjustment	-	-	10.2	10.2	6.8
Service deferred revenue fair value adjustment	0.0	0.0	51.6	51.6	19.5
Delayed transfer entity adjustment	-	-	0.4	0.4	-
Inventory fair value adjustment	-	-	28.6	28.6	-
Share-based compensation expense	16.6	21.3	28.4	29.5	39.2
Amortization expense related to acquired software and product	7.0	23.0	84.2	90.6	123.6
Business development and integration expense	12.0	12.0	29.4	29.4	12.1
Compensation for post combination services	1.4	1.4	35.1	35.1	5.1
Acquisition related depreciation expense	-	-	3.9	3.9	4.0
Restructuring charges	-	23.9	0.5	2.3	3.1
Other <sup>2</sup>	-	2.5	-	(0.6)	-
Total adjustments	37.0	84.1	272.3	281.0	213.3
Income from operations (Non-GAAP)	\$ 133.7	\$ 220.3	\$ 246.8	\$ 251.1	\$ 275.4

Certain numbers may not total due to rounding.

<sup>1</sup> The pro forma results on both a GAAP and non-GAAP basis for fiscal years 2015 and 2016 assumes that the acquisition of the Danaher Communications Business (DHR Comms Business) was completed on April 1, 2014.

<sup>2</sup> Other involves adjustments related to certain costs and expenses associated with the Danaher Communications systems infrastructure and personnel.

# **NETSCOUT**<sup>TM</sup>

**Notice of 2017 Annual Meeting  
and  
Proxy Statement**





# NETSCOUT™

July 28, 2017

Dear Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of Stockholders of NetScout Systems, Inc. on Tuesday, September 19, 2017 at 10:00 a.m. local time at NetScout Systems, Inc., 310 Littleton Road, Westford, Massachusetts 01886 (the “Annual Meeting”).

At the Annual Meeting, you will be asked to:

1. elect two directors nominated by our board of directors;
2. ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2018;
3. approve, on an advisory basis, the compensation of our named executive officers;
4. approve, on an advisory basis, the preferred frequency of stockholder advisory votes on the compensation of our named executive officers; and
5. consider any other business properly brought before the meeting or any adjournment.

The accompanying proxy statement describes these matters in more detail.

It is important that your shares be voted regardless of whether you attend the meeting. Please follow the voting instructions on the Notice of Internet Availability of Proxy Materials that you received. 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 voting 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. We appreciate your cooperation.

Very truly yours,

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



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

**NOTICE OF THE 2017 ANNUAL MEETING OF STOCKHOLDERS**  
**To be held September 19, 2017**

To the Stockholders of NetScout Systems, Inc.:

The 2017 Annual Meeting of Stockholders of NetScout Systems, Inc. (the “Annual Meeting”) will be held on Tuesday, September 19, 2017, at 10:00 a.m. local time at NetScout Systems, Inc., 310 Littleton Road, Westford, Massachusetts 01886, for the following purposes:

1. To elect two Class III directors nominated by our board of directors to serve for a three-year term or until their successors are 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, 2018.
3. To approve, on an advisory basis, the compensation of our named executive officers, as disclosed in our proxy statement, in accordance with Securities and Exchange Commission rules.
4. To indicate, on an advisory basis, the preferred frequency of stockholder advisory votes on the compensation of our named executive officers, in accordance with Securities and Exchange Commission rules.
5. To consider other business properly brought before the meeting or any adjournment.

Stockholders of record at the close of business on July 21, 2017, 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 our stockholders a Notice of Internet Availability of Proxy Materials, or Notice, instead of a paper copy of our proxy statement and our Annual Report to Stockholders for the fiscal year ended March 31, 2017, or the 2017 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 our proxy statement, our 2017 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 or to vote over the telephone or the internet as instructed in these materials 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 Notice. If you attend the meeting, you may vote in person even if you have previously returned your vote in accordance with the foregoing.

**Important notice regarding the availability of proxy materials for the Annual Meeting to be held on September 19, 2017. Our proxy statement, the proxy card, and NetScout’s Annual Report to Stockholders for the fiscal year ended March 31, 2017 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 28, 2017





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

**PROXY STATEMENT**

**July 28, 2017**

**Questions and Answers about these Proxy Materials and Voting**

***What is the purpose of the Annual Meeting?***

The purpose of the 2017 Annual Meeting of Stockholders of NetScout Systems, Inc., or the Annual Meeting, is to:

- elect two Class III directors nominated by our Board to serve for a three-year term or until their successors are elected and qualified;
- ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2018;
- obtain advisory approval of the compensation of our Named Executive Officers (as defined herein), as disclosed in this proxy statement in accordance with the Securities and Exchange Commission, or the SEC, rules;
- obtain advisory approval of the preferred frequency of stockholder advisory votes on the compensation of our Named Executive Officers, in accordance with SEC rules; and
- conduct other business that properly comes before the Annual Meeting or any adjournment.

***Why did I receive a notice regarding the availability of proxy materials on the internet?***

We intend to mail the Notice of Internet Availability of Proxy Materials, or the Notice, on or about August 1, 2017 to all stockholders of record entitled to vote at the Annual Meeting, and will make available the proxy statement and form of proxy to stockholders on such date. Unless the context suggests otherwise, references in this proxy statement to “NetScout,” the “Company,” “we,” “us,” and “our” refer to NetScout Systems, Inc. and, where appropriate, its subsidiaries. The matters to be voted on at the Annual Meeting are set forth in the Notice of the Annual Meeting of Stockholders and further described below.

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, is soliciting your proxy to vote at the Annual Meeting, including at any adjournments or postponements of the Annual 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 our Annual Report to Stockholders for the fiscal year ended March 31, 2017, which contains financial statements for the fiscal year ended March 31, 2017.

You are invited to attend the Annual Meeting on Tuesday, September 19, 2017 at 10:00 a.m. local time at NetScout Systems, Inc., 310 Littleton Road, Westford, Massachusetts 01886.

***How does the Board recommend that I vote?***

The Board recommends that you vote “FOR” the nominees to our Board, “FOR” the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2018, and “FOR” the approval, on an advisory basis, of the compensation of our Named Executive

Officers. With regard to your advisory vote on how frequently the Company should solicit future stockholder votes on the compensation of our Named Executive Officers, the Board recommends that you vote for “ONE year,” but you may vote for one, two, or three years, or abstain from voting.

***Will I receive any proxy materials by mail?***

We may send you a proxy card, along with a second Notice by mail, before the Annual Meeting.

***Who can vote?***

Stockholders of record as of July 21, 2017, or the Record Date, may vote. As of the Record Date, 89,538,118 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” or a “street name owner” of shares. In this 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. Your Broker can vote on certain routine items on your behalf if you have not provided voting instructions. At the Annual Meeting, the director proposal, the “say-on-pay” proposal, and the frequency of “say-on-pay” proposal are non-routine, and we therefore encourage you to provide specific voting instructions to your Broker. “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 without receiving instructions from you. 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 fiscal year ending March 31, 2018.

***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 over the phone, through the internet, or using a proxy card that you may request or that we may elect to deliver at a later time. 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 in person, come to the annual meeting, and we will give you a ballot when you arrive.
- To vote using the proxy card, simply complete, sign, and date the proxy card that may be delivered 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.
- To vote over the telephone, dial toll free 1-800-652-8683 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the Notice. Your telephone vote must be received by 11:59 p.m., Eastern time on September 18, 2017 to be counted.

- To vote through the internet, go to [www.edocumentview.com/NTCT](http://www.edocumentview.com/NTCT) to complete an electronic proxy card. You will be asked to provide the company number and control number from the Notice. Your internet vote must be received by 11:59 p.m., Eastern time on September 18, 2017 to be counted.

*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 Jean Bua 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 nominees 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, 2018, “FOR” the advisory approval of the compensation of our Named Executive Officers, and for “ONE” year as the preferred frequency of future advisory votes on 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 89,538,118 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 Directors:** At the Annual Meeting there are two director nominees. The nominees to serve as Class III directors who receive 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 directors. As a result, any shares not voted by a beneficial owner will be treated as broker non-votes. 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, 2018. Abstentions will not be counted towards the vote total and will have no effect on the results of this vote. 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, 2018, 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 not be counted towards the vote total and will have no effect on the results of this vote. 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 broker non-votes. Such broker non-votes will have no effect on the results of this vote.

**Proposal 4: Advisory Vote on Frequency of Advisory Votes on Executive Compensation:** The frequency receiving the affirmative vote of a majority of the shares of common stock present or represented and voting on this proposal, if any, will be considered the preferred frequency by our stockholders of future advisory votes on the compensation of our named executive officers. Abstentions will not be counted towards the vote total and will have no effect on the results of this vote. 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. To the extent there is any significant vote in favor of one frequency over the other options, even if less than a majority of the votes cast, our Board will consider the stockholders' concerns and evaluate any appropriate next steps.

***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 April 3, 2018. 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 22, 2018 and no later than the close of business of June 21, 2018 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, 2017, 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***

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for Notices of Internet Availability of Proxy Materials or other Annual Meeting materials with respect to two or more stockholders sharing the same address by delivering a single Notice of Internet Availability of Proxy Materials or set of other Annual Meeting materials addressed to those stockholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for stockholders and cost savings for companies.

This year, we and a number of brokers with account holders who are NetScout stockholders will be “householding” our proxy materials. A single Notice of Internet Availability of Proxy Materials will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from us (if you are a stockholder of record) or your broker (if you are a beneficial owner) that we or they, as applicable, will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate Notice of Internet Availability of Proxy Materials, or if you currently receive multiple copies and would like to request householding of your communications, please notify us or your broker. To notify us, please call or write us at our principal executive offices, 310 Littleton Road, Westford Massachusetts 01886, Attn: Investor Relations, telephone: (978) 614-4000.

**PROPOSAL 1  
ELECTION OF DIRECTORS**

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

<u>Nominee or Director's Name and Year First Became Director</u>	<u>Positions with NetScout</u>	<u>Year Term Will Expire</u>	<u>Class</u>
<b>Nominees:</b>			
Joseph G. Hadzima, Jr. (1998)	Director	2020*	III
Christopher Perretta (2014)	Director	2020*	III
<b>Continuing Directors:</b>			
Victor A. DeMarines (2004)	Director	2018	I
Vincent J. Mullarkey (2000)	Director	2018	I
James A. Lico (2015)	Director	2018	I
Anil K. Singhal (1984)	Chairman, President, and Chief Executive Officer	2019	II
John R. Egan (2000)	Director	2019	II
Robert E. Donahue (2013)	Director	2019	II

\* Reflects term expiration date if director is re-elected at the Annual Meeting.

**The Nominees for Class III Director are Messrs. Hadzima and Perretta**

Messrs. Hadzima and Perretta are Class III directors whose terms expire at the Annual Meeting and who are nominees for re-election for terms that would expire upon the election and qualification of directors at the annual meeting to be held in 2020.

**Continuing Directors**

The Board is also composed of three Class I directors, Messrs. DeMarines, Mullarkey, and Lico, whose terms expire at the annual meeting to be held in 2018, and three Class II directors, Messrs. Singhal, Egan and Donahue, whose terms expire at the annual meeting to be held in 2019.

As of the Record Date, the size of the Board is fixed at eight 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 Messrs. Hadzima and Perretta be re-elected as Class III directors, to hold office until the annual meeting to be held in the year 2020 or until their successors have been duly elected and qualified or until their earlier resignation or removal.

The Board knows of no reason either nominee would be unable or unwilling to serve, but if either 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 nominees named above.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE  
NOMINEES 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, 2018. 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 our 2011 Annual Meeting of Stockholders, our stockholders indicated their preference that the Company solicit a non-binding advisory vote on the compensation of our Named Executive Officers, commonly referred to as a “say-on-pay vote,” every year. The Board has adopted a policy to hold annual “say-on-pay” votes that is consistent with that preference. Therefore we are asking stockholders to approve, on an advisory basis, the compensation of our 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 our Named Executive Officers and the philosophy, policies, and practices described in this proxy statement. At the 2016 Annual Meeting of Stockholders held on September 20, 2016 (the “2016 Annual Meeting”), stockholders approved our say-on-pay proposal with 69% of the total votes cast voting in favor.

We spent considerable time with our institutional investors and proxy advisory firms in advance of last year’s Annual Meeting to generate support for all proposals with a specific emphasis on the proposals to increase the number of authorized shares of our common stock and say-on-pay. The Compensation Committee carefully considered the results of the advisory vote on our say-on-pay proposal in the context of its annual review of executive compensation and the on-going work of the Compensation Committee. The level of stockholder support in 2016 was lower compared with the high level of support for our proposals in prior years. As a result of the disappointing outcome of the say-on-pay vote at the 2016 Annual Meeting, the Compensation Committee and the Board have focused significant time and attention on the issues raised by our stockholders.

In particular, the Compensation Committee reviewed specific feedback from our investors and proxy advisory firms on certain compensation practices and related disclosures. Additionally, the Compensation Committee engaged the services of an independent compensation consultant and other outside advisors to review and make recommendations regarding various aspects of our compensation program.

During the past year, in conjunction with our investor relations activities, we have discussed our compensation program for our Named Executive Officers, including key financial measurements that have historically been used to determine short-term incentive compensation. Over the course of the months leading up to our proxy filing, we have contacted a significant percentage of the large institutional stockholders who we determined were unlikely to have supported our say-on-pay proposal in 2016 to discuss compensation issues, and we spoke with certain significant institutional stockholders on this topic. As a result of these discussions, our Compensation Committee and Board have instituted a number of changes, as further described below, to our executive compensation program.

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 our executive compensation program and the decisions made by the Compensation Committee in detail.

The goal of our executive officer compensation program is to retain and reward highly qualified, talented leaders who create long-term stockholder value. In addition, our program is designed to align management’s interests with those of our stockholders and to motivate senior executives to increase our long-term growth and profitability. While our compensation philosophy has not significantly changed in recent years, our company has changed considerably, growing from just over \$450 million in revenue in fiscal year 2015 to more than \$1 billion in revenue in fiscal year 2017 and increasing from approximately 1,000 employees to more than 3,000, following the transformative acquisition of the Danaher Communications Business in July 2015. In the immediate months following the closing of the acquisition in July 2015, our Compensation Committee and Board decided, after careful consideration, to focus on the integration of the assets before considering changes to our compensation program.

Now, after two years of considerable change and substantial integration efforts following the transformative acquisition, our Compensation Committee has reconsidered our group of peer companies and best practices in the market and taken steps to bring our compensation practices in line with other companies our size. As a result of this review, we have made several changes to our executive compensation program to reflect the current size and complexity of the company, though we have not significantly increased the total cash compensation of our Named Executive Officers. The changes to our compensation program were also enhanced and accelerated by feedback from our stockholders and proxy advisory services.

As described more fully in the CD&A, we continue to emphasize pay for performance. For example, as in the past, for fiscal year 2018, our Named Executive Officers will not be eligible for their full bonus until after a threshold profitability (non-GAAP EPS) target is met. Further, in the next fiscal year, the Compensation Committee, and the Board with respect to the CEO, has determined that one-third of the shares subject to the RSUs granted to our Named Executive Officers will be granted on the basis of achievement of corporate and individual performance goals in the prior fiscal year. Other points that underscore the continued alignment between stockholders' interests and executive officer performance include, among other items:

- No guaranteed bonuses;
- Limits on short-term incentives;
- No tax gross ups;
- Hedging and pledging of company stock is prohibited for our directors, executive officers and employees;
- Significant proportion of total compensation in the form of long-term equity awards; and
- Meaningful stock holding requirements.

Accordingly, the Board is asking our stockholders to indicate their support for the compensation of our 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.**

**PROPOSAL 4**  
**ADVISORY VOTE ON THE FREQUENCY OF SAY-ON-PAY VOTES**

The Dodd-Frank Act and Section 14A of the Exchange Act enables the Company's stockholders to cast a non-binding advisory vote on how frequently the Company should include a "say-on-pay" vote in its proxy materials for future annual stockholder meetings.

Accordingly, the Company is asking stockholders to indicate whether they would prefer an advisory vote every year, every other year or every three years. For the reasons described below, the Board recommends that the stockholders select a frequency of a vote every year.

After considering the benefits and consequences of each alternative, the Board recommends that the advisory vote on the compensation of the Company's named executive officers be submitted to the stockholders every year, as has been our past practice in recent years. The Board has determined that an annual advisory vote to approve named executive officer compensation will allow our stockholders to provide timely, direct input on the executive compensation of our Named Executive Officers as disclosed in our proxy statement each year pursuant to the SEC's compensation disclosure rules. We believe that an annual advisory vote on executive compensation is consistent with the Company's willingness to engage in ongoing dialogue with our stockholders on corporate governance matters and our executive compensation philosophy, policies and practices. Accordingly, we ask that our stockholders vote for "ONE" year as the preferred frequency of the advisory vote on our executive compensation.

While our Board believes that its recommendation is appropriate at this time, stockholders are not voting to approve or disapprove that recommendation, but are instead asked to indicate their preference, on an advisory basis, as to whether the non-binding stockholder advisory vote on the approval of our executive officer compensation practices should be held every year, every two years, or every three years. The frequency option that receives votes from the holders of at least a majority of shares present or represented and voting at the Annual Meeting will be considered the preferred frequency of future advisory votes on the compensation of our named executive officers by our stockholders. Our Board and the Compensation Committee value the opinions of our stockholders in this matter, and, to the extent there is any significant vote in favor of one frequency over the other options, even if fewer than a majority of the votes cast, our Board will consider the stockholders' concerns and evaluate any appropriate next steps. However, because this vote is advisory and not binding on the Board or the Company in any way, our Board may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option indicated by our stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS**  
**A VOTE IN FAVOR OF "ONE" YEAR**  
**ON PROPOSAL 4.**

## DIRECTORS AND EXECUTIVE OFFICERS

Name	Age	Positions
Anil K. Singhal	63	Chairman, President, Chief Executive Officer, and Director
Michael Szabados	65	Chief Operating Officer and President, Service Assurance Business
John W. Downing	59	Executive Vice President, Worldwide Sales Operations
Jean Bua	59	Executive Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer
Victor A. DeMarines	80	Director
Robert E. Donahue	69	Director
John R. Egan	59	Director
Joseph G. Hadzima, Jr.	65	Director
James A. Lico	51	Director
Vincent J. Mullarkey	69	Director
Christopher Perretta	59	Director

### Executive Officers

*Anil Singhal* co-founded the Company in June 1984 and has served as NetScout’s Chief Executive Officer and as a director on NetScout’s Board since inception. In January 2007, Mr. Singhal was appointed Chairman of the Board, and has been serving as NetScout’s President, CEO and Chairman since that time. In his current role, Mr. Singhal is focused on providing strategic leadership and vision, as well as setting operational priorities for NetScout’s management team. Mr. Singhal’s vision of “traffic-based instrumentation” has guided NetScout’s product direction and focus for the past three decades, helping to shape the evolution for the industry in the process. Under Mr. Singhal’s leadership, NetScout has grown substantially during the past three decades, completing its initial public offering in 1999, acquiring the Danaher Communications Business in 2015 for \$2.3 billion and exceeding \$1.1 billion in revenue in fiscal year 2017 and non-GAAP revenue of approximately \$1.2 billion. He is credited with numerous innovations in the field of network traffic monitoring and analysis that have helped NetScout gain several industry accolades. During the past decade, Mr. Singhal has also been an instrumental part of a number of strategic acquisitions that have fortified and enhanced NetScout’s technology, customer base and go-to-market capabilities. Mr. Singhal has earned notable recognition for his entrepreneurial success, including the TiE (The Indus Entrepreneur) Boston Lifetime Achievement in 2013, Enterprise Bank’s 2013 George L. Duncan Award of Excellence and Ernst & Young’s New England Entrepreneur of the Year in 1997. Mr. Singhal holds a BSEE from BITS, Pilani, India and an MS in Computer Science from the University of Illinois, Urbana-Champaign. The Company’s Nominating and Corporate Governance Committee believes that Mr. Singhal’s experience serving as the Company’s Chief Executive Officer since the Company’s founding combined with his business expertise, industry-specific knowledge and technical know-how qualify him to serve as a director of the Company.

*Michael Szabados* has served as NetScout’s Chief Operating Officer since April 2007 and President of the Service Assurance Business since 2017. In this role, Mr. Szabados is focused on executing NetScout’s vision and strategy. During his tenure, he has been critical in helping lead NetScout’s key functional areas as NetScout more than doubled in size. During his tenure, NetScout successfully completed and integrated six acquisitions before the 2015 \$2.3 billion acquisition of the Danaher Communications Business. His career at NetScout began in 1997 when he joined the Company as vice president, marketing, charged with increasing the Company’s overall visibility and market awareness. His responsibilities expanded in 2001 to encompass product development, manufacturing and customer support when he was promoted to Senior Vice President, Product Operations. A veteran of the enterprise networking industry, Mr. Szabados held senior leadership roles with companies including UB Networks, SynOptics/Bay Networks and MIPS Corporation following engineering and product management roles at Intel Corporation and later at Apple. Mr. Szabados holds a BSEE from UC Irvine and an MBA from UC Santa Clara.

*Jean Bua* has served as NetScout's Executive Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer since September 2015 and as NetScout's Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Treasurer from November 2011 until September 2015. She joined the Company in September 2010 as Vice President, Finance, in conjunction with the Company's succession planning. In her current role, Ms. Bua is responsible for investor relations, treasury, financial planning and analysis, real estate development, accounting and compliance. Ms. Bua has played a key role in executing on the financial aspects of NetScout's strategy. During her tenure, NetScout successfully completed and integrated five acquisitions before the 2015 \$2.3 billion acquisition of the Danaher Communications Business. In May 2017, Ms. Bua joined the board of CoreSite Realty Corporation, a publicly traded provider of data center and interconnection solutions across the U.S. Before joining NetScout, Ms. Bua served as Executive Vice President, Finance & Treasurer of American Tower Corporation, where she was a critical contributor to multiple equity and debt financings, and numerous acquisitions that helped the company to more than double in revenue and become a leading provider of infrastructure for the wireless telecommunications industry. Prior to American Tower, Ms. Bua spent nine years at Iron Mountain, Inc., concluding as Senior Vice President, Chief Accounting Officer and Worldwide Controller. During her tenure, Iron Mountain successfully consolidated the records management industry, growing from annual revenue of \$100 million to over \$2 billion through more than 100 acquisitions. Previously, she held senior positions at Duracraft Corp. and Keithley Instruments. She was a management consultant at Ernst & Young and an auditor at KPMG. Ms. Bua earned her Bachelor of Science in Business Administration, summa cum laude, from Bryant College and her Masters of Business Administration from the University of Rhode Island.

*John W. Downing* has served as NetScout's Executive Vice President, Worldwide Sales Operations since September 2015, and as Senior Vice President, Worldwide Sales Operations from 2007 until September 2015. In this role, Mr. Downing is responsible for directing NetScout's sales leadership in both the service provider and enterprise markets. Under Mr. Downing's direction, NetScout has reported strong revenue growth and built long-term relationships with leading telecommunications service providers, government agencies and many of the world's largest corporations. He joined NetScout in 2000 as Vice President, Sales Operations, instituting and refining key go-to-market programs and sales processes that have underpinned the Company's revenue growth during the past 16 years. Prior to NetScout, from April 1998 until September 2000, Mr. Downing served as Vice President of Sales at Genrad Corporation, a \$300 million manufacturer of electronic testing equipment and production solutions, and was Vice President of North American Sales from January 1996 until March 1998. Mr. Downing earned a Bachelor of Science in Engineering (BSE) in Computer Science and Applied Mathematics from Tufts University and a Master's in Business Administration from Suffolk University.

## **Directors**

*Victor A. DeMarines* has been a NetScout director since June 2004. Mr. DeMarines was the President and Chief Executive Officer of MITRE Corporation, or 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 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., or Verint, a publicly held provider of systems to the internet security marketplace. He has been a member of the Board of Directors of Verint since 2002 and is also currently a member of its Corporate Governance and Nominating Committee and its Audit Committee. The Company's Nominating and Corporate Governance 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 served on the board of directors of Sycamore Networks, Inc., an intelligent optical networking and multiservice access provider, from July 2007 until October 2014. 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 and Corporate Governance 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 and serves as NetScout's Lead Independent Director. 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. From 1992 until 2016, he was a member of the Board of Directors at EMC Corporation, a publicly held provider of computer storage systems and software prior to its acquisition by Dell. From 2007 until 2016, Mr. Egan also served as a member of the Board of Directors at VMware, a 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 and Nominating and Corporate Governance Committee at Progress Software Corp., a publicly traded global software company. Since 2012, Mr. Egan has served as a member of the Board of Directors of Verint Systems, Inc., a publicly held provider of systems to the internet security market, where he is currently the Chairman of the Corporate Governance and Nominating Committee and a member of the Compensation Committee. Mr. Egan also serves on the Board of Trustees at Boston College and as a director for one other privately held company. The Company's Nominating and Corporate Governance 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 and Corporate Governance 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.

*James A. Lico* was appointed to NetScout's Board of Directors in July 2015 following the completion of the Company's acquisition of the communications business of Danaher Corporation. Mr. Lico serves as the founding President and CEO of Fortive Corporation, a diversified industrial growth company specializing in professional instrument and industrial technology, spun out of Danaher Corporation in July 2016. Before that, Mr. Lico has served as Danaher's executive vice president with responsibility for its Test & Measurement segment and Gilbarco Veeder-Root business since 2005. He joined Danaher in 1996 as Vice President, Operations of Veeder-Root and was subsequently appointed to senior leadership positions within Danaher until his appointment as Executive Vice President. Prior to Danaher, Mr. Lico held increasing responsible positions in manufacturing with both General Motors Corporation and AlliedSignal, Inc. The Company's Nominating and Corporate Governance Committee believes that Mr. Lico's experience in the technology industry, including his responsibility for the Danaher Communications Business, provides the Company with valuable insight into the Company following the acquisition and qualifies him to serve as a director of the Company. Under the Agreement and Plan of Merger and Reorganization, dated October 12, 2014 ("Merger Agreement") by and among the Company, Danaher Corporation ("Danaher") and certain subsidiaries of the Company and Danaher, the Company agreed to appoint to the Company's Board one individual designated by Danaher, effective on the closing date of the merger, which was July 14, 2015. Danaher designated, and the Board elected, James A. Lico as a new director. Pursuant



to the Merger Agreement, the Board proposed Mr. Lico as a director nominee for election to the Board, and Mr. Lico was so elected, at the 2015 annual meeting of stockholders.

*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 and Corporate Governance 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.

*Christopher Perretta* has been a NetScout director since September 2014. Mr. Perretta has served as chief information and operations officer at MUFG Americas Holdings Corporation and its U.S. banking subsidiary, MUFG Union Bank, N.A. since April 2016. Previously, he served as Executive Vice President and Chief Information Officer at State Street Corporation from September 2007 until 2016 and as a member of State Street Corporation's Management Committee February 2013 until 2016. From December 1996 to September 2007, Mr. Perretta served in various roles at General Electric Corporation, including as Chief Information Officer for the North American Consumer Financial Services unit, Chief Technology Officer for General Electric Capital, and, from January 2003 to September 2007, as Chief Information Officer of General Electric Commercial Finance. Mr. Perretta has also served as a member of the board of directors of a privately held technology company and the Advanced Cyber Security Center. The Company's Nominating and Corporate Governance Committee believes that Mr. Perretta's experience with various Fortune 500 companies and his service on other boards provide the Company with valuable business perspective and insight into global issues that may affect the business and strategies of the Company 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 Named Executive Officer named in the Summary Compensation Table, each director and nominee for director, all executive officers and directors as a group, all those known by us to be beneficial owners of more than 5% of our common stock.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage of Class Beneficially Owned
Anil K. Singhal(2) . . . . .	2,595,333	2.90%
Michael Szabados(3) . . . . .	59,507	*
Jean Bua(4) . . . . .	64,406	*
John W. Downing(5) . . . . .	130,861	*
Victor A. DeMarines(6) . . . . .	22,473	*
Robert E. Donahue(7) . . . . .	13,741	*
John R. Egan(8) . . . . .	77,504	*
Joseph G. Hadzima, Jr.(9) . . . . .	116,562	*
James A. Lico(10) . . . . .	12,742	*
Vincent J. Mullarkey(11) . . . . .	42,613	*
Christopher Perretta(12) . . . . .	9,535	*
BlackRock, Inc.(13) 55 East 52 <sup>nd</sup> Street New York, New York 10055 . . . . .	10,250,700	11.45%
Neuberger Berman Group LLC and affiliates(14) 1290 Avenue of the Americas New York, New York 10104 . . . . .	8,313,166	9.28%
Brown Capital Management, LLC(15) 1201 N. Calvert Street Baltimore, Maryland 21202 . . . . .	7,090,777	7.92%
The Vanguard Group(16) 100 Vanguard Boulevard Malvern, PA 19335 . . . . .	6,822,686	7.62%
Capital Ventures International and affiliates(17) Windward 1 Regatta Office Park, West Bay Road Grand Cayman E9 KY1-1103 . . . . .	5,979,994	6.68%
All executive officers and directors as a group (11 persons)(18) . . . . .	3,145,277	3.51%

\* 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 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 22,917 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date and 105,400 shares held by a charitable foundation of which Mr. Singhal and his spouse are trustees. 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 1,070,081 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 776,887 shares held in a trust for the benefit of Mr. Singhal's children for which neither Mr. Singhal nor his spouse is a trustee, and 62,539 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 13,750 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (4) Includes 11,146 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (5) Includes 11,146 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (6) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (7) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (8) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (9) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (10) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (11) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (12) Includes 4,741 shares issuable upon the vesting of restricted stock units within 60 days of the Record Date.
- (13) This information is based solely on a Schedule 13G/A filed with the SEC on January 17, 2017 (the "BlackRock 13G"). According to the BlackRock 13G, as of December 31, 2016, BlackRock, Inc. had the sole power to vote 9,892,650 shares and sole dispositive power over 10,250,700 shares. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock reported on the BlackRock 13G. The BlackRock 13G provides information only as of December 31, 2016 and, consequently, the beneficial ownership of the aforementioned entity may have changed between December 31, 2016 and the Record Date.
- (14) This information is based solely on a Schedule 13G/A filed with the SEC on February 14, 2017 by Neuberger Berman Group LLC on behalf of itself and on behalf of Neuberger Berman Investment Advisers LLC and Neuberger Berman Equity Funds (the "Neuberger 13G"). According to the Neuberger 13G, as of December 31, 2016, Neuberger Berman Group LLC had the shared power to vote or direct the vote of 8,262,892 shares and shared power to dispose of or direct the disposition of 8,313,166 shares, Neuberger Berman Investment Advisers LLC had the shared power to vote or direct the vote of 8,262,892 shares and shared power to dispose of or direct the disposition of 8,313,166 shares, and Neuberger Berman Equity Funds had the shared power to vote or direct the vote of 5,435,794 shares and shared power to dispose of or direct the disposition of 5,435,794 shares. Neuberger Berman Group LLC and its affiliates may be deemed to be beneficial owners of securities for purposes of Exchange Act Rule 13d-3 because they or certain affiliated persons have shared power to retain, dispose of or vote the securities of unrelated clients. Neuberger Berman Group LLC or its affiliated persons do not, however, have any economic interest in the securities of those clients. The clients have the sole right to receive and the power to direct the receipt of dividends from or proceeds from the sale of such securities. No one client has an interest of more than 5% of the issuer. In addition to the holdings of individual advisory clients, Neuberger Berman Investment Advisers LLC serves as investment manager of Neuberger Berman Group LLC's various registered mutual funds which hold such shares. The holdings belonging to clients of Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternatives Advisers LLC and Neuberger Berman Investment Advisers LLC are also aggregated to comprise the holdings referenced in the Neuberger 13G. This amount also includes shares from individual client accounts over which Neuberger Berman Investment Advisers LLC has shared power to dispose but does not have voting power over these shares. The holdings of Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternatives Advisers LLC and Neuberger Berman Investment Advisers LLC, are also aggregated to comprise the holdings referenced in the Neuberger 13G. Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternatives Advisers LLC and Neuberger Berman Investment Advisers LLC and certain affiliated persons may be deemed to beneficially own the securities covered by the Neuberger 13G in their various fiduciary capacities by virtue of the provisions of Exchange Act Rule 13d-3. Neuberger

Berman Group LLC, through its subsidiaries Neuberger Berman Fixed Income Holdings LLC, NB Alternatives Holdings LLC and Neuberger Trust Holdings LLC controls Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternatives Advisers LLC and Neuberger Berman Investment Advisers LLC and certain affiliated persons. Each of Neuberger Berman Group LLC, Neuberger Berman Fixed Income Holdings LLC, NB Alternatives Holdings LLC, Neuberger Trust Holdings LLC, Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternatives Advisers LLC and Neuberger Berman Investment Advisers LLC and certain affiliated persons disclaim beneficial ownership of the securities covered by the Neuberger 13G. The Neuberger 13G provides information only as of December 31, 2016 and, consequently, the beneficial ownership of the aforementioned entities may have changed between December 31, 2016 and the Record Date.

- (15) This information is based solely on a Schedule 13G/A filed with the SEC on February 9, 2016 (the “Brown 13G”). According to the Brown 13G, as of December 31, 2016, Brown Capital Management, LLC had the sole power to vote 4,150,650 shares and sole dispositive power over 7,090,777 shares. The Brown 13G provides information only as of December 31, 2016 and, consequently, the beneficial ownership of the aforementioned entity may have changed between December 31, 2016 and the Record Date.
- (16) This information is based solely on a Schedule 13G/A filed with the SEC on February 10, 2017 (the “Vanguard 13G”). According to the Vanguard 13G, as of December 31, 2016, The Vanguard Group had sole power to vote 106,867 shares, shared power to vote 10,693 shares, sole dispositive power over 6,709,061 shares and shared dispositive power over 113,625 shares. According to the Vanguard 13G, as of December 31, 2016, The Vanguard Fiduciary Trust Company (“VFTC”), a wholly owned subsidiary of The Vanguard Group, Inc., was the beneficial owner of 102,932 shares as a result of its serving as investment manager of collective trust accounts and Vanguard Investments Australia, Ltd. (“VIA”), a wholly owned subsidiary of The Vanguard Group, Inc., was the beneficial owner of 14,628 shares as a result of its serving as investment manager of Australian investment offerings. The Vanguard 13G provides information only as of December 31, 2016 and, consequently, the beneficial ownership of the aforementioned entity may have changed between December 31, 2016 and the Record Date.
- (17) Based solely on a Schedule 13G/A filed with the SEC on February 12, 2016. Capital Ventures International has the sole power to vote 5,337,701 of such shares, shared power to vote 5,979,994 of such shares, sole dispositive power over 5,337,701 of such shares and shared dispositive power over 5,979,994 of such shares. Susquehanna Advisors Group, Inc. has shared power to vote 5,979,994 of such shares and shared dispositive power over 5,979,994 of such shares. G1 Execution Services, LLC has the sole power to vote 139 of such shares, shared power to vote 5,979,994 of such shares, sole dispositive power over 139 of such shares and shared dispositive power over 5,979,994 of such shares. Susquehanna Fundamental Investments, LLC has shared power to vote 5,979,994 of such shares and shared dispositive power over 5,979,994 of such shares. Susquehanna Securities has the sole power to vote 642,154 of such shares, shared power to vote 5,979,994 of such shares, sole dispositive power over 642,154 of such shares and shared dispositive power over 5,979,994 of such shares. Susquehanna Advisors Group, Inc. is the investment manager to Capital Ventures International and as such may exercise voting and dispositive power over the 5,337,701 shares directly owned by Capital Ventures International. G1 Execution Services, LLC and Susquehanna Securities are affiliated independent broker-dealers which, together with Capital Ventures International, Susquehanna Advisors Group, Inc. and Susquehanna Fundamental Investments, LLC may be deemed a group and therefore deemed to share voting and dispositive power over all such shares, although each has disclaimed beneficial ownership of shares held by the others.
- (18) Includes an aggregate of 92,146 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, industry expertise 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, our Board appointed Mr. Egan as Lead Independent Director.

### **Director Independence**

Our Board has determined that each of Messrs. DeMarines, Donahue, Egan, Hadzima, Mullarkey and Perretta is independent within the meaning of the director independence standards of The NASDAQ Stock Market LLC, 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 and Corporate Governance 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 and Corporate Governance 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 and Corporate Governance 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 and Corporate Governance Committee, with the expectation that other members of our Board, and of management, will take part in the process as appropriate.

Generally, the Nominating and Corporate Governance 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 and Corporate Governance Committee deems to be helpful to identify candidates. The Nominating and Corporate Governance Committee seeks to identify and recruit diverse candidates (including women and minority candidates), as part of the search process for new Board members. Once candidates have been identified, our Nominating and Corporate Governance Committee confirms that the candidates meet all of the minimum qualifications for director nominees established by the Nominating and Corporate Governance Committee and set forth in the Corporate Governance Guidelines. The Nominating and Corporate Governance Committee may gather information about the candidates through interviews, questionnaires, background checks, or any other means that the Nominating and Corporate Governance Committee deems to be helpful in the evaluation process. The Nominating and Corporate Governance 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 and Corporate Governance 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 and Corporate Governance Committee recommends candidates for our Board’s approval as director nominees for election to the Board. The Nominating and Corporate Governance 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 and Corporate Governance 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, 2017, or the 2017 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 our 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 April 3, 2018. Proposals must satisfy the procedures set forth in Rule 14a-8 under the Exchange Act. If you wish to submit a proposal for the 2018 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 22, 2018 and no later than the close of business of June 21, 2018 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](mailto: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 2016 Annual Meeting, either in-person or via teleconference.

### **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://ir.netscout.com/>. 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://ir.netscout.com/>.

For more corporate governance information, you are invited to visit the Corporate Governance section of our website, available at <http://ir.netscout.com/>. 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

	Compensation Committee	Audit Committee	Nomination & Governance Committee	Finance Committee
<b>INDEPENDENT DIRECTORS</b>				
Victor A. DeMarines				
Robert E. Donahue	 			
John R. Egan				
Joseph G. Hadzima, Jr.				
Vincent J. Mullarkey				
Christopher Perretta				

### NON-INDEPENDENT DIRECTORS

James A. Lico

### INSIDE DIRECTORS

Anil K. Singhal



 Chairperson     Member     Financial Expert     Chairman of the Board

### Board of Directors

The Board met eight times during the fiscal year ended March 31, 2017. 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 2017. The Board has standing Audit, Compensation, Nominating and Corporate Governance, and Finance Committees.

### Audit Committee

Members	Responsibilities
<p>Messrs. Mullarkey (Chair) Donahue Egan Hadzima</p> <p><b>Meetings</b> Nine meetings during the fiscal year ended March 31, 2017</p> <p><i>A copy of the Audit Committee Charter can be found at <a href="http://ir.netscout.com/">http://ir.netscout.com/</a></i></p> <p><b>Audit Committee Designated “Financial Experts”</b> are Messrs. Mullarkey and Donahue</p>	<p>Discharging the responsibilities of the board relating to, among other items:</p> <ul style="list-style-type: none"> <li>Reviewing and overseeing the financial reports we provide to the SEC, our stockholders, and general public, and our accounting policies, internal accounting controls, internal control over financial reporting, auditing functions, and financial reporting practices</li> <li>Appointing, and ensuring the independence of, our independent auditor and thereby furthering the integrity of our financial reporting</li> <li>Establishing and overseeing 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</li> <li>Reviewing and monitoring our compliance with its related party transaction approval policy</li> </ul> <p><b>Independence:</b> Our Board has determined that each member of our Audit Committee is independent within the meaning of NASDAQ’s director independence standards and the SEC’s heightened director independence standards for audit committee members.</p>

**Compensation Committee**

<p><b>Members</b> Messrs. Hadzima (Chair) DeMarines Donahue Perretta</p> <p><b>Meetings</b> Seven meetings during the fiscal year ended March 31, 2017</p> <p><i>A copy of the Compensation Committee Charter can be found at <a href="http://ir.netscout.com/">http://ir.netscout.com/</a></i></p>	<p><b>Responsibilities</b></p> <p>Discharging the responsibilities of the board relating to, among other items:</p> <ul style="list-style-type: none"> <li>• The compensation of our executives other than the Chief Executive Officer</li> <li>• Reviewing and making recommendations to the Board with respect to our Chief Executive Officer</li> <li>• Administering our incentive compensation, stock plans, benefit plans, and human resources activities</li> <li>• 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</li> <li>• Reviewing and considering the results of any advisory vote on executive compensation</li> <li>• Managing compensation policy- and practice-related risk</li> </ul> <p><b>Independence:</b> The Board has determined that each member of our Compensation Committee is independent within the meaning of NASDAQ’s director independence standards and is a “non-employee director” as defined by applicable SEC rules and regulations.</p>

**Nominating and Corporate Governance Committee**

<p><b>Members</b> Messrs. Egan (Chair) DeMarines Perretta</p> <p><b>Meetings</b> Two meetings during the fiscal year ended March 31, 2017</p> <p><i>A copy of the Nominating and Corporate Governance Committee Charter can be found at <a href="http://ir.netscout.com/">http://ir.netscout.com/</a></i></p>	<p><b>Responsibilities</b></p> <p>Discharging the responsibilities of the board relating to, among other items:</p> <ul style="list-style-type: none"> <li>• Identifying individuals qualified to become directors</li> <li>• Recommending to our Board the director nominees for election</li> <li>• Monitoring compliance with and periodically reviewing our Code of Business Conduct and Corporate Governance Guidelines</li> </ul> <p><b>Independence:</b> The Board has determined that each member of the Nominating and Corporate Governance Committee is independent within the meaning of NASDAQ’s director independence standards.</p>

## Finance Committee

<b>Members</b> Messrs. DeMarines (Chair) Egan Hadzima Mullarkey	<b>Responsibilities</b> Discharging the responsibilities of the board relating to, among other items: <ul style="list-style-type: none"><li>• Considering strategic initiatives and other opportunities that may become available to the Company from time to time and such other tasks as the Board may designate from time to time.</li></ul>
<b>Meetings</b> Three meetings during the fiscal year ended March 31, 2017	<b>Independence:</b> The Board has determined that each member of the Finance Committee is independent within the meaning of NASDAQ's director independence standards.

### Report of Audit Committee of the Board of Directors<sup>1</sup>

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended March 31, 2017 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 Auditing Standard No. 1301, *Communications with Audit Committees*, as adopted by PCAOB 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, 2017 for filing with the SEC.

### *Respectfully submitted by the Audit Committee*

Vincent J. Mullarkey, Chairman  
Robert E. Donahue  
John R. Egan  
Joseph G. Hadzima, Jr.

### 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 our strategic planning and management processes and

<sup>1</sup> The material in this report is not "soliciting material," is not deemed "filed" with the SEC and is not deemed to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, other than our 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.

oversees our 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.

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 our 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 our 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 our risk management process and litigation and compliance programs, discussing with management our 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 our 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 deems appropriate in consultation with the Audit Committee. 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 our ongoing enterprise risk management process.

Our Compensation Committee is responsible primarily for the design and oversight of our 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 our executives with our stockholders. The Compensation Committee also monitors the design and administration of our 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 and Corporate Governance Committee oversees risks related to our corporate governance, including Board and director performance, director succession, director education, and our Corporate Governance Guidelines and other governance documents. The Nominating and Corporate Governance Committee also oversees our overall compliance program.

**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, 2017 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, 2017. The executives listed below may be referred to as our “Named Executive Officers.”

**Summary Compensation Table for Fiscal Year 2017**

Name and Principal Position	Fiscal Year	Salary(\$)	Restricted Stock Unit Awards(1)(\$)	Non-Equity Incentive Plan Compensation(\$)	All Other Compensation(2)(\$)	Total(\$)
Anil K. Singhal Chairman, Chief Executive Officer, and President	2017	325,000	1,451,400	520,800	69,204	2,366,404
	2016	325,000	1,779,500	781,200	121,861	3,007,561
	2015	325,000	1,875,500	911,400	80,820	3,192,720
Michael Szabados Chief Operating Officer, President, Service Assurance Business	2017	275,000	846,650	240,000	17,805	1,379,455
	2016	275,000	1,067,700	360,000	16,052	1,718,752
	2015	275,000	1,132,652	420,000	17,752	1,845,404
Jean Bua Executive Vice President, Chief Financial Officer and Treasurer	2017	265,008	725,700	168,000	13,050	1,171,758
	2016	265,008	1,067,700	252,000	13,933	1,598,641
	2015	265,008	945,102	319,000	14,944	1,544,054
John W. Downing(3) Executive Vice President, Worldwide Sales Operations	2017	237,500	725,700	215,372	14,249	1,192,821
	2016	237,500	1,067,700	320,086	13,214	1,638,500
	2015	237,500	945,102	288,692	11,682	1,482,976

- (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 15 to the financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2017. 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) 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.
- (3) 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, 2015, 2016, and 2017.

*Option Awards.* We did not make any option grants during the fiscal years ended March 31, 2015, 2016, or 2017 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 2017

Name	Fiscal Year	Car Usage(\$)	Financial and Legal Counseling(\$)	401(K) Match(\$)	Other(1)(\$)	Total(\$)
Anil K. Singhal	2017	20,377	31,298	7,950	9,579	69,204
Michael Szabados	2017	—	1,000	7,950	8,855	17,805
Jean Bua	2017	—	—	7,950	5,100	13,050
John W. Downing	2017	—	—	7,952	6,297	14,249

- (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 2017

The following table sets forth grants of plan-based awards to each of our Named Executive Officers for the fiscal year ended March 31, 2017:

Name	Grant Date	Grant Type	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 (\$)(3)
			Threshold (\$)	Target (\$)	Maximum (\$)(1)	Threshold (#)	Target (#)	Maximum (#)(2)	
Anil K. Singhal	6/1/16	RSU				—	60,000	—	1,451,400
	6/1/16	Cash	—	651,000	—				
Michael Szabados	6/1/16	RSU				—	35,000	—	846,650
	6/1/16	Cash	—	300,000	—				
Jean Bua	6/1/16	RSU				—	30,000	—	725,700
	6/1/16	Cash	—	210,000	—				
John W. Downing	6/1/16	RSU				—	30,000	—	725,700
	6/1/16	Cash	—	312,500(4)	—				

- (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 below, the Company has now 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.
- (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 15 to the financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2017. The fair value shown above may not be indicative of the value realized on the date the RSUs vest due to variability in the share price of our common stock.
- (4) Represents a target bonus of \$168,750 and target commission payment of \$143,750.

During the fiscal year ended March 31, 2017, we did not make any "other stock awards" or "other option awards" and have therefore omitted those columns.

### Outstanding Equity Awards at Fiscal Year 2017 End Table

Name	Grant Date	Option Awards				Stock Awards	
		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	6/1/16	—	—	—	—	60,000	2,277,000
	9/22/15	—	—	—	—	37,500	1,423,125
	11/13/14	—	—	—	—	25,000	948,750
	8/26/13	—	—	—	—	10,417	395,325
Michael Szabados	6/1/16	—	—	—	—	35,000	1,328,250
	9/4/15	—	—	—	—	22,500	853,875
	12/11/14	—	—	—	—	100	3,795
	11/13/14	—	—	—	—	15,000	569,250
	8/26/13	—	—	—	—	6,250	237,188
Jean Bua	6/1/16	—	—	—	—	30,000	1,138,500
	9/4/15	—	—	—	—	22,500	853,875
	12/11/14	—	—	—	—	100	3,795
	11/13/14	—	—	—	—	12,500	474,375
	8/26/13	—	—	—	—	3,646	138,366
John W. Downing	6/1/16	—	—	—	—	30,000	1,138,500
	9/4/15	—	—	—	—	22,500	853,875
	12/11/14	—	—	—	—	100	3,795
	11/13/14	—	—	—	—	12,500	474,375
	8/26/13	—	—	—	—	3,646	138,366

*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 2017 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, 2017:

Name	Option Awards		Stock Awards	
	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	—	—	10,348	301,644
	—	—	10,417	308,239
	—	—	12,500	376,375
	—	—	12,500	395,000
Michael Szabados	—	—	6,209	180,992
	—	—	6,250	184,938
	—	—	7,500	225,825
	—	—	7,500	237,000
	—	—	50	1,630
Jean Bua	—	—	2,070	60,341
	—	—	3,646	107,885
	—	—	7,500	225,825
	—	—	6,250	197,500
	—	—	50	1,630
John W. Downing	—	—	3,622	105,581
	—	—	3,646	107,885
	—	—	7,500	225,825
	—	—	6,250	197,500
	—	—	50	1,630

- (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 2017

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	2017	123 months	1,600,000	—
	2016	111 months	1,600,000	—
	2015	99 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 2017

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 2017

Name	Fees Earned or Paid in Cash\$(1)	Stock Awards\$(2)	All Other Compensation\$(3)	Total(\$)
Victor A. DeMarines(4)	73,000	140,002	60,000	273,002
Robert E. Donahue(5)	69,500	140,002	50,000	259,502
John R. Egan(6)	110,000	140,002	80,000	330,002
Joseph G. Hadzima(7)	83,500	140,002	60,000	283,502
James A. Lico (8)	48,000	140,002	50,000	238,002
Vincent J. Mullarkey(9)	82,000	140,002	60,000	282,002
Christopher Perretta (10)	63,000	140,002	50,000	253,002

- (1) Amounts represent the aggregate dollar amount of fiscal year 2017 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 15 to the financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2017.
- (3) Amounts represent the cash payment received by the non-employee director prior to October 25, 2016, to help offset the tax incurred by such non-employee director in connection with the vesting during the fiscal year ended March 31, 2017 of restricted stock units granted to such non-employee director during the fiscal year ended March 31, 2016. Effective as of October 25, 2016, non-employee directors no longer receive cash payments to defray the tax liability associated with the vesting of restricted stock units.
- (4) As of March 31, 2017, Mr. DeMarines held unvested RSUs covering 4,741 shares of our common stock.
- (5) As of March 31, 2017, Mr. Donahue held unvested RSUs covering 4,741 shares of our common stock.
- (6) As of March 31, 2017, Mr. Egan held unvested RSUs covering 4,741 shares of our common stock.
- (7) As of March 31, 2017, Mr. Hadzima, Jr. held unvested RSUs covering 4,741 shares of our common stock.
- (8) As of March 31, 2017, Mr. Lico held unvested RSUs covering 4,741 shares of our common stock.
- (9) As of March 31, 2017, Mr. Mullarkey held unvested RSUs covering 4,741 shares of our common stock.
- (10) As of March 31, 2017, Mr. Perretta held unvested RSUs covering 4,741 shares of our common stock.

Non-employee directors are compensated annually for their services, and do not receive any additional compensation for any regular Board meetings attended. The cash component of annual compensation is paid on a quarterly basis. During fiscal year 2017, to bring our non-employee director compensation structure in line with the market, we used Farient Advisors, a third-party compensation consultant to compare the Company's non-employee director compensation with the practices of the Company's peer group. Based on the findings of this analysis, the Board changed the way our non-employee directors are compensated to be more consistent with current market practices. As such, amounts in the table above reflect two quarters of compensation paid pursuant to our prior non-employee director compensation structure, and two quarters of compensation paid pursuant to our new non-employee director compensation structure. See "Role of Compensation Consultants" in the Compensation Discussion and Analysis section below.

For the first two quarters of fiscal year 2017, non-employee director compensation was calculated based on the following compensation structure. Non-employee directors were compensated \$36,000 annually for their services and did not receive any additional compensation for any regular Board meeting attended. The lead

non-employee director received an additional annual retainer of \$30,000. Non-employee directors received \$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 and Corporate Governance Committee. In addition, directors who served as chairpersons of a particular committee were also given additional annual compensation of \$20,000 for the Audit Committee, \$10,000 for the Compensation Committee, \$8,000 for the Nominating and Corporate Governance Committee, and \$6,000 for the Finance Committee. Finance Committee members received \$1,000 for each meeting attended in person and \$800 for each meeting attended via telephone. Non-employee directors were 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.

Effective as of October 25, 2016, non-employee directors are compensated \$60,000 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 \$35,000. Non-employee directors will receive \$15,000 annually for serving on the Audit Committee, \$10,000 annually for serving on the Compensation Committee, \$6,000 annually for serving on the Nominating and Corporate Governance Committee, and \$6,000 for serving on the Finance Committee. In addition, directors who are chairpersons of a particular committee are also given additional annual compensation of \$15,000 for the Audit Committee, \$10,000 for the Compensation Committee, \$6,000 for the Nominating and Corporate Governance Committee, and \$6,000 for the Finance Committee. 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.

Under our previous non-employee director compensation structure, non-employee directors were granted annually equity-based awards in the form of restricted stock units and related cash amounts upon vesting to defray the corresponding tax liability.

Effective as of October 25, 2016, non-employee directors are each granted annual equity-based awards in the form of restricted stock units in the amount of \$140,000. 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. The equity awards made to our non-employee directors in fiscal year 2017 were made pursuant to the non-employee director compensation structure effective as of October 25, 2016, and as such are not accompanied by a cash payment to defray the corresponding tax liability. However, as disclosed in the table above, our non-employee directors did receive cash offset payments in fiscal year 2017 to defray the tax liability for the equity awards granted to such directors in fiscal year 2016. Pursuant to our new non-employee director compensation structure, non-employee directors will no longer receive these cash offset payments in the subsequent fiscal year.

## **Stock Plans**

*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 was further amended and restated in 2015 to, among other items, increase the number of shares available for issuance under the plan by 8,500,000 shares. The amendment and restatement was approved by our stockholders on September 22, 2015, at the 2015 Annual Meeting.

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 still be granted under the 2007 Plan as of the Record Date is 8,957,933 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, restricted stock units representing 3,155,529 shares of common stock were 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 regular payroll deductions.

Under the 2011 Purchase Plan, eligible enrolled employees may, during the offering period, purchase shares of common stock through regular 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 (i) the fair market value per share of our common stock on that purchase date or (ii) 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, 1,096,090 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, 2017:

### Equity Compensation Plan Information

Plan category	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)
Equity compensation plans approved by security holders	3,610,301	0.00	8,602,261
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>3,610,301</b>	<b>0.00</b>	<b>8,602,261</b>

### 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, which the Board amended in 2016, 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 to the following stock ownership requirements:

Title	Ownership Guideline(1)
Chief Executive Officer	4x annual base salary
Chief Operating Officer	3x annual base salary
Officers who are Executive Vice Presidents	2x annual base salary
Directors	4x 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, 2017, 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, shares held in trust for the benefit of the director or executive officer, and 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). The Compensation Committee expects to continue to review and make changes to the policy, as appropriate.

### 401(k) Plan

We maintain a 401(k) plan qualified under Section 401 of the Code. All of our U.S. 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 \$18,000 (or \$24,000 for individuals at least 50 years of age) for calendar years 2016 and 2017, to the 401(k) plan. During the plan year ended December 31, 2016, 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, 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 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. 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, which were amended in January 2015, 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, 2017. 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, 2017. 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 \$37.95, the closing price reported on the NASDAQ Global Select Market on March 31, 2017, the last trading day of the year ended March 31, 2017. 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, 2017 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	575,000(3)	—	1,140,398	—
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	475,008(3)	—	946,701	—
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	550,000(3)	—	946,701	—

\* 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 in a lump sum payment 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, 2017, the last trading day of the year ended March 31, 2017. There were no outstanding stock options for the Named Executive Officers on March 31, 2017. For vesting of RSUs, the amount shown in this column represents the fair market value of unvested RSUs based on \$37.95, the closing price for our common stock on March 31, 2017, the last trading day of the year ended March 31, 2017.

## Compensation Discussion and Analysis

### *Executive Summary*

#### *Executive Compensation Overview*

The goal of our executive officer compensation program is to retain and reward highly qualified, talented leaders who create long-term stockholder value. In addition, our program is designed to align management's interests with those of our stockholders and to motivate senior executives to increase our long-term growth and profitability. While our compensation philosophy has not significantly changed in recent years, our company has changed considerably, growing from just over \$450 million in revenue in fiscal year 2015 to more than \$1 billion in revenue in fiscal year 2017 and increasing from approximately 1,000 employees to more than 3,000, following the transformative acquisition of the Danaher Communications Business in July 2015. In the immediate months following the closing of the acquisition in July 2015, our Compensation Committee and Board decided, after careful consideration, to focus on the integration of the assets before considering changes to our compensation program.

Now, after two years of considerable change and substantial integration efforts following the transformative acquisition, our Compensation Committee has reconsidered our group of peer companies and best practices in the market and taken steps to bring our compensation practices in line with other companies our size. As a result of this review, we have made several changes to our executive compensation program to reflect the current size and complexity of the company, though we have not significantly increased the total cash compensation of our Named Executive Officers. The changes to our compensation program were also enhanced and accelerated by feedback from our stockholders and proxy advisory services.

Along these lines, we continue to emphasize pay for performance. For example, as in the past, for fiscal year 2018, our Named Executive Officers will not be eligible for their full bonus until after a threshold profitability (non-GAAP EPS) target is met. Further, in the next fiscal year, the Compensation Committee, and the Board with respect to the CEO, has determined that one-third of the shares subject to the RSUs granted to our Named Executive Officers will be granted on the basis of achievement of corporate and individual performance goals in the prior fiscal year. Please see "GAAP vs. non-GAAP Measures" in this Compensation Discussion and Analysis for further information regarding our use of non-GAAP financial measures and where to find a reconciliation between the non-GAAP measures and GAAP results.

Other points that underscore the continued alignment between stockholders' interests and executive officer performance include, among other items:

- No guaranteed bonuses;
- Limits on short-term incentives;
- No tax gross ups;
- Hedging and pledging of company stock is prohibited for our directors, executive officers and employees;
- Significant proportion of total compensation in the form of long-term equity awards; and
- Meaningful stock holding requirements.

During the course of the most recent compensation review cycle, we made the following changes to align more closely with our company’s current size and complexity, our peer group and market practices, and comments from our investors and other advisors summarized below and described more fully in the following pages:

✓ Short-Term Incentive Limits	Imposed a cap on our short-term incentive opportunities
✓ Enhanced Disclosure	Clarified disclosure of our approach to the short-term incentive awards to Named Executive Officers
✓ Long-Term Incentive	Reviewed and considered opportunities for a performance-based long-term equity component as part of our executive compensation program; committed that one-third of the shares subject to individual Named Executive Officer annual grant amount guidelines will be granted on the basis of achievement of corporate and individual performance goals in the prior fiscal year
✓ Peer Group	Reviewed and made significant changes to our peer group

*Executive Compensation Highlights*

>	During fiscal years 2016 and 2017, none of our Named Executive Officers were granted base salary increases or target bonus percentage increases, despite a substantial increase in responsibility and more than doubling revenue from 2015.
>	As further described below, as a result of our financial performance and each Named Executive Officer’s individual leadership, one Named Executive Officer received 60% and our remaining Named Executive Officers received 80% of his or her total eligible bonus for fiscal year 2017.
>	While the base salaries for our Named Executive Officers remained the same for fiscal year 2016 and fiscal year 2017, the short-term incentive payments for each of our Named Executive Officers was lower in fiscal year 2017 as compared with fiscal years 2016 and 2015, in accordance with our pay for performance philosophy.

*Business Context*

We are an industry leader for real-time operational intelligence and performance analytics that are used to address the business assurance needs of customers worldwide, spanning service assurance, cybersecurity and business intelligence. Customers rely on our products to optimize network performance, ensure the delivery of high-quality, mission-critical applications and services, provide timely insight into the end user experience and protect the network from attack. Powered by our proprietary Adaptive Service Intelligence (ASI) technology, our solutions are used in many of the most demanding service provider, enterprise and government networks around the globe to continuously monitor our customers’ service delivery environment in order to identify performance issues and to provide insight into network-based security threats. As a result, both enterprise and service provider customers can quickly, efficiently and effectively resolve issues that cause business disruptions or adversely impact the user experience. We manufacture and market these products for integrated hardware and software solutions and are also well positioned to help customers deploy our software in commercial-off-the-shelf hardware and in virtualized form factors. Regardless of the platform, customers use our solutions to help drive return on investment on their network and broader information technology (IT) initiatives while reducing the tangible risks associated with downtime, poor service quality and compromised security.

We have been a technology innovator for three-plus decades since our founding in 1984. Our solutions change how organizations manage and optimize the delivery of business applications and services, assure user experience across global internet protocol (IP) networks and help protect networks from unwanted security threats. Through both internal development and acquisitions, we have continually enhanced and expanded our product portfolio to meet the evolving needs of customers worldwide. Our software analytics, powered by our ASI technology, capture and transform terabytes of network traffic data in real time into high value, actionable information that enables customers to optimize network performance, manage applications, enhance security and gain insight into the end user experience.

Our mission is to enable enterprise 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.

### *Corporate Performance Highlights*

During the past fiscal year, we continued to expand our business globally, execute on our strategy and achieve many of our goals as demonstrated by our financial performance and ongoing technology leadership. We completed the Danaher Communications Business acquisition in July 2015, which was a transformative transaction that enabled us to accelerate our strategic progress. During fiscal year 2017, we continued to navigate through challenging market conditions, which have primarily affected the timing and magnitude of orders with service provider customers. Despite the difficult selling environment, we have shown material financial improvement as summarized below, including as to revenue, operating income and free cash flow, among other measurements when compared to the twelve months ended March 31, 2016. Please see our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 for additional information about our corporate performance.

More specifically, for fiscal year 2017:

<p><b>Total Revenue</b></p> <ul style="list-style-type: none"> <li>Total revenue (GAAP) was \$1.162 billion and non-GAAP total revenue was \$1.2 billion versus total revenue (GAAP) of \$955.4 million and non-GAAP total revenue of \$1.025 billion in fiscal year 2016.</li> </ul>
<p><b>Product Revenue</b></p> <ul style="list-style-type: none"> <li>Product revenue (GAAP) in fiscal year 2017 was \$735.5 million compared with \$633.4 million in fiscal year 2016.</li> <li>Non-GAAP product revenue in fiscal year 2017 was \$753.8 million versus \$651.0 million in fiscal year 2016.</li> </ul>
<p><b>Service Revenue</b></p> <ul style="list-style-type: none"> <li>Service revenue (GAAP) was \$426.6 million versus \$322.0 million in fiscal year 2016.</li> <li>Non-GAAP service revenue was \$446.1 million compared with \$373.6 million in fiscal year 2016.</li> </ul>
<p><b>Operating Income and EBITDA</b></p> <ul style="list-style-type: none"> <li>Operating income from operations (GAAP) was \$62.1 million versus a fiscal year 2016 operating loss of \$25.6 million.</li> <li>Non-GAAP operating income for fiscal year 2017 was \$275.4 with a non-GAAP operating margin of 23.0%, compared with fiscal year 2016 non-GAAP operating income of \$246.8 million and a non-GAAP operating margin of 24.1%.</li> </ul>



<p>Net Income and Net Income Per Share</p> <ul style="list-style-type: none"> <li>Net income (GAAP) was \$33.3 million, or \$0.36 per share (diluted), compared with a net loss of \$28.4 million, or \$(0.35) per share (diluted) for fiscal year 2016. Non-GAAP net income for fiscal year 2017 was \$178.5 million, or \$1.92 per share (diluted), compared with \$157.4 million, or \$1.91 per share (diluted) for fiscal year 2016.</li> </ul>
<p>Free Cash Flow</p> <ul style="list-style-type: none"> <li>We generated free cash flow of \$195.7 million, which reflects cash from operating activities of \$227.8 million less capital expenditures of \$32.1 million. This is significantly improved over fiscal year 2016 free cash flow of \$64.9 million, which reflects cash from operating activities of \$95.3 million less capital expenditures of \$30.4 million.</li> </ul>
<p>Stock Repurchase</p> <ul style="list-style-type: none"> <li>During fiscal year 2017, we repurchased a total of 3,148,426 shares of our common stock at an average price of \$25.41 per share, totaling approximately \$80.0 million in the aggregate.</li> </ul>

Please see “GAAP vs. non-GAAP Measures” in this Compensation Discussion and Analysis for further information regarding our use of non-GAAP financial measures and where to find a reconciliation between the non-GAAP measures and GAAP results.

Fiscal year 2017 also marked the following technical, operational and strategic milestones that helped fortify our market and technology leadership positions for our service assurance solutions serving the service provider and enterprise sectors as well as for our DDoS and advanced threat cybersecurity offerings:

- A wide range of integration activities spanning sales, marketing, manufacturing, and infrastructure and support systems progressed on schedule;
- Substantial progress on integrating key products and technologies acquired from the Danaher Communications Business with NetScout’s core technology, which was highlighted by the September 2016 introduction of the InfiniStreamNG real-time information platform. This new product cycle was completed in early fiscal year 2018 with the introduction of multiple new products that further elevate the Company’s value proposition to both enterprise and service provider customers;
- Continued enhancement of nGeniusONE and the various other legacy products spanning both instrumentation and analytics from the acquired product lines; and
- Implementation of a range of go-to-market initiatives including activities aimed at expanding our presence in key international markets, strengthening our global indirect sales and distribution capabilities, and building the NetScout brand.

#### *2016 Advisory Vote on Executive Compensation*

At the 2016 Annual Meeting, stockholders approved our say-on-pay proposal with 69% of the total votes cast voting in favor. Consistent with the preference of our stockholders and the practices of the majority of publicly traded companies, our policy is to hold annual say-on-pay votes, and the Board has recommended an annual say-on-pay vote in this year’s proposal for stockholder consideration.

We spent considerable time with our institutional investors and proxy advisory firms in advance of last year’s Annual Meeting to generate support for all proposals with a specific emphasis on the proposals to increase the number of authorized shares of our common stock and say-on-pay. The Compensation Committee carefully considered the results of the advisory vote on our say-on-pay proposal in the context of its annual review of executive compensation and the on-going work of the Compensation Committee. The level of stockholder support in 2016 was lower compared with the high level of support for our proposals in prior years. As a result of the disappointing outcome of the say-on-pay vote at last year’s Annual Meeting, the Compensation Committee and the Board have focused significant time and attention on the issues raised by our stockholders.

In particular, the Compensation Committee reviewed specific feedback from our investors and proxy advisory firms on certain compensation practices and related disclosures. Additionally, the Compensation Committee engaged the services of an independent compensation consultant and other outside advisors to review and make recommendations regarding various aspects of our compensation program.

During the past year, in conjunction with our investor relations activities, we have discussed our compensation program for our Named Executive Officers, including key financial measurements that have historically been used to determine short-term incentive compensation. Over the course of the months leading up to our proxy filing, we have contacted a significant percentage of the large institutional stockholders who we determined were unlikely to have supported our say-on-pay proposal in 2016, to discuss compensation issues, and we spoke with certain significant institutional stockholders on this topic. As a result of these discussions, our Compensation Committee and Board have instituted a number of changes to our executive compensation program.

While the Compensation Committee concluded that our compensation program continues to provide a competitive pay-for-performance package that effectively provides incentives to our Named Executive Officers and other executives to maximize stockholder value and encourages retention of talented Named Executive Officers, the Committee has taken the following steps to improve the program following the 2016 Annual Meeting:

Stakeholder Engagement	Engaged with stockholders and proxy advisory services to review and discuss our compensation program, concerns raised during the 2016 proxy season and potential changes to our overall compensation program
Short-Term Incentive Compensation	Imposed a 200% cap on short-term incentive opportunities and clarified and enhanced disclosure of our approach to short-term incentive determination
Long-Term Incentive Compensation	Reviewed and considered options for performance-based equity opportunities within the mix of elements of our compensation package; committed that one-third of the shares subject to individual Named Executive Officer annual grant amount guidelines will be granted on the basis of achievement of corporate and individual performance goals
Peer Group	Reviewed and updated peer group to reflect the increased size and complexity of the company

The Committee will continue to consider the outcome of our say-on-pay votes and our stockholder views when making future compensation decisions for our Named Executive Officers.

*Compensation Governance Highlights*

<b>What We Do</b>	<b>What We Don't Do</b>
<input checked="" type="checkbox"/> Design executive compensation program to align pay with performance	<input type="checkbox"/> No excessive change in control or severance payments
<input checked="" type="checkbox"/> Maintain executive stock ownership guidelines	<input type="checkbox"/> No tax gross-ups
<input checked="" type="checkbox"/> Maintain appropriate stock trading policies	<input type="checkbox"/> No hedging and pledging permitted for officers and directors as part of Insider Trading Policy
<input checked="" type="checkbox"/> Mitigate inappropriate risk taking	<input type="checkbox"/> No guaranteed bonuses

### *GAAP vs. non-GAAP Measures*

We supplement the United States 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 total revenue, non-GAAP product revenue, non-GAAP service revenue, non-GAAP income from operations, non-GAAP operating margin, non-GAAP earnings before interest and other expense, income taxes, depreciation and amortization (EBITDA) from operations, non-GAAP EBITDA from operations margin, non-GAAP net income, and non-GAAP net income per share (diluted). Non-GAAP revenue (total, product and service) eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation, as well as revenue impacted by the amortization of acquired intangible assets. Non-GAAP gross profit includes the foregoing adjustments and also removes expenses related to the amortization of acquired intangible assets, stock-based compensation, certain expenses relating to acquisitions including inventory fair value adjustments, depreciation costs, compensation for post-combination services and business development and integration costs. Non-GAAP income from operations includes the foregoing adjustments and also removes restructuring charges. Non-GAAP operating margin is calculated based on the non-GAAP financial metrics discussed above. Non-GAAP EBITDA from operations includes the aforementioned items related to non-GAAP income from operations and also removes non-acquisition-related depreciation expense. Non-GAAP net income includes the foregoing adjustments and also removes expenses related to share-based compensation and certain expenses relating to acquisitions including: compensation for post-combination services, business development charges, and depreciation expense, 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, gross profit, operating profit, net income (loss) and diluted net income (loss) 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 our 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.

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 only, as the corresponding GAAP measures were not relevant to the compensation decisions discussed below.

For more information on our presentation and calculation of the non-GAAP measures referred to herein, please see "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Use of Non-GAAP Financial Measures*" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

### ***Executive Compensation Objectives***

We use our compensation program to achieve the following objectives:

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

### ***Compensation Philosophy***

The Compensation Committee reviews our compensation program, including elements of compensation, the mix of long-term versus short-term compensation and cash versus equity compensation, over the course of several meetings each year to evaluate whether the program supports our long-term goals. The Compensation Committee considers our past financial performance and future goals, individual performance and experience, and overall compensation levels when making compensation decisions. In addition, the Compensation Committee uses the following principles to guide its decisions regarding Named Executive Officer compensation.

<b><i>Pay for Performance</i></b>	Total compensation should reflect a “pay for performance” philosophy in which a substantial portion of each Named Executive Officer’s compensation should be tied to the achievement of performance objectives of both the company and the individual. Cash compensation includes short-term incentive bonus awards, which are dependent in part upon achievement of Company-wide profitability targets. Past performance by each Named Executive Officer is considered in determining the size of annual grants of long-term incentive equity awards and in fiscal year 2018 the Compensation Committee has determined that one-third of the shares subject to the RSUs granted to our Named Executive Officers will be granted based on achievement of corporate and individual performance goals.
<b><i>Alignment with Stockholders’ Interests</i></b>	Total compensation levels should include a component that reflects our overall performance through the use of equity-based awards in order to align Named Executive Officer and stockholder interests.
<b><i>Internal Parity</i></b>	To the extent practicable, and based on individual performance and position, base salaries and short-term and long-term incentive targets for similarly-situated Named Executive Officers within the company should be comparable to avoid divisiveness and encourage teamwork, collaboration, and a cooperative working environment.
<b><i>External Competitiveness</i></b>	Named Executive Officers’ 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 below in the “Use of Third Party Data/Peer Group” section below.

***Elements of Our Executive Compensation Program***

Compensation for our Named Executive Officers currently consists of three principal elements that are designed to achieve our compensation objectives and reward performance in a simple and straightforward manner: base salaries, annual performance-based cash bonuses, and long-term equity awards. The purpose and key characteristics of each of these elements are summarized below.

<b>Base Salary</b>	
<b>Purpose</b>	<b>Key Characteristics</b>
<ul style="list-style-type: none"> <li>• Provides a fixed level of compensation for performing the essential day-to-day elements of the job</li> <li>• Reflects each executive officer’s qualifications, experience, and responsibilities compared to executives at similar companies</li> <li>• Gives executives a degree of certainty in light of having a majority of their compensation at risk</li> </ul>	<ul style="list-style-type: none"> <li>• Established near the beginning of each fiscal year and generally set between the 25<sup>th</sup> percentile and the median offered to similarly-situated executives in our peer group, consistent with our compensation philosophy of pay for performance</li> <li>• Compensation Committee determines base salary levels for Named Executive Officers, and makes recommendations to the Board in the case of our CEO</li> <li>• For executive officers other than our CEO, typically determined after considering the evaluations and recommendations made by our CEO, who applies his own judgment in making recommendations after reviewing our performance, the performance of each 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</li> </ul>
<b>Annual Short-Term Cash Incentive (Bonus)</b>	
<b>Purpose</b>	<b>Key Characteristics</b>
<ul style="list-style-type: none"> <li>• Provides an incentive to executives to achieve both financial operating goals and individual performance goals, which may include financial and non-financial objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Target amounts generally established shortly after the start of each fiscal year, and, consistent with our pay for performance approach, is intended to be at or slightly above the median percentage offered to similarly-situated executives in our peer group for fiscal year 2017, which, upon achievement, makes total compensation comparable to the median compensation paid to executives at similar companies</li> <li>• Corporate performance goals generally consist of Board-approved profitability targets</li> </ul>

<b>Purpose</b>	<b>Key Characteristics</b>
	<ul style="list-style-type: none"> <li>• Executive officers are eligible for full bonuses only after NetScout meets or exceeds a Company-wide profitability target, except for Mr. Downing, our EVP Worldwide Sales, whose short-term cash incentive compensation consists of both sales commissions and bonus components</li> <li>• If NetScout meets or exceeds the threshold target, as described further below, executive officer bonuses are then determined based on attainment of individual goals, contribution to the Company-wide goals, including revenue, and other criteria as may be determined by the Compensation Committee, such as teamwork, ethical behavior, and adherence to our corporate values and policies</li> <li>• Paid annually shortly after the end of the fiscal year to which they relate</li> </ul>
<b>Long-Term Equity Incentives</b>	
<b>Purpose</b>	<b>Key Characteristics</b>
<ul style="list-style-type: none"> <li>• Motivates executive officers to achieve our business objectives and manage risk by tying compensation to the performance of our common stock over the long term, which aligns the interests of management and stockholders</li> <li>• Motivates our executive officers to remain with the Company by mitigating swings in incentives during periods when market volatility affects our stock price</li> <li>• Attracts highly qualified individuals who can contribute to our success</li> </ul>	<ul style="list-style-type: none"> <li>• Restricted stock unit awards generally vesting over four years; the ultimate value realized varies with our success as measured by our common stock price</li> <li>• Generally granted to executive officers at their appointment and then annually, depending upon performance</li> <li>• Determined based on each executive’s past performance and internal guidelines, vesting schedules of previously granted equity awards, and the current stock price</li> <li>• The Compensation Committee also reviews, with the use of tally sheets, previous equity grants to executive officers and considers the level of outstanding awards as a factor in its determinations</li> <li>• To further our long term incentive goals, in 2010 the Compensation Committee approved a Stock Ownership Policy for certain executive officers and directors, as described in this proxy statement under “Stock Ownership Policy”</li> <li>• In fiscal year 2018, the Compensation Committee has determined that one-third of the shares subject to the RSUs granted to our Named Executive Officers will be granted based on the achievement of corporate and individual performance goals</li> </ul>



<b>Other Compensation</b>	
<b>Purpose</b>	<b>Key Characteristics</b>
<ul style="list-style-type: none"> <li>Provides benefits that promote employee health and welfare, which assists in attracting and retaining our executive officers</li> </ul>	<ul style="list-style-type: none"> <li>Provides benefits that are common and appropriate for similarly-situated executives of public companies, including health insurance and our 401(k) Plan</li> <li>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 \$750,000 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</li> </ul>

### ***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 additional meetings during the year. The Compensation Committee met seven times during the fiscal year ended March 31, 2017. Each year, the Committee reviews compensation objectives and practices in connection with the annual review and approval of executive officer compensation. The Compensation Committee exercises 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.

#### *Role of Senior Management*

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. Our Chief Executive Officer often participates in discussions and deliberations regarding the compensation of our executive officers, and he provides recommendations with respect to such executives. 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.

#### *Role of Compensation Consultants*

In 2016, our Compensation Committee engaged Farient Advisors, an independent compensation consulting firm, to assist with peer group analysis and to collect compensation information pertaining to executive officer and director compensation matters. The Compensation Committee has determined that Farient Advisors is free from conflicts of interest. The Compensation Committee continued to work with Farient Advisors throughout fiscal year 2017.

The Compensation Committee may continue to work with compensation consultants during fiscal year 2018 to analyze and consider modifications to our compensation practices.

#### *Use of Third Party Data/Peer Group Data*

The Compensation Committee determines and periodically reevaluates our peer group based on revenue, market capitalization, net income, number of employees, and similar industry/related technology. Additional factors have included revenue growth over one and three years and total stockholder return over one and three years.

The Committee considers peer group data as one of several factors when examining and making decisions about officer compensation. The Compensation Committee believes the data are helpful but considers such information as part of a range of factors in determining appropriate compensation levels. Generally, the data are used to ensure that we are paying compensation that is reasonably aligned within our peer group companies. The comparison is not intended to determine compensation in any formulaic way. The Compensation Committee looks to the peer data to ensure that we are paying compensation that is reasonably aligned within our peer group companies.

#### *Evaluation of Executive Performance*

The Compensation Committee reviews annually, over a series of meetings, the performance and compensation of each of our executive officers. The Compensation Committee takes into account our 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 our long-term goals and strategies, except that the Compensation Committee does place greater emphasis on the achievement of our overall corporate financial targets in making its determinations and considers those financial targets as shared objectives for all executives.

For those individual 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 do not lend themselves to direct 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 the degree of achievement of qualitative criteria can still be assessed.

#### *Establishing Performance Goals*

The corporate level performance goals and the individual performance goals are normally set shortly after the beginning of each fiscal year. Discussions of next year's goals typically 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 achievement will be challenging but achievable.

With respect to specific corporate goals, the Compensation Committee establishes a threshold goal, which is typically a profitability (non-GAAP EPS) target, which we must achieve before full company-wide bonus accruals are made for the fiscal year. The company focuses its profitability target on our publicly communicated EPS guidance for the fiscal year. In the event of revenue performance below guidance, the total company-wide bonus pool will be reduced to meet the EPS guidance. In the event of over performance with respect to profitability, either due to higher revenue, changes in product mix, decisions to reduce investment in certain areas, or unanticipated one-time events such as tax refunds, the additional funds will be shared between the company-wide bonus pool and stockholders in the form of increases to EPS.

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 final goals. Individual executive performance goals except those tied to specific measurements are generally 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 the Compensation Committee believes that deference to the Chief Executive Officer's evaluation of such executives and his related recommendations is generally appropriate.

The Compensation Committee 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 our long-term goals and strategies.

### ***Fiscal 2017 Compensation Decisions***

#### ***Peer Group***

Prior to the beginning of fiscal year 2017, our Compensation Committee, in consultation with our independent compensation consultant, reviewed the company's industry and our executive compensation strategy and philosophy, and developed appropriate screening criteria for selection of a new peer group of companies. Following the transformative acquisition of the Danaher Communications Business in July 2015, the Compensation Committee concluded that the peer group for compensation purposes should change significantly to reflect the company's new size, complexity, organizational structure and business model. Following the acquisition, the Company almost tripled in size and significantly expanded its markets and products. As a result, only two companies from the prior peer group used in fiscal year 2016 remain as peer companies for fiscal year 2017 (Synchronoss Technologies, Inc. and Ixia). The Compensation Committee will continue to evaluate the peer group to reflect changes in the industry, including removing companies from the peer group that have been acquired or otherwise cease to be publicly traded companies.

For comparison, the prior Fiscal Year 2016 peer group consisted of a group of smaller peer companies and larger peer companies, reflecting the intermediate size of the Company before the Danaher transaction:

#### **Small Peer Group**

Accelrys, Inc.  
Broadsoft, Inc.  
Bottomline Technologies (de), Inc.  
Interactive Intelligence Group, Inc.  
SolarWinds, Inc.  
Sonus Networks, Inc.  
Synchronoss Technologies, Inc.

#### **Large Peer Group**

CommVault Systems, Inc.  
Ixia  
MicroStrategy, Inc.  
Pegasystems, Inc.  
Riverbed Technology, Inc.  
TIBCO Software, Inc.  
Tyler Technologies, Inc.

The new peer group below for fiscal year 2017 was selected based on criteria including similar companies that reflect NetScout's business, model and revenue size following the Danaher transaction. The compensation consultant analyzed, and the Compensation Committee reviewed, potential peer companies on the basis of industry, size, specific business model and a number of business-related criteria. The total revenues of each peer group company generally fits within a range of .40 to 2.5 times that of NetScout, and the peer group has median revenue of approximately \$1.2 billion. The peer screening criteria incorporated a focus on not only our increased size and complexity, but also good corporate governance practices.

## **Fiscal Year 2017 Peer Group**

Akamai Technologies, Inc.	National Instruments
Brocade Communications Systems, Inc.	PTC Inc.
CA Technologies	Rackspace Inc.
Ciena Corporation	ServiceNow, Inc.
Citrix Systems, Inc.	Splunk Inc.
EarthLink Holdings Corp.	Synchronoss Technologies, Inc.
Extreme Networks, Inc.	Verint Systems Inc
F5 Networks, Inc.	VeriSign, Inc.
Infinera Corporation	ViaSat Inc.
Ixia	Viavi Solutions Inc.

As has been the case in prior years, the Compensation Committee reviewed for fiscal year 2017 the peer group data and third-party survey data regarding executive compensation. The information confirmed that overall compensation for NetScout's executive officers at full plan achievement was generally at or just below median as compared 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 would result in compensation below market median.

### *Survey Data*

In determining executive compensation for fiscal year 2017, the Compensation Committee also referred to blended survey information for high-tech companies headquartered in the United States with revenue of approximately \$1.5 billion and an organizational structure similar to NetScout's.

### *Base Salaries and Target Bonus Percentages*

As discussed above, none of our Named Executive Officers were granted base salary increases or target bonus percentage increases for fiscal year 2017.

### *Corporate Performance Goals and Achievement*

For fiscal year 2017, the Compensation Committee established an annual threshold non-GAAP EPS target of \$1.98 per share. For the fiscal year 2017 short-term incentive, as in prior years, the threshold target must first be achieved in order for a 100% bonus to be paid for fiscal year 2017. For fiscal year 2017, we did not meet the threshold non-GAAP EPS target, which was the midpoint of the guidance range and the target previously established by the Compensation Committee and Board. The Company achieved actual non-GAAP EPS of \$1.92 per share, within guidance but at the lower end of our guidance range. We approached, but did not meet, the non-GAAP revenue target of \$1.225 billion previously set for Named Executive Officers by the Compensation Committee and the Board, with actual annual non-GAAP revenue achievement of \$1.2 billion. As a result, the company-wide bonus pool was funded at the 84.5% level. The Compensation Committee determined that the bonus pool for Named Executive Officers, however, would be 80%.

### *Individual Performance Achievement*

The following lists the fiscal year 2017 individual performance goals for each of our Named Executive Officers. Except as provided below, the Compensation Committee determined the goals were largely achieved for each Named Executive Officer, and the Board determined was largely achieved for our Chief Executive Officer, with the understanding that all Named Executive Officers also shared the corporate-wide financial goals.

For all Named Executive Officers, the Compensation Committee also considered the ongoing development and execution of our long-term growth strategy, and ongoing leadership throughout the acquisition and integration process.

*Anil Singhal (CEO)*

- Completed the initial phase of integrating Adaptive Service Intelligence™ with Tektronix Communications' and Arbor Networks' go-forward product platforms.
- Educated our investors about the Company's alignment with key IT technology trends, including cloud and big data.
- Progress toward company-wide gross margin improvement of a specified percentage.
- Developed and deployed a combined go-to-market strategy between the service assurance and cyber assurance business.

*Michael Szabados (COO)*

- Completed business process and system integration within the service assurance business units by the first quarter of fiscal year 2017.
- Identified and retained key talent as measured by turnover below a specified percentage.
- Increased market visibility and brand recognition in the Enterprise Service Assurance segment as measured by a specified percentage increase in our Share of Voice by the end of fiscal year 2017.

*John Downing (EVP Worldwide Sales)*

- Partially achieved a pre-established bookings target amount in the service assurance market segment resulting in pre-established revenue target.
- Ensured expense targets were met within 3% of budget.
- Established a go-to-market approach to leverage synergies between cyber and service assurance.

*Jean Bua (EVP and CFO)*

- Led the finance team's efforts to spearhead the second phase of the Tektronics Communications integration, which focuses on the long term design of the workflows as well as identified and implemented improvements to enhance efficiency and accuracy for fiscal year 2017.
- Continued the design and implementation phase of the global capital efficiency strategies, and presented the plan to the Board in the third quarter of fiscal year 2017.
- Analyzed and proposed a global real estate strategy and obtained approval from our Chief Executive Officer by the end of the third quarter of fiscal year 2017.

*Bonus Amounts*

In determining the bonus amounts for executive officers, the Compensation Committee considered our financial performance and each officer's non-financial individual leadership, contributions toward completion of the Danaher Communications Business acquisition integration efforts, ongoing development and execution of our strategy, non-financial individual goal achievement, experience, and responsibility. The Compensation Committee considered that the Company had met the lower end of the guidance range on non-GAAP EPS and non-GAAP revenue targets and had achieved results consistent with Wall Street consensus, and that it was important to maintain competitive compensation practices to retain talented employees and officers. The Compensation Committee also noted that the Named Executive Officers had performed well against their individual goals.

The Compensation Committee determined that each Named Executive Officer (and recommended to the Board, in the case of Mr. Singhal) should receive 80% of his or her total eligible bonus, with exception of

Mr. Downing, who should receive 60% of his total eligible bonus. The total bonus amounts for all Named Executive Officers are provided in the Summary Compensation Table. In the case of Mr. Downing, the information presented in the “Non-Equity Incentive Plan Compensation” column consists includes both sales commissions and bonus.

#### *Equity Awards*

During fiscal year 2017 the Committee approved restricted stock unit grants to the Named Executive Officers, including the Chief Executive Officer, in an amount equal to 155,000 shares in the aggregate. All grants were made pursuant to the 2007 Plan and vest 25% on the first anniversary of the date of grant with the balance vesting in equal increments annually over the following three years.

The fiscal year 2017 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, overall compensation mix, and effectiveness of different elements of compensation in achieving our compensation goals.

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. Note that the Compensation Committee and the Board made changes for the next fiscal year as described below under “Fiscal Year 2018 Compensation Decisions.”

Based on the factors described above, the fiscal year 2017 equity awards for each Named Executive Officer, including Mr. Singhal, resulted in RSUs equal to the following shares of our common stock pursuant to our 2007 Plan.

<u>Name</u>	<u>RSU Grant (shares)</u>
Anil Singhal	60,000
Michael Szabados	35,000
Jean Bua	30,000
John W. Downing	30,000

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 that 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.



We also offer a 401(k) plan that allows all U.S. employees to invest in a wide array of funds on a pre-tax basis. The 401(k) plan allows U.S. employees to put aside the lesser of 80% of their eligible compensation or \$18,000 (or \$24,000 for individuals at least 50 years of age) for calendar year 2016. 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 in the U.S. 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. For 2017, for the Chief Executive Officer, the information presented in the "All Other Compensation" column of the Summary Compensation Table is largely composed of tax and estate planning expenses during the fiscal year.

### ***Fiscal Year 2018 Compensation Decisions***

#### ***Base Salary***

The Compensation Committee and the Board determined that annual base salaries over the most recent two fiscal years were below the 25<sup>th</sup> percentile in comparison with companies in the new peer group. For fiscal year 2018, the Compensation Committee, with respect to the Named Executive Officers other than the Chief Executive Officer, and the Board, with respect to the Chief Executive Officer, determined that base salaries for fiscal 2018 would be increased in accordance with market practice and the companies in our peer group. However, the Compensation Committee and the Board determined that total cash compensation should not be significantly increased, and so the short-term incentive target as a percentage of each individual's base salary was reduced. Following these changes, the total cash compensation for our Named Executive Officers in the form of base salary and short-term incentive at target is between 25<sup>th</sup> percentile and median of companies in our new peer group.

<b>Executive Officer</b>	<b>FY 2017 Base Salary</b>	<b>FY 2017 Bonus Target</b>	<b>FY 2017 Sum of Base Salary plus Target Bonus</b>	<b>FY 2018 Base Salary</b>	<b>FY 2018 Bonus Target</b>	<b>FY 2018 Base Sum of Salary plus Target Bonus</b>
<b>Anil Singhal</b>	\$325,000	\$651,000	\$976,000	\$500,000	\$476,000	\$976,000
<b>Michael Szabados</b>	\$275,000	\$300,000	\$575,000	\$360,000	\$240,000	\$600,000
<b>Jean Bua</b>	\$265,000	\$210,000	\$475,000	\$330,000	\$220,000	\$550,000
<b>John Downing*</b>	\$238,000	\$312,500	\$548,000	\$240,000	\$310,000	\$550,000

\* In the case of Mr. Downing, FY 2017 Bonus Target and FY 2018 Bonus Target is inclusive of a bonus target amount and a commission target amount.

#### ***Fiscal 2018 Target Bonus Amount***

For fiscal year 2018, the Compensation Committee, with respect to the Named Executive Officers other than the Chief Executive Officer, and the Board, with respect to the Chief Executive Officer, approved individual fiscal year 2018 target bonuses that were adjusted as described above when compared to fiscal year 2017 target bonuses.

The company-wide bonus pool for fiscal year 2018 will be accrued after the non-GAAP EPS target is achieved. Named Executive Officers will not receive a full bonus unless the corporate profitability target has been achieved. The company focuses its EPS target on our publicly communicated EPS guidance for the fiscal

year. In the event of revenue performance below guidance, the bonus pool will be reduced to meet the EPS guidance. In the event of over performance with respect to profitability, either due to higher revenue, changes in product mix, decisions to reduce investment in certain areas, or unanticipated one-time events such as tax refunds, the additional funds will be shared between the company-wide bonus pool and shareholders in the form of increases to EPS. In no event will any Named Executive Officer receive more than 200% of his or her target bonus.

For fiscal year 2018, the Company's non-GAAP EPS target for executive compensation purposes is \$2.08 per share, which equals the mid-point of our qualitatively-described non-GAAP EPS guidance and the non-GAAP revenue target is \$1.2 billion, which equals the mid-point of our non-GAAP qualitative revenue guidance. The Compensation Committee and the Board will take into account any increase to our guidance as a result of any purchases under our share repurchase program.

Following consideration of the company-wide performance targets, the Named Executive Officers' bonus amounts will be based upon the attainment of the individual goals discussed below:

*Anil Singhal (CEO)*

- Achieve a pre-established revenue target.
- Achieve effective collaboration between NetScout's security and service assurance businesses in product, go-to-market, operations, and messaging.
- Continue to drive key strategic initiatives to accelerate growth in both the enterprise and service provider segments including the integration of service assurance and security, customer penetration and "new logos".

*Michael Szabados (COO)*

- Deliver the product milestones needed for our specified strategic initiatives.
- Deliver a comprehensive enterprise risk management/business continuity plan and present to the Board at the October regular meeting.
- Work with Sales and Finance to complete implementation of common organization and business processes for Support, Service & Delivery, Order Entry, Fulfilment, and associated back office operations for the Service Assurance Business Unit.

*John Downing (EVP Worldwide Sales)*

- Achieve pre-established new bookings and renewal targets, as specified in the fiscal year 2018 Board plan, in the service assurance market segment, resulting in a pre-established revenue target while ensuring that sales expenses are within plan target and sales retention is better than industry standards.
- Drive messaging and sales initiatives to deliver the company's expanded capabilities to adjacent audiences (e.g. cybersecurity operations, data center and cloud architects) in order to expand the customer base.

*Jean Bua (EVP and CFO)*

- Reevaluate and amend the financial policies associated with leverage, use of capital, minimum cash, tax profile and capital structure in conjunction with the two year anniversary of the Danaher Communications Business acquisition.

- Design and implement the new revenue recognition standard beginning with fiscal year 2019. Develop and execute the approach to explaining the transition's effect to the stockholders and analyst community.
- Guide the internal audit function to execute the fiscal year 2018 internal audit plan with quarterly presentations to the Audit Committee.

Certain specific revenue, strategic initiatives and bookings and renewals targets are not disclosed because it would be competitively harmful to do so. We will disclose certain of the specific metrics at the end of the performance period when doing so would not be competitively harmful.

### *Equity Awards*

Following a review of the Company's compensation program after the transformative Danaher Communications Business acquisition, as well as stockholder and proxy advisor feedback obtained through our stakeholder engagement process, the Compensation Committee has reviewed and made changes to the long-term equity component for our Named Executive Officers. Recognizing the increase in responsibilities of the Named Executive Officers following the increased size and complexity of the Company, as it has grown from just over \$450 million in revenue in fiscal year 2015 to \$1.2 billion in revenue in fiscal years 2016 and 2017 and in response to comments from those investors and proxy advisors in connection with last year's say-on-pay proposal, the Compensation Committee, and the Board, sought to enhance the long-term equity program's alignment with stockholders' interest by adding a performance-based component to a significant portion of the long-term equity incentives for named executive officers.

Under the revised guidelines beginning with grants to be made for fiscal year 2019, the Compensation Committee (and the Board with respect to the CEO) has approved an increase in the individual Named Executive Officer grant amount guidelines by 50%. This change recognizes that the Company grew and almost tripled in total revenue following the acquisition. The Compensation Committee has also determined that for the equity grant for our Named Executive Officers for fiscal year 2019 and beyond, one-third (as measured by number of RSUs to be granted) of the equity awards granted to our Named Executive Officers will be awarded as a result of prior year performance against corporate and individual performance goals. These awards, if any, will also be time-based and vest 25% on the first anniversary of the date of grant, with the balance vesting in equal increments annually over the following three years. Such awards will be granted based on corporate and individual performance, including whether the Company achieves a pre-established non-GAAP EPS profitability target each year with respect to that year's grant. If the Company fails to achieve the target, this performance-related portion of that year's RSU award will be appropriately reduced for each Named Executive Officer. The Compensation Committee and the Board will also consider the achievement of individual goals to determine whether this portion of the equity grant will be made to individual Named Executive Officers.

The Compensation Committee believes that the annual grants are 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 the Company so that each has appropriate incentives and has long-term interests that are aligned with those of our stockholders. Finally, the Compensation Committee and Board believe that incorporating the performance aspect to determining the size of a portion of each grant is responsive to feedback received from our stakeholders during our engagement process.

The fiscal year 2018 equity awards for each Named Executive Officer, including Mr. Singhal, resulted in RSUs equal to the following shares of our common stock pursuant to our 2007 Plan.

<u>Name</u>	<u>RSU Grant (shares)</u>
Anil Singhal	60,000
Michael Szabados	35,000
Jean Bua	30,000
John W. Downing	30,000

### *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 we have 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. In January 2015, the Board approved amendments to such severance agreements to clarify that the acquisition of the Danaher Communications Business would not constitute a change of control of NetScout (as defined in the applicable agreement).

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<sup>2</sup>

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, 2017. This report is provided by the following independent directors, who comprise the Compensation Committee:

Joseph G. Hadzima, Chair  
Victor A. DeMarines  
Robert E. Donahue  
Christopher Perretta

## Compensation Committee Interlocks and Insider Participation

None of Messrs. Hadzima, DeMarines, Donahue or Perretta was, during the past fiscal year, an officer or employee of NetScout or any of our subsidiaries, was formerly an officer of NetScout 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

We have 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 in an arms-length dealing with unrelated third parties), the majority of disinterested members of our Board, or, in the case of transactions that involve compensation, our Compensation Committee or 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. A Related Party Transaction will require disclosure to our Audit Committee but will not require Audit Committee approval if (i) such transaction is available to all of our employees generally, (ii) if such transaction, when aggregated with any other similar transactions with such person during such fiscal year, involves less than \$5,000 or (iii) such transaction is an ordinary course, commercial transaction with an entity in which a Related Person serves as an officer or director and such transaction is the result of arms-length negotiation not involving such Related Person.

<sup>2</sup> 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 the Securities Act or 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.



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;
- 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); or
- iv. an entity which someone listed in i, ii, or iii above has more than a 10% 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 practicable (because, for example, it involves terms that are not comparable to terms that could be obtained from an arms-length dealing with an unrelated third parties or because of logistical difficulties), or if a transaction involves compensation, such approval may be obtained as provided above. 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.

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 in the following three paragraphs or under “Employment and Other Agreements” and “Post Termination Compensation” above and as disclosed below, the Company is not party to any Related Person Transactions with respect to the fiscal year ended March 31, 2017.

In connection with our acquisition of the communications business of Danaher Corporation (“Danaher”) on July 14, 2015, we entered into or assumed obligations under various ancillary agreements with Danaher, including a Commercial Lease Agreement and Transition Services Agreement. Under the Commercial Lease Agreement, in addition to paying all costs and expenses relating to the premises, we are obligated to pay Tektronix, Inc., which, at the time of the acquisition was a subsidiary of Danaher, base rent during the first two lease years of \$984,000 per annum and during the third lease year, \$3,000,000 per annum. The Transition Services Agreement provides for payment for services on a schedule-by-schedule basis, and the terms and costs of such services vary. Mr. Lico is the founding President and CEO of Fortive Corporation, which was spun out of Danaher in July 2016. In connection with this spin out, the Transition Services Agreement was amended to, among other things, assign Danaher’s rights, duties, obligations and liabilities under the Transition Services Agreement to Fluke Corporation, a subsidiary of Fortive Corporation. Further, as a result of the spin out, Tektronix, Inc. is a subsidiary of Fortive Corporation.



## **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, 2017 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, 2017.

## **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, 2017 and 2016:

### **Audit Fees**

Fees for audit services were approximately \$2,334,140 and \$2,909,982 for the fiscal years ended March 31, 2017 and 2016, 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 \$0 and \$247,285 for the fiscal years ended March 31, 2017 and 2016, respectively, including fees associated with services related to review of accounting for significant transactions.

### **Tax Fees**

Total fees for tax services were approximately \$88,270 and \$94,972 for the fiscal years ended March 31, 2017 and 2016, 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 \$3,656 and \$2,756 for the fiscal years ended March 31, 2017 and March 31, 2016, respectively, consisting of fees related to accounting due diligence, 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. All of the audit-related, tax, and all other services provided by our independent registered public accounting firm in fiscal years 2017 and 2016 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 2017 and 2016 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.

## **OTHER MATTERS**

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the proxy to vote on such matters in accordance with their best judgment.

**Our proxy statement, the proxy card, and our Annual Report to Stockholders for the fiscal year ended March 31, 2017 are all available free of charge upon written request to: Investor Relations, 310 Littleton Road, Westford Massachusetts 01886.**

# NETSCOUT™

**2017 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, 2017**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **000-26251**

**NETSCOUT SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-2837575**  
(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**

**Name of each exchange on which registered: NASDAQ Global**

**Select Market**

**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 (§ 232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2016 (based on the last reported sale price on the Nasdaq Global Select Market as of such date) was approximately \$2,597,526,506. As of May 12, 2017, there were 91,720,938 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the fiscal year 2017 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, 2017**  
**TABLE OF CONTENTS**

**PART I**

Item 1.	Business	3
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	26
Item 2.	Properties	26
Item 3.	Legal Proceedings	27
Item 4.	Mine Safety Disclosures	27

**PART II**

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	31
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	53
Item 8.	Financial Statements and Supplementary Data	54
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	54
Item 9A.	Controls and Procedures	54
Item 9B.	Other Information	54

**PART III**

Item 10.	Directors and Executive Officers of the Registrant	55
Item 11.	Executive Compensation	55
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	55
Item 13.	Certain Relationships and Related Transactions	55
Item 14.	Principal Accountant Fees and Services	55

**PART IV**

Item 15.	Exhibits and Financial Statement Schedule	56
	Signatures	57



*This Annual Report on Form 10-K contains forward-looking statements under Section 21E of the Exchange Act (as defined below) 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 under the heading "Risk Factors" and in our other filings with the Securities and Exchange Commission (SEC). These factors may cause our actual results to differ materially from any forward-looking statement.*

## PART I

### **Item 1. Business**

As used herein, references to "NetScout," the "Company," "we," "us" and "our" are to NetScout Systems, Inc. and its consolidated subsidiaries or, as the context may require, NetScout Systems, Inc. only.

#### **Overview**

We are an industry leader for real-time operational intelligence and performance analytics that are used to address the business assurance needs of customers worldwide spanning service assurance, cybersecurity and business intelligence. Customers rely on our products to optimize network performance, ensure the delivery of high-quality, mission-critical applications and services, provide timely insight into the end user experience and protect the network from attack. Powered by our proprietary Adaptive Service Intelligence (ASI) technology, our solutions are used in many of the most demanding service provider, enterprise and government networks around the globe to continuously monitor our customers' service delivery environment in order to identify performance issues and to provide insight into network-based security threats. As a result, both enterprise and service provider customers can quickly, efficiently and effectively resolve issues that cause business disruptions or adversely impact the user experience. We manufacture and market these products for integrated hardware and software solutions and are also well positioned to help customers deploy our software in commercial-off-the-shelf hardware and in virtualized form factors. Regardless of the platform, customers use our solutions to help drive return on investment on their network and broader information technology (IT) initiatives while reducing the tangible risks associated with downtime, poor service quality and compromised security.

We have been a technology innovator for three-plus decades since our founding in 1984. Our solutions change how organizations manage and optimize the delivery of business applications and services, assure user experience across global internet protocol (IP) networks and help protect networks from unwanted security threats. Through both internal development and acquisitions, we have continually enhanced and expanded our product portfolio to meet the evolving needs of customers worldwide. Our software analytics, powered by our ASI technology, capture and transform terabytes of network traffic data in real time into high value, actionable information that enables customers to optimize network performance, manage applications, enhance security and gain insight into the end user experience.

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

On July 14, 2015, we completed the acquisition of Danaher Corporation's (Danaher) Communications Business (Communications Business), which included certain assets, liabilities, technology and employees within Tektronix Communications, VSS Monitoring, Arbor Networks and certain portions of the Fluke Networks Enterprise business, which excluded Danaher's data communications cable installation business and its communication service provider business (the Comms Transaction), which was structured as a Reverse Morris Trust transaction whereby Danaher contributed the Communications Business to a new subsidiary, Potomac Holding, LLC (Newco). The total equity consideration was approximately \$2.3 billion based on issuing approximately 62.5 million new shares of NetScout common stock to the holders of common units of Newco, based on the July 13, 2015 NetScout common stock closing share price of \$36.89 per share. The

Comms Transaction was aimed at extending NetScout's reach into growth-oriented adjacent markets, including cybersecurity, with a broader range of market-leading products and capabilities; strengthening its go-to-market resources to better support a larger, more diverse and more global customer base; and increasing NetScout's scale and elevating its strategic position within key accounts. For additional information regarding the Comms Transaction, see Note 7 of our Notes to Consolidated Financial Statements. Since completing the Comms Transaction, we have invested significant resources to integrate certain acquired product lines, features and functionality into our product portfolio to deliver greater value to customers.

## Markets

NetScout markets its core service assurance and cybersecurity solutions into two primary markets: enterprise and service provider. Our service assurance solutions, comprised of nGeniusONE, InfiniStream and other various product brands, are used by customers to optimize network performance, quickly identify and resolve issues impacting application and service quality and gain insight into the end user experience. Our cybersecurity solutions, which are marketed under the Arbor Networks brand, are used by customers to identify and mitigate advanced, volumetric and application specific distributed denial of service (DDoS) attacks as well as assist enterprise security teams in rapidly finding and isolating advanced network threats.

### *Enterprise Markets*

Within the enterprise market, NetScout's nGeniusONE® and InfiniStream® technologies, along with certain product lines from the businesses acquired in the Comms Transaction, enable IT organizations to improve service delivery quality, and identify and address business service performance issues and security threats before they become serious and affect large numbers of users. Some of the current enterprise IT initiatives our solutions support include:

- *IT Operational Excellence* – Our nGeniusONE analytics and our InfiniStream real-time information platform provide the necessary insight to optimize network performance, restore service and understand the quality of the users' experience. By integrating certain acquired product lines from the Fluke Networks Enterprise business with nGeniusONE, our customers can benefit from a consistent view across their traditional wired network infrastructures, remote offices and WiFi wireless networks.
- *Data Center Modernization and Cloud Computing* – We enable IT organizations to manage the delivery of services across virtual and physical environments, providing a comprehensive, unified real-time view into network, application, server, and user communities' performance. We proactively detect emerging issues with the ability to help analyze both physical and virtual service delivery environments within the data center which enables organizations to optimize datacenter infrastructure investments, protect against service degradations, and simplify the operation of complex, multi-tier application environments in consolidated, state-of-the-art data centers. Our solutions are often used by enterprises to support private cloud computing environments that are aimed at enabling greater, more cost-effective accessibility to applications without compromising the reliability and security of those applications and the network. In addition, we expect to introduce new offerings during fiscal year 2018 that are aimed at helping enterprise customers monitor applications hosted in public cloud environments.
- *Unified Communications (UC)* – We deliver deep application-level unified visibility into voice, data and video services side-by-side in order to understand the interrelationships of all UC services that traverse the network infrastructure and assess quality and performance of the delivery of these services. As a result, our real-time, actionable intelligence helps customers to deliver a high-quality UC experience as users make calls, video conference and engage in instant messaging. We also help desktop, network, telecom, and application teams manage UC through a common platform across complex, geographically dispersed, and multi-vendor environments.
- *New Application Service Rollout* – We provide enterprise customers with a holistic view of the new applications and services as they are introduced into their IT environment. This view enables customers to see the relationships and interdependencies across all service delivery components including applications, network, servers, databases, and enabling protocols so they can deliver a superior user experience, achieve outstanding service quality and drive return on their application investments. We also integrated technology from Fluke Networks Enterprise product lines to help enterprises monitor the performance of software-as-a-service (SaaS) applications.
- *Application and Desktop Virtualization* – We provide clear and actionable insights that help customers fully realize the operational benefits associated with Application and Desktop Virtualization, and reduce the time it takes to identify and resolve service problems. We offer visibility across all virtual desktop infrastructure (VDI) tiers including remote access, client, virtualization, web, front-end application, and related database systems, and help customers gain actionable metrics from monitoring and analyzing the consumption and performance of VDI services.
- *Cybersecurity* – Cyberattacks are increasing in volume, frequency and complexity as they target users and their corporate applications, devices and technology infrastructure. We provide a range of network security solutions under

the Arbor Networks brand that enable enterprises to protect their networks from high-volume and application-specific DDoS attacks, and identify unauthorized intrusions into the network that can pose significant threats to the integrity of sensitive information and key business operations. We are integrating certain advanced threat analytics with our Infinistream real-time information platform, and expect this solution to be introduced over the next several quarters. We also provide incident response activities with deep-dive network forensics and offer contextual information surrounding a specific alert or incident to enhance investigative capabilities and avoid false positives.

### ***Government Markets***

While considered part of the enterprise vertical, we have built a strong position with federal, state and local government agencies, both in the United States and abroad. Similar to our enterprise customers, 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 primarily due to their purchasing cycles being influenced by potential changes in government administrators, budgetary priorities and allocated funding for key projects.

### ***Telecommunication Service Provider Markets***

Today's service providers are focused on delivering a compelling set of services and ensuring a high-quality user experience, while also striving to minimize operational complexity and costs. This, coupled with the challenge of Internet Protocol (IP) transformation activities and emerging new technologies such as LTE, virtualization, IP-TV, wireless network (WiFi) and cloud services drives the need for a more automated and unified approach to managing service delivery and the subscriber experience. Service providers strive to reduce the cost of service delivery, address increasing complexity, scale their networks cost-effectively and adapt to emerging technologies such as cloud services, virtualization and 5G while assuring high-quality user experiences to retain their revenue base. Service providers are also seeking to gain greater insight into the subscriber experience in order to create upselling opportunities and improve retention. Additionally, service providers must protect their networks from high-volume, increasingly sophisticated cyberattacks that consume bandwidth and potentially create outages that impact their business customers.

- *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. The addition of the former Tektronix Communications assets provides a broader range of capabilities that monitor radio access networks as well as powerful analytics that provide insight into subscriber trends and their customer experience.
- *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 and simplifying network operations while reducing total cost of operations. For example, cable operators use our solutions to monitor and manage their local area WiFi connectivity services as well as broadband and telephony services targeting small- and medium-sized businesses. To realize these benefits, operators need comprehensive insight into IP services, service usage, service availability, application awareness, traffic load, network availability and network performance.
- *For Internet Service Providers* – Over the past decade, Internet Service Providers (ISPs), including leading telecommunications providers, cable multi service operators and cloud providers, have seen significant increases in the sophistication, scale and frequency of high-volume and application-specific DDoS attacks, on their networks. DDoS attacks are aimed at disrupting the online services of an ISP's business customer by overwhelming it with traffic from multiple sources. Arbor Networks provides a wide range of ISPs around the world with solutions that help them protect their networks against DDoS attacks.

### **Products & Technology Overview**

NetScout continuously develops its solutions to meet the increasing demands and ever-changing technology landscape of IP networks, service and applications. 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. NetScout's solutions are used by customers to better understand and manage network and

application performance, alert themselves to problems that impact end users, validate services and network policy, plan and optimize network capacity, generate timely reports, conduct deep forensic and historical analysis, and protect their networks against security threats.

During fiscal year 2017, we continued to invest in development programs aimed at enhancing our range of offerings, including delivering new features and functionality for our nGeniusONE™ Service Assurance platform that address the evolving requirements of our enterprise, service provider and government customers. The nGeniusONE platform is powered by ASI, NetScout's next-generation Deep Packet Inspection (DPI) technology that exploits the inherent richness of packet-flow data to provide real-time, contextual analysis of service, network, and application performance. The patented ASI technology is a critical differentiating technology that enables the creation of statistical metadata, session transaction records and adaptive session traces enabling real-time, scalable monitoring of all users, all applications and all services consistently across the network. We also invested significantly in enhancing the acquired product lines within the Danaher Communications Business, and in leveraging our ASI technology to advance product integration initiatives aimed at further elevating our value proposition to customers in each of the markets we serve.

### ***Service Assurance Solutions***

- *nGeniusONE Management Software and Analytic Modules* – NetScout's nGeniusONE management software is used to support the Company's enterprise, service provider and government customers enabling them to predict, preempt, and resolve network and service delivery problems while facilitating the optimization and capacity planning of their network infrastructures. Other products acquired from Danaher's Communications Business are supported by their own respective management software and related analytics. Additionally, NetScout markets a range of specialized platforms and analytic modules that can enable its customers to analyze and troubleshoot traffic in radio access network and WiFi networks, as well as gain timely insight into high-value services, applications and systems, and better understand the subscriber's experience on the network. The Company expects to bring new innovations resulting from key product integration activities to the marketplace during fiscal year 2018.
- *Intelligent Data Sources, Packet Flow Switches and Taps* – NetScout's intelligent data sources, marketed under the Infinistream brand and often referred to as network probes, provide real-time collection and analysis of information-rich, high-volume packet-flow data from across the network that is displayed through the nGeniusONE Service Assurance Solution. In September 2016, we introduced an integrated intelligent data source, the Infinistream NG, that powers the traditional nGeniusONE monitoring analytics, the subscriber troubleshooting analytics associated with the Iris analytics from Tektronix and other key features and functionality from the acquired Comms Transaction assets. NetScout also provides comprehensive packet flow switching solutions (also called network packet brokers or network visibility fabric switches), that deliver targeted network traffic access to an increasing number of systems, including the nGeniusONE Service assurance platform, as well as other monitoring and security systems. The acquired product lines from the VSS Monitoring unit further complement the Company's family of packet flow switch offerings. Additionally, NetScout markets a suite of test access points (TAPs) that enable full, non-disruptive access to network traffic with multiple link type and speed options.

### ***Portable Network Analysis and Troubleshooting Tools***

- NetScout, through the acquired Fluke Networks Enterprise assets, provides a range of portable network analysis and troubleshooting tools that help customers quickly identify key issues that can impact network and application performance. NetScout's tools are used by IT departments to support traditional, cloud and WiFi network environments. Certain capabilities and information delivered through these tools have been integrated into NetScout's nGeniusONE management solutions.

### ***Big Data Analytics***

- Over the next several quarters, NetScout plans to introduce new big data analytic solutions that will help service provider and enterprise customers better mine high-value network traffic data collected by the Infinistream real-time information platform, as well as export this information into third-party systems.

### ***Cybersecurity Solutions***

- *DDoS Protection* – NetScout provides security solutions that enable service providers and enterprises around the world to protect their networks against DDoS attacks. Our portfolio of DDoS solutions offer complete deployment flexibility spanning on-premise offerings and cloud-based capabilities to meet a broad array of customer needs.
- *Advanced Threat Detection* – The Arbor Spectrum offering combines its Internet-scale visibility with advanced threat detection, enabling enterprises to rapidly identify and investigate advanced threat campaigns that present tangible risks to the integrity of their networks. We are in the process of integrating Arbor's advanced threat detection analytics with



our Infinistream real-time information platform, and expect to have this capability available within the next several quarters.

### **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 Service Assurance solution in order to perform detailed problem analysis and troubleshooting. Moving forward, NetScout plans to make its ASI-level data accessible to third party platforms. In addition, Arbor has embedded its DDoS mitigation capabilities on a blade within Cisco's market-leading ASR9000 router and will continue to evaluate partnership opportunities to integrate its DDOS capabilities within other network equipment platforms. 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 is enhanced. Among the third-party solutions providers that NetScout has integrated its solutions with are Cisco Systems, Cisco Sourcefire, Citrix Systems, Dell Technologies, Hewlett-Packard Company, IBM Tivoli and VMWare.

### **Growth Strategy**

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

- *Driving technology innovation* – NetScout will continue to invest in research and development, and leverage the strong technical and domain expertise across its organization. The Company's engineering teams will be focused on advancing technical innovation across its broad product portfolio. By capitalizing on NetScout's extensive experience with global enterprise, service provider and government organizations with IP-based networks, NetScout is well positioned to cross-leverage its technology development across all major platforms and relevant technologies to address the evolving demands of current and prospective customers.
- *Continued portfolio enhancements and product integration* – 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, telepresence technologies, and network security. In addition, we plan to 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. During fiscal year 2018, we expect to introduce and continue enhancing new solutions to help enterprises monitor the performance of their applications in public cloud environments as well as within software defined network and network function virtualization environments.
- *Future extension into adjacent markets* – By enhancing and expanding NetScout's product portfolio and driving product integration, NetScout has expanded its reach into complementary adjacent markets that can drive higher spending from existing customers, help attract new customers, and increase its total addressable market. Certain product initiatives are intended to help us make progress on this element of our strategy during fiscal year 2018.
- *Enable pervasive visibility* – We intend to continue to expand our intelligent data source family to enable our customers to achieve greater visibility into more places across their end-to-end network environment. We believe that expanding the range of use cases that the Infinistream real-time information platform can support and making it available in multiple form factors, including software that can be deployed with commercial off-the-shelf servers, will make it easier and more affordable for customers to deploy our technology across their networks and IT infrastructures.
- *Expand our customer base in both enterprise and service provider markets* – As a result of the Comms Transaction, NetScout has a larger direct sales force with specialized expertise in targeting the enterprise, service provider and government markets, along with a more extensive global network of value-added resellers and systems integrators. It is our intention to substantially grow our presence in both the enterprise and service provider markets. In the enterprise market, we plan to further expand our relationships with existing large and mid-sized customers, further fortify third-party distribution channels for the enterprise tools products, and help accelerate enterprise adoption of

Arbor's cybersecurity products. We expect to also continue to drive further penetration into our global service provider customer base.

- *Increase market relevance and awareness* – The Comms Transaction has substantially expanded our customer base around the world. NetScout will continue to implement marketing campaigns aimed at generating high-quality sales opportunities with both current and prospective enterprise and service provider customers, promoting thought leadership and building the NetScout brand.
- *Extend our technology partner alliance ecosystem* – We plan to continue to develop and fortify alliances with complementary solutions providers that can help us support a larger, more global and more diverse customer base. 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 extensive footprint across both enterprise and service provider networks.
- *Pursue strategic acquisitions* – We have completed many acquisitions since the Company's inception that have helped broaden our capabilities, enhance our products and technologies, and better position the Company to meet the needs of a larger base of customers and prospects. In fiscal year 2017, we acquired the technology assets of Avvasi Incorporated (Avvasi), a specialist provider of award-winning solutions used by top-tier service providers to measure, improve and monetize video in their networks, regardless of whether that video traffic is encrypted. We plan to be opportunistic in pursuing strategic acquisitions in order to achieve key business and technology objectives.
- *Improve cost structure and drive efficiencies* – We intend to continue to focus on directing investments into the key technology, product development, sales and marketing, and other initiatives that will enable us to drive long-term profitable growth. We believe that the Comms Transaction has created a range of opportunities to further improve the Company's profitability. NetScout plans to generate gross margin synergies by driving product integration and extending its proven manufacturing techniques, and optimizing certain product lines. In addition, NetScout plans to integrate certain operations that have previously been managed separately across various business and product lines, consolidating back-office systems, and by continuing to eliminate or reduce redundancies associated with pre-existing resources, programs and capabilities.

## **Support Services**

Customer satisfaction is a key driver of NetScout's success. NetScout's 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 customers. Certain 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. Our 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, support commences upon expiration of the standard warranty for software. For software, which also includes firmware, the standard warranty commences upon shipment and expires 60 to 90 days thereafter. With regard to hardware, the standard warranty commences upon shipment and expires 60 days to 12 months thereafter. We believe our warranties are consistent with commonly accepted industry standards. NetScout will continue to provide support services for the acquired platforms under existing agreements and will explore opportunities to further simplify and standardize its support obligations over the coming years.

## **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. We maintain an ISO 9001 quality systems registration, a certification showing that our corporate procedures and manufacturing facilities comply with standards for quality assurance and process control. We also maintain an ISO 9001:2000 quality systems registration, a certification showing that our corporate procedures comply with standards for continuous improvement and customer satisfaction. Additionally, we have outsourced the manufacturing of certain acquired products to high-quality third-party contract manufacturers.

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 could 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 sales employee incentives, we believe it is prudent to 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 do not have a 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 justifications 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.

During the fiscal years ended March 31, 2017 and 2016, one direct customer, Verizon Communications, Inc (Verizon), accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue. During the fiscal year ended March 31, 2015, Verizon and one other direct customer accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue.

### ***Marketing***

Our marketing organization drives our market research, strategy, product positioning and messaging and produces and manages a variety of programs such as advertising, trade shows, industry events, public and analyst relations, social media, direct mail, seminars, sales promotions, and web marketing to promote the sale and acceptance of our solutions and to build the NetScout, ASI®, nGenius® and other applicable product brand names in the marketplace. We also 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 products with these customers.

Key elements of our marketing strategy focus on thought leadership, market positioning, 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. During fiscal year 2017, NetScout continued to advance campaigns to further fortify and amplify the NetScout and Arbor brands within their respective markets, as we phased out the use of certain acquired brand names. In addition, we continued efforts to increase the Company's visibility and broaden market awareness by executing on the aforementioned elements of our marketing strategy.



## **Research and Development**

Our continued success depends significantly on our ability to anticipate and create solutions that will meet emerging customer requirements. NetScout works closely with its largest enterprise and service provider customers to better understand and address their near-term and longer-term requirements. By better understanding the key, time-sensitive needs of NetScout's global customer base, NetScout's development programs will continue to result in enhanced products that are able to meet the increasing challenges of an increasingly complex and dynamic global network environment.

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 enhance and expand our product offerings and capabilities in the near future while integrating key capabilities from acquired product lines as appropriate. As a result, we plan to continue to invest and dedicate significant resources to our research and development activities for both our enterprise and service provider customers.

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 and the 3<sup>rd</sup> 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 application 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 our 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, transportation 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.

## **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, 2017 was \$62.7 million compared to \$125.7 million at March 31, 2016. A majority of the backlog relates to customization and integration projects from our acquired business units. In some cases, we have begun these projects but have not yet hit billable milestones. A majority of revenue for these projects is expected to be recognized into revenue throughout fiscal year 2018.

## **Competition**

We compete with many companies in the markets we serve. The service assurance and performance management markets are highly competitive, rapidly evolving, and fragmented with overlapping technologies and a wide range of competitors, both large and small, who may deliver certain elements of our solution. Consequently, there are a number of companies who have greater name recognition and substantially greater financial, management, marketing, service, support, technical, distribution and other resources than we do. Additionally, certain competitors, either due to their size and resources or due to their technological strengths, may be able to respond more effectively than we can to new or changing opportunities, technologies, standards and customer requirements.

Principal competitive factors in our service assurance 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; the ability to offer virtualized solutions; and the ability to administer and manage the solution.

While NetScout faces multiple competitors within the service assurance industry, we believe that we compete favorably on the basis of the following factors:

- We provide a comprehensive service delivery management solution that is capable of addressing the needs of both enterprise and service provider customers and can be scaled to meet the challenges of today's dynamic service delivery environments;
- We believe that our solutions provide superior data and compete favorably on a broad range of metrics including the ability to recognize and track a large number of applications;
- We believe our solutions possess the scalability to support high and increasing levels of data and network traffic;
- Our solutions look at both data and control plane traffic across an entire network;
- Our ASI technology is optimized to provide real-time information about service performance and real-time alerts to emerging service problems whereas traditional solutions are inherently latent, supporting only forensic-trouble shooting after an issue has occurred.

In the enterprise market, our competitors include companies such as Avaya, CA Technologies, Cisco Systems, Dynatrace, ExtraHop, InfoVista, Keysight (which acquired Ixia in April 2017), Viavi, Gigamon, Lancope, New Relic, Riverbed Technology and SolarWinds. In addition, we both compete with and partner with large enterprise management vendors, such as HP and IBM, who offer performance management solutions.

In the service provider market, we compete with traditional probe vendors, network equipment manufacturers, big data and analytics vendors, and virtualization vendors. These vendors include Alcatel-Lucent, Astellia, Anritsu, Cisco, Empirix, Ericsson, Dell Technologies, EXFO, Guavas, Huawei, IBM, JDSU, Niksun, Polystar, Radcom, SevOne, Splunk, and Zettics. We face additional competitive threats from startups and new entrants that seek to offer innovative solutions in an industry characterized by rapid technological change.

In the cybersecurity market, we face a range of competitors, including those that may have greater name recognition and substantially greater financial, management, marketing, service, support, technical, distribution and other resources than we do. We believe that our scalability of our solutions, flexible deployment, and price-performance of our cybersecurity solutions positions us well to compete against both larger network equipment and security companies and smaller niche security solutions vendors.

In the DDoS solutions market, we compete with a broad range of vendors including Radware, Akamai, F5 Networks, A10 Networks, Fortinet and Corero Network Security. In the market for specialized threat analysis and protection solutions used to identify advanced network threats, we compete with a range of vendors including Darktrace, Vectra Networks, Cisco (via its late 2015 acquisition of Lancope), Palo Alto Networks (via its February 2017 acquisition of LightCyber) and other specialist providers.

Our ability to sustain 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

At March 31, 2017, we had a total of 3,113 employees, 2,045 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 laws, employees in certain international jurisdictions are subject to collective bargaining agreements. Employees by department at March 31, 2017 were as follows:

<u>Function</u>	<u>Number of Employees</u>
Sales and marketing	955
Research and development	1,184
Support services	601
General and administrative	278
Manufacturing	95
	<u>3,113</u>

## Financial Information About Geographic Area

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 37%, 29% and 23% of our total revenue in the fiscal years ended March 31, 2017, 2016 and 2015, respectively. For additional information regarding our sales by geographic location, see Note 19 of our Notes to Consolidated Financial Statements for a detailed summary of financial information about geographic areas.

## 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 Exchange Act, are made available free of charge on or through our website at <http://ir.netscout.com/phoenix.zhtml?c=92658&p=irol-sec> as soon as reasonably practicable after such reports are filed with, or furnished to, 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 are made available on our investor relations website at <http://ir.netscout.com/phoenix.zhtml?c=92658&p=irol-calendar>. 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 website. The contents of these sections of our investor relations website are not intended to be incorporated by reference into this report or in any other report or document we file with the SEC.

### **Item 1A. Risk Factors.**

In addition to the other information in this report, the following factors should be considered carefully in evaluating NetScout and our business.

Our operating results and financial condition have varied in the past and may vary significantly in the future 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.

You should consider carefully the risks and uncertainties described below, together with the information included elsewhere in this Annual Report on Form 10-K and other documents we file with the SEC. The risk and uncertainties described below are those that we have identified as material but are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition.

Because of the following factors, as well as other variables affecting our results of operations, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

## **Risks Related to the Company and its Operations**

### **Foreign currency exchange rates may adversely affect our financial statements.**

Following the Comms Transaction, an increasing portion of our revenue is derived from international operations. Our consolidated financial results are reported in U.S. dollars. Most of the revenue and expenses of our foreign subsidiaries are denominated in local currencies. Given that cash is typically received over an extended period of time for many of our license agreements and given that a material portion of our revenue is generated outside of the United States, fluctuations in foreign exchange rates (including the Euro) against the U.S. dollar could result in substantial changes in reported revenues and operating results due to the foreign exchange impact upon translation of these transactions into U.S. dollars.

In the normal course of business, we employ various hedging strategies to partially mitigate these risks, including the use of derivative instruments. These strategies may not be effective in fully protecting us against the effects of fluctuations from movements in foreign exchange rates. Fluctuations of the foreign exchange rates could materially adversely affect our business, financial condition, operating results and cash flow.

Additionally, sales and purchases in currencies other than the U.S. dollar expose us to fluctuations in foreign currencies relative to the U.S. dollar and may adversely affect our financial statements. Increased strength of the U.S. dollar increases the effective price of our products sold in U.S. dollars into other countries, which may require us to lower our prices or adversely affect sales to the extent we do not increase local currency prices. Decreased strength of the U.S. dollar could adversely affect the cost of materials, products and services we purchase overseas. Sales and expenses of our non-U.S. businesses are also translated into U.S. dollars for reporting purposes and the strengthening or weakening of the U.S. dollar could result in unfavorable translation effects. In addition, certain of our businesses may invoice customers in a currency other than the functional currency of the business, and movements in the invoiced currency relative to the functional currency could also result in unfavorable translation effects. The Company also faces exchange rate risk from its investments in subsidiaries owned and operated in foreign countries.

### **Our effective tax rate may fluctuate, which could increase our income tax expense and reduce our net income.**

Our effective tax rate or the taxes we owe 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 the research and development tax credit laws, earnings being lower than anticipated in jurisdictions where we have lower statutory rates and being higher than anticipated in jurisdictions where we have higher statutory rates;
- 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;
- transfer pricing adjustments;
- 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.

We are subject to income taxes in the United States and in numerous foreign jurisdictions. From time to time, we may receive notices that a tax authority in a particular jurisdiction believes that we owe a greater amount of tax than we have reported to such authority.

While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for income taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority will not have an adverse effect on our results of operations. An adverse change in our effective tax rate could have a material and adverse effect on our financial condition and results of operations and the price of our common stock could decline if our financial results are materially affected by an adverse change in our effective tax rate.

**Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial condition.**

On July 14, 2015, we entered into a credit facility with a syndicate of lenders pursuant to a Credit Agreement (Credit Agreement). The Credit Agreement provides for a five-year \$800 million senior secured revolving credit facility, including a letter of credit sub-facility of up to \$50 million. We have used the new credit facility for working capital purposes and for a repurchase of \$300 million of common stock as of March 31, 2017 under our previously announced 20 million share common stock repurchase plan. The commitments under the Credit Agreement will expire on July 14, 2020, and any outstanding loans will be due on that date. As of the date of this report, we had approximately \$300 million in outstanding indebtedness under the Credit Agreement. Our debt level can have negative consequences, including exposing us to interest rate risk. We may incur significantly more debt in the future, and there can be no assurance that our cost of funding will not substantially increase. Our current revolving credit facility also imposes certain restrictions on us; for a more detailed description please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations." Upon an event of default, for example, the administrative agent with the consent of, or at the request of, the holders of more than 50% in principal amount of the loans and commitments may terminate the commitments and accelerate the maturity of the loans and enforce certain other remedies under the Credit Agreement and the other loan documents, which would adversely affect our liquidity and financial condition. If we take on additional indebtedness, the risks described above could increase.

**Any failure to meet our debt obligations could damage our business.**

Our ability to meet our obligations under the Credit Agreement will depend on market conditions and our future performance, which is subject to economic, financial, competitive and other factors beyond our control. If we are unable to remain profitable or if we use more cash than we generate in the future, our level of indebtedness at such time could adversely affect our operations by increasing our vulnerability to adverse changes in general economic and industry conditions and by limiting or prohibiting our ability to obtain additional financing for additional capital expenditures, acquisitions and general corporate and other purposes. In addition, if we are unable to make payments as required under the Credit Agreement, we would be in default under the terms of the loans, which could seriously harm our business. If we incur significantly more debt, this could intensify the risks described above.

**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 and any downgrades in our credit rating could affect our ability to obtain additional financing in the future and may affect the terms of any such financing. If our existing sources of liquidity are insufficient to satisfy our operating requirements, we may need to seek to raise capital by one or more of the following:

- 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.

We expect that existing cash, cash equivalents, marketable securities, cash provided from operations and our bank credit facilities will be sufficient to meet ongoing cash requirements. However, our failure to generate sufficient cash as our debt becomes due or to renew credit lines prior to their expiration could materially adversely affect our business, financial condition, operating results and cash flows.



### **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. These estimates and judgments affect, among other things, the reported amounts of our assets, liabilities, revenue and expenses, the amounts of charges accrued by us, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances and at the time they are made. If our estimates or the assumptions underlying them are not correct, actual results may differ materially from our estimates and we may need to, among other things, accrue additional charges that could adversely impact our business, operating results and financial condition could be materially and adversely impacted in future periods and could negatively affect our stock price.

### **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 associated with our industry, many of which may be outside of our control, including the following:

- the rate of growth of, and changes in technology trends in, our market and other industries in which we currently operate or may operate in the future;
- technology spending by current and potential customers;
- reduced demand for our products;
- uneven demand for service delivery and network and application performance management solutions and network security 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 fully productive;
- our ability to develop and manufacture new products and technologies in a timely manner;
- the competitive position of our products;
- the continued acceptance of our products by our customers and in the industries that we serve;
- changes in the number and size of our competitors, including the effects of new entrants and the effects of well-resourced competitors increasing their investment in our markets, and changes in the prices and capabilities of competitors' products;
- customer ability to implement our products;
- cancellation, deferral, or limitation of orders by customers;
- changes in foreign currency exchange rates;
- attrition of key employees and competition with other companies for employees with specific talents and experience;
- the number, severity, and timing of cyber-related threat outbreaks (e.g., malware, attacks, worms and viruses);
- the quality and level of our execution of our business strategy and operating plan, and the effectiveness of our sales and marketing programs;
- changes in accounting rules;
- costs related to acquisitions; and
- our ability to manage expenses.

If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, the price of our common stock could decline substantially. Such a stock price decline could also occur even if we meet or exceed our publicly stated revenue and/or earnings guidance. 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 significantly 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.

It may be necessary in the future to undertake cost reduction initiatives to improve profitability, which could lead to a deterioration of our competitive position. Any difficulties that we encounter as we reduce our costs could negatively impact our results of operations and cash flows.

### **Our disclosure controls and procedures and internal control over financial reporting may not be effective.**

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 disclosure controls and procedures and internal control over financial reporting in the future.

**If our products contain errors or quality issues, such issues may be costly to correct, revenue may be delayed, we could be sued and our reputation could be harmed.**

Our products are inherently complex and, despite testing by our customers and us, errors or quality issues may be found in our products after commencement of commercial shipments, especially when products are first introduced or when new versions are released. These errors may result from components supplied by third parties incorporated into our products, which makes us dependent upon the cooperation and expertise of such third parties for the diagnosis and correction of such errors. 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. Regardless of the source of these defects or errors, we may need to divert the attention of our engineering personnel from our product development efforts to address the detection and correction of these errors and defects. If one or more of our products fail, a customer may assert warranty and other contractual claims for substantial damages against us. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and harm the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, operating results and financial condition could be adversely impacted.

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. Any such errors, defects, or security vulnerabilities could also adversely affect the market's perception of our products and business.

**If we fail to introduce new products and solutions or enhance our existing products and solutions to keep up with rapid technological change, demand for our products and solutions may decline.**

The market for application and network performance management and service assurance solutions is highly competitive and characterized by rapid changes in technology, evolving industry standards, changes in customer requirements and frequent product introductions and enhancements. Such changes also affect the network security market in which we now participate. 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 and solutions or could render our existing or planned products and services obsolete. We must address demand from our customers for advancements in our products and services applications in order to support our customers' growing needs and requirements. In order to meet this challenge and remain competitive in the market, we must introduce new enhancements, and additional form factors, to our existing product lines and service offerings. If we are unable to develop, introduce and communicate new network and application performance management and service assurance products or enhancements to existing products, as well as network security products and solutions, in a timely and successful manner, this inability could have a material and adverse impact on our business, operating results and financial condition.

As our success depends in part on our ability to develop product enhancements and new products and solutions that keep pace with continuing changes in technology and customer preferences, we must devote significant resources to research and development, development and introduction of new products and enhancements on a timely basis, and obtaining market acceptance for our existing products and new products. We have introduced and intend to continue to introduce new products and solutions, including by moving to higher software content in our products. If the introduction of these products and solutions is significantly delayed or if we are unsuccessful in bringing these products and solutions to market, our business, operating results and financial condition could be materially and adversely impacted. We are currently developing a number of new products as well as enhancements to our existing products and offerings, including software only solutions and products available in multiple form factors.



In addition, we must invest in research and development in order to remain competitive in our industry. However, there can be no assurances that continued investment and higher costs of research and development will ultimately result in us maintaining or increasing our market share, which would result in a decline to our operating results. The process of developing new solutions is complex and uncertain; we must commit significant resources to developing new services or features without knowing whether our investments will result in services the market will accept. If our research and development expenses increase without a corresponding increase in our revenues, it could have a material adverse effect on our operating results. Also, we may not be able to successfully complete the development and market introduction of new products or product enhancements in a timely manner. If we fail to develop and deploy new products and product enhancements on a timely basis, or if we fail to gain market acceptance of our new products, our revenues will decline, and we may lose market share to our competitors.

**We face significant competition from other technology companies.**

The service assurance, application performance management and network security markets are highly competitive, rapidly evolving, and fragmented markets that have overlapping technologies and competitors, both large and small, and we expect the competition on offerings and pricing to increase. We believe customers make service management system and network security purchasing decisions based primarily upon the following factors:

- product and service performance, functionality and price;
- timeliness of new product and service introductions;
- network capacity;
- ease of installation, integration, and use;
- customer service and technical support;
- name and reputation of vendor;
- quality and value of the product and services; and
- alliances with industry partners.

We compete with a growing number of providers of service assurance, application performance management solutions, network security offerings and portable network traffic analyzers and probes. In addition, leading network equipment, network security and service assurance and application technology vendors offer their own 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. In addition, some of our customers develop their own in-house solutions to meet their technological needs. 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. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry. 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 the competitive factors highlighted in this section and in other risk factors, we may not be able to compete effectively with our current or future competitors. If we are unable to anticipate or react to these competitive challenges or if existing or new competitors gain market share in any of our markets, our competitive position could weaken and we could experience a decline in our sales that could adversely affect our business and operating results. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, and failure to increase, or the loss of, market share, any of which would likely have a material and adverse impact on our business, operating results and financial condition.

**The continued integration of the Communications Business into our business continues to be complex and could adversely affect our future results and the market price of our common stock.**

The long-term success of the Comms Transaction depends, in large part, on our ability, as a significantly more complex combined company, to realize the anticipated benefits and on the sales and profitability of the combined company. To realize these anticipated benefits, we must continue to successfully integrate the respective businesses of the combined companies. While our integration efforts have been successful so far, any acquisition involves numerous business and strategic risks and if we fail to anticipate or deal with these properly, our reputation and business success could be adversely affected. In addition, the integration process has been complex and time-consuming. Difficulties that may be encountered in the ongoing integration process and which could affect our success include, but are not limited to, the following:

- difficulties in assimilating the acquired operations, systems, technologies, personnel and cultures;
- difficulties in managing geographically dispersed operations;

- diversion of management's attention from our core business and the challenges of managing larger and more widespread operations from the Comms Transaction;
- significant impairment, exit and/or restructuring charges if the products or technologies acquired in the acquisitions do not meet our sales expectations or are unsuccessful;
- 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;
- insufficient revenue to offset increased expenses associated with the Comms Transaction;
- difficulties in maintaining or establishing uniform standards, controls, procedures and policies; and
- failure to properly integrate internal controls and financial systems of the combined companies.

If any of these events were to occur, our ability to maintain relationships with customers, channel partners, suppliers and employees or our ability to achieve the anticipated benefits of the Comms Transaction could be adversely affected, or could reduce our sales or earnings or otherwise adversely affect our business and financial results and, as a result, adversely affect the market price of our common stock.

**The Comms Transaction may not achieve its anticipated benefits. In addition, we will continue to incur expenses and management will continue to devote time in connection with the integration of the Communications Business.**

Following the Comms Transaction, we have significantly more revenue, expenses, assets and employees than we did prior to the Comms Transaction. We will continue to incur expenses in connection with the integration of the Communications Business, including integrating information technology systems and accounting systems, suppliers, and channel partners of each business and implementing consistent standards, policies, and procedures, and may possibly be subject to material write downs in assets and charges to earnings. This integration may not result in the realization of the full benefits of the growth and other opportunities that we currently expect from the Comms Transaction within the anticipated time frame, or at all. Further, our management team will continue to devote time and attention to the integration efforts which may distract us from operating our ongoing business operations.

**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. Our customers depend on our support organization to resolve any issues relating to our products deployed on their networks. A high level of support is critical for continued relationships with our customers. If we or our channel partners do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, it would adversely affect our ability to sell our products to existing customers and would harm our reputation with potential customers. In addition, as we continue to expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. Any failure to maintain high quality support and services would harm our operating results and reputation. Further customer demand for these services, without corresponding revenues, could have a material and adverse impact on our financial condition and results of operations.

**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. Our growth has been through acquisitions of businesses with complementary businesses and technologies, and we anticipate that further significant expansion will be required. This growth is expected to continue to place significant demands on our management, infrastructure, and other resources. To manage further growth effectively, we must hire, integrate, and retain highly skilled personnel qualified to manage our expanded operations. We will also need to continue to improve our financial and management controls, reporting systems, and procedures. 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. To manage our growth effectively, we may need to implement new or enhanced automated infrastructure technology and systems.

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.

As a result of the diversification of our business, personnel growth, acquisitions and international expansion in recent years, most of our employees are now based outside of our headquarters. If we are unable to appropriately increase management depth and enhance succession planning, we may not be able to achieve our financial or operational goals. It is also important to our continued success that we hire qualified employees, properly train them and manage out poorly-performing personnel, all while maintaining our corporate culture and spirit of innovation. If we are not successful at these efforts, our growth and operations could be adversely affected.

As our business evolves, we must also expand and adapt our information technology (IT) and operational infrastructure. Our business relies on our data systems, billing systems and other operational and financial reporting and control systems. All of these systems have become increasingly complex due to the diversification and complexity of our business, acquisitions of new businesses with different systems and increased regulation over controls and procedures. To manage our technical support infrastructure effectively and improve our sales efficiency, we will need to continue to upgrade and improve our data systems, billing systems, ordering processes and other operational and financial systems, procedures and controls. These upgrades and improvements may be difficult and costly. If we are unable to adapt our systems and organization in a timely, efficient and cost-effective manner to accommodate changing circumstances, our business may be adversely affected. If the third parties we rely on for hosted data solutions for our internal network and information systems are subject to a security breach or otherwise suffer disruptions that impact the services we utilize, the integrity and availability of our internal information could be compromised causing the loss of confidential or proprietary information, damage to our reputation and economic loss.

**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 we have. 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.

If we are not able to successfully manage these issues, the anticipated benefits and efficiencies of the acquisitions may not be realized fully or at all, or may take longer to realize than expected, and our ability to compete, our revenue and gross margins and our results of operations may be adversely affected.

**Our ability to quickly and successfully recover from a disaster or other business continuity event could affect our ability to deliver our products and cause reputational harm to our business.**

The occurrence of a natural disaster or an act of terrorism, or a decision or need to close any of our facilities without adequate notice or time for making alternative arrangements could result in interruptions in the delivery of our products and services. Our central business functions, including administration, human resources, finance services, manufacturing and customer support depend on the proper functioning of our computer, telecommunication and other related systems and operations. A disruption or failure of these systems or operations because of a disaster or other business continuity event could cause data to be lost or otherwise delay our ability to complete sales and provide the highest level of service to our customers. In addition, we could have difficulty producing accurate financial statements on a timely basis, which could adversely affect the trading value of our stock. Although we endeavor to ensure there is redundancy in these systems and that they are regularly backed-up, there are no assurances that data recovery in the event of a disaster would be effective or occur in an efficient manner. Our operations are dependent upon our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. We could experience material adverse interruptions to our operations or delivery of services to our clients in a disaster recovery scenario.

**If a security breach or cyberattack of our IT networks and systems, or any of our products, occurs, our operations could be interrupted, our products and services may be perceived as vulnerable, and our brand and reputation could be damaged, which could reduce revenue, increase expenses, and expose us to legal claims or regulatory actions.**

Although we have controls and security measures in place to prevent such attacks, experienced computer hackers are increasingly organized and sophisticated. Malicious attack efforts operate on a large-scale and sometimes offer targeted attacks as a paid for service. In addition, the techniques they use to access or sabotage networks change frequently and generally are not recognized until launched against a target. Use of open source code or other third-party software in our products and infrastructure could also result in increased cybersecurity risks. Our products may not anticipate new techniques quickly enough to protect against malicious attacks. If we fail to identify and respond to new and increasingly complex methods of attack and to update our products accordingly, we could be at risk of a cyberattack.

Other individuals or entities, including employees or vendors, may also intentionally or unintentionally provide unauthorized access to our IT environments or to our customers' IT environments.

As such, 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 cyberattack, we could incur substantial costs and liabilities, including but not limited to, expenses attributable to rectifying the security breach or cyberattack 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 cybersecurity 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, result in damage to our reputation and could require significant expenditures of our capital and diversion of our resources from development efforts.

Because some of our products include SaaS offerings, and our customers who purchase these hosted products and solutions depend on us for reliable access to our solution, any significant disruption in our SaaS hosting network infrastructure could harm our reputation, result in early termination of customer agreements or loss of customers, and negatively affect our business.

Additionally, efforts by hackers or others could cause interruptions, delays or cessation of our product licensing, or modification of our software, which could cause us to lose existing or potential customers. If these efforts are successful and a third party obtains unauthorized access to our or our customers' IT environments, our business operations, and those of our customers, could be adversely affected, losses or theft of data could occur, our reputation and future sales could be harmed,

governmental regulatory action or private or governmental litigation could be commenced against us and our business, financial condition, operating results and cash flows could be materially adversely affected.

**Our internal operations are dependent upon various information technology systems, and failures of or interruptions to those systems could harm our business.**

Our business processes are dependent upon certain information technology systems, some of which are operated or hosted by third parties. In addition, in connection with integrating the acquired business units, we have reconfigured some of our IT systems or other business processes; these efforts have been time-consuming and costly.

If any of these systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. This would harm our ability to ship products, which could negatively impact our relationships with our customers and partners and our financial results would likely be harmed.

**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 lack of control over the manufacturing process, inventory management and potential inability to obtain an adequate supply of required components and the inability to exercise control over pricing, quality and timely delivery of components. For most of our products, we do not have the internal manufacturing capabilities to meet our customers' demands. 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. Moreover, if we are unable to continue to acquire from these suppliers on acceptable terms, or should any of these suppliers cease to supply us with components for any reason, we may not be able to identify and integrate an alternative source of supply in a timely fashion or at the same costs. Any transition to one or more alternate manufacturers would likely result in delays, operational problems and increased costs, and may limit our ability to deliver our products to our customers on time for such transition period. These risks 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.

**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 must comply with complex foreign and U.S. laws and regulations, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other local laws prohibiting corrupt payments to government officials and others, as well as anti-competition regulations.

The U.S. Foreign Corrupt Practices Act (FCPA), which continues to see increased enforcement in recent years, 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.

In addition to anti-bribery and anti-corruption laws, we are also subject to the export and re-export control laws of the U.S., including the U.S. Export Administration Regulations (EAR) and 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 distributors, resellers, agents, or other 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.



Violations of these laws and regulations could result in fines and penalties, criminal sanctions, restrictions on our business conduct and on our ability to offer our products and services in one or more countries. Such violations could also adversely affect our reputation with existing and prospective clients, which could negatively impact our operating results and growth prospects.

**The failure to recruit and retain qualified personnel and plan for and manage the succession of key executives could hinder our ability to successfully manage our business, which could have a material adverse effect on our financial position and operating results.**

We operate in businesses where there is intense competition for experienced personnel in all of our global markets and have, in some instances, experienced attrition of our employees to direct and indirect competitors. We depend on our ability to identify, recruit, hire, train, develop and retain qualified and effective professionals and to attract and retain talent needed to execute our business strategy. 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. The complexity of our products, processing functionality, software systems and services requires highly trained professionals. While we presently have a sophisticated, dedicated and experienced team of employees who have a deep understanding of our business lines, the labor market for these individuals has historically been very competitive due to the limited number of people available with the necessary technical skills and understanding. 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. Effective succession planning is also important for our long-term success. Failure to ensure effective transfers of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. 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.

**We have assumed certain non-U.S. pension benefit obligations associated with the Communications Business. Future funding obligations related to these liabilities could restrict cash available for our operations, capital expenditures or other requirements, or require us to borrow additional funds.**

As part of the Comms Transaction, we assumed certain unfunded non-U.S. pension obligations related to non-U.S. employees of the Communications Business. While we intend to comply with any future funding obligations for our non-U.S. pension benefit plans through the use of cash from operations, there can be no assurance that we will generate enough cash to do so and also meet our other required or intended cash uses. Our inability to fund these obligations through cash from operations could require us to seek funding from other sources, including through additional borrowings, which could materially increase our outstanding debt or debt service requirements.

**Our success depends, in part, on our ability to manage and leverage our distribution channels. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products and services. Managing these distribution channels and relationships requires experienced personnel, and lack of sufficient expertise could lead to the decrease of the sales of our products and services and our operating results could suffer.**

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. Some of our distribution and channel partners sell competitive products and services and the loss of, or reduction in sales by, these partners could materially reduce our revenues. 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 relationships with new partners in new markets, expand and manage our

existing partner relationships, the 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 37%, 29%, and 23% of our total revenue for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

Our future success will likely require us to maintain and increase the number and depth of our relationships with distributors and channel partners and to leverage those relationships to expand our distribution channels and increase revenue. The need to develop such relationships can be particularly acute in areas outside of the U.S. Recruiting and retaining qualified channel partners and training them in the use of our technology and services and ensuring that they comply with our legal and ethical expectations requires significant time and resources.

Our failure to maintain and increase the number and quality of relationships with channel partners, and any inability to successfully execute on the partnerships we initiate, could significantly impede our revenue growth prospects in the short and long term.

**Our success depends, in part, on our ability to manage our international research and development operations and related partnerships. Our international research and development efforts may achieve delayed or lower than expected benefits and involve competitive and other risks.**

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. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. These development efforts also involve risks, including, knowledge transfer issues related to our technology and resulting exposure to misappropriation of intellectual property or information that is proprietary to us, heightened exposure to economic, security and political conditions abroad, and exchange rate and tax compliance issues. The risks related to our research and development efforts abroad could increase our expenses, impair our development efforts, harm our competitive position and/or damage our reputation. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected.

**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, third-party licenses required in the future 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. The loss of these licenses or the inability to maintain any of them on commercially acceptable terms could delay development of future products or the enhancement of existing products. We may also choose to pay a premium price for such a license in certain circumstances where continuity of the licensed product would outweigh the premium cost of the license. The unavailability of these licenses or the necessity of agreeing to commercially unreasonable terms for such licenses could materially adversely affect our business, financial condition, operating results and cash flows.

**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. Furthermore, the laws of some foreign jurisdictions do not offer the same protections for our proprietary rights as the laws of the United States, and we may be subject to unauthorized use of our products in those countries. 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. The unauthorized copying or use of our products or proprietary information could result in reduced sales of our products and eventually harm our operating results.

**Others may claim that we infringe on their intellectual property rights.**

From time to time we have been and may continue to be subject to claims by others that our products infringe on their intellectual property rights, patents, copyrights or trademarks. In some cases, we may have agreed to indemnify our customers and partners if our products or technology infringe or misappropriate specified third party intellectual property rights; therefore, we could become involved in litigation or claims brought against our customers or partners if our products or technology are the subject of such allegations. 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.

**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 conducted on the Internet. We could be materially adversely affected by regulation of the Internet and Internet commerce in any country where we operate. 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.

**The enactment of new privacy laws and regulations in the jurisdictions in which we do business could require significant company resources or limit the way our customers can use our products.**

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. In addition, changes in international privacy laws have required an adjustment to some of our internal processes and significant resources in the past and future changes could require similar efforts and resources with regard to compliance. The adoption of or changes to any such data privacy laws and regulations could affect demand for our products, increase the cost of selling our products and divert time and attention of our management, all of which could have a material and adverse effect on our financial condition and results of operations.

**We or our suppliers may be impacted by new regulations related to climate change or other environmental issues.**

We or our suppliers may become subject to new laws enacted with regards to climate change or other environmental issues. 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.

**The current economic and geopolitical environment may impact some specific industries into which we sell and may lead our customers to delay or forgo technology investments and could have other impacts, any of which could materially adversely affect our business, financial condition, operating results and cash flows.**

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. If companies in our target markets reduce capital expenditures, we may experience a reduction in sales, longer sales cycles, slower adoption of new technologies as well as downward pressure on the price of our products.

**International economic, political, legal, compliance and business factors could negatively affect our financial statements and growth.**

The Communications Business historically derived significant sales from customers outside the U.S. and certain manufacturing operations, suppliers and employees of the Communications Business are located outside the U.S. We expect to continue to increase our sales and presence outside the U.S., particularly in the high-growth markets. Our international business (and particularly our business in high-growth markets) is subject to risks that are customarily encountered in non-U.S. operations, any of which could negatively affect our business, financial condition and results of operations.

**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 and network security 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 management of the performance and network security of applications across IP networks. We have actively expanded our operations in the past through acquisitions and organic growth and may continue to expand them in the future in order to gain share in the evolving market in which we operate. 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 and network security 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.

**Changes in industry structure and market conditions could lead to charges related to discontinuances of certain of our products or businesses and asset impairments.**

In response to changes in industry and market conditions, we may be required to strategically reallocate managerial, operational, financial and other resources. Any such efforts may result in charges related to consolidation of excess facilities or claims from third parties who were resellers or users of discontinued products.

**Our growth could suffer if the markets into which we sell our products and services experience cyclicity.**

Our growth will depend in part on the growth of the markets which the Company serves. The Company serves certain industries that have historically been cyclical and have experienced periodic downturns that have had a material adverse impact on demand for the products, software and services that the Company offers. Any of these factors could adversely affect the business, financial condition and results of operations of the combined company in any given period.

**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. Economic weakness, customer financial difficulties and constrained spending on IT initiatives have resulted, and may in the future result, in challenging and delayed sales cycles and could negatively impact our ability to forecast future periods. In addition, some of the markets we serve are emerging and the purchase of our products involves material changes to established purchasing patterns and policies. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources.

**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. The stock market in general, and the market prices of stocks of technology companies in particular, have experienced extreme price volatility that has adversely affected, and may continue to adversely affect, the market price of our common stock for reasons unrelated to our business or operating results. 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. In addition, the stock market in general, and the market prices of stock of publicly-traded technology companies in particular, have experienced significant volatility that often has been unrelated to the operating performance of such companies.

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. Any of these events, as well as other circumstances discussed in these Risk Factors, may cause the price of our common stock to fall.

***Item 1B. Unresolved Staff Comments***

None.

***Item 2. Properties***

We currently lease approximately 175,000 square feet of property in an office building in Westford, Massachusetts where our headquarters is located. The current lease will expire in September 2023, and we have an option to extend the lease for two additional five-year terms. We maintain offices in several other locations in the United States, including in or near each of Berkeley, Manhattan Beach and San Jose, California; Colorado Springs, Colorado; Atlanta, Georgia; Saint Charles, Illinois; Rockville, Maryland; Burlington, Massachusetts; Ann Arbor, Michigan; Marlton, New Jersey; Austin and Plano, Texas; American Fork, Utah; Reston and Herndon, Virginia and Everett and Kirkland, Washington.

We also maintain offices in or near the following cities outside the United States: Melbourne and Sydney, Australia; Vienna, Austria; Sao Paulo, Brazil; Brossard, Oakville and Waterloo, Canada; Beijing, Guangzhou, Hong Kong and Shanghai, China; Brno, Czech Republic; Massy and Paris, France; Berlin and Frankfurt, Germany; Bangalore, Mumbai, Noida, and Pune, India; Jakarta, Indonesia; Dublin, Ireland; Milan, Modena and Padova, Italy; Tokyo, Japan; Seoul, Korea; Kuala Lumpur, Malaysia; Mexico City, Mexico; Rabat, Morocco; Amsterdam, Delft and Eindhoven, the Netherlands; Makati City, Philippines; Singapore; Madrid, Spain; Stockholm, Sweden; Taipei, Taiwan; Bangkok, Thailand; Dubai, United Arab Emirates; and Bracknell and Ipswich, United Kingdom.

All of our facilities are leased. We believe our facilities are sufficient to meet our needs for the foreseeable future and, if needed, additional space will be available at a reasonable cost.

***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

Our common stock trades on the Nasdaq Global Select 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.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
<b>Fiscal Year 2016</b>		
June 30, 2015	\$ 45.53	\$ 36.25
September 30, 2015	\$ 41.34	\$ 34.89
December 31, 2015	\$ 40.28	\$ 29.47
March 31, 2016	\$ 30.41	\$ 18.77
<b>Fiscal Year 2017</b>		
June 30, 2016	\$ 25.33	\$ 20.99
September 30, 2016	\$ 30.31	\$ 21.46
December 31, 2016	\$ 33.83	\$ 26.25
March 31, 2017	\$ 38.45	\$ 29.50

#### Stockholders

At May 12, 2017, we had 109 stockholders of record. We believe that the number of beneficial holders of our common stock exceeds 16,000.

#### Stock Performance Graph

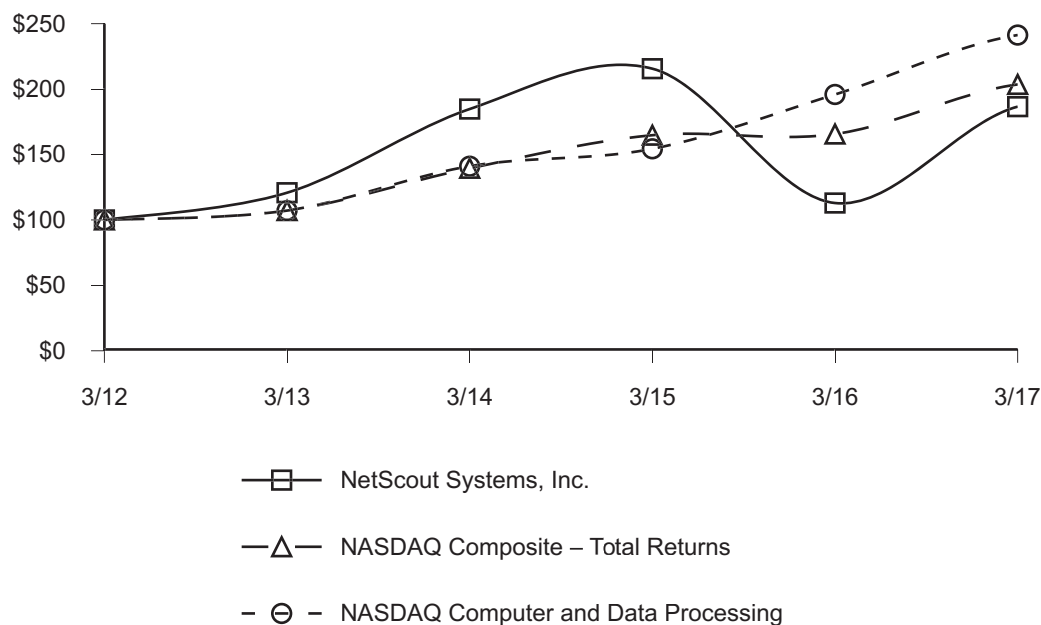
This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of NetScout under the Exchange Act or the Securities Act of 1933, as amended.

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, 2012 through March 31, 2017 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, 2012 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.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Assumes Initial Investment of \$100



	3/31/2012	3/31/2013	3/31/2014	3/31/2015	3/31/2016	3/31/2017
NetScout Systems, Inc.	\$ 100.00	\$ 120.80	\$ 184.76	\$ 215.59	\$ 112.93	\$ 186.58
NASDAQ Composite – Total Returns	\$ 100.00	\$ 107.14	\$ 139.48	\$ 164.75	\$ 165.66	\$ 203.56
NASDAQ Computer and Data Processing	\$ 100.00	\$ 107.20	\$ 141.07	\$ 154.36	\$ 195.89	\$ 241.30

### Dividend Policy

In fiscal years 2017 and 2016, 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, 2017 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

	<u>Total Number of Shares Purchased(1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares That May Yet be Purchased Under the Program</u>
1/1/2017 - 1/31/2017	—	\$ —	—	6,794,468
2/1/2017 - 2/28/2017	42,653	33.31	21,030	6,773,438
3/1/2017 - 3/31/2017	41	30.11	—	6,773,438
Total	<u>42,694</u>	<u>\$ 33.31</u>	<u>21,030</u>	<u>6,773,438</u>

- (1) We purchased an aggregate of 21,664 shares transferred to us from employees in satisfaction of minimum tax withholding obligations associated with the vesting of restricted stock units during the period. Such purchases reflected in the table do not reduce the maximum number of shares that may be purchased under our previously announced stock repurchase program (our 20 million share repurchase program authorized on May 19, 2015).

**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, 2017, 2016 and 2015 and the consolidated balance sheet data at March 31, 2017 and 2016 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, 2014 and 2013 and the consolidated balance sheet data at March 31, 2015, 2014 and 2013 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,				
	2017	2016 (1)	2015	2014	2013 (2)
(In thousands, except per share data)					
<b>Statement of Operations Data:</b>					
Revenue:					
Product	\$ 735,531	\$ 633,408	\$ 272,895	\$ 234,268	\$ 198,749
Service	426,581	322,011	180,774	162,379	151,801
Total revenue	<u>1,162,112</u>	<u>955,419</u>	<u>453,669</u>	<u>396,647</u>	<u>350,550</u>
Cost of revenue:					
Product	238,002	238,037	59,037	51,219	45,752
Service	108,137	90,412	35,524	33,294	28,256
Total cost of revenue	<u>346,139</u>	<u>328,449</u>	<u>94,561</u>	<u>84,513</u>	<u>74,008</u>
Gross profit	<u>815,973</u>	<u>626,970</u>	<u>359,108</u>	<u>312,134</u>	<u>276,542</u>
Operating expenses:					
Research and development	232,701	208,630	75,242	70,454	61,546
Sales and marketing	328,628	293,335	136,446	129,611	116,807
General and administrative	118,438	117,714	47,296	30,623	29,718
Amortization of acquired intangible assets	70,141	32,373	3,351	3,432	2,877
Restructuring charges	4,001	468	—	—	1,065
Total operating expenses	<u>753,909</u>	<u>652,520</u>	<u>262,335</u>	<u>234,120</u>	<u>212,013</u>
Income (loss) from operations	62,064	(25,550)	96,773	78,014	64,529
Interest and other expense, net	(9,879)	(6,889)	(1,808)	(158)	(793)
Income (loss) before income tax expense (benefit)	<u>52,185</u>	<u>(32,439)</u>	<u>94,965</u>	<u>77,856</u>	<u>63,736</u>
Income tax expense (benefit)	18,894	(4,070)	33,773	28,750	23,127
Net income (loss)	<u>\$ 33,291</u>	<u>\$ (28,369)</u>	<u>\$ 61,192</u>	<u>\$ 49,106</u>	<u>\$ 40,609</u>
Basic net income (loss) per share	<u>\$ 0.36</u>	<u>\$ (0.35)</u>	<u>\$ 1.49</u>	<u>\$ 1.19</u>	<u>\$ 0.97</u>
Diluted net income (loss) per share	<u>\$ 0.36</u>	<u>\$ (0.35)</u>	<u>\$ 1.47</u>	<u>\$ 1.17</u>	<u>\$ 0.96</u>
Weighted average common shares outstanding used in computing:					
Net income (loss) per share—basic	92,226	81,927	41,105	41,366	41,665
Net income (loss) per share—diluted	92,920	81,927	41,637	41,955	42,322

- (1) During the fiscal year ended March 31, 2016, NetScout completed the Comms Transaction. The total equity consideration was approximately \$2.3 billion based on issuing approximately 62.5 million new shares of NetScout common stock.
- (2) 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.

	March 31,				
	2017	2016 (1)	2015	2014	2013 (2)
	(In thousands)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and short- and long-term marketable securities	\$ 464,705	\$ 352,075	\$ 264,857	\$ 218,794	\$ 154,091
Working capital	\$ 394,279	\$ 283,422	\$ 149,651	\$ 115,798	\$ 92,141
Total assets	\$ 3,601,513	\$3,592,843	\$ 669,049	\$ 607,763	\$ 552,176
Debt	\$ 300,000	\$ 300,000	\$ —	\$ —	\$ —
Total stockholders' equity	\$ 2,436,250	\$2,443,382	\$ 435,750	\$ 409,161	\$ 371,903

- (1) During the fiscal year ended March 31, 2016, NetScout completed the Comms Transaction. The total equity consideration was approximately \$2.3 billion based on issuing approximately 62.5 million new shares of NetScout common stock.
- (2) 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.

### ***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***

We are an industry leader for real-time operational intelligence and performance analytics for service assurance and cybersecurity solutions that are used in many of the most demanding service provider, enterprise and government networks. Our solutions, based on proprietary Adaptive Service Intelligence (ASI) technology, help customers continuously monitor the service delivery environment to identify performance issues and to provide insight into network-based security threats. As a result, customers can quickly resolve issues that cause business disruptions or that adversely impact the user experience. We manufacture and market these products for integrated hardware and software solutions and are also well positioned to help customers deploy our software in commercial-off-the-shelf hardware and in virtualized form factors. Regardless of the platform, customers use our solutions to help drive return on investment on their network and broader information technology (IT) initiatives while reducing the tangible risks associated with downtime, poor service quality and compromised security. We report revenue and income in one reportable segment.

We have been a technology innovator for three-plus decades since our founding in 1984. Our solutions change how organizations manage and optimize the delivery of business applications and services, assure user experience across global internet protocol (IP) networks and help protect networks from unwanted security threats. Through both internal development and acquisitions, we have continually enhanced and expanded our product portfolio to meet the evolving needs of customers worldwide. Our software analytics capture and transform terabytes of network traffic data in real time into high value, actionable information that enables customers to optimize network performance, manage applications, enhance security and gain insight into the end user experience.

Our mission is to enable enterprise 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 ASI technology, which we have developed in support of this mission, has the potential of not only expanding our leadership in our core markets, but can also serve as the underlying technology platform that can extend use of our solutions across our global customer base.

Our operating results are influenced by a number of factors, including, but not limited to, the mix and quantity of products and services sold, pricing, costs of materials used in our products, growth in employee-related costs, including commissions, and the expansion of our operations. Factors that affect our ability to maximize our operating results include, but

are not limited to, our ability to introduce and enhance existing products, the marketplace acceptance of those new or enhanced products, continued expansion into international markets, development of strategic partnerships, competition, successful acquisition integration efforts, and our ability to achieve expense reductions and make structural improvements in the current economic conditions.

On July 14, 2015, we completed the Comms Transaction, which was structured as a Reverse Morris Trust transaction whereby Danaher contributed the Communications Business to Newco. The total equity consideration was approximately \$2.3 billion based on issuing approximately 62.5 million new shares of NetScout common stock to the holders of common units of Newco, based on the July 13, 2015 NetScout common stock closing share price of \$36.89 per share. The Comms Transaction was aimed at extending NetScout's reach into growth-oriented adjacent markets, including cybersecurity, with a broader range of market-leading products and capabilities; strengthening its go-to-market resources to better support a larger, more diverse and more global customer base; and increasing NetScout's scale and elevating its strategic position within key accounts.

On August 19, 2016, we acquired certain assets and liabilities of Avvasi for \$4.6 million. Avvasi's technology allows service providers to measure, improve and monetize video in their networks. This acquisition builds on NetScout's ongoing investment in enhancing its service assurance capabilities for video traffic over 4G/LTE networks. For additional information regarding the Avvasi acquisition, see Note 7 of our Notes to Consolidated Financial Statements.

During the second quarter of fiscal year 2017, as part of our continued integration efforts of the Comms Transaction, we reorganized our business units. As a result, we account for our operations under one reportable segment.

On September 20, 2016, NetScout's stockholders approved an amendment to the Third Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock, par value \$0.001 per share, from 150,000,000 to 300,000,000 shares. The increase in authorized shares of common stock has been reflected in our financial statements.

### ***Results Overview***

We continued to navigate through challenging market conditions, which have primarily impacted the timing and magnitude of orders with service provider customers. Despite the difficult selling environment, we have maintained relatively unchanged revenue, slightly improved our gross profit margins and increased our income from operations and income from operations margin due to the combination of investment and decreased costs related to the Comms Transaction when compared to the twelve months ended March 31, 2016.

NetScout's financial results for the fiscal year ended March 31, 2016 include approximately eight and one-half months of contribution from the Communications Business.

We continue to maintain strong liquidity. At March 31, 2017, we had cash, cash equivalents and marketable securities of \$464.7 million. This represents an increase of \$112.6 million over the previous fiscal year ended March 31, 2016. This increase was due to cash flows from operations of \$227.8 million which was partially offset by \$80.0 million used to repurchase shares of our common stock under our repurchase program, \$29.7 million of cash used for capital expenditures and \$4.6 million used in the Avvasi acquisition during the twelve months ended March 31, 2017.

### ***Use of Non-GAAP Financial Measures***

We supplement the United States 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 total revenue, non-GAAP product revenue, non-GAAP service revenue, non-GAAP income from operations, non-GAAP operating margin, non-GAAP earnings before interest and other expense, income taxes, depreciation and amortization (EBITDA) from operations, non-GAAP EBITDA from operations margin, non-GAAP net income, and non-GAAP net income per share (diluted). Non-GAAP revenue (total, product and service) eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation, as well as revenue impacted by the amortization of acquired intangible assets. Non-GAAP gross profit includes the foregoing adjustments and also removes expenses related to the amortization of acquired intangible assets, stock-based compensation, certain expenses relating to acquisitions including inventory fair value adjustments, depreciation costs, compensation for post-combination services and business development and integration costs. Non-GAAP income from operations includes the foregoing adjustments and also removes restructuring charges. Non-GAAP operating margin is calculated based on the non-GAAP financial metrics discussed above. Non-GAAP EBITDA from operations includes the aforementioned items related to non-GAAP income from operations and also removes non-acquisition-related depreciation expense. Non-GAAP net income includes the foregoing adjustments and also removes expenses related to share-based compensation and certain expenses relating to acquisitions including: compensation for post-combination services, business development charges, and depreciation expense, 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, gross profit, operating profit, net income (loss) and diluted net income (loss) 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 our 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, gross profit, income (loss) from operations, net income (loss) and net income (loss) per share on a GAAP and non-GAAP basis for the years ended March 31, 2017, 2016 and 2015:

	Fiscal Year Ended March 31, (Dollars in Thousands, Except per Share Data)		
	2017	2016	2015
GAAP revenue	\$ 1,162,112	\$ 955,419	\$ 453,669
Product deferred revenue fair value adjustment	6,786	10,166	18
Service deferred revenue fair value adjustment	19,476	51,625	—
Delayed transfer entity adjustment	—	633	—
Amortization of acquired intangible assets	11,439	6,746	—
Non-GAAP revenue	<u>\$ 1,199,813</u>	<u>\$ 1,024,589</u>	<u>\$ 453,687</u>
GAAP gross profit	\$ 815,973	\$ 626,970	\$ 359,108
Product deferred revenue fair value adjustment	6,786	10,166	18
Service deferred revenue fair value adjustment	19,476	51,625	—
Inventory fair value adjustment	—	28,638	—
Delayed transfer entity adjustment	—	535	—
Share-based compensation expense	4,890	3,246	1,532
Amortization of acquired intangible assets	53,455	51,873	3,639
Business development and integration expense	398	1,401	—
Compensation for post-combination services	552	4,148	19
Acquisition related depreciation expense	240	293	—
Non-GAAP gross profit	<u>\$ 901,770</u>	<u>\$ 778,895</u>	<u>\$ 364,316</u>
GAAP income (loss) from operations	\$ 62,064	\$ (25,550)	\$ 96,773
Product deferred revenue fair value adjustment	6,786	10,166	18
Service deferred revenue fair value adjustment	19,476	51,625	—
Inventory fair value adjustment	—	28,638	—
Delayed transfer entity adjustment	—	383	—
Share-based compensation expense	39,189	28,351	16,580
Amortization of acquired intangible assets	123,596	84,246	6,990
Business development and integration expense	12,083	29,434	11,956
Compensation for post-combination services	5,076	35,118	1,414

Restructuring charges	4,001	468	—
Acquisition related depreciation expense	3,136	3,898	—
Non-GAAP income from operations	<u>\$ 275,407</u>	<u>\$ 246,777</u>	<u>\$ 133,731</u>
GAAP net income (loss)	\$ 33,291	\$ (28,369)	\$ 61,192
Product deferred revenue fair value adjustment	6,786	10,166	18
Service deferred revenue fair value adjustment	19,476	51,625	—
Inventory fair value adjustment	—	28,638	—
Share-based compensation expense	39,189	28,351	16,580
Amortization of acquired intangible assets	123,596	84,246	6,990
Business development and integration expense	12,083	29,434	11,956
Compensation for post-combination services	5,076	35,118	1,414
Restructuring charges	4,001	468	—
Loss on extinguishment of debt	—	55	—
Acquisition-related depreciation expense	3,136	3,898	—
Other income	(426)	—	—
Income tax adjustments	(67,662)	(86,263)	(13,810)
Non-GAAP net income	<u>\$ 178,546</u>	<u>\$ 157,367</u>	<u>\$ 84,340</u>
GAAP diluted net income (loss) per share	\$ 0.36	\$ (0.35)	\$ 1.47
Per share impact of non-GAAP adjustments identified above	1.56	2.26	0.56
Non-GAAP diluted net income per share	<u>\$ 1.92</u>	<u>\$ 1.91</u>	<u>\$ 2.03</u>
GAAP income (loss) from operations	\$ 62,064	\$ (25,550)	\$ 96,773
Previous adjustments to determine non-GAAP income from operations	213,343	272,327	36,958
Non-GAAP income from operations	<u>275,407</u>	<u>246,777</u>	<u>133,731</u>
Depreciation excluding acquisition related	<u>34,131</u>	<u>23,289</u>	<u>12,719</u>
Non-GAAP EBITDA from operations	<u>\$ 309,538</u>	<u>\$ 270,066</u>	<u>\$ 146,450</u>

### 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. We apply significant judgment and create estimates when applying these policies.

#### 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.

We derive revenues primarily from the sale of network management tools and security solutions for service provider and enterprise customers, which include hardware, software and service offerings. The majority of our product sales consist of hardware products with embedded software that are essential to providing customers the intended functionality of the solutions. We also sell stand-alone software solutions to provide customers with enhanced functionality. In addition, we sell 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, and in the case of software products, when the customer has the rights and ability to access the software, fees are fixed or determinable and collection of the related receivable is reasonably assured. If any significant obligations to the customer remain post-delivery, typically involving obligations relating to installation and acceptance by the customer, revenue recognition is deferred until such obligations have been fulfilled. 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.



Our service offerings include installation, integration, extended warranty and maintenance services, post-contract customer support (PCS), and other professional services including consulting and training. We generally provide software and/or 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/hardware warranty expiration. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates, bug fixes and hardware repair and replacement. Consulting services are recognized upon delivery or completion of performance. 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 upon delivery of the training.

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 fair value 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 vendor-specific objective evidence (VSOE) or third-party evidence (TPE) does not exist. We have established BESP for product elements as the average or median selling price the element was recently sold for, whether sold alone or sold as part of a multiple element transaction. We also consider our overall pricing objectives and practices across different sales channels and geographies, and market conditions. We review sales of the product elements on a quarterly basis and update, when appropriate, our BESP for such elements to ensure that it reflects recent pricing experience. We have established VSOE for a majority of our service elements based on historical standalone sales or by the renewal rate offered to the customer. However certain business units we acquired as part of the Comms Transaction are unable to establish VSOE for undelivered elements. This occurs because the pricing for standalone sales does not occur in tight bands around a midpoint, and they are not contractually fixed. In these scenarios we have typically established BESP by creating wider bands around a midpoint for stand-alone transactions or in some cases using cost plus a margin for the underlying services and products. If VSOE of fair value does not exist for a deliverable, we have determined that BESP is the highest level of fair value that exists for those deliverables.

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 professional services, 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 regular 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, 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. However, if the only undelivered element is maintenance and support, the entire arrangement fee is recognized over the service period.

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 as 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 products are distributed through our direct sales force and indirect distribution channels through alliances with resellers and distributors. Revenue arrangements with resellers and distributors are recognized on a sell-in basis; that is, when we deliver the product to the reseller or distributor. We record consideration given to a reseller or distributor as a reduction of revenue to the extent we have recorded revenue from the reseller or distributor. With limited exceptions, our return policy does not allow product returns for a refund. Returns have been insignificant to date. In addition, we have a history of successfully collecting receivables from our resellers and distributors.

## ***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.

## ***Valuation of Goodwill, Intangible Assets and Other Acquisition Accounting Items***

We amortize acquired definite-lived intangible assets over their estimated useful lives. Goodwill and other indefinite-lived intangible assets are not amortized but subject to annual impairment tests; more frequently if events or circumstances occur that would indicate a potential decline in their fair value. We perform the assessment annually during the fourth quarter and on an interim basis if potential impairment indicators arise. We have identified two reporting units: (1) Service Assurance and (2) Security. 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 intangible asset is impaired. If based on our qualitative assessment, it is more likely than not that the fair value of the intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if we conclude otherwise, quantitative impairment testing is not required. During fiscal year 2017, we performed a quantitative analysis for goodwill. We determined the fair value of the reporting unit's goodwill using established income and market valuation approaches. Goodwill was estimated to be recoverable as of January 31, 2017.

Indefinite-lived intangible assets are tested for impairment 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 indefinite-lived intangible assets 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 asset at January 31, 2017 using the qualitative Step 0 assessment. No impairment indicators were observed as of January 31, 2017.

We completed two acquisitions (the Comms Transaction and the Avvasi acquisition) during the three year period ended March 31, 2017. 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 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 Comms Transaction in July 2015 contained both contingently returnable consideration and contingent purchase consideration. The contingently returnable consideration represented a contingent right of return from Danaher to reimburse NetScout for certain cash awards paid by NetScout to employees of the Communications Business transferred to Newco for post-combination services on various dates through August 4, 2016. During the fiscal year ended March 31, 2017, certain post-combination cash retention payments have been disbursed. Danaher reimbursed the Company for those costs and NetScout reimbursed Danaher for the tax benefit.

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 the transaction, and the former owners' future period of employment with NetScout. Contingent consideration accounting requires us 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, an annualized forfeiture rate of approximately 2% for awards granted to our senior executives, and an annualized forfeiture rate of approximately 5% for all 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, 2017 and 2016

#### 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 years ended March 31, 2017 and 2016, one direct customer, Verizon, accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue.

	Fiscal Year Ended March 31, (Dollars in Thousands)				Change	
	2017		2016		\$	%
		% of Revenue		% of Revenue		
Revenue:						
Product	\$ 735,531	63%	\$ 633,408	66%	\$ 102,123	16%
Service	426,581	37	322,011	34	104,570	32%
Total revenue	<u>\$ 1,162,112</u>	<u>100%</u>	<u>\$ 955,419</u>	<u>100%</u>	<u>\$ 206,693</u>	<u>22%</u>

*Product.* The 16%, or \$102.1 million, increase in product revenue compared to the same period last year was primarily due to a \$105.4 million increase in revenue from entities acquired in the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of such revenues, as the Comms Transaction closed on July 14, 2015. In addition, there was a \$10.8 million increase from the general enterprise sector in the legacy NetScout business. These increases were partially offset by a \$14.1 million decrease in revenue from the service provider sector in the legacy NetScout business.

*Service.* The 32%, or \$104.6 million, increase in service revenue compared to the same period last year was primarily due to a \$106.4 million increase in revenue from entities acquired in the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of revenues from these entities as the Comms Transaction closed on July 14, 2015. This increase was partially offset by a \$2.8 million decrease in maintenance revenue in the legacy NetScout business.

Total revenue by geography is as follows:

	Fiscal Year Ended March 31, (Dollars in Thousands)				Change	
	2017		2016		\$	%
		% of Revenue		% of Revenue		
United States	\$ 729,373	63%	\$ 681,569	71%	\$ 47,804	7%
International:						
Europe	190,588	16	137,411	14	53,177	39%
Asia	99,277	9	61,566	7	37,711	61%
Rest of the world	142,874	12	74,873	8	68,001	91%
Subtotal international	432,739	37	273,850	29	158,889	58%
Total revenue	<u>\$ 1,162,112</u>	<u>100%</u>	<u>\$ 955,419</u>	<u>100%</u>	<u>\$ 206,693</u>	<u>22%</u>

United States revenue increased 7%, or \$47.8 million, primarily due to a \$52.9 million increase in United States revenue from entities acquired as part of the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of such revenues, as the Comms Transaction closed on July 14, 2015. These increases were partially offset by a

\$5.1 million decrease within the legacy NetScout business related to lower revenue in the service provider sector. The 58%, or \$158.9 million, increase in international revenue was primarily due to a \$159.5 million increase in international revenue from entities acquired as part of the Comms Transaction due to twelve months of such revenue as compared to eight and half months in the prior period, as well as an increase across the legacy NetScout general enterprise sector.

### 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)					
	2017		2016		Change	
		% of Revenue		% of Revenue	\$	%
<b>Cost of revenue:</b>						
Product	\$ 238,002	21%	\$ 238,037	25%	\$ (35)	— %
Service	108,137	9	90,412	9	17,725	20 %
Total cost of revenue	<u>\$ 346,139</u>	<u>30%</u>	<u>\$ 328,449</u>	<u>34%</u>	<u>\$ 17,690</u>	<u>5 %</u>
<b>Gross profit:</b>						
Product \$	\$ 497,529	43%	\$ 395,371	41%	\$ 102,158	26 %
Product gross profit %	68%		62%		6%	
Service \$	318,444	27%	231,599	24%	86,845	37 %
Service gross profit %	<u>75%</u>		<u>72%</u>		<u>3%</u>	
Total gross profit \$	<u>\$ 815,973</u>		<u>\$ 626,970</u>		<u>\$ 189,003</u>	<u>30 %</u>
Total gross profit %	<u>70%</u>		<u>66%</u>		<u>4%</u>	

*Product.* The \$35 thousand decrease in cost of product revenue was due to a \$3.0 million decrease in direct material costs and a \$2.3 million decrease in amortization of legacy NetScout intangibles primarily due to the acceleration of amortization of certain intangibles during the twelve months ended March 31, 2016 for the legacy NetScout business. These decreases were partially offset by a \$5.9 million increase in the incremental costs related to the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of such expenses, as the Comms Transaction closed on July 14, 2015. The product gross profit percentage increased by six percentage points to 68% during the fiscal year ended March 31, 2017 as compared to the same period in the prior year. Average headcount in cost of product revenue was 96 and 100 for the fiscal years ended March 31, 2017 and 2016, respectively.

*Service.* The 20%, or \$17.7 million, increase in cost of service revenue was primarily due to a \$16.0 million increase in the incremental costs related to the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of such expenses, as the Comms Transaction closed on July 14, 2015. In addition, in the legacy NetScout business there was a \$782 thousand increase in allocated overhead expenses, a \$591 thousand increase in employee-related expenses due to an increase in headcount and a \$506 thousand increase in software license expense. These increases were partially offset by a \$717 thousand decrease in cost of materials used to support customers under service contracts in the legacy NetScout business. The service gross profit percentage increased by three percentage points to 75% for the twelve months ended March 31, 2017 when compared to the twelve months ended March 31, 2016. The 37%, or \$86.8 million, increase in service gross profit corresponds with the 32%, or \$104.6 million, increase in service revenue, partially offset by the 20%, or \$17.7 million, increase in cost of services. Average headcount in cost of service revenue was 616 and 608 for the fiscal years ended March 31, 2017 and 2016, respectively.

*Gross profit.* Our gross profit increased 30%, or \$189.0 million. This increase is attributable to our increase in revenue of 22%, or \$206.7 million, partially offset by a \$17.7 million, or 5%, increase in cost of revenue. The gross margin percentage increased four percentage points to 70% during the fiscal year ended March 31, 2017 when compared to the same period in the prior year.

## Operating Expenses

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2017		2016		Change	
		% of Revenue		% of Revenue	\$	%
Research and development	\$ 232,701	20%	\$ 208,630	22%	\$ 24,071	12%
Sales and marketing	328,628	28	293,335	31	35,293	12%
General and administrative	118,438	10	117,714	12	724	1%
Amortization of acquired intangible assets	70,141	6	32,373	3	37,768	117%
Restructuring charges	4,001	—	468	—	3,533	755%
Total operating expenses	<u>\$ 753,909</u>	<u>64%</u>	<u>\$ 652,520</u>	<u>68%</u>	<u>\$ 101,389</u>	<u>16%</u>

*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 12%, or \$24.1 million, increase in research and development expenses compared to the same period last year was primarily due to a \$23.5 million increase in the incremental costs related to the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of such expenses, as the Comms Transaction closed on July 14, 2015. Average headcount in research and development was 1,210 and 1,224 for the fiscal years ended March 31, 2017 and 2016, 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 12%, or \$35.3 million, increase in total sales and marketing expenses compared to the same period last year was primarily due to a \$35.9 million increase in the incremental costs related to the Comms Transaction. The twelve months ended March 31, 2016 only included eight and a half months of such expenses, as the Comms Transaction closed on July 14, 2015. Average headcount in sales and marketing was 935 and 930 for the fiscal years ended March 31, 2017 and 2016, 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 1%, or \$724 thousand, increase in general and administrative expenses compared to the same period last year was primarily due a \$15.0 million decrease in business development expenses related to the Comms Transaction and a \$3.1 million decrease in the costs related to the Comms Transaction offset by a \$6.6 million increase in compensation-related expenses, a \$3.5 million increase in legal expenses, a \$1.9 million increase in depreciation expense, a \$1.6 million increase in allocated overhead expenses, a \$1.3 million increase in software license expense, a \$960 thousand increase in consulting and outside services fees and a \$513 thousand increase in state franchise taxes in the legacy NetScout business. Average headcount in general and administrative was 283 and 282 for the fiscal years ended March 31, 2017 and 2016, respectively.

*Amortization of acquired intangible assets.* Amortization of acquired intangible assets consists primarily of amortization of customer relationships, trademark and tradenames, and leasehold interest related to the acquisitions of the Communications Business, ONPATH Technologies, Inc. (ONPATH), Accanto, Simena, LLC (Simena), Fox Replay BV (Replay), Psytechnics, Ltd (Psytechnics), Network General and Avvasi.

The 117%, or \$37.8 million, increase in amortization of acquired intangible assets was primarily due to an increase of \$39.4 million in amortization related to the Comms Transaction, as there were twelve months of such amortization as of March 31, 2017 as compared to eight and a half months in the prior period. These increases were partially offset by a \$1.6 million decrease in amortization of acquired intangible assets in the legacy NetScout business as a result of the acceleration of amortization of certain intangibles during the twelve months ended March 31, 2016.

*Restructuring.* We restructured certain departments to better align functions subsequent to the Comms Transaction. As a result of the restructuring programs, we recorded \$4.0 million and \$0.5 million of restructuring charges related to costs to be paid to employees for one-time termination benefits and facility related charges during the twelve months ended March 31,



2017 and 2016, respectively. We expect to incur an additional \$0.7 million of restructuring charges in the first quarter of fiscal year 2018.

### 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)					
	2017		2016		Change	
		% of Revenue		% of Revenue	\$	%
Interest and other expense, net	\$ (9,879)	(1)%	\$ (6,889)	(1)%	\$ (2,990)	(43)%

The 43%, or \$3.0 million, increase in interest and other expense, net was primarily due to a \$2.9 million increase in interest expense due to additional amounts drawn down on the credit facility entered into on July 14, 2015 during the fourth quarter of fiscal year 2016 and a \$1.0 million increase in foreign currency exchange expense.

### Income Tax Expense

The annual effective tax rate for fiscal year 2017 was 36.2%, compared to an annual effective tax benefit of 12.5% for fiscal year 2016. Generally, the effective tax rate differs from the statutory tax rate due to state income taxes and foreign withholding taxes, partially offset by the tax benefit associated with the Company's domestic production activities deduction, research and development tax credits and earnings in jurisdictions subject to tax rates lower than the U.S. statutory rate. The effective tax rate for the twelve months ended March 31, 2017 was higher than the effective rate for the twelve months ended March 31, 2016, primarily due to the volatility related to the low profit before tax coupled with significant differences due to transaction related expenses recorded in the twelve months ended March 31, 2016.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2017		2016		Change	
		% of Revenue		% of Revenue	\$	%
Income tax expense (benefit)	\$ 18,894	2%	\$ (4,070)	— %	\$ 22,964	564%



## Comparison of Years Ended March 31, 2016 and 2015

### Revenue

During the fiscal year ended March 31, 2016, one direct customer, Verizon, accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue. During the fiscal year ended March 31, 2015, Verizon and one other direct customer accounted for more than 10% of our total revenue, while no indirect channel partner accounted for more than 10% of total revenue.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2016		2015		Change	
		% of Revenue		% of Revenue	\$	%
Revenue:						
Product	\$ 633,408	66%	\$ 272,895	60%	\$ 360,513	132%
Service	322,011	34	180,774	40	141,237	78%
Total revenue	\$ 955,419	100%	\$ 453,669	100%	\$ 501,750	111%

*Product.* The 132%, or \$360.5 million, increase in product revenue compared to fiscal year ended March 31, 2015 was primarily due to \$378.8 million in additional revenue resulting from the Comms Transaction. This increase was partially offset by an \$11.4 million decrease in revenue from our legacy service provider sector and a \$6.9 million decrease in revenue from our legacy general enterprise sector.

*Service.* The 78%, or \$141.2 million, increase in service revenue compared to fiscal year ended March 31, 2015 was primarily due to a \$128.7 million increase from the expansion of our customer base due to the Comms Transaction and a \$12.7 million increase in revenue from maintenance contracts in our legacy NetScout business due to new maintenance contracts and renewals from a growing support base.

Total revenue by geography is as follows:

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2016		2015		Change	
		% of Revenue		% of Revenue	\$	%
United States	\$ 681,569	71%	\$ 348,354	77%	\$ 333,215	96%
International:						
Europe	137,411	14	46,253	10	91,158	197%
Asia	61,566	7	27,685	6	33,881	122%
Rest of the world	74,873	8	31,377	7	43,496	139%
Subtotal international	273,850	29	105,315	23	168,535	160%
Total revenue	\$ 955,419	100%	\$ 453,669	100%	\$ 501,750	111%

United States revenues increased 96%, or \$333.2 million, primarily due to a \$334.1 million increase from entities acquired as part of the Comms Transaction. The 160%, or \$168.5 million, increase in international revenue was primarily due to a \$173.4 million increase from entities acquired as part of the Comms Transaction, partially offset by a decrease across the legacy general enterprise sector.

## Cost of Revenue and Gross Profit

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2016		2015		Change	
		% of Revenue		% of Revenue	\$	%
Cost of revenue:						
Product	\$ 238,037	25%	\$ 59,037	13%	\$ 179,000	303%
Service	90,412	9	35,524	8	54,888	155%
Total cost of revenue	<u>\$ 328,449</u>	<u>34%</u>	<u>\$ 94,561</u>	<u>21%</u>	<u>\$ 233,888</u>	<u>247%</u>
Gross profit:						
Product \$	\$ 395,371	41%	\$ 213,858	47%	181,513	85%
Product gross profit	62%		78%		(16)%	
Service \$	231,599	24%	145,250	32%	86,349	59%
Service gross profit	<u>72%</u>		<u>80%</u>		<u>(8)%</u>	
Total gross profit \$	<u>\$ 626,970</u>		<u>\$ 359,108</u>		<u>\$ 267,862</u>	<u>75%</u>
Total gross profit %	<u>66%</u>		<u>79%</u>		<u>(13)%</u>	

*Product.* The 303%, or \$179.0 million, increase in cost of product revenue was primarily due to the 132%, or \$360.5 million increase in product revenue for the fiscal year ended March 31, 2016 when compared to the fiscal year ended March 31, 2015. The increase in cost of product revenue was primarily due to a \$181.7 million increase as a result of the incremental costs from the operations related to the Comms Transaction, as well as an \$886 thousand increase in amortization of intangibles primarily due to the acceleration of intangibles in the legacy NetScout business. These increases were partially offset by a \$3.3 million decrease in cost of goods sold for the legacy NetScout business as well as a \$1.2 million decrease in obsolescence charges. The product gross profit percentage decreased by sixteen percentage points to 62% during the fiscal year ended March 31, 2016 as compared to the same period in the prior year. Average headcount in cost of product revenue was 100 and 32 for the fiscal years ended March 31, 2016 and 2015, respectively.

*Service.* The 155%, or \$54.9 million, increase in cost of service revenue was primarily due to a \$52.2 million increase as a result of the incremental costs from the operations related to the Comms Transaction, a \$1.2 million increase in compensation related expenses in the legacy NetScout business and a \$959 thousand increase in cost of contracts. The service gross profit percentage decreased by eight percentage points to 72% for the fiscal year ended March 31, 2016 when compared to the fiscal year ended March 31, 2015. The 59%, or \$86.3 million, increase in service gross profit corresponds with the 78%, or \$141.2 million, increase in service revenue, partially offset by the 155%, or \$54.9 million, increase in cost of services. Average headcount in cost of service revenue was 608 and 168 for the years ended March 31, 2016 and 2015, respectively.

*Gross profit.* Our gross profit increased 75%, or \$267.9 million. This increase is attributable to our increase in revenue of 111%, or \$501.8 million, partially offset by a \$233.9 million, or 247%, increase in cost of revenue. The gross margin percentage decreased thirteen percentage points to 66% during the fiscal year ended March 31, 2016 when compared to the same period in the prior year.

## Operating Expenses

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2016		2015		Change	
		% of Revenue		% of Revenue	\$	%
Research and development	\$ 208,630	22%	\$ 75,242	17%	\$ 133,388	177%
Sales and marketing	293,335	31	136,446	30	156,889	115%
General and administrative	117,714	12	47,296	10	70,418	149%
Amortization of acquired intangible assets	32,373	3	3,351	1	29,022	866%
Restructuring charges	468	—	—	—	468	100%
Total operating expenses	<u>\$ 652,520</u>	<u>68%</u>	<u>\$ 262,335</u>	<u>58%</u>	<u>\$ 390,185</u>	<u>149%</u>

*Research and development.* The 177%, or \$133.4 million, increase in research and development expenses was due to a \$133.5 million increase as a result of the incremental costs from the operations related to the Comms Transaction. Average headcount in research and development was 1,224 and 358 for the fiscal years ended March 31, 2016 and 2015, respectively.

*Sales and marketing.* The 115%, or \$156.9 million, increase in total sales and marketing expenses was primarily due to a \$146.2 million increase as a result of the incremental costs from the operations related to the Comms Transaction. In addition, in the legacy NetScout business there was a \$3.8 million increase in commission expense, a \$2.5 million increase in deal related compensation expense, a \$2.0 million increase in events, \$1.8 million increase for the NetScout User Conference, a \$1.5 million increase in employee related expense items resulting in part from increased headcount as well as increase compensation related items and a \$1.3 million increase in advertising expenses. These expenses were partially offset by a \$1.2 million decrease in recruiting expenses and an \$863 thousand decrease in travel expenses for the fiscal year ended March 31, 2016 as compared to the fiscal year ended March 31, 2015. Average headcount in sales and marketing was 930 and 374 for the fiscal years ended March 31, 2016 and 2015, respectively.

*General and administrative.* The 149%, or \$70.4 million, increase in general and administrative expenses was primarily due to a \$48.8 million increase as a result of the incremental costs from the operations related to the Comms Transaction, a \$14.8 million increase in business development expenses, a \$2.5 million increase in legal expenses, a \$1.9 million increase in accounting services, a \$1.8 million thousand increase in employee related expenses as a result of increased compensation related expenses. Average headcount in general and administrative was 282 and 123 for the fiscal years ended March 31, 2016 and 2015, respectively.

*Amortization of acquired intangible assets.* The 866%, or \$29.0 million, increase in amortization of acquired intangible assets was due to a \$27.9 million increase in amortization associated with the Comms Transaction, as well as a \$1.2 million increase in the legacy NetScout business related to acceleration of the amortization of certain intangibles.

## Interest and Other Expense, Net

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2016		2015		Change	
		% of Revenue		% of Revenue	\$	%
Interest and other expense, net	\$ (6,889)	(1)%	\$ (1,808)	— %	\$ (5,081)	(281)%

The 281%, or \$5.1 million, increase in interest and other expense, net was due to a \$5.5 million increase in interest expense due to amounts drawn down on the credit facility entered into on July 14, 2015, as well as a \$1.0 million increase as a result of the incremental costs from operations related to the Comms Transaction. These were partially offset by a \$1.2 million decrease in foreign currency expense and a \$246 thousand increase from interest income received on investments.

## Income Tax Expense

The annual effective tax rate for fiscal year 2016 was 12.5%, compared to an annual effective tax rate of 35.6% for fiscal year 2015. Generally, the effective tax rate differs from statutory tax rate due to the impact of the domestic production activities deduction, research and development credit, the impact of state taxes and income generated in jurisdictions that have a different

tax rate than the U.S. statutory rate. The effective tax rate for the fiscal year ended March 31, 2016 is lower than the comparable prior year period primarily related to a decrease in profit before taxes due to Transaction related expenses recorded in the year, an increase in research and development credits attributable to acquired companies and a change in the jurisdictional mix of earnings.

	Fiscal Year Ended March 31, (Dollars in Thousands)					
	2016		2015		Change	
		% of Revenue		% of Revenue	\$	%
Income tax expense (benefit)	\$ (4,070)	— %	\$ 33,773	7%	\$ (37,843)	(112)%

### Contractual Obligations

At March 31, 2017, 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
Long-term debt obligations (1)	\$ 324,952	\$ 7,574	\$ 15,168	\$ 302,210	\$ —
Unconditional purchase obligations (2)	32,182	29,805	2,377	—	—
Operating lease obligations (3)	39,686	13,992	14,046	7,681	3,967
Pension benefit plan	30,141	296	744	958	28,143
Contingent purchase consideration	5,449	660	4,789	—	—
Total contractual obligations	<u>\$ 432,410</u>	<u>\$ 52,327</u>	<u>\$ 37,124</u>	<u>\$ 310,849</u>	<u>\$ 32,110</u>

At March 31, 2017, the total amount of net unrecognized tax benefits for uncertain tax positions and the accrual for the related interest was \$3.2 million. 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 \$86.6 million as such amounts will be recognized as services are provided.

- (1) Includes estimated future interest at an interest rate of 2.49% for our outstanding term loan at March 31, 2017.
- (2) Represents estimated open purchase orders to purchase inventory as well as commitments for products and services used in the normal course of business.
- (3) We lease facilities and certain equipment under operating lease agreements extending through March 2024 for a total of \$39.7 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.

We have one contingent liability related to the acquisition of Simena in November 2011 for future consideration to be paid to the former seller which had an initial fair value of \$8.0 million at the time of acquisition. At March 31, 2017, the fair value of the future consideration was \$4.8 million.

Our contingent purchase consideration at March 31, 2017 includes \$660 thousand related to the Avvasi acquisition that occurred in August 2016. The contingent purchase consideration represents amounts deposited into an escrow account, which was established to cover any damages we suffer related to any liabilities that we did not agree to assume or as a result of the breach of representations and warranties of the seller as described in the asset purchase agreement.

### **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 generally expires 60 to 90 days thereafter. With regard to hardware, the standard warranty commences upon shipment and generally expires 60 days to 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. Warranty cost information is presented and no material 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**

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

	At March 31, (Dollars in Thousands)		
	2017	2016	2015
Cash and cash equivalents	\$ 304,880	\$ 210,711	\$ 104,893
Short-term marketable securities	137,892	128,003	101,392
Long-term marketable securities	21,933	13,361	58,572
Cash, cash equivalents and marketable securities	<u>\$ 464,705</u>	<u>\$ 352,075</u>	<u>\$ 264,857</u>

#### ***Cash, cash equivalents and marketable securities***

At March 31, 2017 cash, cash equivalents and marketable securities totaled \$464.7 million, up \$112.6 million from \$352.1 million at March 31, 2016. This increase was due to cash flows from operations of \$227.8 million which was partially offset by \$80.0 million used to repurchase shares of our common stock under our repurchase program, \$29.7 million of cash used for capital expenditures and \$4.6 million used in the Avvasi acquisition during the twelve months ended March 31, 2017.

At March 31, 2017, cash, short-term and long-term investments in the United States were \$362.6 million, while cash held outside of the United States was approximately \$102.1 million.

Cash and cash equivalents were impacted by the following:

	Fiscal Year Ended March 31, (Dollars in Thousands)		
	2017	2016	2015
Net cash provided by operating activities	\$ 227,809	\$ 95,285	\$ 106,933
Net cash (used in) provided by investing activities	\$ (42,281)	\$ 25,089	\$ (56,185)
Net cash used in financing activities	\$ (90,598)	\$ (15,300)	\$ (48,760)

### ***Net cash from operating activities***

#### *Fiscal year 2017 compared to fiscal year 2016*

Cash provided by operating activities was \$227.8 million during the fiscal year ended March 31, 2017, compared to \$95.3 million of cash provided by operating activities in the fiscal year ended March 31, 2016. This \$132.5 million increase was due in part to a \$61.7 million increase from net income, a \$47.5 million net increase from amounts due to and from related parties as a result of the Comms Transaction, a \$31.1 million increase from deferred income taxes, a \$20.8 million increase from depreciation and amortization, a \$10.8 million increase from share-based compensation expense, a \$7.4 million increase from deferred revenue, a \$6.9 million increase from inventories, a \$4.7 million increase from prepaid expenses and other assets and a \$1.0 million increase from income taxes payable. These increases were partially offset by a \$26.5 million decrease from accrued compensation and other expenses and a \$24.8 million unfavorable impact from accounts receivable and unbilled costs. Accounts receivable days sales outstanding was 80 days at March 31, 2017 compared to 80 days at March 31, 2016 and 61 days at March 31, 2015. In addition, there was a \$6.6 million decrease from deal-related compensation expense and accretion charges and a \$1.9 million decrease in cash inflows from accounts payable related to the normalization of the accounts payable balances across the larger business during twelve months ended March 31, 2017 as compared to the twelve months ended March 31, 2016.

#### *Fiscal year 2016 compared to fiscal year 2015*

Cash provided by operating activities was \$95.3 million during the fiscal year ended March 31, 2016, compared to \$106.9 million of cash provided by operating activities in the fiscal year ended March 31, 2015. This \$11.6 million decrease was due in part to an \$89.5 million decrease from net income, a \$44.9 million decrease in deferred income taxes, \$27.3 million decrease from prepaid expenses and other assets, an \$18.5 million decrease from amounts owed from a related party as a result of the Comms Transaction, a \$6.7 million decrease from amounts that are due to a related party as a result of the Comms Transaction and a \$1.5 million unfavorable impact from accounts receivable. Accounts receivable days sales outstanding was 80 days at March 31, 2016 compared to 61 days at March 31, 2015. These decreases were partially offset by a \$120.4 million increase in depreciation and amortization and a \$20.0 million increase from accrued compensation and other expenses. This increase from accrued compensation and other expenses was due largely to the timing of accruals and payments for compensation related items and legal and accounting related fees. In addition, there was an \$11.8 million increase in share-based compensation, a \$9.0 million increase from deferred revenue, a \$6.6 million increase in deal related compensation and a \$6.0 million increase from inventories.



### Net cash from investing activities

	Fiscal Year Ended March 31, (Dollars in Thousands)		
	2017	2016	2015
Cash (used in) provided by investing activities included the following:			
Purchase of marketable securities	\$ (199,841)	\$ (100,278)	\$ (133,212)
Proceeds from maturity of marketable securities	181,321	118,881	89,954
Purchase of fixed assets	(29,696)	(24,783)	(12,808)
Purchase of intangible assets	(1,031)	(3,962)	(174)
Acquisition of businesses, net of cash acquired	(4,606)	27,700	—
Decrease (increase) in deposits	129	(150)	55
Contingent purchase consideration	660	—	—
Collection of contingently returnable consideration	12,864	9,306	—
Change in restricted cash	(660)	—	—
Capitalized software development costs	(1,421)	(1,625)	—
	<u>\$ (42,281)</u>	<u>\$ 25,089</u>	<u>\$ (56,185)</u>

Cash used in investing activities increased by \$67.4 million to \$42.3 million during the fiscal year ended March 31, 2017, compared to \$25.1 million of cash provided by investing activities during the fiscal year ended March 31, 2016. Cash provided by investing activities increased by \$81.3 million to \$25.1 million during the fiscal year ended March 31, 2016, compared to \$56.2 million of cash used for investing activities during the fiscal year ended March 31, 2015.

Net cash inflows relating to the purchase and sales of marketable securities was down \$37.1 million during the fiscal year ended March 31, 2017 relating to the amount of investments held at each respective balance sheet date, from an inflow of \$18.6 million during fiscal year ended March 31, 2016 to an outflow of \$18.5 million during fiscal year ended March 31, 2017. Net cash inflows relating to the purchase and sales of marketable securities was up \$61.9 million during the fiscal year ended March 31, 2016 relating to the amount of investments held at each respective balance sheet date, from an outflow of \$43.3 million during the fiscal year ended March 31, 2015 to an inflow of \$18.6 million during the fiscal year ended March 31, 2016.

During the twelve months ended March 31, 2017, there was a \$4.6 million cash outflow related to the assets and liabilities acquired as part of the Avvasi acquisition. During the twelve months ended March 31, 2016, there was a \$27.7 million cash inflow related to cash acquired as part of the Comms Transaction.

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 2018.

Purchases of intangible assets decreased by \$2.9 million during the fiscal year ended March 31, 2017 as compared to the fiscal year ended March 31, 2016. During fiscal years ended March 31, 2017 and 2016, we entered into agreements to acquire technology licenses for \$1.0 million and \$3.7 million, respectively.

### Net cash from financing activities

	Fiscal Year Ended March 31, (Dollars in Thousands)		
	2017	2016	2015
Cash used in financing activities included the following:			
Issuance of common stock under stock plans	\$ 2	\$ 1	\$ 140
Treasury stock repurchases	(89,555)	(311,850)	(51,714)
Proceeds from issuance of long-term debt, net of issuance costs	—	294,623	—
Excess tax benefit (shortfall) from share-based compensation awards	(1,045)	1,926	2,814
	<u>\$ (90,598)</u>	<u>\$ (15,300)</u>	<u>\$ (48,760)</u>

Cash used in financing activities was up \$75.3 million to \$90.6 million during the fiscal year ended March 31, 2017, compared to \$15.3 million of cash used in financing activities during the fiscal year ended March 31, 2016.

We repurchased 3,148,426 and 10,078,136 shares for \$80.0 million and \$300.0 million under our stock repurchase program during the twelve months ended March 31, 2017 and 2016, respectively.

In connection with the delivery of common shares upon vesting of restricted stock units, we have withheld 320,572 shares for \$9.6 million, 256,514 shares for \$9.1 million and 247,568 shares for \$10.8 million related to minimum statutory tax withholding requirements on these restricted stock units during the fiscal years ended March 31, 2017, 2016 and 2015, respectively. These withholding 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.

We had a tax shortfall of \$1.0 million from share-based compensation awards during the fiscal year ended March 31, 2017. During the fiscal years ended March 31, 2016 and 2015, we generated \$1.9 million and \$2.8 million of excess tax benefits from share-based compensation awards.

### ***Credit Facility***

On July 14, 2015, we entered into a certain credit facility with a syndicate of lenders pursuant to a Credit Agreement (Credit Agreement), dated as of July 14, 2015, by and among: the Company; JPMorgan Chase Bank, N.A. (JPMorgan), as administrative agent and collateral agent; J.P. Morgan Securities LLC, KeyBanc Capital Markets, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners; Santander Bank, N.A., SunTrust Bank, N.A. and U.S. Bank National Association, as co-documentation agents; and the lenders party thereto. The Credit Agreement provides for a five-year, \$800 million senior secured revolving credit facility, including a letter of credit sub-facility of up to \$50 million. We may elect to use the credit facility for working capital purposes or to finance the repurchase of up to 20 million shares of common stock under our common stock repurchase plan. The commitments under the Credit Agreement will expire on July 14, 2020, and any outstanding loans will be due on that date. At March 31, 2017, \$300 million was outstanding under this credit facility.

At our election, revolving loans under the Credit Agreement bear interest at either (a) an Alternate Base Rate per annum equal to the greatest of (1) JPMorgan's prime rate, (2) 0.50% in excess of the Federal Funds effective rate, or (3) an adjusted one month LIBOR rate plus 1%; or (b) such adjusted LIBOR rate (for the interest period selected by us), in each case plus an applicable margin. For the period from the delivery of our financial statements for the quarter ended December 31, 2016, until we have delivered financial statements for the quarter ended March 31, 2017, the applicable margin will be 1.50% per annum for LIBOR loans and 0.50% per annum for Alternate Base Rate loans, and thereafter the applicable margin will vary depending on our leverage ratio, ranging from 1.00% per annum for Base Rate loans and 2.00% per annum for LIBOR loans if our consolidated leverage ratio is greater than 2.50 to 1.00, down to 0.25% per annum for Alternate Base Rate loans and 1.25% per annum for LIBOR loans if our consolidated leverage ratio is equal to or less than 1.00 to 1.00.

Our consolidated leverage ratio is the ratio of our total funded debt compared to its consolidated adjusted EBITDA. Consolidated adjusted EBITDA includes certain adjustments, including, without limitation, adjustments relating to extraordinary, unusual or non-recurring charges, certain restructuring charges, non-cash charges, certain transaction costs and expenses and certain pro forma adjustments in connection with material acquisitions and dispositions, all as set forth in detail in the definition of consolidated adjusted EBITDA in the Credit Agreement.

Commitment fees accrue on the daily unused amount of the credit facility. For the period from the delivery of our financial statements for the quarter ended December 31, 2016 until we have delivered financial statements for the quarter ended March 31, 2017, the commitment fee will be 0.25% per annum, and thereafter the commitment fee will vary depending on our consolidated leverage ratio, ranging from 0.35% per annum if our consolidated leverage ratio is greater than 2.50 to 1.00, down to 0.20% per annum if our consolidated leverage ratio is equal to or less than 1.00 to 1.00.

Letter of credit participation fees are payable to each lender on the amount of such lender's letter of credit exposure, during the period from the closing date of the Credit Agreement to but excluding the date which is the later of (i) the date on which such lender's commitment terminates or (ii) the date on which such lender ceases to have any letter of credit exposure, at a rate per annum equal to the applicable margin for LIBOR loans. Additionally, we will pay a fronting fee to each issuing bank in amounts to be agreed to between NetScout and the applicable issuing bank.

Interest on Alternate Base Rate loans is payable at the end of each calendar quarter. Interest on LIBOR loans is payable at the end of each interest rate period or at the end of each three-month interval within an interest rate period if the period is longer than three months. We may also 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 and other obligations under the credit facility are (a) guaranteed by each of our wholly owned material domestic restricted subsidiaries, subject to certain exceptions, and (b) are secured by substantially all of the assets of us and the subsidiary guarantors, including a pledge of all the capital stock of material subsidiaries held directly by us and the subsidiary guarantors (which pledge, in the case of any foreign subsidiary, is limited to 65% of the voting stock), subject to certain customary exceptions and limitations. The Credit Agreement generally prohibits any other liens on the assets of the Company and its restricted subsidiaries, subject to certain exceptions as described in the Credit Agreement.

The Credit Agreement contains certain covenants applicable to us and our restricted subsidiaries, including, without limitation, limitations on additional indebtedness, liens, various fundamental changes, dividends and distributions, investments (including acquisitions), transactions with affiliates, asset sales, including sale-leaseback transactions, speculative hedge agreements, payment of junior financing, changes in business and other limitations customary in senior secured credit facilities. In addition, we are required to maintain certain consolidated leverage and interest coverage ratios. These covenants and limitations are more fully described in the Credit Agreement. At March 31, 2017, we were in compliance with all of these covenants.

The Credit Agreement provides that events of default will exist in certain circumstances, including failure to make payment of principal or interest on the loans when required, failure to perform certain obligations under the Credit Agreement and related documents, defaults under certain other indebtedness, certain insolvency events, certain events arising under ERISA, a change of control and certain other events. Upon an event of default, the administrative agent with the consent of, or at the request of, the holders of more than 50% in principal amount of the loans and commitments may terminate the commitments and accelerate the maturity of the loans and enforce certain other remedies under the Credit Agreement and the other loan documents.

In connection with new revolving credit facility described above, effective as of the Closing Date, we terminated our existing term loan and revolving credit facility pursuant to the Credit and Security Agreement, dated as of November 22, 2011, by and among the Company, 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.

We capitalized \$6.6 million of debt issuance costs associated with the origination of the Credit Agreement, which are being amortized over the life of the revolving credit facility. The unamortized balance was \$4.4 million as of March 31, 2017. A balance of \$1.4 million is included as prepaid expenses and other current assets and a balance of \$3.0 million is included as other assets in our consolidated balance sheet.

### ***Expectations for Fiscal Year 2018***

We believe that our cash balances, available debt, 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.

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**

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost (ASU 2017-07) which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2017 and should be applied retrospectively to all periods presented. ASU 2017-07 is effective for the Company beginning April 1, 2018. We are currently assessing the potential impact of the adoption of ASU 2017-07 on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 eliminates Step 2 from the goodwill impairment test and instead

requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The updated guidance requires a prospective adoption. We adopted this standard in the fourth quarter of fiscal year 2017 as early adoption was permitted.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-01 clarifies the definition of a business with the objective of addressing whether transactions involving in-substance nonfinancial assets, held directly or in a subsidiary, should be accounted for as acquisitions or disposals of nonfinancial assets or of businesses. ASU 2017-01 is effective for annual periods beginning December 15, 2017. Early adoption is permitted for transactions, including acquisitions or dispositions, which occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. We are evaluating the new guidance and do not believe the adoption of ASU 2017-01 will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18) related to the presentation of restricted cash in the statement of cash flows. The pronouncement requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of restricted cash and restricted cash equivalent balances. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We do not believe ASU 2016-18 will have a material impact on our consolidated statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16). ASU 2016-16 requires that entities recognize the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs. Current GAAP prohibits the recognition of those tax effects until the asset has been sold to an outside party. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are evaluating the new guidance and do not believe the adoption of ASU 2016-16 will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently assessing the potential impact of the adoption of ASU 2016-15 on our consolidated statement of cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for us beginning April 1, 2017. We are currently assessing the potential impact of the adoption of ASU 2016-09 on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification (ASU 2016-02), its new standard on accounting for leases. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. ASU 2016-02 is effective for annual reporting periods beginning after December 31, 2018 and interim periods within those fiscal years, and early adoption is permitted. We are currently assessing the potential impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09) and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015-04, 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively (ASU 2014-09, ASU 2015-04, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, collectively, Topic 606). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including

identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. Topic 606 will be effective for us April 1, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this standard. We believe we will elect the modified retrospective transition approach. However, we are still in the early stages of evaluating the impact of this new accounting standard. The adoption will most likely result in a reduction in deferred revenue as of April 1, 2018 because we will no longer require VSOE of fair value to recognize software deliverables. Upon adoption of ASC 606, we expect to recognize a greater proportion of revenue upon delivery of our products, whereas some of our current product sales are initially recorded in deferred revenue and recognized over a period of time. Since we currently expenses sales commissions as incurred, the requirement in the new standard to capitalize certain in-scope sales commissions is being evaluated to determine its potential impact in the consolidated financial statements in the year of adoption. There will be no impact to cash flows. We continue to assess all potential impacts of the guidance and given normal ongoing business dynamics, preliminary conclusions are subject to change.



### ***Item 7A. Quantitative and Qualitative Disclosures About Market Risk***

*Interest Rate Risk.* We hold our cash, cash equivalents and investments for working capital purposes. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash, cash equivalents and investments in a variety of securities, including money market funds and government debt securities. The risk associated with fluctuating interest rates is limited to our investment portfolio. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future interest income. The effect of a hypothetical 10% increase or decrease in overall interest rates would not have had a material impact on our operating results or the total fair value of the portfolio.

We are exposed to market risks related to fluctuations in interest rates related to our credit facility. As of March 31, 2017, we owed \$300 million on this loan with an interest rate of 2.49%. A sensitivity analysis was performed on the outstanding portion of our debt obligation as of March 31, 2017. Should the current weighted average interest rate increase or decrease by 10%, the resulting annual increase or decrease to interest expense would be approximately \$747 thousand as of March 31, 2017.

*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, 2017 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.

At March 31, 2017, we had foreign currency forward contracts with notional amounts totaling \$14.8 million. The valuation of outstanding foreign currency forward contracts at March 31, 2017 resulted in a liability balance of \$213 thousand, reflecting unfavorable contract rates in comparison to current market rates at this date and an asset balance of \$110 thousand reflecting favorable rates in comparison to current market rates. At March 31, 2016, we had foreign currency forward contracts with notional amounts totaling \$17.5 million. The valuation of outstanding foreign currency forward contracts at March 31, 2016 resulted in a liability balance of \$158 thousand, reflecting unfavorable contract rates in comparison to current market rates at this date and an asset balance of \$191 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, 2017, 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, 2017 our disclosure controls and procedures were effective in ensuring that material information relating to NetScout, including its consolidated subsidiaries, required to be disclosed by NetScout in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such material information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Management's Report on Internal Control Over Financial Reporting**

##### *Changes in Internal Control over Financial Reporting*

During the year ended March 31, 2017, we have fully extended our oversight and monitoring processes that support our internal control over financial reporting to include those entities acquired in the Comms Transaction that were exempt in the prior year. There has been no other change in our internal control over financial reporting during the fiscal year ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our 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, 2017. 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 2013. Based on our assessment, we concluded that our internal control over financial reporting was effective as of March 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

#### ***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 2017 Annual Meeting of Stockholders to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report 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 2017 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report 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 2017 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report 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 2017 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report 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 2017 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

## PART IV

### *Item 15. Exhibits, Financial Statement Schedules*

- (a) 1. Consolidated Financial Statements.
- |  |     |
|--|-----|
| Report of Independent Registered Public Accounting Firm  | F-2 |
| Consolidated Balance Sheets at March 31, 2017 and 2016   | F-3 |
| Consolidated Statements of Operations for the Years Ended March 31, 2017, 2016 and 2015                  | F-4 |
| Consolidated Statements of Comprehensive Income (Loss) for the Years Ended March 31, 2017, 2016 and 2015 | F-5 |
| Consolidated Statements of Stockholders' Equity for the Years Ended March 31, 2017, 2016 and 2015        | F-6 |
| Consolidated Statements of Cash Flows for the Years Ended March 31, 2017, 2016 and 2015                  | F-7 |
| Notes to Consolidated Financial Statements   | F-8 |
2. Financial Statement Schedule.
- |   |     |
|---|-----|
| Valuation and Qualifying Accounts for the Years Ended March 31, 2017, 2016 and 2015 | S-1 |
|---|-----|
- 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.





**NetScout Systems, Inc.**  
**Index to Consolidated Financial Statements**

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at March 31, 2017 and 2016	F-3
Consolidated Statements of Operations for the Years Ended March 31, 2017, 2016 and 2015	F-4
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended March 31, 2017, 2016 and 2015	F-5
Consolidated Statements of Stockholders' Equity for the Years Ended March 31, 2017, 2016 and 2015	F-6
Consolidated Statements of Cash Flows for the Years Ended March 31, 2017, 2016 and 2015	F-7
Notes to Consolidated Financial Statements	F-8



## 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, 2017 and March 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2017 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, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) 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 24, 2017

**NetScout Systems, Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except share and per share data)

	<u>March 31,</u> <u>2017</u>	<u>March 31,</u> <u>2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 304,880	\$ 210,711
Marketable securities	137,892	128,003
Accounts receivable and unbilled costs, net of allowance for doubtful accounts of \$2,066 and \$5,069 at March 31, 2017 and 2016, respectively	294,374	247,199
Inventories and deferred costs	40,002	58,029
Prepaid income taxes	40,346	18,137
Prepaid expenses and other current assets (related party balances of \$3,585 and \$44,161 at March 31, 2017 and 2016, respectively)	36,972	78,399
Total current assets	<u>854,466</u>	<u>740,478</u>
Fixed assets, net	61,393	62,033
Goodwill	1,718,162	1,709,369
Intangible assets, net	931,269	1,054,040
Deferred income taxes	6,580	6,206
Long-term marketable securities	21,933	13,361
Other assets	7,710	7,356
Total assets	<u>\$ 3,601,513</u>	<u>\$ 3,592,843</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable (related party balances of \$444 and \$5,893 at March 31, 2017 and 2016, respectively)	\$ 37,407	\$ 43,969
Accrued compensation	77,607	82,303
Accrued other	29,522	32,045
Income taxes payable	5,057	2,091
Deferred revenue and customer deposits	310,594	296,648
Total current liabilities	<u>460,187</u>	<u>457,056</u>
Other long-term liabilities	3,976	2,903
Deferred tax liability	277,599	285,359
Accrued long-term retirement benefits	32,117	31,378
Long-term deferred revenue and customer deposits	86,595	68,129
Long-term debt	300,000	300,000
Contingent liabilities, net of current portion	4,789	4,636
Total liabilities	<u>1,165,263</u>	<u>1,149,461</u>
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, \$0.001 par value: 5,000,000 shares authorized; no shares issued or outstanding at March 31, 2017 and 2016	—	—
Common stock, \$0.001 par value: 300,000,000 and 150,000,000 shares authorized; 115,917,431 and 114,495,614 shares issued and 92,041,288 and 94,088,469 shares outstanding at March 31, 2017 and 2016, respectively	116	114
Additional paid-in capital	2,693,846	2,642,745
Accumulated other comprehensive loss	(3,472)	(1,501)
Treasury stock at cost, 23,876,143 and 20,407,145 shares at March 31, 2017 and 2016, respectively	(570,921)	(481,366)
Retained earnings	316,681	283,390
Total stockholders' equity	<u>2,436,250</u>	<u>2,443,382</u>
Total liabilities and stockholders' equity	<u>\$ 3,601,513</u>	<u>\$ 3,592,843</u>

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,		
	2017	2016	2015
Revenue:			
Product	\$ 735,531	\$ 633,408	\$ 272,895
Service	426,581	322,011	180,774
Total revenue	<u>1,162,112</u>	<u>955,419</u>	<u>453,669</u>
Cost of revenue:			
Product (related party balances of \$7,229, \$25,055 and \$0, respectively)	238,002	238,037	59,037
Service (related party balances of \$745, \$5,736 and \$0, respectively)	108,137	90,412	35,524
Total cost of revenue	<u>346,139</u>	<u>328,449</u>	<u>94,561</u>
Gross profit	<u>815,973</u>	<u>626,970</u>	<u>359,108</u>
Operating expenses:			
Research and development (related party balances of \$1,624, \$16,701 and \$0, respectively)	232,701	208,630	75,242
Sales and marketing (related party balances of \$2,423, \$15,430 and \$0, respectively)	328,628	293,335	136,446
General and administrative (related party balances of \$4,099, \$16,055 and \$0, respectively)	118,438	117,714	47,296
Amortization of acquired intangible assets	70,141	32,373	3,351
Restructuring charges	4,001	468	—
Total operating expenses	<u>753,909</u>	<u>652,520</u>	<u>262,335</u>
Income (loss) from operations	<u>62,064</u>	<u>(25,550)</u>	<u>96,773</u>
Interest and other income (expense), net:			
Interest income	1,021	691	445
Interest expense	(9,184)	(6,329)	(773)
Other income (expense), net (related party balances of \$426, (\$379) and \$0, respectively)	(1,716)	(1,251)	(1,480)
Total interest and other expense, net	<u>(9,879)</u>	<u>(6,889)</u>	<u>(1,808)</u>
Income (loss) before income tax expense (benefit)	52,185	(32,439)	94,965
Income tax expense (benefit)	18,894	(4,070)	33,773
Net income (loss)	<u>\$ 33,291</u>	<u>\$ (28,369)</u>	<u>\$ 61,192</u>
Basic net income (loss) per share	\$ 0.36	\$ (0.35)	\$ 1.49
Diluted net income (loss) per share	\$ 0.36	\$ (0.35)	\$ 1.47
Weighted average common shares outstanding used in computing:			
Net income (loss) per share—basic	92,226	81,927	41,105
Net income (loss) per share—diluted	92,920	81,927	41,637

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

**NetScout Systems, Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(In thousands)**

	Year Ended March 31,		
	2017	2016	2015
Net income (loss)	\$ 33,291	\$ (28,369)	\$ 61,192
Other comprehensive income (loss):			
Cumulative translation adjustments	(1,000)	1,446	(6,311)
Recognition of actuarial net (loss) gain from pension and other post-retirement plans, net of (benefit) taxes of (\$368), \$215 and \$0	(858)	632	—
Changes in market value of investments:			
Changes in unrealized (losses) gains, net of taxes of \$0, \$0 and \$0	(59)	3	(12)
Total net change in market value of investments	(59)	3	(12)
Changes in market value of derivatives:			
Changes in market value of derivatives, net of tax (benefits) of (\$167), (\$329) and (\$1,113)	(277)	(523)	(1,937)
Reclassification adjustment for net gains included in net income (loss), net of taxes of \$135, \$915 and \$497	223	1,586	843
Total net change in market value of derivatives	(54)	1,063	(1,094)
Other comprehensive income (loss)	(1,971)	3,144	(7,417)
Total comprehensive income (loss)	\$ 31,320	\$ (25,225)	\$ 53,775

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		Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Treasury stock		Retained Earnings	Total Stockholders' Equity
	Shares	Par Value			Shares	Stated Value		
Balance, March 31, 2014	49,922,959	\$ 50	\$ 273,574	\$ 2,772	8,757,175	\$ (117,802)	\$ 250,567	\$ 409,161
Net income							61,192	61,192
Unrealized net investment losses				(12)				(12)
Unrealized net losses on derivative financial instruments				(1,094)				(1,094)
Cumulative translation adjustments				(6,311)				(6,311)
Issuance of common stock pursuant to exercise of options	23,850	—	139					139
Issuance of common stock pursuant to vesting of restricted stock units	728,239	1						1
Stock-based compensation expense for restricted stock units granted to employees			15,685					15,685
Issuance of common stock under employee stock purchase plan	137,500		5,889					5,889
Repurchase of treasury stock					1,247,568	(51,714)		(51,714)
Excess tax benefit from share-based compensation awards			2,814					2,814
Balance, March 31, 2015	50,812,548	51	298,101	(4,645)	10,004,743	(169,516)	311,759	435,750
Net loss							(28,369)	(28,369)
Unrealized net investment gains				3				3
Unrealized net gains on derivative financial instruments				1,063				1,063
Cumulative translation adjustments				1,446				1,446
Recognition of actuarial net gain from pension and other post-retirement plan				632				632
Issuance of common stock pursuant to vesting of restricted stock units	736,170	1						1
Stock-based compensation expense for restricted stock units granted to employees			26,609					26,609
Issuance of common stock under employee stock purchase plan	447,252		10,560					10,560
Repurchase of treasury stock					10,402,402	(311,850)		(311,850)
Issuance of shares related to the Comms Transaction	62,499,644	62	2,305,549					2,305,611
Excess tax benefit from share-based compensation awards			1,926					1,926
Balance, March 31, 2016	114,495,614	114	2,642,745	(1,501)	20,407,145	(481,366)	283,390	2,443,382
Net income							33,291	33,291
Unrealized net investment losses				(59)				(59)
Unrealized net losses on derivative financial instruments				(54)				(54)
Cumulative translation adjustments				(1,000)				(1,000)
Recognition of actuarial net losses from pension and other post-retirement plan				(858)				(858)
Issuance of common stock pursuant to vesting of restricted stock units	950,159	2						2
Stock-based compensation expense for restricted stock units granted to employees			36,449					36,449
Issuance of common stock under employee stock purchase plan	471,658		15,697					15,697
Repurchase of treasury stock					3,468,998	(89,555)		(89,555)
Shortfall from share-based compensation awards			(1,045)					(1,045)
Balance, March 31, 2017	115,917,431	\$ 116	\$ 2,693,846	\$ (3,472)	23,876,143	\$ (570,921)	\$ 316,681	\$ 2,436,250

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,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 33,291	\$ (28,369)	\$ 61,192
Adjustments to reconcile net income (loss) to cash provided by operating activities, net of the effects of acquisitions:			
Depreciation and amortization	160,863	140,071	19,709
Loss on disposal of fixed assets	271	134	300
Deal related compensation expense and accretion charges	153	6,728	153
Share-based compensation expense associated with equity awards	39,189	28,351	16,580
Net change in fair value of contingent and contractual liabilities	—	—	(10)
Deferred income taxes	(11,008)	(42,121)	2,736
Other (gains) losses	(111)	(279)	168
Changes in assets and liabilities			
Accounts receivable and unbilled costs	(48,080)	(23,259)	(21,801)
Due from related party	25,055	(18,483)	—
Inventories	12,456	5,523	(499)
Prepaid expenses and other assets	(24,751)	(29,481)	(2,169)
Accounts payable	405	2,334	1,355
Accrued compensation and other expenses	6,785	33,250	13,233
Due to related party	(2,792)	(6,743)	—
Income taxes payable	3,008	1,984	(684)
Deferred revenue	33,075	25,645	16,670
Net cash provided by operating activities	<u>227,809</u>	<u>95,285</u>	<u>106,933</u>
<b>Cash flows from investing activities:</b>			
Purchase of marketable securities	(199,841)	(100,278)	(133,212)
Proceeds from maturity of marketable securities	181,321	118,881	89,954
Purchase of fixed assets	(29,696)	(24,783)	(12,808)
Purchase of intangible assets	(1,031)	(3,962)	(174)
Acquisition of businesses, net of cash acquired	(4,606)	27,700	—
Decrease (increase) in deposits	129	(150)	55
Contingent purchase consideration	660	—	—
Collection of contingently returnable consideration	12,864	9,306	—
Change in restricted cash	(660)	—	—
Capitalized software development costs	(1,421)	(1,625)	—
Net cash (used in) provided by investing activities	<u>(42,281)</u>	<u>25,089</u>	<u>(56,185)</u>
<b>Cash flows from financing activities:</b>			
Issuance of common stock under stock plans	2	1	140
Treasury stock repurchases	(89,555)	(311,850)	(51,714)
Proceeds from issuance of long-term debt, net of issuance costs	—	294,623	—
Excess tax benefit (shortfall) from share-based compensation awards	(1,045)	1,926	2,814
Net cash used in financing activities	<u>(90,598)</u>	<u>(15,300)</u>	<u>(48,760)</u>
Effect of exchange rate changes on cash and cash equivalents	(761)	744	829
Net increase in cash and cash equivalents	94,169	105,818	2,817
Cash and cash equivalents, beginning of year	210,711	104,893	102,076
Cash and cash equivalents, end of year	<u>\$ 304,880</u>	<u>\$ 210,711</u>	<u>\$ 104,893</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ 6,442	\$ 3,807	\$ —
Cash paid for income taxes	\$ 49,290	\$ 50,658	\$ 29,233
Non-cash transactions:			
Transfers of inventory to fixed assets	\$ 4,928	\$ 1,229	\$ 940
Additions to property, plant and equipment included in accounts payable	\$ 1,241	\$ (1,065)	\$ (187)
Debt issuance costs settled through the issuance of additional debt	\$ —	\$ 5,377	\$ —
Issuance of common stock under employee stock purchase plans	\$ 15,697	\$ 10,560	\$ 5,889
Purchase consideration	\$ —	\$ 2,276,256	\$ —
Contingently returnable consideration	\$ —	\$ 29,355	\$ —
Contingent consideration related to acquisition, included in accrued other	\$ 660	\$ —	\$ —

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



## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements

#### NOTE 1 – NATURE OF BUSINESS

NetScout Systems, Inc., or NetScout or the Company, is an industry leader for real-time operational intelligence and performance analytics for service assurance and cybersecurity solutions that are used in many of the most demanding service provider, enterprise and government networks. The Company's solutions, based on proprietary Adaptive Service Intelligence (ASI) technology, help customers continuously monitor the service delivery environment to identify performance issues and to provide insight into network-based security threats. As a result, customers can quickly resolve issues that cause business disruptions or that adversely impact the user experience. The Company manufactures and markets these products for integrated hardware and software solutions and is also well positioned to help customers deploy its software in commercial-off-the-shelf hardware and in virtualized form factors. Regardless of the platform, customers use the Company's solutions to help drive return on investment on their network and broader information technology (IT) initiatives while reducing the tangible risks associated with downtime, poor service quality and compromised security. The Company reports revenue and income in one reportable segment.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

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

The accompanying audited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. On July 14, 2015, the Company completed the acquisition of Danaher Corporation's (Danaher) Communications Business (Communications Business), which included certain assets, liabilities, technology and employees within Tektronix Communications, VSS Monitoring, Arbor Networks and certain portions of the Fluke Networks Enterprise business, which excluded Danaher's data communications cable installation business and its communication service provider business (the Comms Transaction). The Comms Transaction is more fully described in Note 7 below. The Comms Transaction was recorded using the acquisition method of accounting; accordingly, the financial results of the acquisition are included in the accompanying audited consolidated financial statements for the periods subsequent to the acquisition.

##### Fiscal Year End

During fiscal years 2017 and 2015, the fiscal year end of NetScout and its wholly-owned subsidiaries ended on March 31st. During the fiscal year 2016, the fiscal year end of NetScout and its wholly-owned subsidiaries ended on March 31st, except for Fluke Networks Enterprise business, which ended on April 1, 2016. During fiscal years 2017 and 2015, NetScout's quarters ended on the last calendar day of the months of June, September and December. The fiscal year 2016 quarter end dates of the entities acquired as part of the Communications Business were October 2nd and December 31st. The Company does not adjust for the difference in fiscal periods between the acquired entities and itself, as such difference would be fewer than 93 days, pursuant to Regulation S-X Rule 3A-02. References herein to Fiscal 2017, 2016 and 2015 refer to the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

##### Segment Reporting

As part of its continued integration efforts of the Comms Transaction, effective July 1, 2016, the Company reorganized its business units, which resulted in a change in operating segment composition. As a result of this change, the Company reorganized the number of operating segments from five operating segments to one operating segment. The financial information that is regularly reviewed by the Company's Chief Operating Decision Maker (CODM) to allocate resources and assess performance was changed during the second quarter of fiscal year 2017. Our operating segments are determined based on the units that constitute a business for which financial information is available and for which operating results are regularly reviewed by the CODM. The Company reports revenue and income in one reportable segment.

##### 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 those involving revenue recognition, valuation of goodwill and acquired assets and liabilities, valuation of the pension obligation and share-based

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

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, 2017 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 which we believe are those institutions with an investment grade rating for deposits.

**Revenue Recognition**

The Company exercises judgment and uses estimates in connection with determining the amounts of product and services revenues to be recognized in each accounting period.

The Company derives revenues primarily from the sale of network management tools and security solutions for service provider and enterprise customers, which include hardware, software and service offerings. The majority of the Company’s product sales consist of hardware products with embedded software that are essential to providing customers the intended functionality of the solutions. The Company also sells stand-alone software solutions to provide customers with enhanced functionality. In addition, the Company sells 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, and in the case of software products, when the customer has the rights and ability to access the software, fees are fixed or determinable and collection of the related receivable is reasonably assured. If any significant obligations to the customer remain post-delivery, typically involving obligations relating to installation and acceptance by the customer, revenue recognition is deferred until such obligations have been fulfilled. Because many of the Company’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.

The Company’s service offerings include installation, integration, extended warranty and maintenance services, post-contract customer support (PCS), and other professional services including consulting and training. The Company generally provides software and/or 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/hardware warranty expiration. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates, bug fixes and hardware repair and replacement. Consulting services are recognized upon delivery or completion of performance. 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 upon delivery of the training.

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 the Company’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 fair value 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 vendor-specific objective evidence (VSOE) or third-party evidence (TPE) does not exist. The Company has established BESP for product elements as the average or median selling price the element was recently sold for, whether sold alone or sold as part of a multiple element transaction. The Company also considers its overall pricing objectives and practices across different sales channels and geographies, and market conditions. 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

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

established VSOE for a majority of its service elements based on historical stand-alone sales or by the renewal rate offered to the customer. However certain business units acquired as part of the Comms Transaction are unable to establish VSOE for undelivered elements. This occurs because the pricing for standalone sales does not occur in tight bands around a midpoint, and they are not contractually fixed. In these scenarios the Company has typically established BEBP by creating wider bands around a midpoint for standalone transactions or in some cases using cost plus a margin for the underlying services and products. If VSOE of fair value does not exist for a deliverable, the Company has determined that BEBP is the highest level of fair value that exists for those deliverables.

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 professional services, 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 element is sold separately. The Company reviews the separate sales of the undelivered elements on a regular 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. However, if the only undelivered element is maintenance and support, the entire arrangement fee is recognized over the service period.

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 products are distributed through its direct sales force and indirect distribution channels through alliances with resellers and distributors. Revenue arrangements with resellers and distributors are recognized on a sell-in basis; that is, when the Company delivers the product to the reseller or distributor. The Company records consideration given to a reseller or distributor as a reduction of revenue to the extent the Company has recorded revenue from the reseller or distributor. With limited exceptions, the Company's return policy does not allow product returns for a refund. Returns have been insignificant to date. In addition, the Company has a history of successfully collecting receivables from our resellers and distributors.

### **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 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 \$17.9 million and \$2.0 million at March 31, 2017 and 2016, 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, 2017, the Company had no direct customer or indirect channel partner which accounted for more than 10% of the accounts receivable balance. At March 31, 2016, the Company had one direct customer which accounted for more than

## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements—(Continued)

10% of the accounts receivable balance, while no indirect channel partner accounted for more than 10% of the accounts receivable balance.

During the fiscal years ended March 31, 2017, and 2016, one direct customer, Verizon, accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue. During the fiscal year ended March 31, 2015, Verizon and one other direct customer accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue.

As disclosed parenthetically within the Company's consolidated balance sheet, the Company has a receivable from Danaher in the amount of \$3.6 million that represents a concentration of credit risk at March 31, 2017.

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 amortizes acquired definite-lived intangible assets over their estimated useful lives. Goodwill and other indefinite-lived intangible assets are not amortized but subject to annual impairment tests; more frequently if events or circumstances occur that would indicate a potential decline in their fair value. The Company performs the assessment annually during the fourth quarter and on an interim basis if potential impairment indicators arise. Through the first quarter of fiscal year 2017, the Company had five reporting units: (1) legacy NetScout, (2) cybersecurity (Arbor Networks), (3) service assurance product lines primarily focused on the service provider market (formerly known as Tektronix Communications), (4) network visibility product lines (formerly known as VSS Monitoring) and (5) service assurance product lines primarily focused on the enterprise market (formerly known as FNET). As part of its continued integration efforts of the communications Business acquisition, effective July 1, 2016, the Company reorganized its business units. As a result of this change, the Company reduced the number of reporting units from five reporting units to two reporting units. The two reporting units are: (1) Service Assurance and (2) Security. The former cybersecurity reporting unit was aggregated within the Security reporting unit along with portions of the legacy NetScout business while all other former reporting units were aggregated into the Service Assurance reporting unit. Our reporting units are determined based on the components of our operating segments that constitute a business for which financial information is available and for which operating results are regularly reviewed by segment management.

As a result of the reduction in reporting units, the Company completed a quantitative impairment analysis for goodwill as of July 1, 2016. To conduct the impairment test, the Company performed a quantitative step 1 analysis, on a before and after basis, and concluded the estimated fair values of each of the Company's current and former reporting units exceeded their respective carrying values both immediately prior to and subsequent to the change.

## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements—(Continued)

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 intangible asset is impaired. If based on the Company's qualitative assessment it is more likely than not that the fair value of the 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. During fiscal year 2017, the Company performed a quantitative analysis for goodwill. The Company determined the fair value of the reporting unit's goodwill using established income and market valuation approaches. Goodwill was estimated to be recoverable as of January 31, 2017.

Indefinite-lived intangible assets are tested for impairment 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 indefinite-lived intangible assets 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 asset at January 31, 2017 using the qualitative Step 0 assessment. No impairment indicators were observed as of January 31, 2017.

The Company completed two acquisitions during the three year period ended March 31, 2017. 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 a risk adjusted rate of return for a market participant purchasing those relationships.

The Company has a contingent liability for \$660 thousand related to the acquisition of Avvasi Incorporated (Avvasi) in August 2016 for which an escrow account was established to cover damages NetScout suffers related to any liabilities that NetScout did not agree to assume or as a result of the breach of representations and warranties of the seller as described in the asset purchase agreement. Generally, indemnification claims that Avvasi would be liable for are limited to the total amount of the escrow account, which shall be the sole source for the satisfaction of any damages to the Company for such claims, but such limitation does not apply with respect to seller's breach of certain fundamental representations or related to other specified indemnity items, for which certain of Avvasi's shareholders may be liable for additional amounts in excess of the escrow amount. Except to the extent that valid indemnification claims are made prior to such time, the \$660 thousand will be paid to the seller on August 21, 2017.

The Comms Transaction during fiscal year ended March 31, 2016 contained both contingently returnable consideration and contingent purchase consideration. The contingently returnable consideration represented a contingent right of return from Danaher to reimburse NetScout for certain cash awards paid by NetScout to employees of the Communications Business transferred to Newco for post-combination services on various dates through August 4, 2016. During the fiscal year ended March 31, 2017, certain post-combination cash retention payments have been disbursed. Danaher reimbursed the Company for those costs and NetScout reimbursed Danaher for the tax benefit.

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 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 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,



## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements—(Continued)

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.

Typically for accounting purposes, these R&D investments have not been capitalized because of the development methodology employed. The developments are added individually to the core code over a shorter period of time but marketed as a release once all portions are complete.

Amortization included as cost of product revenue was \$594 thousand, \$0 and \$0 for the years ended March 31, 2017, 2016, and 2015, respectively. The Company capitalized \$1.4 million and \$1.6 million in software development costs in the years ended March 31, 2017 and 2016.

#### 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 qualifies for hedge accounting, the changes in the fair value each period for open contracts, measured at 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 prepaid expenses and other current assets and accrued other in the Company's consolidated balance sheet. 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.

Contingent liabilities include contingent consideration in connection with the Company's acquisitions. 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 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.



**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

**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.

**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. In accordance with the guidance, NetScout has determined its functional currency for those foreign subsidiaries that are an extension of NetScout's U.S. operations to be the U.S. Dollar.

Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than U.S. dollars 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.

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 foreign currency losses of \$2.5 million, \$1.5 million and \$1.4 million for the years ended March 31, 2017, 2016 and 2015, respectively. These amounts are included in other income (expense), net.

**Advertising Expense**

NetScout recognizes advertising expense as incurred. Advertising expense was \$8.1 million, \$6.4 million and \$3.1 million for the years ended March 31, 2017, 2016 and 2015, respectively.

**Comprehensive Income (Loss)**

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) typically consists of unrealized gains and losses on marketable securities, unrealized gain (loss) on hedge contracts, actuarial gains and losses, 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 basis, 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 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 deferred tax asset, we create a valuation allowance against it.

**Recent Accounting Standards**

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost (ASU 2017-07) which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2017 and should be applied retrospectively to all periods presented. ASU 2017-07 is effective for the Company beginning April 1, 2018.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

The Company is currently assessing the potential impact of the adoption of ASU 2017-07 on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 eliminates Step 2 from the goodwill impairment test and instead requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The updated guidance requires a prospective adoption. The Company adopted this standard in the fourth quarter of fiscal year 2017 as early adoption was permitted.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-01 clarifies the definition of a business with the objective of addressing whether transactions involving in-substance nonfinancial assets, held directly or in a subsidiary, should be accounted for as acquisitions or disposals of nonfinancial assets or of businesses. ASU 2017-01 is effective for annual periods beginning December 15, 2017. Early adoption is permitted for transactions, including acquisitions or dispositions, which occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The Company is evaluating the new guidance and does not believe the adoption of ASU 2017-01 will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18) related to the presentation of restricted cash in the statement of cash flows. The pronouncement requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of restricted cash and restricted cash equivalent balances. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the new guidance and does not believe ASU 2016-18 will have a material impact on its consolidated statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16). ASU 2016-16 requires that entities recognize the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs. Current GAAP prohibits the recognition of those tax effects until the asset has been sold to an outside party. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the new guidance and does not believe the adoption of ASU 2016-16 will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the potential impact of the adoption of ASU 2016-15 on its consolidated statement of cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for the Company beginning April 1, 2017. The Company is currently assessing the potential impact of the adoption of ASU 2016-09 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification (ASU 2016-02), its new standard on accounting for leases. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. ASU 2016-02 is effective for annual reporting periods beginning after December 31, 2018 and interim periods

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

within those fiscal years, and early adoption is permitted. The Company is currently assessing the potential impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09) and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016 and December 2016 within ASU 2015-04, 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively (ASU 2014-09, ASU 2015-04, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, collectively, Topic 606). Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. Topic 606 will be effective for the Company on April 1, 2018. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this standard. The Company believes it will elect the modified retrospective transition approach. However, management is still in the early stages of evaluating the impact of this new accounting standard. The adoption will most likely result in a reduction in deferred revenue as of April 1, 2018 because the Company will no longer require VSOE of fair value to recognize software deliverables. Upon adoption of ASC 606, the Company expects to recognize a greater proportion of revenue upon delivery of its products, whereas some of its current product sales are initially recorded in deferred revenue and recognized over a period of time. Since the Company currently expenses sales commissions as incurred, the requirement in the new standard to capitalize certain in-scope sales commissions is being evaluated to determine its potential impact in the consolidated financial statements in the year of adoption. There will be no impact to cash flows. The Company continues to assess all potential impacts of the guidance and given normal ongoing business dynamics, preliminary conclusions are subject to change.

**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, 2017 and 2016.

The following is a summary of marketable securities held by NetScout at March 31, 2017 classified as short-term and long-term (in thousands):

	Amortized Cost	Unrealized Losses	Fair Value
Type of security:			
U.S. government and municipal obligations	\$ 98,989	\$ (21)	\$ 98,968
Commercial paper	29,469	—	29,469
Corporate bonds	7,959	(3)	7,956
Certificates of deposit	1,499	—	1,499
Total short-term marketable securities	137,916	(24)	137,892
U.S. government and municipal obligations	21,952	(19)	21,933
Total long-term marketable securities	21,952	(19)	21,933
Total marketable securities	\$ 159,868	\$ (43)	\$ 159,825

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

The following is a summary of marketable securities held by NetScout at March 31, 2016, classified as short-term and long-term (in thousands):

	Amortized Cost	Unrealized Gains	Fair Value
Type of security:			
U.S. government and municipal obligations	\$ 109,963	\$ 4	\$ 109,967
Commercial paper	16,172	—	16,172
Corporate bonds	1,864	—	1,864
Total short-term marketable securities	<u>127,999</u>	<u>4</u>	<u>128,003</u>
U.S. government and municipal obligations	13,349	12	13,361
Total long-term marketable securities	<u>13,349</u>	<u>12</u>	<u>13,361</u>
Total marketable securities	<u>\$ 141,348</u>	<u>\$ 16</u>	<u>\$ 141,364</u>

Contractual maturities of the Company's marketable securities held at March 31, 2017 and March 31, 2016 were as follows (in thousands):

	March 31, 2017	March 31, 2016
Available-for-sale securities:		
Due in 1 year or less	\$ 137,892	\$ 128,003
Due after 1 year through 5 years	21,933	13,361
	<u>\$ 159,825</u>	<u>\$ 141,364</u>

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

**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 at March 31, 2017 and 2016 (in thousands):

	Fair Value Measurements at March 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 304,880	\$ —	\$ —	\$ 304,880
U.S. government and municipal obligations	40,628	80,273	—	120,901
Commercial paper	—	29,469	—	29,469
Corporate bonds	7,956	—	—	7,956
Certificate of deposits	—	1,499	—	1,499
Derivative financial instruments	—	110	—	110
	<u>\$ 353,464</u>	<u>\$ 111,351</u>	<u>\$ —</u>	<u>\$ 464,815</u>
<b>LIABILITIES:</b>				
Contingent purchase consideration	\$ —	\$ —	\$ (5,449)	\$ (5,449)
Derivative financial instruments	—	(213)	—	(213)
	<u>\$ —</u>	<u>\$ (213)</u>	<u>\$ (5,449)</u>	<u>\$ (5,662)</u>

	Fair Value Measurements at March 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 210,711	\$ —	\$ —	\$ 210,711
U.S. government and municipal obligations	41,116	82,212	—	123,328
Commercial paper	—	16,172	—	16,172
Corporate bonds	1,864	—	—	1,864
Derivative financial instruments	—	191	—	191
Contingently returnable consideration	—	—	16,131	16,131
	<u>\$ 253,691</u>	<u>\$ 98,575</u>	<u>\$ 16,131</u>	<u>\$ 368,397</u>
<b>LIABILITIES:</b>				
Contingent consideration	\$ —	\$ —	\$ (7,293)	\$ (7,293)
Derivative financial instruments	—	(158)	—	(158)
	<u>\$ —</u>	<u>\$ (158)</u>	<u>\$ (7,293)</u>	<u>\$ (7,451)</u>

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.

**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

The Company's Level 2 investments are classified as such because fair value is calculated using market observable data for similar but not identical instruments, or a discounted cash flow model using the contractual interest rate as compared to the underlying interest yield curve. The Company classifies municipal obligations as level 2 because the fair values are determined using quoted prices from markets the Company considers to be inactive. Commercial paper is 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. 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.

The Company's Level 3 asset and liabilities consist of contingently returnable consideration and contingent purchase consideration, respectively. The Company's contingently returnable consideration at March 31, 2016 represents a contingent right of return from Danaher to reimburse NetScout for cash awards to be paid by NetScout to employees of the Communications Business transferred to Newco (as defined below) for post-combination services on various dates through August 4, 2016 as part of the Comms Transaction. The contingently returnable consideration is classified as Level 3 because the fair value of the asset was determined using assumptions developed by management in determining the estimated cash awards paid on August 4, 2016 after applying an assumed forfeiture rate. There was no contingently returnable consideration or contingent purchase consideration related to the Comms Transaction at March 31, 2017 as Danaher reimbursed NetScout for these cash awards during fiscal year 2017.

The Company's contingent purchase consideration at March 31, 2017 includes \$660 thousand related to the acquisition of certain assets and liabilities of Avvasi Inc. (Avvasi) in the second quarter of fiscal year 2017. The contingent purchase consideration represents amounts deposited into an escrow account, which was established to cover damages NetScout suffers related to any liabilities that NetScout did not agree to assume or as a result of the breach of representations and warranties of the seller as described in the asset purchase agreement. The contingent purchase consideration is included as accrued other in the Company's consolidated balance sheet at March 31, 2017.

The fair value of contingent purchase consideration related to the acquisition of Simena LLC (Simena) in November 2011 for future consideration to be paid to the former seller is \$4.8 million at March 31, 2017. The contingent purchase consideration is included as contingent liabilities in the Company's consolidated balance sheet at March 31, 2017 and 2016.

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, 2017 (in thousands):

	<b>Contingent Purchase Consideration</b>	<b>Contingently Returnable Consideration</b>
Balance at March 31, 2016	\$ (7,293)	\$ 16,131
Additions to Level 3	(660)	—
Increase in fair value and accretion expense (included within research and development expense)	(153)	—
Decrease in fair value	—	(610)
Gross presentation of contingently returnable consideration to contingent purchase consideration	(3,910)	3,910
Payments received	—	(19,431)
Payments made	6,567	—
Balance at March 31, 2017	<u>\$ (5,449)</u>	<u>\$ —</u>

Deal-related compensation expense and accretion charges related to the contingent consideration for the fiscal year ended March 31, 2017 were \$153 thousand and were included as part of earnings.



**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(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, 2016 (in thousands):

	Contingent Purchase Consideration	Contingently Returnable Consideration
Balance at March 31, 2015	\$ (4,484)	\$ —
(Increase) / decrease in fair value and accretion expense (included within research and development expense)	(152)	—
Contingently returnable consideration	—	19,125
Increase in fair value	(21)	3,676
Gross presentation of contingently returnable consideration to contingent purchase consideration	(2,636)	2,636
Payments received	—	(9,306)
Balance at March 31, 2016	<u>\$ (7,293)</u>	<u>\$ 16,131</u>

Deal related compensation expense, accretion charges and changes related to settlements of contractual non-compliance liabilities for the fiscal year ended March 31, 2016 were \$152 thousand and were included as part of earnings.

**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,	
	2017	2016
Raw materials	\$ 22,305	\$ 18,617
Work in process	998	651
Finished goods and deferred costs	16,699	38,761
	<u>\$ 40,002</u>	<u>\$ 58,029</u>

**NOTE 6 – FIXED ASSETS**

Fixed assets consist of the following (in thousands):

	Estimated Useful Life in Years	March 31,	
		2017	2016
Furniture and fixtures	3-7	\$ 6,436	\$ 5,843
Computer equipment and internal use software	3-5	135,100	118,974
Demonstration and spare part units	2-5	28,036	6,860
Leasehold improvements (1)	up to 12	16,623	22,490
		<u>186,195</u>	<u>154,167</u>
Less – accumulated depreciation		(124,802)	(92,134)
		<u>\$ 61,393</u>	<u>\$ 62,033</u>

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

Depreciation expense was \$33.0 million, \$26.6 million and \$12.6 million for the years ended March 31, 2017, 2016 and 2015, respectively.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

**NOTE 7 – ACQUISITIONS**

*Avvasi*

On August 19, 2016, the Company acquired certain assets and liabilities of Avvasi for \$4.6 million. Avvasi’s technology allows service providers to measure, improve and monetize video in their networks. This acquisition builds on the Company's ongoing investment in enhancing its service assurance capabilities for video traffic over 4G/LTE networks.

The Company completed the purchase accounting related to the Avvasi acquisition in the second quarter of fiscal year 2017.

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

Initial cash payment	\$	3,946
Estimated fair value of contingent purchase consideration		660
Estimated Purchase Price	<u>\$</u>	<u>4,606</u>
Estimated fair value of assets acquired and liabilities assumed:		
Accounts receivable	\$	103
Inventories		85
Prepaid and other current assets		32
Property, plant and equipment		43
Intangible assets		2,760
Accounts payable		(1)
Accrued compensation		(49)
Deferred revenue		(317)
Goodwill	<u>\$</u>	<u>1,950</u>

Of the total consideration, \$660 thousand was deposited into an escrow account. The escrow account was established to cover damages NetScout suffers related to any liabilities that NetScout did not agree to assume or as a result of the breach of representations and warranties of the seller as described in the asset purchase agreement. Generally, indemnification claims that Avvasi would be liable for are limited to the total amount of the escrow account and shall be the sole source for the satisfaction of any damages to the Company for such claims, but such limitation does not apply with respect to seller's breach of certain fundamental representations or related to other specified indemnity items, for which certain of Avvasi's shareholders may be liable for additional amounts in excess of the escrow amount. Except to the extent that valid indemnification claims are made prior to such time, the \$660 thousand will be paid to the seller on August 21, 2017.

In connection with the Avvasi acquisition, certain former employees of Avvasi will receive cash retention payments subject to such employee's continued employment with the Company through two specified dates: August 21, 2017 and August 20, 2018. The cash retention payment liability was accounted for separately from the business combination as the cash retention payment is automatically forfeited upon termination of employment. The Company will record the liability over the period it is earned as compensation expense for post-combination services.

Goodwill was recognized for the excess purchase price over the fair value of the net assets acquired. Goodwill of \$2.0 million from the acquisition was included within the Service Assurance reporting unit. Goodwill and intangible assets recorded as part of the acquisition are deductible for tax purposes.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

The fair values of intangible assets were based on valuations using an income approach. 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 a more advanced version 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):

	Fair Value	Useful Life (Years)
Developed technology	\$ 1,730	9
Customer relationships	1,030	14
	<u>\$ 2,760</u>	

The weighted average useful life of identifiable intangible assets acquired from Avvasi is 10.9 years.

***Communications Business***

On July 14, 2015 (Closing Date), the Company completed the Comms Transaction, which was structured as a Reverse Morris Trust transaction whereby Danaher contributed its Communications Business to a new subsidiary, Potomac Holding LLC (Newco). The total equity consideration was approximately \$2.3 billion based on issuing approximately 62.5 million new shares of NetScout common stock to the existing common unit holders of Newco, based on the July 13, 2015 NetScout common stock closing share price of \$36.89 per share. On the Closing Date, the Company did not gain control over certain foreign entities due to regulatory and other compliance requirements (Delayed Close Entities). The Company closed on the acquisition of these Delayed Close Entities on October 7, 2015.

The Comms Transaction was accounted for under the acquisition method of accounting with the operations of the Communications Business included in the Company's operating results from the relevant date of acquisition. The acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The determination of the fair value of assets acquired and liabilities assumed has been recognized based on management's estimates and assumptions using the information about facts and circumstances that existed at the acquisition date.

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. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The finalization of the purchase accounting assessment may result in a change in the valuation of assets acquired and liabilities assumed. As a result, the Company records adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill to reflect additional information received about facts and circumstances which existed at the date of acquisition. 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.

During the six months ended September 30, 2016, the Company identified measurement period adjustments that impacted the estimated fair value of the assets and liabilities assumed on July 14, 2015 as a result of new information obtained about the facts and circumstances that existed as of the Closing Date. The table below, which summarizes the allocation of the purchase price for the entities acquired on July 14, 2015, has been updated to reflect these measurement period adjustments. The total measurement period adjustments resulted in a decrease in prepaid expenses and other current assets of \$0.2 million, an increase in deferred income taxes of \$0.7 million, an increase in deferred tax liabilities of \$3.3 million and an overall increase in goodwill of \$2.8 million. This change to the provisional amounts of fair value of the assets and liabilities assumed had no impact on the Statement of Operations for the year ended March 31, 2017. The Company completed the purchase accounting related to the Comms Transaction during the second quarter of fiscal year 2017.

During the fiscal year ended March 31, 2016, the Company determined that the accounts payable, accrued expenses and goodwill balances of the acquired entities reported in the Company's unaudited interim consolidated financial statements for the

## Notes to Consolidated Financial Statements—(Continued)

period ended September 30, 2015 were overstated and inventory and deferred revenue was understated. The affected balances were revised in the audited consolidated financial statements for the fiscal year ended March 31, 2016. These revisions correct the immaterial errors identified. The revision resulted in inventory increasing by \$0.2 million, accounts payable decreasing by \$0.6 million, accrued expenses decreasing by \$4.8 million, deferred revenue increasing \$1.4 million and an overall decrease in goodwill of \$4.2 million. There was no impact to the Statement of Operations for the period ended September 30, 2015, December 31, 2015 or March 31, 2016.

In connection with the Comms Transaction, under the Employee Matters Agreement dated July 14, 2015 by and among the Company, Danaher and Newco, Danaher funded certain contracts under which employees provided post-combination services to the Company.

- 1) For any outstanding Danaher restricted stock units or stock options held by employees of the Communications Business transferred to Newco (Newco Employees) that vested from July 14, 2015 through August 4, 2015, the awards continued to vest in Danaher shares. These awards met the definition of a derivative under ASC 815 and as such, the Company determined the fair value of these awards on July 14, 2015 and recorded them separately from the business combination as prepaid compensation. The derivative was amortized into compensation expense through August 4, 2015, the post-combination requisite settlement date. The total amount of compensation expense for post-combination services recorded for fiscal years ended March 31, 2017 and 2016 was \$0 and \$6.5 million, respectively.
- 2) All outstanding Danaher restricted stock units or stock options held by Newco Employees that were due to vest after August 4, 2015 were canceled and replaced by NetScout with a cash retention award equal to one half of the value of the employee's canceled Danaher equity award and up to an aggregate of \$15 million of restricted stock units relating to shares of NetScout common stock equal to the remaining one half of the value of the employee's canceled Danaher equity award. The restricted stock units issued are considered new share-based payment awards granted by NetScout to the former employees of Danaher. NetScout accounted for these new awards separately from the business combination. The Company recognized share-based compensation net of an estimated forfeiture rate and only recognized compensation cost for those shares expected to vest on a straight-line basis over the requisite service period of the award. The cash retention award was paid on August 4, 2016, to those employees that continued their employment with NetScout through the applicable vesting date of August 4, 2016. Danaher reimbursed NetScout for the amount of the cash retention payments (net of any applicable employment taxes and tax deductions). The cash retention award liability was accounted for separately from the business combination as the cash retention award was automatically forfeited upon termination of employment. NetScout recorded the cash retention award liability over the period it was earned as compensation expense for post-combination services. The reimbursement by Danaher to NetScout of the cash retention award payment was accounted for separately from the business combination on the date of the acquisition. For the fiscal years ended March 31, 2017 and 2016, \$4.3 million and \$8.0 million, respectively, has been recorded as compensation expense for post-combination services.
- 3) Newco Employees that were entitled to receive an incentive bonus under the Danaher annual bonus plan and who continued to be employed by NetScout through December 31, 2015 received a cash incentive bonus payment. The cash incentive bonus liability was accounted for separately from the business combination as the cash incentive bonus is automatically forfeited upon termination of employment. NetScout recorded the liability over the period it was earned as compensation expense for post-combination services. The payment of the cash retention award, which was reimbursed by Danaher to NetScout, was accounted for separately from the business combination on the date of the acquisition. For the fiscal years ended March 31, 2017 and 2016, \$0 and \$9.3 million, respectively, was recorded as compensation expense for post-combination services.
- 4) Certain Newco Employees received cash retention payments that were subject to the employee's continued employment with NetScout through October 16, 2015, ninety (90) days after the close of the acquisition. The cash retention payment liability was accounted for separately from the business combination as the cash retention payment was automatically forfeited upon termination of employment. NetScout recorded the liability over the period it was earned as compensation expense for post-combination services. The payment of the cash retention award, which was reimbursed by Danaher to NetScout, was accounted for separately from the business combination on the date of the acquisition. For the fiscal year ended March 31, 2017 and 2016, \$0 and \$7.8 million, respectively, was recorded as compensation expense for post-combination services.

**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

The following table summarizes the allocation of the purchase price for the entities acquired on July 14, 2015 (in thousands):

<b>Purchase Price Allocation:</b>		
Total equity consideration	\$	2,299,911 (1)
Less: Equity consideration for replacement awards		(29,355) (2)
<b>Estimated Purchase Price</b>	<b>\$</b>	<b><u>2,270,556</u></b>
Estimated fair value of assets acquired and liabilities assumed:		
Cash		27,701
Accounts receivable		140,586
Inventories		80,719
Prepaid expenses and other assets		6,519
Property, plant and equipment		36,825
Deferred income taxes		13,803
Intangible assets		1,080,700
Other assets		999
Accounts payable		(21,311)
Accrued compensation		(24,316)
Accrued other		(12,916)
Deferred revenue		(187,882)
Other long-term liabilities		(3,615)
Accrued retirement benefits		(29,917)
Deferred tax liabilities		(348,004)
<b>Goodwill</b>	<b>\$</b>	<b><u>1,510,665</u></b>

- (1) Represents approximately 62.5 million new shares (plus cash in lieu of fractional shares) of NetScout common stock issued to the existing common unit holders of Newco based on the July 13, 2015 NetScout common stock closing share price of \$36.89 per share, less the fair value attributable to the foreign entities that the Company did not obtain control over on July 14, 2015 due to regulatory and other compliance requirements.
- (2) Represents the value of certain outstanding Danaher equity awards held by Newco Employees for which continuing employees received, or will receive value after the Closing Date. A portion of this amount relates to awards that continued to vest in Danaher shares after the Closing Date. These future compensation amounts were settled in shares other than shares of the acquired business. The balance of this amount also represents future compensation expense and relates to cash awards which were paid by NetScout to acquired Newco employees on August 4, 2016. The cash payments by NetScout were reimbursed by Danaher. These items are further described in the Employee Matters Agreement dated July 14, 2015 by and among NetScout Systems, Inc., Danaher Corporation and Potomac Holding LLC and have been accounted for separately from the Comms Transaction.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

The following table summarizes the allocation of the purchase price for the Delayed Close Entities acquired on October 7, 2015 (in thousands):

<b>Purchase Price Allocation:</b>		
Total equity consideration	\$	5,700 (1)
<b>Estimated Purchase Price</b>	<b>\$</b>	<b><u>5,700</u></b>
<b>Estimated fair value of assets acquired and liabilities assumed:</b>		
Accounts receivable	\$	110
Inventories		78
Prepaid expenses and other assets		35
Property, plant and equipment		1,254
Other assets		281
Accounts payable		(8)
Accrued compensation		(824)
Accrued other		(176)
Deferred revenue		(65)
Other long-term liabilities		(126)
<b>Goodwill</b>	<b>\$</b>	<b><u>5,141</u></b>

(1) Represents the fair value attributable to the Delayed Close Entities that the Company obtained control over on October 7, 2015.

The Comms Transaction was aimed at extending the Company's reach into growth-oriented adjacent markets, including cybersecurity, with a broader range of market-leading products and capabilities; strengthening the Company's go-to-market resources to better support a larger, more diverse and more global customer base; and increasing scale and elevating the Company's strategic position within key accounts. Goodwill was recognized for the excess purchase price over the fair value of the assets acquired. Goodwill of \$1.5 billion from the acquisition was included within the following reporting units: \$534.8 million in the Security reporting unit and \$976.5 million in the Service Assurance reporting unit.

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

The fair values of intangible assets were based on valuations using an income approach. 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 a more advanced version 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):

	<b>Fair Value</b>	<b>Useful Life (Years)</b>
Developed technology	\$ 221,900	9 - 13
Customer relationships	794,100	13 - 18
Backlog	18,200	1 - 3
Definite-lived trademark and tradenames	43,900	3 - 9
Leasehold interest	2,600	4 - 6
	<b>\$ <u>1,080,700</u></b>	

The weighted average useful life of identifiable intangible assets acquired in the Comms Transaction is 14.7 years. Developed technology is amortized using an accelerated amortization method and has a weighted average useful life of 11.7 years. Customer relationships are amortized using an accelerated amortization method and have a weighted average useful life of 16.3 years. Backlog is amortized using an accelerated amortization method and has a weighted average useful life of 2.0 years. Trademarks and tradenames are amortized using an accelerated amortization method and have a weighted average useful life of 8.5 years. Leasehold interests are amortized on a straight-line basis and have a weighted average useful life of 5.6 years.



**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

The Company incurred approximately \$0 and \$29.4 million of acquisition-related costs related to the Comms Transaction during the fiscal years ended March 31, 2017 and 2016, respectively.

During the fiscal year ended March 31, 2017, the Company has recorded \$719.3 million of revenue and a net loss of \$2.1 million directly attributable to the entities acquired as part of the Comms Transaction within its consolidated financial statements.

The following table presents unaudited pro forma results of the historical Consolidated Statements of Operations of the Company and the Communications Business of Danaher for the fiscal year ended 2016, giving effect to the Comms Transaction as if they occurred on April 1, 2014 (in thousands, except per share data):

	Year Ended March 31, (unaudited)	
	2016	2015
Pro forma revenue	\$ 1,131,626	\$ 1,177,938
Pro forma net loss	\$ (58,806)	\$ (2,323)
Pro forma loss per share:		
Basic	\$ (0.59)	\$ (0.02)
Diluted	\$ (0.59)	\$ (0.02)
Pro forma shares outstanding		
Basic	99,687	103,573
Diluted	99,687	103,573

The pro forma results for the fiscal year ended March 31, 2016 and 2015 primarily includes adjustments for amortization of intangibles. This pro forma information does not purport to indicate the results that would have actually been obtained had the acquisitions been completed on the assumed date, or which may be realized in the future.

**NOTE 8 – GOODWILL & INTANGIBLE ASSETS**

**Goodwill**

Through the first quarter of fiscal year 2017, the Company had five reporting units: (1) legacy NetScout, (2) cybersecurity (Arbor Networks), (3) service assurance product lines focused on the service provider market (formerly known as Tektronix Communications), (4) network visibility product lines (formerly known as VSS Monitoring) and (5) service assurance product lines primarily focused on the enterprise market (formerly known as FNET). As part of its continued integration efforts of the Communication Business acquisition, effective July 1, 2016, the Company reorganized its business units. As a result of this change, the Company reduced the number of reporting units from five reporting units to two reporting units. The two reporting units are: (1) Service Assurance and (2) Security. The former cybersecurity reporting unit was aggregated within the Security reporting unit along with portions of the legacy NetScout business while all other former reporting units were aggregated into the Service Assurance reporting unit. Our reporting units are determined based on the components of our operating segment that constitute a business for which financial information is available and for which operating results are regularly reviewed by segment management.

As a result of the reduction in reporting units, the Company completed a quantitative impairment analysis for goodwill as of July 1, 2016. To conduct the impairment test, the Company performed a quantitative step 1 analysis, on a before and after basis, and concluded the estimated fair values of each of the Company's current and former reporting units exceeded their respective carrying values both immediately prior to and subsequent to the change.

At March 31, 2017, goodwill attributable to our Service Assurance and Security reporting units was \$1.2 billion and \$548.5 million, respectively. At March 31, 2016, goodwill attributable to our Service Assurance and Security reporting units was \$1.2 billion and \$547.4 million, 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 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, 2017.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

The Company determined the fair values of its reporting units by preparing a discounted cash flow analysis using forward looking projections of the reporting units' future operating results and by comparing the value of the reporting units to the implied market value of selected peers. The significant assumptions used in the discounted cash flow analysis include: revenue and revenue growth, selling margins, other operating expenditures, the discounted rate used to present value future cash flows and terminal growth rates. The discount rate used is a cost of equity method, which is essentially equal to the "market participant" weighted-average cost of capital (WACC). The Service Assurance and Security reporting units' goodwill fair value substantially exceeded its carrying value.

The change in the carrying amount of goodwill for the fiscal year ended March 31, 2017 is due to the acquisition of Avvasi, purchase accounting adjustments and the impact of foreign currency translation adjustments related to asset balances that are recorded in currencies other than the U.S. Dollar.

The changes in the carrying amount of goodwill for the fiscal years ended March 31, 2017 and 2016 are as follows (in thousands):

Balance at March 31, 2015	\$ 197,445
Goodwill acquired during the quarter ended September 30, 2015	1,504,261
Goodwill acquired during the quarter ended December 31, 2015 from Delayed Close Entities	5,141
Deferred revenue adjustments	(11,392)
Purchase accounting adjustments	(527)
Change in assumptions for assumed liabilities	(6,258)
Adjust deferred tax liability	25,034
Adjust tax effect on equity consideration	(3,271)
Foreign currency translation impact	(1,064)
Balance at March 31, 2016	<u>\$ 1,709,369</u>
Goodwill attributable to the Avvasi acquisition	1,950
Purchase accounting adjustments	3,792
Foreign currency translation impact and other adjustments	3,051
Balance at March 31, 2017	<u>\$ 1,718,162</u>

**Intangible Assets**

The net carrying amounts of intangible assets were \$931.3 million and \$1.1 billion at March 31, 2017 and 2016, 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.

In fiscal year 2017 and 2016, the Company's annual impairment tests indicated that the acquired trade name was not impaired. In the fourth quarter of fiscal year 2017, the Company completed its annual impairment test of the indefinite lived intangible at January 31, 2017, using the qualitative Step 0 assessment. No impairment indicators were observed at January 31, 2017.

During the years ended March 31, 2017 and 2016, the Company acquired technology licenses for \$1.0 million and \$3.7 million, respectively. These amounts are included within distributor relationships and are being amortized using the economic benefit method over a useful life of 3 years and 4 years, respectively.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

Intangible assets include the indefinite lived trade name with a carrying value of \$18.6 million and the following amortizable intangible assets at March 31, 2017 (in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Developed technology	\$ 254,005	\$ (110,200)	\$ 143,805
Customer relationships	831,731	(105,319)	726,412
Distributor relationships and technology licenses	8,290	(3,068)	5,222
Definite-lived trademark and trade name	43,817	(12,078)	31,739
Core technology	7,108	(6,009)	1,099
Net beneficial leases	336	(336)	—
Non-compete agreements	278	(278)	—
Leasehold interest	2,600	(998)	1,602
Backlog	18,142	(18,133)	9
Capitalized software	3,047	(594)	2,453
Other	1,208	(880)	328
	<u>\$ 1,170,562</u>	<u>\$ (257,893)</u>	<u>\$ 912,669</u>

Intangible assets include the indefinite lived trade name with a carrying value of \$18.6 million and the following amortizable intangible assets at March 31, 2016 (in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Developed technology	\$ 253,249	\$ (69,810)	\$ 183,439
Customer relationships	834,091	(42,526)	791,565
Distributor relationships and technology licenses	5,348	(1,633)	3,715
Definite-lived trademark and trade name	43,964	(5,511)	38,453
Core technology	7,169	(4,659)	2,510
Net beneficial leases	336	(336)	—
Non-compete agreements	288	(288)	—
Leasehold interest	2,600	(416)	2,184
Backlog	18,245	(6,750)	11,495
Capitalized software	1,625	—	1,625
Other	1,191	(737)	454
	<u>\$ 1,168,106</u>	<u>\$ (132,666)</u>	<u>\$ 1,035,440</u>

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

Amortization included as product revenue consists of amortization of backlog. Amortization included as cost of product revenue consists of amortization of developed technology, distributor relationships, core technology and software. Amortization included as operating expense consists of all other intangible assets. The following table provides a summary of amortization expense during the fiscal years ended March 31, 2017, 2016, and 2015 (in thousands).

	Years Ended March 31,		
	2017	2016	2015
Amortization of intangible assets included as:			
Product revenue	\$ 11,438	\$ 6,747	\$ —
Cost of product revenue	44,326	45,127	3,639
Operating expense	70,325	32,547	3,503
	<u>\$ 126,089</u>	<u>\$ 84,421</u>	<u>\$ 7,142</u>

The following is the expected future amortization expense at March 31, 2017 for the years ended March 31 (in thousands):

2018	\$ 111,606
2019	106,148
2020	97,872
2021	85,402
2022	74,109
Thereafter	437,532
Total	<u>\$ 912,669</u>

The weighted average amortization period of developed technology and core technology is 11.5 years. The weighted average amortization period for customer and distributor relationships is 16.1 years. The weighted average amortization period for trademarks and trade names is 8.5 years. The weighted average amortization period for leasehold interests is 5.6 years. The weighted average amortization period for backlog is 2.0 years. The weighted average amortization period for capitalized software is 4.0 years. The weighted average amortization period for amortizing all intangible assets is 14.6 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.

**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

The notional amounts and fair values of derivative instruments in the consolidated balance sheets at March 31, 2017 and 2016 were as follows (in thousands):

	Notional Amounts (a)		Prepaid Expenses and Other Current Assets		Accrued Other	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Derivatives Designated as Hedging Instruments:						
Forward contracts	\$ 14,752	\$ 17,490	\$ 110	\$ 191	\$ 213	\$ 158

(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 at March 31, 2017 and 2016 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Effective Portion				Ineffective Portion			
	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)			
	March 31, 2017	March 31, 2016	Location	March 31, 2017	March 31, 2016	Location	March 31, 2017	March 31, 2016
Forward contracts	\$ (444)	\$ (852)	Research and development	\$ (3)	\$ 206	Research and development	\$ 74	\$ 113
			Sales and marketing	361	2,295	Sales and marketing	(183)	(24)
	<u>\$ (444)</u>	<u>\$ (852)</u>		<u>\$ 358</u>	<u>\$ 2,501</u>		<u>\$ (109)</u>	<u>\$ 89</u>

- (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, 2016, the Company recorded a restructuring charge of \$500 thousand related to one-time termination benefits to be paid to one employee, which was the completion of a plan that was required as a closing condition for the Comms Transaction.

During the quarter ended June 30, 2016, the Company restructured certain departments to better align functions subsequent to the Comms Transaction. As a result of the restructuring program, the Company recorded \$2.0 million of restructuring charges related to one-time termination benefits to be paid to nineteen employees which was recorded in the twelve months ended March 31, 2017.

During the quarter ended March 31, 2017, the Company restructured certain departments to better align functions subsequent to the Comms Transaction, resulting in the termination of forty-one employees. Communication of the plan to the impacted employees was substantially completed on March 31, 2017. All of the workforce reduction is expected to be completed during the quarter ending June 30, 2017. As a result of the workforce reduction, during the twelve months ended March 31, 2017, the Company recorded a restructuring charge totaling \$1.9 million related to one-time termination benefits and \$0.4 million in facility related charges. An additional one-time termination benefit charge of approximately \$0.7 million is anticipated to be recorded in the quarter ending June 30, 2017. The one-time termination benefits will be paid in full in the next twelve months.

The following table provides a summary of the activity related to the restructuring plans and the related restructuring liability (in thousands):

	Q3 FY2016 Plan	Q1 FY2017 Plan	Q4 FY2017 Plan		Total
	Employee- Related	Employee- Related	Employee- Related	Facilities Related	
Balance at March 31, 2016	\$ 272	\$ —	\$ —	\$ —	\$ 272
Restructuring charges to operations	—	2,034	1,867	405	4,306
Cash payments	(272)	(1,739)	(317)	—	(2,328)
Other adjustments	—	(295)	—	—	(295)
Balance at March 31, 2017	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,550</u>	<u>\$ 405</u>	<u>\$ 1,955</u>

The accrual for employee-related severance is included as accrued compensation in the Company's consolidated balance sheet. The balance is expected to be paid in full in the next twelve months.

The accruals for facilities related exit costs are included as accrued other and other long-term liabilities.



## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements—(Continued)

#### NOTE 11 – LONG-TERM DEBT

On July 14, 2015, the Company entered into a certain credit facility with a syndicate of lenders pursuant to a Credit Agreement (Credit Agreement), dated as of July 14, 2015, by and among: the Company; JPMorgan Chase Bank, N.A. (JPMorgan), as administrative agent and collateral agent; J.P. Morgan Securities LLC, KeyBanc Capital Markets, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners; Santander Bank, N.A., SunTrust Bank, N.A. and U.S. Bank National Association, as co-documentation agents; and the lenders party thereto. The Credit Agreement provides for a five-year \$800 million senior secured revolving credit facility, including a letter of credit sub-facility of up to \$50 million. The Company may elect to use the new credit facility for working capital purposes or to finance the repurchase of up to 20 million shares of common stock under the Company's common stock repurchase plan. The commitments under the Credit Agreement will expire on July 14, 2020, and any outstanding loans will be due on that date. At March 31, 2017, \$300 million was outstanding under this credit facility.

At the Company's election, revolving loans under the Credit Agreement bear interest at either (a) an Alternate Base Rate per annum equal to the greatest of (1) JPMorgan's prime rate, (2) 0.50% in excess of the Federal Funds effective rate, or (3) an adjusted one month LIBOR rate plus 1%; or (b) such adjusted LIBOR rate (for the interest period selected by the Company), in each case plus an applicable margin. For the period from the delivery of the Company's financial statements for the quarter ended December 31, 2016, until the Company has delivered financial statements for the quarter ended March 31, 2017, the applicable margin will be 1.50% per annum for LIBOR loans and 0.50% per annum for Alternate Base Rate loans, and thereafter the applicable margin will vary depending on the Company's leverage ratio, ranging from 1.00% per annum for Base Rate loans and 2.00% per annum for LIBOR loans if the Company's consolidated leverage ratio is greater than 2.50 to 1.00, down to 0.25% per annum for Alternate Base Rate loans and 1.25% per annum for LIBOR loans if the Company's consolidated leverage ratio is equal to or less than 1.00 to 1.00.

The Company's consolidated leverage ratio is the ratio of its total funded debt compared to its consolidated adjusted EBITDA. Consolidated adjusted EBITDA includes certain adjustments, including, without limitation, adjustments relating to extraordinary, unusual or non-recurring charges, certain restructuring charges, non-cash charges, certain transaction costs and expenses and certain pro forma adjustments in connection with material acquisitions and dispositions, all as set forth in detail in the definition of consolidated adjusted EBITDA in the Credit Agreement.

Commitment fees will accrue on the daily unused amount of the credit facility. For the period from the delivery of the Company's financial statements for the quarter ended December 31, 2016 until the Company has delivered financial statements for the quarter ended March 31, 2017, the commitment fee will be 0.25% per annum, and thereafter the commitment fee will vary depending on the Company's consolidated leverage ratio, ranging from 0.35% per annum if the Company's consolidated leverage ratio is greater than 2.50 to 1.00, down to 0.20% per annum if the Company's consolidated leverage ratio is equal to or less than 1.00.

Letter of credit participation fees are payable to each lender on the amount of such lender's letter of credit exposure, during the period from the closing date of the Credit Agreement to but excluding the date which is the later of (i) the date on which such lender's commitment terminates or (ii) the date on which such lender ceases to have any letter of credit exposure, at a rate per annum equal to the applicable margin for LIBOR loans. Additionally, the Company will pay a fronting fee to each issuing bank in amounts to be agreed to between the Company and the applicable issuing bank.

Interest on Alternate Base Rate loans is payable at the end of each calendar quarter. Interest on LIBOR loans is payable at the end of each interest rate period or at the end of each three-month interval within an interest rate period if the period is longer than three months. The Company may also 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 and other obligations under the credit facility are (a) guaranteed by each of the Company's wholly owned material domestic restricted subsidiaries, subject to certain exceptions, and (b) are secured by substantially all of the assets of the Company and the subsidiary guarantors, including a pledge of all the capital stock of material subsidiaries held directly by the Company and the subsidiary guarantors (which pledge, in the case of any foreign subsidiary, is limited to 65% of the voting stock), subject to certain customary exceptions and limitations. The Credit Agreement generally prohibits any other liens on the assets of the Company and its restricted subsidiaries, subject to certain exceptions as described in the Credit Agreement.

## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements—(Continued)

The Credit Agreement contains certain covenants applicable to the Company and its restricted subsidiaries, including, without limitation, limitations on additional indebtedness, liens, various fundamental changes, dividends and distributions, investments (including acquisitions), transactions with affiliates, asset sales, including sale-leaseback transactions, speculative hedge agreements, payment of junior financing, 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. These covenants and limitations are more fully described in the Credit Agreement. At March 31, 2017, the Company was in compliance with all of these covenants.

The Credit Agreement provides that events of default will exist in certain circumstances, including failure to make payment of principal or interest on the loans when required, failure to perform certain obligations under the Credit Agreement and related documents, defaults under certain other indebtedness, certain insolvency events, certain events arising under ERISA, a change of control and certain other events. Upon an event of default, the administrative agent with the consent of, or at the request of, the holders of more than 50% in principal amount of the loans and commitments may terminate the commitments and accelerate the maturity of the loans and enforce certain other remedies under the Credit Agreement and the other loan documents.

In connection with the Company's new revolving credit facility described above, effective as of the Closing Date, the Company terminated its existing term loan and revolving credit facility pursuant to the Credit and Security Agreement, dated as of November 22, 2011, by and among the Company, 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.

The Company capitalized \$6.6 million of debt issuance costs associated with the origination of the Credit Agreement, which are being amortized over the life of the revolving credit facility. The unamortized balance was \$4.4 million as of March 31, 2017. The balance of \$1.4 million was included as prepaid expenses and other current assets and a balance of \$3.0 million was included as other assets in Company's consolidated balance sheet.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

**NOTE 12 – NET INCOME (LOSS) PER SHARE**

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

	Year Ended March 31,		
	2017	2016	2015
<b>Numerator:</b>			
Net income (loss)	\$ 33,291	\$ (28,369)	\$ 61,192
<b>Denominator:</b>			
Denominator for basic net income (loss) per share - weighted average common shares outstanding	92,226	81,927	41,105
Dilutive common equivalent shares:			
Weighted average stock options	—	—	9
Weighted average restricted stock units	694	—	523
Denominator for diluted net income (loss) per share - weighted average shares outstanding	92,920	81,927	41,637
<b>Net income (loss) per share:</b>			
Basic net income (loss) per share	\$ 0.36	\$ (0.35)	\$ 1.49
Diluted net income (loss) per share	\$ 0.36	\$ (0.35)	\$ 1.47

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,		
	2017	2016	2015
Restricted stock units	1,320	453	14

Basic net income (loss) per share is calculated by dividing net income (loss) 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 net income (loss) per share is calculated by dividing net income (loss) 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. As we incurred a net loss in the year ended March 31, 2016, all outstanding restricted stock units have an anti-dilutive effect and are therefore excluded from the computation of diluted weighted average share outstanding.

**NOTE 13 - STOCKHOLDERS EQUITY**

On September 20, 2016, the stockholders of the Company approved an amendment to the Third Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock, par value \$0.001 per share, from 150,000,000 to 300,000,000 shares. The increase in authorized shares of common stock has been reflected in the Company's financial statements.

**NOTE 14 – TREASURY STOCK**

On April 22, 2014, the Company's board of directors approved a stock repurchase program. This program authorized management to make repurchases of NetScout outstanding common stock of up to \$100 million. Through March 31, 2016, the Company had repurchased 824,452 shares totaling \$34.3 million in the open market under this stock repurchase plan. The Company repurchased 67,752 shares for \$2.8 million and 756,700 shares for \$31.5 million under the program during the fiscal years ended March 31, 2016 and 2015, respectively.

## NetScout Systems, Inc.

### Notes to Consolidated Financial Statements—(Continued)

On May 19, 2015, the Company's board of directors approved a new share repurchase program, conditional upon the completion of the Comms Transaction. This program enables the Company to repurchase up to 20 million shares of its common stock. This plan became effective on July 14, 2015 upon the completion of the Comms Transaction and replaced the Company's previously existing open market stock repurchase program described above. The Company is not obligated to acquire any specific amount of common stock within any particular timeframe under this program. The Company repurchased 3,148,426 shares for \$80.0 million and 10,078,136 shares for \$300.0 million in the open market under this stock repurchase plan during the fiscal years ended March 31, 2017 and 2016, respectively. At March 31, 2017, 6,773,438 shares of common stock remained available to be purchased under the plan.

In connection with the vesting and release of the restriction on previously vested shares of restricted stock, the Company repurchased 320,572 shares for \$9.6 million, 256,514 shares for \$9.1 million and 247,568 shares for \$10.8 million related to minimum statutory tax withholding requirements on these restricted stock units during the fiscal years ended March 31, 2017, 2016 and 2015, respectively. 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 15 – 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 if the contribution period is within any calendar year. However, if contribution periods overlap calendar years, an individual participant is eligible to utilize the unused portion of the \$25,000 limit from the subsequent purchase in the current purchase up to \$50,000. 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 the last day of February of each year. During the fiscal year ended March 31, 2017, employees purchased 471,658 shares under the ESPP with a weighted average purchase price per share of \$33.28. At March 31, 2017, 1,096,090 shares were available for future issuance under the ESPP.

##### 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. At March 31, 2017, no options to purchase shares of common stock were outstanding under the 1999 Stock Option Plan. No additional grants can be made under the 1999 Stock Option Plan.

##### 2007 Equity Incentive Plan

Enacted 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 to increase the shares of common stock reserved for issuance by 8,000,000 shares. On September 22, 2015, 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 8,500,000. A total of

**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

21,500,000 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. At March 31, 2017, an aggregate of 3,610,301 unvested equity awards were outstanding under the Amended 2007 Plan.

The Amended 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).

Based on historical experience, the Company assumed an annualized forfeiture rate of 0% for awards granted to its independent directors, approximately 2% for awards granted to its senior executives, and approximately 5% granted to all remaining employees during the fiscal years ended March 31, 2017, 2016 and 2015.

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,		
	2017	2016	2015
Cost of product revenue	\$ 934	\$ 645	\$ 338
Cost of service revenue	3,956	2,601	1,194
Research and development	12,362	9,205	5,505
Sales and marketing	12,823	8,725	4,841
General and administrative	9,114	7,175	4,702
	\$ 39,189	\$ 28,351	\$ 16,580

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

Transactions under the 1999 Stock Option Plan and the 2007 Equity Incentive Plan during the fiscal years ended March 31, 2017, 2016 and 2015 are summarized in the table below.

	Stock Options		Restricted Stock Units	
	Number of Shares	Weighted Average Exercise Price	Number of Awards	Weighted Average Fair Value
Outstanding – March 31, 2014	31,350	\$ 5.87	1,738,299	\$ 21.11
Granted	—	—	1,009,770	36.92
Exercised (Options)/Issued (RSU's)	(23,850)	5.87	(728,239)	18.97
Canceled	(7,500)	5.87	(90,515)	21.44
Outstanding – March 31, 2015	—	\$ —	1,929,315	\$ 30.18
Granted	—	—	1,806,490	37.20
Exercised (Options)/Issued (RSU's)	—	—	(736,170)	26.52
Canceled	—	—	(126,329)	34.99
Outstanding – March 31, 2016	—	\$ —	2,873,306	\$ 35.32
Granted	—	—	2,020,536	24.92
Exercised (Options)/Issued (RSU's)	—	—	(950,159)	33.16
Canceled	—	—	(333,382)	33.40
Outstanding – March 31, 2017	—	\$ —	3,610,301	\$ 30.24

At March 31, 2017, there were 8,602,261 shares of common stock available for grant under the Amended 2007 Plan.

The Company does not currently expect to repurchase shares from any source to satisfy its obligations under the 2007 Plan.

The aggregate intrinsic value of stock options exercised and the fair value of restricted stock units vested at March 31, 2017, 2016 and 2015 were as follows (in thousands):

	Year Ended March 31,		
	2017	2016	2015
Total intrinsic value of stock options exercised	\$ —	\$ —	\$ 800
Total fair value of restricted stock unit awards vested	\$ 28,293	\$ 25,936	\$ 31,651

At March 31, 2017, there was no unrecognized compensation cost related to stock options.

At March 31, 2017, the total unrecognized compensation cost related to restricted stock unit awards was \$87.2 million, which is expected to be amortized over a weighted-average period of 1.7 years.

**NOTE 16 – PENSION BENEFIT PLANS**

**401(k) Plan**

The Company has a defined contribution program for certain employees that is qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. The Company 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 \$9.4 million, \$7.8 million and \$2.6 million to the plan for the years ended March 31, 2017, 2016 and 2015, respectively.

**Defined Benefit Pension Plan**

Certain of the Company's non-U.S. employees participate in certain noncontributory defined benefit pension plans acquired in the Comms Transaction on July 14, 2015. None of the Company's employees in the U.S. participate in any noncontributory defined benefit pension plans. In general, these plans are funded based on considerations relating to legal



**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

requirements, underlying asset returns, the plan's funded status, the anticipated deductibility of the contribution, local practices, market conditions, interest rates and other factors.

The components of the change in benefit obligation of the pension plan is as follows (in thousands):

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Benefit obligation, at beginning of year	\$ 29,188	\$ —
Service cost	329	279
Interest cost	638	391
Benefits paid and other	(231)	(175)
Acquisitions	—	29,033
Actuarial loss (gain)	1,226	(847)
Foreign exchange rate impact	(1,009)	507
Benefit obligation, at end of year	<u>\$ 30,141</u>	<u>\$ 29,188</u>

The reconciliation of the beginning and ending balances of the fair value of the assets of the pension plan is as follows (in thousands):

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Fair value of plan assets, at beginning of year	\$ —	\$ —
Employer direct benefit payments	231	175
Benefits paid and other	(231)	(175)
Fair value of plan assets, at end of year	<u>\$ —</u>	<u>\$ —</u>

The following sets forth the components of the Company's net periodic pension cost of the noncontributory defined benefit pension plans for the fiscal years ended March 31, 2017 and 2016 (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Service cost	\$ 329	\$ 279
Interest cost	638	391
Net periodic pension cost	<u>\$ 967</u>	<u>\$ 670</u>

There was no net periodic pension cost for fiscal years prior to fiscal year 2016 as the pension plan was acquired as a result of the Comms Transaction during the fiscal year ended March 31, 2016.

Weighted average assumptions used to determine net periodic pension cost at date of measurement:

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Discount rate	2.10%	2.30%
Rate of compensation increase	2.25%	2.25%

As of March 31, 2017, unrecognized actuarial losses of \$1.2 million (\$858 thousand, net of tax) which have not yet been recognized in net periodic pension cost are included in accumulated other comprehensive income (loss). The unrecognized actuarial gains and losses are calculated as the difference between the actuarially determined projected benefit obligation and the value of the plan assets less accrued pension costs. None of this amount is expected to be recognized in net periodic pension costs during the fiscal year ending March 31, 2018. No plan assets are expected to be returned to the Company during the fiscal year ending March 31, 2018.

**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

**Expected Contributions**

During the fiscal year ended March 31, 2017, the Company contributed \$231 thousand to its defined benefit pension plan. The following sets forth benefit payments, which reflect expected future service, as appropriate, expected to be paid by the plan in the periods indicated (in thousands):

2018	\$	296
2019	\$	346
2020	\$	398
2021	\$	456
2022	\$	502
2023 - 2026	\$	3,597

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

**NOTE 17 – INCOME TAXES**

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

	Year Ended March 31,		
	2017	2016	2015
Domestic	\$ 32,475	\$ (6,979)	\$ 93,447
Foreign	19,710	(25,460)	1,518
	<u>\$ 52,185</u>	<u>\$ (32,439)</u>	<u>\$ 94,965</u>

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

	Year Ended March 31,		
	2017	2016	2015
Current income tax expense:			
Federal	\$ 15,912	\$ 29,238	\$ 25,927
State	3,152	2,223	3,825
Foreign	11,175	6,628	1,307
	<u>30,239</u>	<u>38,089</u>	<u>31,059</u>
Deferred income tax expense (benefit):			
Federal	(8,278)	(30,216)	2,836
State	3,578	(4,461)	17
Foreign	(6,645)	(7,482)	(139)
	<u>(11,345)</u>	<u>(42,159)</u>	<u>2,714</u>
	<u>\$ 18,894</u>	<u>\$ (4,070)</u>	<u>\$ 33,773</u>

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

	Year Ended March 31,		
	2017	2016	2015
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	9.7	3.1	3.2
Research and development tax credits	(8.2)	13.0	(1.4)
Effect of foreign operations	(6.7)	(18.2)	0.1
Meals and entertainment	2.5	(3.5)	0.5
Domestic production activities deduction	(4.0)	9.2	(2.9)
Change in valuation allowance	(0.1)	0.7	0.4
Transaction costs	—	(19.1)	—
Foreign withholding	3.8	(6.1)	—
Other permanent differences	4.2	(1.6)	0.7
	<u>36.2%</u>	<u>12.5%</u>	<u>35.6%</u>

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

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

	<u>Year Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Accrued expenses	\$ 4,883	\$ 6,734
Deferred revenue	8,427	13,913
Reserves	6,240	7,916
Pension and other retiree benefits	4,978	4,842
Net operating loss carryforwards	27,322	41,225
Tax credit carryforwards	5,502	5,824
Share-based compensation	6,418	4,975
Other	288	426
Total gross deferred tax assets	<u>64,058</u>	<u>85,855</u>
Valuation allowance	<u>(3,374)</u>	<u>(3,777)</u>
Net deferred tax assets	60,684	82,078
Deferred tax liabilities:		
Intangible assets	(323,008)	(354,601)
Depreciation	<u>(8,695)</u>	<u>(6,630)</u>
Total deferred tax asset (liability)	<u>\$ (271,019)</u>	<u>\$ (279,153)</u>

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., and for certain deferred tax assets related to the acquisition of ONPATH. 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.

At March 31, 2017, undistributed earnings of non-U.S. subsidiaries totaled approximately \$58 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. At this time, the Company has deemed it to be impracticable to determine the amount of any taxes payable if these amounts were to be repatriated to the United States.

At March 31, 2017, the Company had United States federal net operating loss carry forwards of approximately \$39 million, state net operating loss carryforwards of approximately \$69 million and tax credit carryforwards of approximately \$6 million. The net operating loss and credit carryforwards will expire at various dates beginning in 2018. The Company also had foreign net operating loss carryforwards of approximately \$71 million at March 31, 2017. The majority of foreign net operating losses have no expiration dates. Utilization of the U.S. 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 2014, although carryforward attributes that were generated prior to 2014 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.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the fiscal years ended March 31, 2017, 2016 and 2015 is as follows (in thousands):

	Year Ended March 31,		
	2017	2016	2015
Balance at April 1,	\$ 1,588	\$ 1,038	\$ 421
Additions based on tax positions related to the current year	46	48	45
Release of tax positions of prior years	(154)	—	(75)
Increase in unrecognized tax benefits as a result of a tax position taken during a prior period	1,446	502	647
Balance at March 31,	<u>\$ 2,926</u>	<u>\$ 1,588</u>	<u>\$ 1,038</u>

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 18 – COMMITMENTS AND CONTINGENCIES**

**Acquisition related**

The Company has a contingent liability related to the acquisition of Simena in November 2011 for future consideration to be paid to the former seller which had an initial fair value of \$8.0 million at the time of acquisition. At March 31, 2017, the present value of the future consideration was \$4.8 million.

In addition, the Company has a contingent liability for \$660 thousand related to the acquisition of Avvasi in August 2016 for which an escrow account was established to cover damages NetScout suffers related to any liabilities that NetScout did not agree to assume or as a result of the breach of representations and warranties of the seller as described in the asset purchase agreement. Generally, indemnification claims that Avvasi would be liable for are limited to the total amount of the escrow account, which shall be the sole source for the satisfaction of any damages to the Company for such claims, but such limitation does not apply with respect to seller's breach of certain fundamental representations or related to other specified indemnity items, for which certain of Avvasi's shareholders may be liable for additional amounts in excess of the escrow amount. Except to the extent that valid indemnification claims are made prior to such time, the \$660 thousand will be paid to the seller on August 21, 2017.

**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 material adverse effect on the Company's financial condition, results of operations or cash flows.

**Unconditional purchase obligations**

At March 31, 2017, the Company had unconditional purchase obligations of \$32.2 million, which represent estimated open purchase orders to purchase inventory as well as commitments for products and services used in the normal course of business.

**Leases**

NetScout leases office space under non-cancelable operating leases. Total rent expense under the leases was \$13.8 million, \$12.8 million and \$5.9 million for the fiscal years ended March 31, 2017, 2016 and 2015, respectively.

**NetScout Systems, Inc.**  
**Notes to Consolidated Financial Statements—(Continued)**

At March 31, 2017, future non-cancelable minimum lease commitments (including office space, copiers and automobiles) are as follows (in thousands):

<b>Year Ending March 31,</b>	
2018	\$ 13,992
2019	8,062
2020	5,984
2021	4,244
2022	3,437
Remaining years	3,967
Total minimum lease payments	<u>\$ 39,686</u>

**NOTE 19 – SEGMENT AND GEOGRAPHIC INFORMATION**

As part of its continued integration efforts of the Comms Transaction, effective July 1, 2016, the Company reorganized its business units, which resulted in a change in operating segment composition. As a result of this change, the Company reorganized the number of operating segments from five operating segments to one operating segment. The financial information that is regularly reviewed by the Company's Chief Operating Decision Maker (CODM) to allocate resources and assess performance was changed during the second quarter of fiscal year 2017. Our operating segment is determined based on the units that constitute a business for which financial information is available and for which operating results are regularly reviewed by the CODM. The Company reports revenue and income in one reportable segment.

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.

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

	<b>Year Ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
United States	\$ 729,373	\$ 681,569	\$ 348,354
Europe	190,588	137,411	46,253
Asia	99,277	61,566	27,685
Rest of the world	142,874	74,873	31,377
	<u>\$ 1,162,112</u>	<u>\$ 955,419</u>	<u>\$ 453,669</u>

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 because the Company ships the products to a United States location. Further, the Company determines the geography of its sales after considering where the contract originated. 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.



**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

**NOTE 20 - RELATED PARTY TRANSACTIONS**

During our fiscal year ended March 31, 2016 and the three months ended June 30, 2016, a member of the Company's Board of Directors served as an executive officer of Danaher. As part of the split off of Danaher's Communications Business and the Company's subsequent acquisition of that business from Newco's shareholders, NetScout entered into multiple transactions with Danaher which include: transition services agreements, lease agreements, closing agreements, and compensation for post-combination services provisions within the separation and distribution agreement. This board member is now the founding President and CEO of Fortive Corporation (Fortive), which spun off of Danaher in July 2016. As part of the spin-off of Fortive, the transition services agreement was amended to, among other things, assign Danaher's rights, duties, obligations and liabilities under the transition services agreement to Fluke Corporation, a subsidiary of Fortive. The Company has disclosed the transactions with Danaher and Fortive parenthetically within the financial statements.

As disclosed parenthetically within the Company's consolidated balance sheet, the Company has receivables from related parties. The following table summarizes those balances (in thousands):

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Danaher	\$ 404	\$ 44,161
Fortive	3,181	—
	<u>\$ 3,585</u>	<u>\$ 44,161</u>

As disclosed parenthetically within the Company's consolidated balance sheet, the Company has payables due to related parties. The following table summarizes those balances (in thousands):

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Danaher	\$ —	\$ 5,893
Fortive	444	—
	<u>\$ 444</u>	<u>\$ 5,893</u>

As disclosed parenthetically within the Company's consolidated statements of operations, the Company has recorded expenses from related parties. The following table summarizes those balances (in thousands):

	<u>Year Ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
<b><i>Danaher:</i></b>		
Cost of product revenue	\$ 4,690	\$ 25,055
Cost of service revenue	485	5,736
Research and development expenses	1,720	16,701
Sales and marketing	2,273	15,430
General and administrative expenses	2,551	16,055
Other expense	—	379
	<u>\$ 11,719</u>	<u>\$ 79,356</u>
<b><i>Fortive:</i></b>		
Cost of product revenue	\$ 2,539	\$ —
Cost of service revenue	260	—
Research and development expenses	(96)	—
Sales and marketing	150	—
General and administrative expenses	1,548	—
Other income	(426)	—
	<u>\$ 3,975</u>	<u>\$ —</u>

**NetScout Systems, Inc.**

**Notes to Consolidated Financial Statements—(Continued)**

As disclosed within the Company's consolidated statements of cash flows, the Company has cash flows from operating activities resulting from amounts due to related parties and due from related parties. The following table summarizes those cash flows from operating activities (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Due from related party:</b>		
Danaher	\$ 17,310	\$ (18,483)
Fortive	7,745	—
Total	<u>\$ 25,055</u>	<u>\$ (18,483)</u>
<b>Due to related party:</b>		
Danaher	\$ (2,954)	\$ (6,743)
Fortive	162	—
Total	<u>\$ (2,792)</u>	<u>\$ (6,743)</u>

As disclosed within the Company's consolidated statements of cash flows, the Company has cash flows from investing activities resulting from amounts due from related parties. The following table summarizes those cash flows from investing activities (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Due from related party:</b>		
Danaher	\$ 12,864	\$ 9,306
Total	<u>\$ 12,864</u>	<u>\$ 9,306</u>

The Company recognized \$177 thousand and \$130 thousand in revenue from Danaher during the fiscal years ended March 31, 2017 and 2016 in the ordinary course of business.

A member of the Company's Board of Directors served as a member of the board of directors for EMC Corporation (EMC) during the fiscal years ended March 31, 2017 and 2016, and therefore, the Company considers sales to EMC to be a related party transaction. During the quarter ended September 30, 2016, EMC was acquired by Dell Technologies and EMC's board member resigned. The Company continued to report the wind down of preexisting transactions as related party transactions through the Company's fiscal year 2017. The Company recognized \$167 thousand and \$475 thousand in revenue from EMC during the fiscal years ended March 31, 2017 and 2016 in the ordinary course of business.

A member of the Company's Board of Directors also serves as a consultant for The MITRE Corporation (MITRE) and therefore, the Company considers sales to MITRE to be related party transactions. The Company generated \$24 thousand and \$125 thousand in revenue from MITRE during the fiscal years ended March 31, 2017 and 2016 in the ordinary course of business.

During the fiscal year ended March 31, 2016, the Company had a member of the Board of Directors who served as a Section 16 officer of State Street Corporation (State Street) and therefore, the Company considered sales to State Street to be a related party transaction. The Company recognized \$452 thousand in revenue from State Street during the fiscal year ended March 31, 2016 in the ordinary course of business. This board member is no longer a Section 16 officer of State Street, and as a result, State Street is no longer considered a related party in the Company's fiscal year ended March 31, 2017.

**NOTE 21 – 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, 2017 and 2016. 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, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015
Revenue	\$ 318,920	\$ 302,192	\$ 272,048	\$ 268,952	\$ 285,887	\$ 307,679	\$ 261,110	\$ 100,743
Gross profit	\$ 226,003	\$ 220,514	\$ 187,538	\$ 181,918	\$ 185,036	\$ 201,564	\$ 160,923	\$ 79,447
Net income (loss)	\$ 22,310	\$ 21,245	\$ (1,266)	\$ (8,998)	\$ (3,616)	\$ (24,507)	\$ (7,915)	\$ 7,669
Diluted net income (loss) per share	\$ 0.24	\$ 0.23	\$ (0.01)	\$ (0.10)	\$ (0.04)	\$ (0.25)	\$ (0.09)	\$ 0.19

**NetScout Systems, Inc.**  
**Schedule II—Valuation and Qualifying Accounts**  
**(in thousands)**

	<b>Balance at Beginning of Year</b>	<b>Additions Resulting in Charges to Operations</b>	<b>Charges to Other Accounts</b>	<b>Deductions Due to Write- Offs</b>	<b>Balance at End of Year</b>
<b>Year ended March 31, 2015</b>					
Allowance for doubtful accounts	\$ 313	\$ (140)	\$ —	\$ —	\$ 173
Deferred tax asset valuation allowance	\$ 4,941	\$ 152	\$ 0	\$ (1,187)	\$ 3,906
<b>Year ended March 31, 2016</b>					
Allowance for doubtful accounts	\$ 173	\$ 1,824	\$ 3,221	\$ (149)	\$ 5,069
Deferred tax asset valuation allowance	\$ 3,906	\$ 99	\$ —	\$ (228)	\$ 3,777
<b>Year ended March 31, 2017</b>					
Allowance for doubtful accounts	\$ 5,069	\$ 6,961	\$ (7,580)	\$ (2,384)	\$ 2,066
Deferred tax asset valuation allowance	\$ 3,777	\$ (338)	\$ (65)	\$ —	\$ 3,374

## NetScout Systems, Inc.

### Index to Exhibits

- 2.1 \*\*\* Agreement and Plan of Merger and Reorganization dated October 12, 2014 by and among NetScout Systems, Inc., Danaher Corporation, Potomac Holding LLC, RS Merger Sub I, Inc., and RS Merger Sub II, LLC (filed as Exhibit 2.1 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on October 14, 2014 and incorporated herein by reference).
- 2.2 \*\*\* Separation and Distribution Agreement dated October 12, 2014 by and among Danaher Corporation, NetScout Systems, Inc. and Potomac Holding LLC (filed as Exhibit 10.1 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on October 14, 2014 and incorporated herein by reference).
- 2.3 Closing Agreement dated July 14, 2015 by and among NetScout Systems, Inc., Danaher Corporation, Potomac Holding LLC, RS Merger Sub I, Inc., and RS Merger Sub II, LLC (filed as Exhibit 2.3 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on July 15, 2015 and incorporated herein by reference).
- 3.1, 4.1 Composite conformed copy of Third Amended and Restated Certificate of Incorporation of NetScout (as amended) (filed as Exhibit 3.2 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed on September 21, 2016, and incorporated herein by reference).
- 3.2, 4.2 Composite copy of Amended and Restated By-laws of NetScout (filed as Exhibits 3.1, 4.1 to NetScout's current Report on Form 8-K, SEC File No. 000-26251, filed on July 17, 2014 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, dated February 2, 2007, to Agreement Relating to Employment 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, dated December 22, 2008, to Agreement Relating to Employment 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, by and between the Company and Anil K. Singhal (filed as Exhibit 10.3 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. 2007 Equity Incentive Plan, as amended (filed as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A, SEC File No. 000-26251, filed with the Commission on July 28, 2015 and incorporated herein by reference)
- 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 November 29, 2011 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 Third 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).
- 10.14\* 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) .
- 10.15 \* Summary of Non-Employee Director Compensation (filed as Exhibit 10.8 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2014, SEC File No. 000-26251, filed on January 27, 2015 and incorporated herein by reference).
- 10.16 \* Form of Amendment to Amended and Restated Severance Agreement for Executive Officers (filed as Exhibit 10.9 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2014, SEC File No. 000-26251, filed on January 27, 2015 and incorporated herein by reference).
- 10.17 Tax Matters Agreement dated July 14, 2015 by and among Danaher Corporation, NetScout Systems, Inc. and Potomac Holding LLC (filed as Exhibit 10.1 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on July 15, 2015 and incorporated herein by reference).
- 10.18 Transition Services Agreement dated July 14, 2015 by and among NetScout Systems, Inc., Danaher Corporation and Potomac Holding LLC (filed as Exhibit 10.2 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on July 15, 2015 and incorporated herein by reference).
- 10.19 Employee Matters Agreement dated July 14, 2015 by and among NetScout Systems, Inc., Danaher Corporation and Potomac Holding LLC (filed as Exhibit 10.3 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on July 15, 2015 and incorporated herein by reference).
- 10.20 Intellectual Property Cross-License Agreement dated July 14, 2015 by and between Danaher Corporation and Potomac Holding LLC (filed as Exhibit 10.4 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on July 15, 2015 and incorporated herein by reference).
- 10.21 Credit Agreement, dated as of July 14, 2015, by and among: NetScout Systems, Inc., JPMorgan Chase Bank, N.A., as administrative agent and collateral agent; J.P. Morgan Securities LLC, KeyBanc Capital Markets, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners; Santander Bank, N.A., SunTrust Bank, N.A. and U.S. Bank National Association, as co-documentation agents; and the Lenders party thereto (filed as Exhibit 10.5 to NetScout's current report on Form 8-K, SEC File No. 000-26251, filed with the SEC on July 15, 2015 and incorporated herein by reference).



10.22	Summary of Non-Employee Director Compensation (filed as Exhibit 10.1 to NetScout's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2016, SEC File No. 000-26251, filed on February 2, 2017 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 <sup>†</sup>	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2 <sup>†</sup>	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.

† Exhibit has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing





# 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)  
The MITRE Corporation

ROBERT E. DONAHUE  
President and Chief Executive Officer (Retired)  
Authorize.net Holdings, Inc.

JOHN R. EGAN  
Managing Partner  
Egan-Managed Capital, L.P.

JOSEPH G. HADZIMA, JR.  
Managing Director  
Main Street Partners, LLC

JAMES A. LICO  
President and Chief Executive Officer  
Fortive Corporation

VINCENT J. MULLARKEY  
Senior Vice President, Finance  
and Chief Financial Officer (Retired)  
Digital Equipment Corporation

CHRISTOPHER PERRETTA  
Chief Information and Operations Officer  
MUFG Americas Holdings Corporation

## EXECUTIVE OFFICERS

ANIL K. SINGHAL  
Founder, Chairman of the Board,  
President and Chief Executive Officer

MICHAEL SZABADOS  
Chief Operating Officer and President,  
Service Assurance

JEAN BUA  
Executive Vice President,  
Chief Financial Officer and Treasurer

JOHN W. DOWNING  
Executive 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](http://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](http://www.sec.gov), or by contacting NETSCOUT Investor Relations or by visiting the investor relations section of our website, [www.netscout.com](http://www.netscout.com).

## INVESTOR RELATIONS

ANDREW KRAMER  
Vice President, Investor Relations  
NETSCOUT SYSTEMS, INC.  
310 Littleton Road  
Westford, MA 01886 USA  
Telephone: (978) 614-4000  
Email: [ir@netscout.com](mailto:ir@netscout.com)

## ANNUAL MEETING

The Annual Meeting of Stockholders of the Company will be held on Tuesday, September 19, 2017 at 10:00 a.m. ET at NETSCOUT's corporate headquarters.

## 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  
International Shareowners: (201) 680-6578  
TDD International Shareowners: (201) 680-6610  
[www.computershare.com/investor](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

# NETSCOUT®

**NETSCOUT**

CORPORATE HEADQUARTERS

310 Littleton Road

Westford, MA 01886

Telephone (978) 614-4000

Fax (978) 614-4004

Web: [www.netscout.com](http://www.netscout.com)