NETSCOUT

2010 Letter to Stockholders

Dear Fellow Stockholders, Employees, Customers and Friends,

In fiscal 2010 NetScout met the revenue and earnings guidance issued at the beginning of the fiscal year and grew bookings, operating margins and cash. We consider this a significant achievement, given the challenging macroeconomic environment.

Bookings grew 12% year-over-year in spite of lower year-end revenue of $262 million, which was down 6% year-over-year on a non-GAAP basis. We expanded operating margins through cost reductions and improved operating efficiencies, with non-GAAP operating margin at 22%, an increase of half a point over last year. Our order pipeline improved significantly throughout the year, and was up 20% at year end over the prior year. Deferred revenue grew by $22 million, up 28% year-over-year, thanks to loyal customers who made large commitments in maintenance service contracts. Cash and marketable securities reached a record $170.6 million, increasing by more than $34 million year-over-year.

Our commitment to solve the challenges faced by information technology executives by delivering innovative technologies to growth markets, in areas such as virtualization, borderless networks and cloud computing, drove these excellent results. We introduced new products aimed at broadening our impact across our enterprise, government, financial services and wireless service provider verticals. We added engineering and sales resources to fully exploit our growth opportunities. And we further verticalized our sales force to sharpen our focus in each sector.

Looking forward, we are concentrating on gaining market share in the fast-growing wireless service provider market, where our bookings grew more than 40% during the year. Our opportunity in this market results from the challenges large mobile carriers are facing due to the explosion of IP data traffic generated by the proliferation of smart phones. We aim to become the principal service and end-user experience assurance solution for IP data and voice services as mobile carriers transition from legacy to 3G and 4G IP technologies. We made a significant step in that direction when we released nGenius Subscriber Intelligence, a new software product that offers mobile operators a comprehensive session-oriented view of their cell phone subscribers' experience with data services. We have been winning new service provider customers globally, and now have dedicated vertical sales coverage for mobile carriers in both North America and Europe.

Toward the end of the fiscal year we also began to see growth in the financial sector and within selected enterprise verticals. Our opportunity in these markets is driven by a combination of our large, loyal customer base and our relentless focus on new, innovative technology solutions. A key example is our hosted software agent product family, which is expected to expand our footprint deeper into the virtualized data center as well as to the cost-sensitive branch office. The first of several products are our nGenius Virtual Agent for VMWare and the nGenius Integrated Agent for Cisco System's Integrated Service Routers.

We have also been developing a proprietary, patent-pending technology that we believe will substantially extend the functionality and performance of our solution suite, as well as widen our technology leadership and expand our addressable market. This new technology will accelerate application performance problem diagnosis and address the increasing demands of very high speed, multi-10 gigabit per second network technologies. We believe it will also enable improved monitoring of mission-critical business applications while capturing business intelligence and the end-user experience, expanding our opportunity both in enterprise and service provider markets.

We continued to expand our partnerships with major IT infrastructure vendors. We are currently collaborating with Cisco Systems in numerous areas, including their Enterprise Mobility, Unified Communications and Borderless Network initiatives. We have enhanced our relationship with HP, expanding our product integration with HP NNMi and developing a new resale relationship with HP Enterprise Services, formerly EDS. We have also built a relationship with VMware based on our new nGenius Virtual Agent product, and we have an active strategic reseller relationship with Dell.

We expect the momentum that began to build at the end of this past fiscal year to continue into fiscal 2011, and we are particularly excited about exploiting our unique market position spanning both the enterprise and service provider markets. We extend our thanks to our dedicated and outstanding employees, our customers, partners and our shareholders for their continued support.

Sincerely,

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