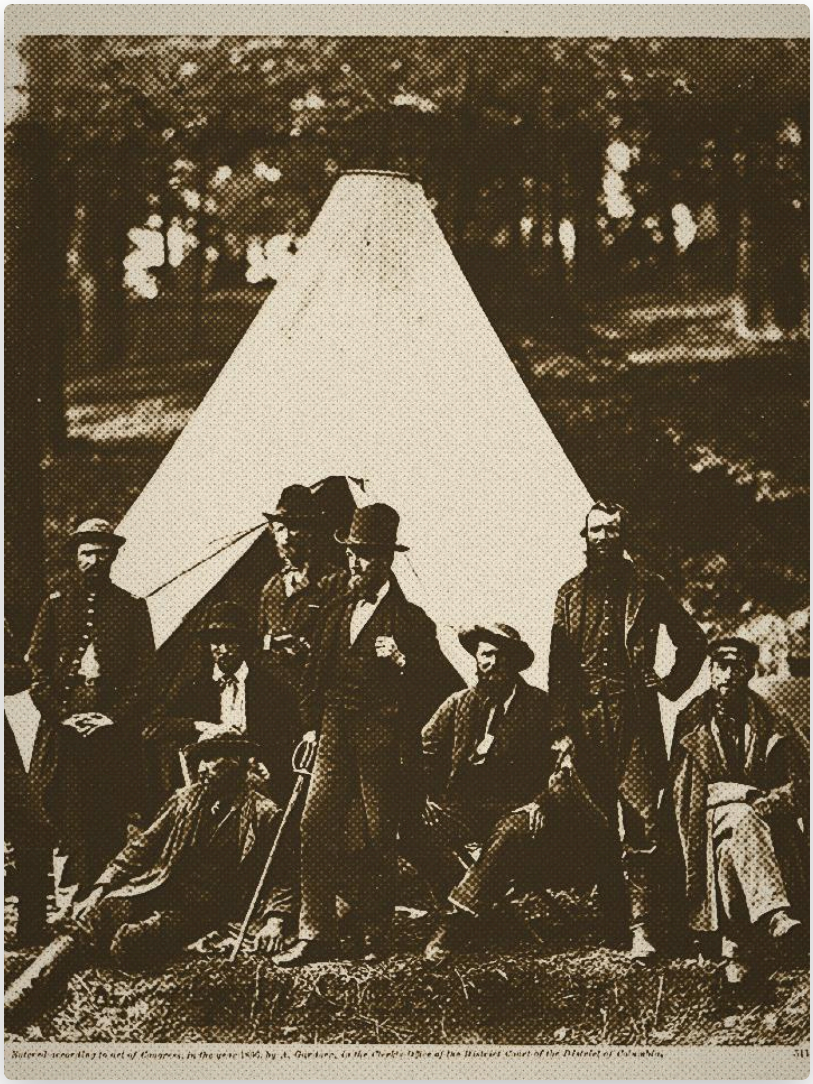
FORM S-1 · REGISTRATION STATEMENT

Netscout Systems Inc

IPO priced 1999-08-12 · $11.00 a share · NTCT



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 22, 1999 REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NETSCOUT SYSTEMS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7373	04-2837575
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

NETSCOUT SYSTEMS, INC. 4 TECHNOLOGY PARK DRIVE WESTFORD, MASSACHUSETTS 01886 (978) 614-4000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) ANIL K. SINGHAL, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER NARENDRA POPAT, PRESIDENT AND CHIEF OPERATING OFFICER NETSCOUT SYSTEMS, INC. 4 TECHNOLOGY PARK DRIVE WESTFORD, MASSACHUSETTS 01886 (978) 614-4000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. / / IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. / / _____ IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, CHECK THE FOLLOWING BOX. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
COMMON STOCK, $.001 PAR VALUE	$103,500,000	$28,773

(1) IN ACCORDANCE WITH RULE 457(O) UNDER THE SECURITIES ACT OF 1933, THE NUMBER OF SHARES OF COMMON STOCK BEING REGISTERED AND THE PROPOSED MAXIMUM OFFERING PRICE PER SHARE ARE NOT INCLUDED IN THIS TABLE. ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE IN ACCORDANCE WITH RULE 457(A) UNDER THE SECURITIES ACT OF 1933. THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE

DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED APRIL 22, 1999 SHARES

[LOGO]

COMMON STOCK

We are selling shares of common stock and the selling stockholders identified on page 50 are selling shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders. Prior to this offering, there has been no public market for the common stock. The initial public offering price is expected to be between $ and $ per share.

APPLICATION HAS BEEN MADE TO LIST THE COMMON STOCK ON THE NASDAQ STOCK MARKET'S NATIONAL MARKET UNDER THE SYMBOL "NSCT."

WE AND THE SELLING STOCKHOLDERS HAVE GRANTED THE UNDERWRITERS AN OPTION TO PURCHASE A MAXIMUM OF ADDITIONAL SHARES OF COMMON STOCK TO COVER OVER-ALLOTMENTS OF SHARES.

INVESTING IN THE COMMON STOCK INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 5.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to NetScout	Proceeds to Selling Stockholders
Per Share	$	$	$	$
Total	$	$	$	$

DELIVERY OF THE SHARES OF COMMON STOCK WILL BE MADE ON OR ABOUT , 1999.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

CREDIT SUISSE FIRST BOSTON BEAR, STEARNS & CO. INC. BT ALEX. BROWN DAIN RAUSCHER WESSELS A DIVISION OF DAIN RAUSCHER INCORPORATED THE DATE OF THIS PROSPECTUS IS , 1999

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.

EXCEPT AS SET FORTH IN THE CONSOLIDATED FINANCIAL STATEMENTS OR AS OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS:

- Assumes the Underwriters' Over-allotment Option Will Not Be Exercised;

- REFLECTS THE CONVERSION OF ALL OUTSTANDING SHARES OF OUR SERIES A PREFERRED STOCK, NON-VOTING COMMON STOCK AND CLASS B CONVERTIBLE COMMON STOCK INTO SHARES OF OUR COMMON STOCK UPON THE CLOSING OF THIS OFFERING;

- ASSUMES A THREE-FOR-TWO STOCK SPLIT OF OUR COMMON STOCK PRIOR TO THE EFFECTIVENESS OF THIS OFFERING;

- REFLECTS THE FILING, AS OF THE CLOSING OF THIS OFFERING, OF OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND THE ADOPTION OF OUR AMENDED AND RESTATED BY-LAWS IMPLEMENTING CERTAIN PROVISIONS DESCRIBED BELOW UNDER "DESCRIPTION OF CAPITAL STOCK," AND THE RECEIPT OF STOCKHOLDER APPROVAL THEREFOR; AND

- Reflects the Adoption of New Stock Plans, Which Occurred in April 1999.

OUR VOTING COMMON STOCK WILL BE RENAMED UPON THE CLOSING OF THIS OFFERING, AND IS REFERRED TO HEREIN AS "COMMON STOCK." SEE "MANAGEMENT--STOCK PLANS," "DESCRIPTION OF CAPITAL STOCK" AND "UNDERWRITING."

Dealer Prospectus Delivery Obligation

Until , 1999 (25 days after the commencement of this offering), all dealers that effect transactions in the common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

NetScout is a registered trademark and the NetScout logo, AppScout, WebCast, NetScout Server, NetFlow Monitor, Resource Monitor, VLAN Monitor, NetScout Manager Plus and ART MIB are trademarks of NetScout. TrafficDirector and SwitchProbe are trademarks of Cisco Systems, Inc. All other trade names and trademarks referred to in this prospectus are the property of their respective owners.

Prospectus Summary

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY DOES NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE INVESTING IN THE COMMON STOCK. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY.

Netscout

We design, develop, manufacture, market and support an integrated family of products that enable businesses and service providers to manage the performance of computer networks and important business software applications. Our Application Flow Management ("AFM") solution consists of data collection devices and analysis and presentation software. AFM collects, aggregates and analyzes network and application data from a wide range of network technologies. Using this data, AFM provides real-time information regarding the performance of computer networks and software applications, such as e-mail, order entry and Web-based applications. Our solution provides this information to computer network and business managers in a user-friendly, graphical format.

Business enterprises increasingly rely on their software applications and computer networks as strategic assets that are essential to business operations. Even minor computer network malfunctions can result in significant business interruptions, lost revenue, decreased productivity and customer

dissatisfaction. As a result, businesses are recognizing the critical importance of effective network and application performance management.

To support the growing number of users and demand for faster and more reliable computer network access, new network technologies and products have been introduced. This has resulted in highly-complex, multi-vendor computer networks, which are more difficult to manage.

Our solution provides a proactive approach to network and application performance management that enables managers to anticipate and address network and application performance problems and align their computer resources with their business strategies. AFM provides the following key functions:

- APPLICATION RESPONSE TIME MEASUREMENT. AFM provides detailed, real-time information on application response time which can be used to optimize network configuration and prioritize applications.

- MONITORING AND TROUBLESHOOTING. AFM allows real-time monitoring and trend analysis of network usage, performance and error conditions which helps network managers prevent network malfunctions and expedite troubleshooting.

- CAPACITY PLANNING. AFM measures trends in network usage by individual software application to enable informed network spending decisions.

- POLICY ENFORCEMENT. AFM helps network managers identify inappropriate or wasteful usage of the computer network to ensure adherence to corporate policies and guidelines.

- ACCOUNTING AND CHARGE-BACK. AFM provides network usage information by user, department or application, which can be used to charge for internal network usage.

Our AFM solution is used by businesses and organizations with large and medium-sized computer networks, as well as service providers that offer computer network infrastructure and software application management services. We sell our products through indirect distribution channels and a direct sales force. Cisco Systems, Inc. is our largest indirect channel partner and sells our products under its private label.

NetScout was incorporated in Massachusetts in June 1984 under the name Frontier Software Development, Inc. We were primarily an engineering consulting company until 1992 when we began developing the NetScout family of products. In April 1993, we reincorporated in Delaware and, in March 1997, we changed our name to NetScout Systems, Inc. Our principal offices are located at 4 Technology Park Drive, Westford, Massachusetts 01886, and our telephone number is (978) 614-4000.

The Offering

Common stock offered by NetScout..... shares Common stock offered by the selling stockholders... shares Common stock to be outstanding after the shares offering..... Use of proceeds..... For general corporate purposes, including working capital. Proposed Nasdaq National Market symbol..... NSCT Common stock outstanding is based on

33,843,258 shares of common stock outstanding as of March 31, 1999 and excludes 4,640,438 shares issuable upon the exercise of outstanding stock options as of March 31, 1999 and 7,500,000 shares available for future grant under our stock plans.

Summary Consolidated Financial Data

The pro forma data in the tables below give effect to (1) our issuance of shares of Class B Convertible Common Stock and our repurchase of shares of common stock, Non-Voting Common Stock and Series A Preferred Stock in the fourth quarter of fiscal 1999 and (2) the conversion of all outstanding shares of Series A Preferred Stock, Class B Convertible Common Stock and Non-Voting Common Stock into common stock upon the closing of this offering. The pro forma as adjusted balance sheet data as of December 31, 1998 also give effect to the sale of shares of common stock that we are offering under this prospectus at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and offering expenses. See "Capitalization."

Nine Months Ended Year Ended March 31, December 31,

1995 1996 1997 1998 1997 1998

(In Thousands, Except Per Share Data)

STATEMENT OF INCOME DATA:						
Total revenue	$ 5,877	$ 15,683	$ 30,648	$ 42,829	$ 29,171	$ 48,880
Total cost of revenue	1,962	6,035	9,955	13,422	8,809	14,452
Gross margin	3,915	9,648	20,693	29,407	20,362	34,428
Total operating expenses	3,214	6,287	11,596	21,662	14,833	22,779
Income from operations	701	3,361	9,097	7,745	5,529	11,649
Provision for income taxes	136	1,355	3,640	3,056	2,191	4,435
Net income	$ 555	$ 2,003	$ 5,918	$ 5,432	$ 3,893	$ 7,881
Basic net income per share	$ 0.02	$ 0.07	$ 0.21	$ 0.19	$ 0.13	$ 0.27
Diluted net income per share	$ 0.02	$ 0.06	$ 0.17	$ 0.16	$ 0.11	$ 0.22
Shares used in computing:						
Basic net income per share	27,064	27,814	28,514	28,934	28,909	29,353
Diluted net income per share	28,982	33,690	34,378	34,748	34,450	35,694
Pro forma basic net income per share				$ 0.17		$ 0.24
Pro forma diluted net income per share				$ 0.16		$ 0.22
Shares used in computing:						
Pro forma basic net income per share				32,723		

33,142
  Pro forma diluted net income per share..... 34,748
35,694

	MARCH 31, 1998	DECEMBER 31, 1998 ACTUAL	DECEMBER 31, 1998 PRO FORMA	DECEMBER 31, 1998 PRO FORMA AS ADJUSTED
		(IN THOUSANDS)		
BALANCE SHEET DATA:				
Cash and cash equivalents.....	$ 6,341	$ 22,024	$ 21,614	$
Working capital.....	14,163	21,830	21,420	
Total assets.....	31,220	40,195	39,785	
Class B redeemable convertible common stock.....	--	--	--	
Total stockholders' equity.....	20,400	28,518	28,108	

Risk Factors

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS PROSPECTUS BEFORE DECIDING TO INVEST IN SHARES OF OUR COMMON STOCK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY RISKS WE FACE. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCURS, OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION COULD BE MATERIALLY ADVERSELY AFFECTED, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MIGHT LOSE ALL OR PART OF YOUR INVESTMENT. PLEASE ALSO SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS."

Risks Related to Our Business

A REDUCTION IN ORDERS FROM Our operating results and financial condition for a CISCO SYSTEMS, INC. WOULD particular fiscal period would be materially adversely MATERIALLY ADVERSELY AFFECT affected if there is a substantial reduction in orders OUR BUSINESS from Cisco Systems, Inc. or if we are unable to complete one or more Cisco orders planned for that period. We derive a significant portion of our revenue from Cisco, which distributes some of our products under its private label and incorporates some of our software in its products. For the fiscal years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998, Cisco accounted for 24%, 40% and 49% of our total revenue. Our future performance is significantly dependent upon Cisco's continued promotion of our products. Cisco has no obligation to purchase any products from us. Further, we do not control Cisco's distribution of our products, whether incorporated into Cisco's products or sold under private label. Finally, Cisco may decide to internally develop products that compete with our solution or partner with our competitors or bundle or resell competitors' solutions, possibly at lower prices. If our relationship with Cisco were terminated or adversely affected for any reason, our business, operating results and financial condition would be materially adversely affected.

DISAPPOINTING QUARTERLY Our quarterly revenue and operating results are difficult OPERATING RESULTS COULD CAUSE to predict and may fluctuate significantly from quarter to OUR COMMON STOCK PRICE TO quarter. If our quarterly revenue or operating results DECREASE fall below the expectations of investors or securities analysts, the price of our common stock could decrease substantially. Most of our expenses, such as employee compensation and rent, are relatively fixed in the short term. Moreover, our expense levels are based, in part, on our expectations regarding future revenue levels. As a result, if revenue for a particular quarter is below our expectations, we may not be able to reduce operating expenses proportionately for that quarter, and therefore this revenue shortfall would have a disproportionately negative effect on our operating results for that quarter.

Our quarterly revenue may fluctuate as a result of a variety of factors, many of which are outside our control, including the following:

- the market for network and application performance management solutions is in an early stage of development and therefore demand for our solutions may be uneven; - the timing and receipt of orders from customers, particularly Cisco, especially in light of our lengthy sales cycle; - the timing and market acceptance of new products or product enhancements by us or our competitors; - distribution channels through which our products are sold could change; - we may not be able to anticipate or adapt effectively to developing markets and rapidly changing technologies; and - our prices or the prices of our competitors' products may change.

We operate with minimal backlog because our products typically are shipped shortly after orders are received. Therefore, product revenue in any quarter is substantially dependent on orders booked and shipped in that quarter, and revenue for any future quarter is not predictable to any degree of certainty. Therefore, any significant deferral of orders for our products would cause a shortfall in revenue for that quarter.

OUR RELIANCE ON SOLE SOURCE Many components that are necessary for the assembly of our SUPPLIERS COULD ADVERSELY probes, including the network interface cards, are AFFECT OUR BUSINESS obtained from separate sole source suppliers or a limited group of suppliers. Our reliance on sole or limited suppliers involves several risks, including a potential inability to obtain an adequate supply of required components and reduced control over pricing, quality and timely delivery of components. We do not generally maintain long-term agreements with any of our suppliers or large volumes of inventory. 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 affect our ability to ship our products on a timely basis. This could damage relationships with current and prospective customers, cause shortfalls in expected revenue and materially adversely affect our business, operating results and financial condition.

OUR CONTINUED GROWTH DEPENDS We must increase the size of our sales force in order to ON OUR ABILITY TO EXPAND OUR increase our direct sales and support our indirect sales SALES FORCE channels. Because our products are very technical, sales people require a long period of time to become productive, typically three to six 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 or we may be unable to manage a larger sales force. If we are unable to successfully expand our sales capability, our business, operating results and financial condition could be materially adversely affected.

OUR SUCCESS DEPENDS ON OUR ABILITY TO EXPAND AND MANAGE INDIRECT DISTRIBUTION CHANNELS

To increase our sales, we must further expand and manage our indirect distribution channels, including OEMs, distributors, resellers, systems integrators and service providers. Sales to our indirect distribution channels accounted for 76% and 82% of our total revenue for the fiscal year ended March 31, 1998 and the nine months ended December 31, 1998. During these periods, Cisco accounted for 40% and 49% of our total revenue. Our indirect channel partners have no obligation to purchase any products from us. In addition, they could internally develop products which compete with our solutions or partner with our competitors or bundle or resell competitors' solutions, possibly at lower prices. Our inability to expand and manage our relationships with our partners, the inability or unwillingness of our partners to effectively market and sell our products or the loss of existing partnerships could have a material adverse effect on our business, operating results and financial condition.

IF WE FAIL TO INTRODUCE NEW PRODUCTS AND ENHANCE OUR EXISTING PRODUCTS TO KEEP UP WITH RAPID TECHNOLOGICAL CHANGE, DEMAND FOR OUR PRODUCTS MAY DECLINE

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

WE FACE SIGNIFICANT COMPETITION FROM OTHER TECHNOLOGY COMPANIES

The market for network and application performance management solutions is intensely competitive. We believe customers make network management system purchasing decisions based primarily upon the following factors:

- product performance, functionality and price;

- name and reputation of vendor; - distribution strength; and - alliances with industry partners.

We compete with probe vendors, such as Hewlett-Packard Company, providers of network performance management solutions, such as Concord Communications, Inc. and Micromuse, Inc., providers of application performance management solutions, such as International Network Services, and providers of portable network traffic analyzers, such as Network Associates, Inc. In addition, leading network equipment providers could offer their own or competitors' solutions in the future. Many of our current and potential competitors have longer operating histories, greater name

recognition and substantially greater financial, management, marketing, service, support, technical, distribution and other resources than we do. Therefore, they may be able to respond more quickly than we can to new or changing opportunities, technologies, standards or customer requirements.

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

THE SUCCESS OF OUR BUSINESS DEPENDS ON THE CONTINUED GROWTH IN THE MARKET FOR AND COMMERCIAL ACCEPTANCE OF NETWORK AND APPLICATION PERFORMANCE MANAGEMENT SOLUTIONS

We derive all of our revenue from the sale of products and services that are designed to allow our customers to manage the performance of computer networks and important business software applications. The market for network and application performance management solutions is in an early stage of development. Therefore, we cannot accurately assess the size of the market and may be unable to predict the appropriate features and prices for products to address the market, the optimal distribution strategy and the competitive environment that will develop. In order for us to be successful, our potential customers must recognize the value of more sophisticated network and application performance management solutions, decide to invest in the management of their networks and the performance of important business software applications and, in particular, adopt our management solution. Any failure of this market to continue to develop would materially adversely affect our business, operating results and financial condition.

Businesses may choose to outsource the management of their networks and applications to service providers. Our business may depend on our ability to develop relationships with these service providers and successfully market our products to them.

FAILURE TO PROPERLY MANAGE GROWTH COULD ADVERSELY AFFECT OUR BUSINESS

We have been experiencing a period of rapid growth over the past several years. We plan to continue to expand our business by hiring additional personnel. The growth in size and complexity of our business and our customer base has been and will continue to be a significant challenge to our management and operations.

To manage future growth effectively we must enhance our financial and accounting systems and controls, integrate new personnel and manage expanded operations. We anticipate that our financial and accounting systems will be upgraded during the third calendar quarter in 1999. If we are unable to successfully integrate these systems and controls and to effectively manage our growth, our costs, the quality of our products, the effectiveness of our sales organization, our ability to retain key personnel and our business, operating results and financial condition could be materially adversely affected.

LOSS OF KEY PERSONNEL COULD ADVERSELY AFFECT OUR BUSINESS

Our future success depends to a significant degree on the skills, experience and efforts of Anil Singhal, our Chairman of the Board, Chief Executive Officer and co-founder, and Narendra Popat, our President, Chief Operating Officer and co-founder. We also depend on the ability of our other executive officers and senior managers to work effectively as a team. The loss of one or more of our key personnel could have a material adverse effect on our business, operating results and financial condition.

WE MUST HIRE AND RETAIN Qualified personnel are in great demand throughout the SKILLED PERSONNEL IN A TIGHT computer software, hardware and networking industries. The LABOR MARKET demand for qualified personnel is particularly acute in the New England area due to the large number of software and other high technology companies and the low unemployment in the region. Our success depends in large part upon our ability to attract, train, motivate and retain highly-skilled employees, particularly sales and marketing personnel, software engineers, and technical support personnel. We have had difficulty hiring and retaining these highly-skilled employees in the past. If we are unable to attract and retain the highly-skilled technical personnel that are integral to our sales, marketing, product development and customer 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 adverse effect on our business, operating results and financial condition.

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

OTHERS MAY CLAIM THAT WE We may be subject to claims by others that our products INFRINGE ON THEIR infringe on their intellectual property rights. These INTELLECTUAL PROPERTY RIGHTS claims, whether or not valid, could require us to spend significant sums in litigation, pay damages, delay product shipments, reengineer our products or acquire licenses to such third-party intellectual property. We may not be able to secure any required licenses on commercially reasonable terms or at all. We expect that these claims will become more frequent as more companies enter the market for network and application performance management solutions. Any of these claims or resulting events could have a material adverse effect on our business, operating results and financial condition.

IF OUR PRODUCTS CONTAIN Despite testing by us and our customers, errors may be ERRORS, THEY MAY BE COSTLY TO found in our products after commencement of commercial CORRECT, REVENUE MAY BE shipments. If errors are discovered, we may not be able to DELAYED, WE COULD GET SUED successfully correct them in a timely manner or at all. In AND OUR REPUTATION COULD BE addition, we may need to make significant expenditures of HARMED capital resources in order to eliminate errors and failures. Errors and failures in our products could result in loss of or delay in market acceptance of our products and could damage our reputation. If one

or more of our products fails, a customer may assert warranty and other claims for substantial damages against us. The occurrence or discovery of these types of errors or failures could have a material adverse effect on our business, operating results and financial condition.

OUR SUCCESS DEPENDS ON OUR ABILITY TO EXPAND AND MANAGE OUR INTERNATIONAL OPERATIONS

In the fiscal year ended March 31, 1998 and the nine months ended December 31, 1998, 12% and 11% of our total revenue were from sales outside North America. We currently expect international revenue to continue to account for a significant percentage of total revenue in the future. We believe that we must continue to expand our international sales activities in order to be successful. Our international sales growth will be limited if we are unable to:

- expand international indirect distribution channels; - hire additional sales personnel; - adapt products for local markets; or - manage geographically dispersed operations.

In addition, international operations are generally subject to a number of risks, including:

- failure of local laws to provide the same degree of protection against infringement of our intellectual property; - protectionist laws and business practices that favor local competitors; - dependence on local vendors; - multiple, conflicting and changing governmental laws and regulations; - longer sales cycles; - greater difficulty in collecting accounts receivable; - foreign currency exchange rate fluctuations; and - political and economic instability.

OUR BUSINESS MAY BE AFFECTED BY UNEXPECTED YEAR 2000 PROBLEMS

Many existing computer systems and software products do not properly recognize dates after December 31, 1999. This "Year 2000" problem could result in miscalculations, data corruption, system failures or disruptions of operations. Our products, our internal systems, our customers' systems, our distributors' systems and our suppliers' systems may experience Year 2000 problems, any of which could have a material adverse effect on our business, operating results and financial condition.

Year 2000 errors or defects in our products could give rise to warranty and other claims by our customers. In addition, there can be no assurance that Year 2000 errors or defects will not be discovered in our internal software systems and, if errors or defects are present, there can be no assurance that the costs of making such systems Year 2000 compliant will not be material. We have determined that some of our products and internal systems are not Year 2000 compliant, and other of our products or internal systems may contain undetected errors or defects. If we are unable to make our products and internal systems Year 2000 compliant in a timely manner, our business, operating results and financial condition could be materially adversely affected.

Changing purchasing patterns of customers impacted by Year 2000 issues may result in reduced purchases of our solutions. Any Year 2000 errors or defects in our distributors' systems or the products of our OEM partners could cause a reduction in their orders from us. Finally, Year 2000 errors or defects in the internal systems of our suppliers, including our sole and limited source suppliers, could require us to incur significant unanticipated expenses to remedy any problems or replace affected vendors and could cause cancellations or delays in product shipments.

Risks Associated with This Offering of Our Common Stock

THE PRICE OF OUR COMMON STOCK Prior to this offering, there has been no public market AFTER THIS OFFERING MAY BE for our common stock. After this offering, an active LOWER THAN THE PRICE YOU PAY trading market in our common stock might not develop or IN THIS OFFERING continue. If you purchase shares of our common stock in the offering, you will pay a price that was not established in a competitive market. Rather, you will pay a price that we negotiated with the representatives of the underwriters based upon several factors. See "Underwriting." The price of our common stock that will prevail in the market after the offering may be higher or lower than the price you pay.

The stock market in general has recently experienced extreme price and volume fluctuations. In addition, the market prices of securities of technology companies have been extremely volatile, and have experienced fluctuations that often have been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our common stock.

Recently, when the market price of a stock has been volatile, holders of that stock have occasionally instituted securities class action litigation against the company that issued the 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. The lawsuit could also divert the time and attention of our management.

OUR EXECUTIVE OFFICERS AND After this offering, our executive officers and directors DIRECTORS WILL BE ABLE TO and their affiliates will together control approximately CONTROL ALL MATTERS REQUIRING % of the outstanding common stock. As a result, these STOCKHOLDER APPROVAL stockholders, if they act together, will be able to control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of NetScout, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of NetScout and might affect the market price of our common stock.

CERTAIN PROVISIONS OF OUR Our corporate documents and Section 203 of the Delaware CHARTER AND OF DELAWARE LAW General Corporation Law could discourage, delay or prevent MAKE A TAKEOVER OF NETSCOUT a third party or a significant stockholder from acquiring MORE DIFFICULT control of NetScout. In addition, provisions of our certificate of incorporation may have the effect of discouraging, delaying or preventing a merger, tender offer or proxy contest involving NetScout. Any of these anti-takeover provisions could lower the market price of the common stock and could deprive our stockholders of the opportunity to receive a premium for their common stock that they might otherwise receive from the sale of NetScout.

FUTURE SALES BY EXISTING SECURITY HOLDERS COULD DEPRESS THE MARKET PRICE OF THE COMMON STOCK	If our existing stockholders sell a large number of shares of our common stock or the public market perceives that existing stockholders might sell shares of common stock, the market price of the common stock could significantly

	decline. All of the shares offered under this prospectus will be freely tradable in the open market, and

- 83,100 additional shares may be sold immediately after this offering; - 392,974 additional shares may be sold 90 days after the effective date of this offering; - 20,901,303 additional shares may be sold upon the expiration of 180-day lock-up agreements; and - 10,465,881 additional shares may be sold commencing on January 15, 2000.

Credit Suisse First Boston Corporation, as representative of the underwriters, may release any or all shares from the lock-up agreements at any time and without notice.

Existing stockholders holding an aggregate of 10,465,881 shares of common stock have the right to require us to register their shares of common stock with the Securities and Exchange Commission. If we register their shares of common stock, they can sell those shares in the public market.

After this offering, we intend to register approximately 12,140,438 shares of our common stock that we have issued or may issue under our stock plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the "lock-up" agreements described above.

WE WILL HAVE BROAD DISCRETION IN USING OUR PROCEEDS FROM THIS OFFERING	We have not identified specific uses for our proceeds from this offering, and we will have broad discretion in how we use them. You will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use these proceeds.
INVESTORS WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION IN THE BOOK VALUE OF THEIR INVESTMENT	If you purchase shares of our common stock in this offering, you will experience immediate and substantial dilution of $ in the pro forma net tangible book value per share of common stock. You will experience additional dilution upon the exercise of outstanding stock options to purchase common stock. See "Dilution."

Special Note Regarding Forward-looking Statements

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward-looking statements. 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. In evaluating these statements, you should specifically consider various important factors, including the risks outlined under "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements.

We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results.

Use of Proceeds

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    We estimate that our net proceeds from the sale of the          shares of
common stock that we are offering hereby will be approximately $          , at
an assumed initial public offering price of $     per share, after deducting
estimated underwriting discounts and commissions and offering expenses. If the
underwriters' over-allotment option is exercised in full, we estimate that such
net proceeds will be approximately $          . We will not receive any proceeds
from the sale of common stock by the selling stockholders. See "Principal and
Selling Stockholders."
```

The principal purposes of this offering are to obtain additional working capital, create a public market for our common stock, increase our visibility in the marketplace, facilitate future access to public capital markets and provide liquidity to existing stockholders.

We intend to use our net proceeds for general corporate purposes, including working capital, product development and expansion of our international operations and sales and marketing capabilities. We may also use a portion of our net proceeds to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. We have no specific understandings, commitments or agreements with respect to any such acquisition or investment. Pending such uses, we intend to invest our net proceeds from this offering in short-term, interest-bearing, investment-grade securities, certificates of deposit or direct or guaranteed obligations of the United States.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock and we do not anticipate paying cash dividends in the foreseeable future. In addition, the terms of our bank loan agreement prohibit the payment of cash dividends on our capital stock. We currently intend to retain future earnings, if any, to fund the expansion and growth of our business. Payment of future cash dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion.

Capitalization

The following table sets forth our capitalization as of December 31, 1998:

- on an actual basis;

- on a pro forma basis giving effect to (1) our issuance of shares of Class B Convertible Common Stock and our repurchase of shares of common stock, Non-Voting Common Stock and Series A Preferred Stock in the fourth quarter of fiscal 1999, and (2) the conversion of all outstanding shares of Series A Preferred Stock, Non-Voting Common Stock and Class B Convertible Common Stock into common stock upon the closing of this offering; and - on a pro forma as adjusted basis to reflect the sale by us of shares of common stock offered under this prospectus at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and offering expenses.

This information should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this prospectus. This information excludes 4,620,544 shares of common stock issuable upon exercise of outstanding options as of December 31, 1998, of which options to purchase 1,816,654 shares were then exercisable, and 1,773,425 shares of common stock reserved for future issuance under our 1990 Stock Option Plan. An additional 7,500,000 shares of common stock have been reserved for issuance under our 1999 Stock Option and Incentive Plan and our 1999 Employee Stock Purchase Plan. See "Management--Stock Plans" and Note 9 to the consolidated financial statements.

December 31, 1998

Pro Forma Actual Pro Forma as Adjusted

(In Thousands, Except Share Data)

Redeemable convertible common stock:			
Class B redeemable convertible common stock, $.001 par value; no shares authorized, issued and outstanding, actual; 6,977,254 shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted....	$ --	$ --	$ --
Stockholders' equity:			
Series A convertible preferred stock, $0.001 par value; 631,579 shares authorized, issued and outstanding, actual; no shares issued or outstanding, pro forma and pro forma as adjusted.....	5,964	--	--
Common stock, $0.001 par value:			
Voting, 39,918,273 shares authorized, 24,000,000 shares issued and outstanding, actual; 50,384,154 shares authorized, 43,990,185 and shares issued and 33,524,304 and shares outstanding, pro forma and pro forma as adjusted, respectively.....	24	44	
Non-voting, 39,918,273 shares authorized, 5,734,830 shares issued and outstanding, actual; no shares issued or outstanding, pro forma and pro forma as adjusted.....	6	--	--
Additional paid-in capital.....	1,010	51,121	
Deferred compensation.....	(550)	(550)	(550)
Treasury stock.....	--	(44,394)	(44,394)
Retained earnings.....	22,064	21,887	21,887

Total stockholders' equity	28,518	28,108	
Total capitalization	$ 28,518	$ 28,108	$

Dilution

The pro forma net tangible book value of NetScout at December 31, 1998 was $28,108,000, or $0.84 per share of common stock, assuming the conversion of all outstanding shares of Series A Preferred Stock, Class B Convertible Common Stock and Non-Voting Common Stock into shares of common stock (giving effect to the issuance of shares of Class B Convertible Common Stock and the related repurchase of shares of Series A Preferred Stock, Non-Voting Common Stock and Voting Common Stock in the fourth quarter of fiscal 1999). Pro forma net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the pro forma number of outstanding shares of common stock. After giving effect to the sale of shares of common stock offered hereby by NetScout at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and offering expenses, NetScout's pro forma net tangible book value as of December 31, 1998 would have been approximately $, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing shares of common stock in this offering. The following table illustrates this dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share at December 31, 1998..... $ 0.84 Increase attributable to this offering..... Pro forma net tangible book value per share after this offering..... Net tangible book value dilution per share to new investors in this offering..... $ The following table summarizes, as of December 31, 1998, on the pro forma basis described above, the total number of shares of common stock purchased, and the consideration paid to NetScout and the average price per share paid by the existing stockholders for their shares and by new investors purchasing shares of common stock in this offering at an assumed initial public offering price of $ per share (before deducting estimated underwriting discounts and commissions and offering expenses payable by us):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders.....	33,843,258	%	$ 50,241,000	%	$ 1.48
New investors.....					$
Totals.....		100.0%	$	100.0%	

The sales by the selling stockholders in this offering will reduce the number of shares of common stock held by existing stockholders to , or approximately % of the total shares of common stock outstanding immediately after this offering, and will increase the number of shares of common stock held by new investors to , or % of the total number of shares of common stock outstanding immediately after this offering. See "Principal and Selling Stockholders."

The foregoing discussion and tables assume no exercise of any stock options after December 31, 1998. As of December 31, 1998, there were 4,620,544 shares of common stock issuable upon exercise of outstanding stock options, at a weighted average exercise price of $1.58 per share; and 1,773,425

shares of common stock reserved for issuance under NetScout's 1990 Stock Option Plan. To the extent that these options are exercised, there will be further dilution to new investors. In addition, in April 1999, we adopted our 1999 Stock Option and Incentive Plan, pursuant to which 6,750,000 shares of common stock are reserved for issuance, and our 1999 Employee Stock Purchase Plan, pursuant to which 750,000 shares of common stock are reserved for issuance. See "Management-Stock Plans" and Note 9 to the consolidated financial statements.

Selected Consolidated Financial Data

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The consolidated statement of income data for the years ended March 31, 1996, 1997 and 1998, and the consolidated balance sheet data as of March 31, 1997 and 1998, are derived from and are qualified by reference to the audited consolidated financial statements included elsewhere in this prospectus. The consolidated statement of income data for the years ended March 31, 1994 and 1995, and the consolidated balance sheet data as of March 31, 1994, 1995 and 1996, have been derived from audited consolidated financial statements of NetScout that do not appear in this prospectus. The consolidated statement of income data for the nine months ended December 31, 1997 and 1998 and the consolidated balance sheet data as of December 31, 1998 are derived from unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth therein. The historical results are not necessarily indicative of the operating results to be expected in the future.

The pro forma data in the following tables give effect to (1) our issuance of shares of Class B Convertible Common Stock and our repurchase of shares of Series A Preferred Stock, Non-Voting Common Stock and common stock in the fourth quarter of fiscal 1999 and (2) the conversion of Series A Preferred Stock, Class B Convertible Common Stock and Non-Voting Common Stock into common stock upon the closing of this offering.

YEAR ENDED MARCH 31, 1994 1995 1996 1997 1998 (IN THOUSANDS, EXCEPT PER SHARE DATA)

```
STATEMENT OF INCOME DATA:
Revenue:
  Product..................................................... $   1,416  $   4,035  $
13,276  $  25,159  $  34,990
  Service.....................................................         68        341
1,521      3,888      5,143
  License and royalty.........................................      1,009      1,501
886      1,601      2,696
    Total revenue.............................................      2,493      5,877
15,683     30,648     42,829
Cost of revenue:
  Product.....................................................        687      1,962
```

5,897 9,427 12,638
Service..... -- --
138 528 784
Total cost of revenue..... 687 1,962
6,035 9,955 13,422
Gross margin..... 1,806 3,915
9,648 20,693 29,407
Operating expenses:
Research and development..... 369 1,008
1,208 3,003 5,129
Sales and marketing..... 744 1,765
4,384 6,778 13,583
General and administrative..... 181 441
695 1,815 2,950
Total operating expenses..... 1,294 3,214
6,287 11,596 21,662
Income from operations..... 512 701
3,361 9,097 7,745
Interest income (expense), net..... (2) (10)
(3) 461 743
Income before provision for income taxes..... 510 691
3,358 9,558 8,488
Provision for income taxes..... 66 136
1,355 3,640 3,056
Net income..... $ 444 $ 555 $
2,003 $ 5,918 $ 5,432
Basic net income per share..... $ 0.02 $ 0.02 $
0.07 $ 0.21 $ 0.19
Diluted net income per share..... $ 0.01 $ 0.02 $
0.06 $ 0.17 $ 0.16
Shares used in computing:
Basic net income per share..... 24,215 27,064
27,814 28,514 28,934
Diluted net income per share..... 28,890 28,982
33,690 34,378 34,748
Pro forma basic net income per share.....
$ 0.17
Pro forma diluted net income per share.....
$ 0.16
Shares used in computing:
Pro forma basic net income per share.....
32,723
Pro forma diluted net income per share.....
34,748

NINE MONTHS ENDED DECEMBER 31, 1997 1998

STATEMENT OF INCOME DATA:
Revenue:
Product..... $ 23,944 $ 36,737
Service..... 3,455 6,329
License and royalty..... 1,772 5,814
Total revenue..... 29,171 48,880
Cost of revenue:
Product..... 8,299 13,614
Service..... 510 838
Total cost of revenue..... 8,809 14,452
Gross margin..... 20,362 34,428
Operating expenses:
Research and development..... 3,543 5,295
Sales and marketing..... 9,378 14,726
General and administrative..... 1,912 2,758
Total operating expenses..... 14,833 22,779
Income from operations..... 5,529 11,649

Interest income (expense), net	555	667
Income before provision for income taxes	6,084	12,316
Provision for income taxes	2,191	4,435
Net income	$ 3,893	$ 7,881
Basic net income per share	$ 0.13	$ 0.27
Diluted net income per share	$ 0.11	$ 0.22
Shares used in computing:		
Basic net income per share	28,909	29,353
Diluted net income per share	34,450	35,694
Pro forma basic net income per share		$ 0.24
Pro forma diluted net income per share		$ 0.22
Shares used in computing:		
Pro forma basic net income per share		33,142
Pro forma diluted net income per share		35,694

March 31, 1994 1995 1996 1997 1998

									(IN
THOUSANDS)									
BALANCE SHEET DATA:									
Cash and cash equivalents	$	358	$	346	$				
7,797	$	6,514	$	6,341					
Working capital		125		324					
7,837		11,140		14,163					
Total assets		1,100		2,781					
14,328		21,703		31,220					
Class B redeemable convertible common stock		--		--					
--		--		--					
Total stockholders' equity		322		878					
8,848		14,809		20,400					

December 31, 1998 Actual Pro Forma

BALANCE SHEET DATA:		
Cash and cash equivalents	$ 22,024	$ 21,614
Working capital	21,830	21,420
Total assets	40,195	39,785
Class B redeemable convertible common stock	--	--
Total stockholders' equity	28,518	28,108

Management's Discussion and Analysis of Financial Condition and Results of Operations

THE FOLLOWING DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF NETSCOUT SHOULD BE READ IN CONJUNCTION WITH "SELECTED CONSOLIDATED FINANCIAL DATA" AND NETSCOUT'S CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. THIS DISCUSSION AND ANALYSIS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. YOU SHOULD NOT PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING

STATEMENTS AS A RESULT OF CERTAIN IMPORTANT FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS.

Overview

NetScout designs, develops, manufactures, markets and supports an integrated family of products that enable businesses and service providers to manage the performance of computer networks and important business software applications. Our products include data collection devices, consisting of probes and software agents, which collect, aggregate and perform detailed analysis of computer network and application data, and analytical software, which provides real-time network and application performance information in an user-friendly, graphical format.

We were incorporated in 1984 and primarily provided consulting services until 1992, when we began to develop and market our first computer network performance management products. Our operations have been financed principally through cash provided by operations and we have been profitable for the last 20 quarters.

Product revenue consists of sales of our network and application performance management products. Product revenue is recognized upon shipment, provided that fees are fixed and determinable and collection of the related receivable is probable. Sales to indirect channel partners that are subject to return privileges are recognized upon shipment, net of an allowance for estimated product returns which is based on our return policy and historical experience. Customer payments received in advance of product shipments are recorded as customer deposits.

Service revenue consists primarily of customer fees from support agreements, installation and training. We generally provide three-months software and service support and 12-months hardware support as part of our product sales. In addition, customers can elect to purchase extended support agreements, typically for 12-month periods. Revenue from support agreements is deferred and recognized ratably over the support period. Revenue from installation and training is recognized as the work is performed.

License and royalty revenue consists primarily of royalties paid under license agreements by OEMs who incorporate components of our data collection technology in their own products or who reproduce and sell our software products. License revenue is recognized when we become contractually entitled to receive license fees, provided that such fees are fixed and determinable and collection is probable. Royalty revenue is recognized based upon product shipment by the license holder.

Revenue from indirect distribution channels, including OEMs, distributors, resellers, system integrators and service providers, represented 73%, 76% and 82% of total revenue for the fiscal years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998. Cisco resells our products to customers under its own private label and incorporates components of our technology into its products. Our revenue from Cisco represented 24%, 40% and 49% of our total revenue in the fiscal years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998. We expect revenue from Cisco to account for a significant portion of our revenue for the foreseeable future.

Network Associates, a reseller, accounted for 12% of our total revenue in the fiscal year ended March 31, 1998. No other customer or indirect channel partner accounted for 10% or more of our total revenue during the fiscal years ended March 31, 1997 or 1998 or the nine months ended December 31, 1998.

Revenue from sales outside North America represented 12%, 12% and 11% of our total revenue in the fiscal years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998. Sales outside North America are primarily to indirect channel partners, which are generally responsible for importing products and providing installation and technical support and service to customers within their territory. Our reported international revenue does not include any revenue from sales to customers outside North America made by any of our North American-based indirect channel partners, including Cisco. We expect revenue from sales outside North America to continue to account for a significant portion of our revenue in the future.

Results of Operations

The following table sets forth for the periods indicated the percentage of total revenue of certain line items included in our statement of income:

Nine Months Ended Year Ended March 31, December 31,

	1996	1997	1998	1997	1998
Revenue:					
Product	84.7%	82.1%	81.7%	82.1%	75.2%
Service	9.7	12.7	12.0	11.8	12.9
License and royalty	5.6	5.2	6.3	6.1	11.9
Total revenue	100.0	100.0	100.0	100.0	100.0
Cost of revenue:					
Product	37.6	30.8	29.5	28.5	27.9
Service	0.9	1.7	1.8	1.7	1.7
Total cost of revenue	38.5	32.5	31.3	30.2	29.6
Gross margin	61.5	67.5	68.7	69.8	70.4
Operating expenses:					
Research and development	7.7	9.8	12.0	12.1	10.8
Sales and marketing	28.0	22.1	31.7	32.1	30.1
General and administrative	4.4	5.9	6.9	6.6	5.7
Total operating expenses	40.1	37.8	50.6	50.8	46.6
Income from operations	21.4	29.7	18.1	19.0	23.8
Interest income, net	--	1.5	1.7		

```
1.9        1.4
Income before provision for income taxes.............................       21.4       31.2       19.8
20.9       25.2
Provision for income taxes...........................................        8.6       11.9        7.1
7.5        9.1
Net income...........................................................       12.8%      19.3%      12.7%
13.4%      16.1%
```

Nine Months Ended December 31, 1997 and 1998

Revenue

Total revenue increased 68% from $29.2 million for the nine months ended December 31, 1997 to $48.9 million for the nine months ended December 31, 1998.

PRODUCT. Product revenue increased 53% from $23.9 million for the nine months ended December 31, 1997 to $36.7 million for the nine months ended December 31, 1998. This increase was primarily due to growth in unit sales attributable to an increase in the number of sales personnel, an increase in shipments to existing indirect channel partners and, to a lesser extent, an expansion of indirect distribution channels. This increase was also due to an increase in average selling price due to larger volumes of WAN, ATM and Fast Ethernet probes.

SERVICE. Service revenue increased 83% from $3.5 million for the nine months ended December 31, 1997 to $6.3 million for the nine months ended December 31, 1998. This increase was primarily due to growth in sales of support agreements to new and existing customers attributable to increased sales and marketing efforts and a reduction of our software and service support period accompanying product sales from 12 months to three months in January 1998.

LICENSE AND ROYALTY. License and royalty revenue increased 228% from $1.8 million for the nine months ended December 31, 1997 to $5.8 million for the nine months ended December 31, 1998. This increase was primarily due to a growth in unit sales of our software and embedded software products by Cisco.

Cost of Revenue

PRODUCT. Cost of product revenue consists primarily of components, personnel costs, media duplication, manuals, packaging materials, licensed technology fees and overhead. Cost of product revenue increased 64% from $8.3 million for the nine months ended December 31, 1997 to $13.6 million for the nine months ended December 31, 1998. This increase was primarily due to an increase in unit sales and a shift in product mix. Product gross margins decreased from 65% for the nine months ended December 31, 1997 to 63% for the nine months ended December 31, 1998. This decrease was primarily due to a shift toward indirect sales which tend to have lower gross margins than direct sales and, to a lesser extent, the pricing of larger direct sales transactions, partially offset by a decrease in component costs and an increase in operating efficiencies.

SERVICE. Cost of service revenue consists primarily of personnel costs. Cost of service revenue increased 64% from $510,000 for the nine months ended December 31, 1997 to $838,000 for the nine months ended December 31, 1998. This increase was primarily due to the hiring of additional service personnel to support an increase in our customer base. Service gross margins increased from 85% for the nine months ended December 31, 1997 to 87% for the nine months ended December 31, 1998. This increase was primarily due to timing of personnel replacements and additions. We anticipate that service gross margins will decrease as a percentage of service revenue as staffing reaches planned levels.

Overall gross margins are primarily affected by the mix of product, service and license and royalty revenue and by the proportion of sales through direct versus indirect distribution channels. We typically realize higher gross margins on license and royalty revenue relative to product and service revenue and on direct sales relative to indirect distribution channel sales.

Operating Expenses

RESEARCH AND DEVELOPMENT. Research and development expenses consist primarily of personnel costs, fees for outside consultants and related costs associated with the development of new products, the enhancement of existing products, quality assurance and testing. Research and development expenses increased 49% from $3.5 million for the nine months ended December 31, 1997 to $5.3 million for the nine months ended December 31, 1998. This increase was primarily due to the hiring of additional research and development personnel and higher consulting costs. We anticipate that research and development expenses will increase in absolute dollars and as a percentage of total revenue as staffing reaches planned levels.

SALES AND MARKETING. Sales and marketing expenses consist primarily of personnel costs and costs associated with marketing programs such as trade shows, seminars, advertising and new product launch activities. Sales and marketing expenses increased 57% from $9.4 million for the nine months ended December 31, 1997 to $14.7 million for the nine months ended December 31, 1998. This increase was primarily due to costs associated with hiring of additional sales and marketing personnel and an increase in marketing programs. We anticipate that sales and marketing expenses will increase in absolute dollars and as a percentage of total revenue as we expand our sales force and marketing programs to support international expansion, increased sales efforts to major accounts, brand awareness and product launches.

GENERAL AND ADMINISTRATIVE. General and administrative expenses consist primarily of personnel costs for executive, financial, information services and human resource employees. General and administrative expenses increased 44% from $1.9 million for the nine months ended December 31, 1997 to $2.8 million for the nine months ended December 31, 1998. This increase was primarily due to the hiring of additional general and administrative personnel and costs associated with our growth. We expect that our general and administrative expenses will increase in absolute dollars as we continue to expand our staff to support expanded operations and facilities, and incur expenses relating to our new responsibilities as a public company.

INTEREST INCOME, NET. Interest income, net of interest expense, increased 20% from $555,000 for the nine months ended December 31, 1997 to $667,000 for the nine months ended December 31, 1998. This increase was primarily due to an increase in our cash balances.

PROVISION FOR INCOME TAXES. The provision for income taxes increased from $2.2 million for the nine months ended December 31, 1997 to $4.4 million for the nine months ended December 31, 1998, primarily due to higher pre-tax income. Our effective tax rate remained constant at 36% for the nine months ended December 31, 1997 and for the nine months ended December 31, 1998.

Years Ended March 31, 1997 and 1998

Revenue

Total revenue increased 40% from $30.6 million for the fiscal year ended March 31, 1997 to $42.8 million for the fiscal year ended March 31, 1998.

PRODUCT. Product revenue increased 39% from $25.2 million for the fiscal year ended March 31, 1997 to $35.0 million for the fiscal year ended March 31, 1998. This increase was primarily due to growth in unit sales attributable to an increase in the number of sales personnel and an increase in shipments to existing indirect channel partners and, to a lesser extent, an expansion of indirect distribution channels. This increase was also due to an increase in the average selling price attributable to an increase in the sale of WAN, Fast Ethernet and multi-port probes and the introduction of the HSSI probe.

SERVICE. Service revenue increased 32% from $3.9 million for the fiscal year ended March 31, 1997 to $5.1 million for the fiscal year ended March 31, 1998. This increase was primarily due to growth in sales of support agreements to new and existing customers attributable to increased sales and marketing efforts.

LICENSE AND ROYALTY. License and royalty revenue increased 68% from $1.6 million for the fiscal year ended March 31, 1997 to $2.7 million for the fiscal year ended March 31, 1998. This increase was primarily due to a growth in unit sales of our software and embedded software products by Cisco.

Cost of Revenue

PRODUCT. Cost of product revenue increased 34% from $9.4 million for the fiscal year ended March 31, 1997 to $12.6 million for the fiscal year ended March 31, 1998. The increase was primarily due to an increase in unit sales and a shift in product mix. Product gross margins increased from 63% for the fiscal year ended March 31, 1997 to 64% for the fiscal year ended March 31, 1998. This was primarily due to a decrease in component costs and an increase in operational efficiencies.

SERVICE. Cost of service revenue increased 48% from $528,000 for the fiscal year ended March 31, 1997 to $784,000 for the fiscal year ended March 31, 1998. This increase was primarily due to the hiring of additional service personnel to support an increase in the customer base. Service gross margins decreased from 86% for the fiscal year ended March 31, 1997 to 85% for the fiscal year ended March 31, 1998. This was primarily due to the increase in service personnel.

Operating Expenses

RESEARCH AND DEVELOPMENT. Research and development expenses increased 71% from $3.0 million for the fiscal year ended March 31, 1997 to $5.1 million for the fiscal year ended March 31, 1998. This increase was primarily due to the hiring of additional research and development personnel and higher consulting costs related to development of new products and enhancements to existing products.

SALES AND MARKETING. Sales and marketing expenses increased 100% from $6.8 million for the fiscal year ended March 31, 1997 to $13.6 million for the fiscal year ended March 31, 1998. This increase was primarily due to the hiring of additional sales and marketing personnel and an increase in marketing programs, including trade shows, seminars and advertising.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 63% from $1.8 million for the fiscal year ended March 31, 1997 to $3.0 million for the fiscal year ended March 31, 1998. This increase was primarily due to the hiring of additional general and administrative personnel and costs to support our growth and the related move to new facilities in November 1997.

INTEREST INCOME, NET. Interest income, net of interest expense, increased 61% from $461,000 for the fiscal year ended March 31, 1997 to $743,000 for the fiscal year ended March 31, 1998. The increase was primarily due to an increase in our cash balances.

PROVISION FOR INCOME TAXES. The provision for income taxes decreased from $3.6 million for the fiscal year ended March 31, 1997 to $3.1 million for the fiscal year ended March 31, 1998. This decrease was primarily due to lower pre-tax income and, to a lesser degree, a decrease in our effective tax rate. Our effective tax rate decreased from 38% for the fiscal year ended March 31, 1997 to 36% for the fiscal year ended March 31, 1998 primarily due to the reinstatement of the Research and Development Tax Credit in 1998.

INCOME FROM OPERATIONS. Income from operations decreased 15% from $9.1 million for the fiscal year ended March 31, 1997 to $7.7 million for the fiscal year ended March 31, 1998. Income from operations during the fiscal year ended March 31, 1997 was favorably impacted by higher than anticipated revenue coupled with expenses that did not increase proportionately.

Years Ended March 31, 1996 and 1997

Revenue

Total revenue increased 95% from $15.7 million for the fiscal year ended March 31, 1996 to $30.6 million for the fiscal year ended March 31, 1997.

PRODUCT. Product revenue increased 90% from $13.3 million for the fiscal year ended March 31, 1996 to $25.2 million for the fiscal year ended March 31, 1997. This increase was primarily due to growth in unit sales which was attributable to an increase in shipments to existing indirect channel partners and an increase in the number of sales personnel and, to a lesser extent, an expansion of indirect distribution channels. This increase was also due to an increase in the average selling price attributable to an increase in the sale of FDDI and Fast Ethernet probes.

SERVICE. Service revenue increased 156% from $1.5 million for the fiscal year ended March 31, 1996 to $3.9 million for the fiscal year ended March 31, 1997. This increase was primarily due to growth in sales of support agreements to new and existing customers attributable to increased sales and marketing efforts.

LICENSE AND ROYALTY. License and royalty revenue increased 81% from $886,000 for the fiscal year ended March 31, 1996 to $1.6 million for the fiscal year ended March 31, 1997. This increase was primarily due to a growth in unit sales of our software and embedded software products by Cisco.

Cost of Revenue

PRODUCT. Cost of product revenue increased 60% from $5.9 million for the fiscal year ended March 31, 1996 to $9.4 million for the fiscal year ended March 31, 1997. This increase was primarily due to an increase in unit sales and a shift in product mix. Product gross margins increased from 56% for the fiscal year ended March 31, 1996 to 63% for the fiscal year ended March 31, 1997. This increase was primarily due to a shift in product mix to higher margin products, a decrease in component costs and increases in operating efficiencies.

SERVICE. Cost of service revenue increased 283% from $138,000 for the fiscal year ended March 31, 1996 to $528,000 for the fiscal year ended March 31, 1997. This increase was primarily due to the hiring of additional service personnel to support an increase in the customer base. Service gross margins decreased from 91% for the fiscal year ended March 31, 1996 to 86% for the fiscal year ended March 31, 1997. This decrease was primarily due to the increase in service personnel.

Operating Expenses

RESEARCH AND DEVELOPMENT. Research and development expenses increased 149% from $1.2 million for the fiscal year ended March 31, 1996 to $3.0 million for the fiscal year ended March 31, 1997. This increase was primarily due to the hiring of additional research and development personnel and higher consulting costs related to development of new products and enhancements to existing products.

SALES AND MARKETING. Sales and marketing expenses increased 55% from $4.4 million for the fiscal year ended March 31, 1996 to $6.8 million for the fiscal year ended March 31, 1997. This increase was primarily due to the hiring of additional sales and marketing personnel and increases in marketing programs, including trade shows, direct mail programs and seminars.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased 161% from $695,000 for the fiscal year ended March 31, 1996 to $1.8 million for the fiscal year ended March 31, 1997. This increase was primarily due to the hiring of additional general and administrative personnel and costs to support our growth.

INTEREST INCOME (EXPENSE), NET. Interest income, net of interest expense, increased from an expense of $3,000 for the fiscal year ended March 31, 1996 to income of $461,000 for the fiscal year ended March 31, 1997. This increase was primarily due to an increase in our cash balances.

PROVISION FOR INCOME TAXES. The provision for income taxes increased from $1.4 million for the fiscal year ended March 31, 1996 to $3.6 million for the fiscal year ended March 31, 1997. This increase was primarily due to higher pre-tax income. Our effective tax rate decreased from 40% for the fiscal year ended March 31, 1996 to 38% for the fiscal year ended March 31, 1997 primarily due to the reduction of non-deductible expenses.

Quarterly Results of Operations

The following tables set forth a summary of NetScout's unaudited quarterly operating results for each of the seven quarters included in the period ended December 31, 1998. This information has been derived from unaudited interim consolidated financial statements that, in the opinion of management, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in this prospectus and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such information when read in conjunction with our audited consolidated financial statements and notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period.

Quarter Ended

JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30,	DEC. 31,

1998	1998										
								(IN THOUSANDS)			
STATEMENT OF INCOME DATA:											
Revenue:											
Product		$	6,512	$	7,710	$	9,722	$	11,046	$	11,547
$	11,863	$	13,327								
Service			1,192		1,033		1,230		1,688		1,873
	2,284		2,172								
License and royalty			298		788		686		924		1,843
	1,999		1,972								
Total revenue			8,002		9,531		11,638		13,658		15,263
	16,146		17,471								
Cost of revenue:											
Product			2,162		2,649		3,488		4,339		4,340
	4,347		4,927								
Service			136		152		222		274		296
	320		222								
Total cost of revenue			2,298		2,801		3,710		4,613		4,636
	4,667		5,149								
Gross margin			5,704		6,730		7,928		9,045		10,627
	11,479		12,322								
Operating expenses:											
Research and development			1,070		1,196		1,277		1,586		1,732
	1,760		1,803								
Sales and marketing			2,557		2,984		3,837		4,205		5,008
	4,527		5,191								
General and administrative			580		586		746		1,038		815
	913		1,030								
Total operating expenses			4,207		4,766		5,860		6,829		7,555
	7,200		8,024								
Income from operations			1,497		1,964		2,068		2,216		3,072
	4,279		4,298								
Interest income, net			185		176		194		188		200
	243		224								
Income before provision for income taxes			1,682		2,140		2,262		2,404		3,272
	4,522		4,522								
Provision for income taxes			606		771		814		865		1,178
	1,628		1,629								
Net income		$	1,076	$	1,369	$	1,448	$	1,539	$	2,094
$	2,894	$	2,893								

As a Percentage of Total Revenue:

Quarter Ended

	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998	SEPT. 30, 1998
Revenue:						
Product	81.4%	80.9%	83.5%	80.9%	75.7%	73.5%
Service	14.9	10.8	10.6	12.4	12.3	14.1
License and royalty	3.7	8.3	5.9	6.7	12.0	12.4
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenue:						
Product	27.0	27.8	30.0	31.8		

28.4	26.9						
Service		1.7	1.6	1.9	2.0	2.0	2.0
Total cost of revenue		28.7	29.4	31.9	33.8	30.4	28.9
Gross margin		71.3	70.6	68.1	66.2	69.6	71.1
Operating expenses:							
Research and development		13.4	12.5	11.0	11.6	11.4	10.9
Sales and marketing		31.9	31.3	33.0	30.8	32.8	28.0
General and administrative		7.3	6.1	6.4	7.6	5.3	5.7
Total operating expenses		52.6	49.9	50.4	50.0	49.5	44.6
Income from operations		18.7	20.7	17.7	16.2	20.1	26.5
Interest income, net		2.3	1.8	1.7	1.4	1.3	1.5
Income before provision for income taxes		21.0	22.5	19.4	17.6	21.4	28.0
Provision for income taxes		7.6	8.1	7.0	6.3	7.7	10.1
Net income		13.4%	14.4%	12.4%	11.3%	13.7%	17.9%

	DEC. 31, 1998
Revenue:	
Product	76.3%
Service	12.4
License and royalty	11.3
Total revenue	100.0
Cost of revenue:	
Product	28.2
Service	1.3
Total cost of revenue	29.5
Gross margin	70.5
Operating expenses:	
Research and development	10.3
Sales and marketing	29.7
General and administrative	5.9
Total operating expenses	45.9
Income from operations	24.6
Interest income, net	1.3
Income before provision for income taxes	25.9
Provision for income taxes	9.3
Net income	16.6%

NetScout's total revenue has increased each of the seven consecutive quarters in the period ended December 31, 1998. Product revenue increased in each quarter due to increased market acceptance of our products and diversification of our sales channels, including expansion of our sales force and relationships with indirect channel partners. Service revenue generally increased due to the growth in our customer base and new initiatives to sell extended support agreements. License and royalty revenue generally increased but fluctuated due to variability in the sale of software products by Cisco.

Cost of product revenue increased in absolute dollars each quarter primarily due to higher unit volumes but fluctuated as a percentage of product revenue primarily due to changes in the distribution channel and, to a lesser degree, variability of component costs. Cost of service revenue generally

increased in absolute dollars primarily due to the hiring of additional support personnel and related costs for customer support with the exception of the quarter ended December 31, 1998, when timing of personnel replacements and additions resulted in lower expenses. Cost of service revenue fluctuated as a percentage of service revenue primarily due to variability in staffing levels.

Operating expenses generally increased in absolute dollars primarily due to increased spending in all areas. Operating expenses generally declined as a percentage of total revenue primarily due to our limited ability to hire research and development personnel as well as sales and marketing personnel.

Research and development expenses increased in absolute dollars each quarter primarily due to the hiring of additional research and development personnel and higher consulting costs associated with enhancing existing products and developing new products. Research and development expenses generally declined as a percentage of total revenue primarily due to research and development staffing.

Sales and marketing expenses generally increased in absolute dollars each quarter primarily due to the hiring of additional sales and marketing personnel and an increase in marketing program activities. A reduction in marketing activities for the quarter ended September 30, 1998 resulted in a decrease in overall sales and marketing expenses for that quarter. Sales and marketing expenses fluctuated as a percentage of total revenue primarily due to variability in marketing expenditures and our internal hiring cycles for sales and marketing personnel.

General and administrative expenses generally increased in absolute dollars primarily due to the hiring of additional financial, information services and human resources personnel, as well as increased use of outside services. General and administrative expenses were unusually high in the quarter ended March 31, 1998 primarily due to expenses related to our move to a new facility. General and administrative expenses have fluctuated as a percentage of total revenue primarily due to variability in purchases of outside services.

Our operating results have varied on a quarterly basis during our operating history and are expected to fluctuate significantly in the future. A variety of important factors, many of which are outside of our control, may affect our quarterly operating results. See "Risk Factors--Disappointing quarterly operating results could cause our common stock price to decrease."

Liquidity and Capital Resources

Since inception, we have funded operations primarily through cash provided by operating activities. At December 31, 1998, we had cash and cash equivalents totaling $22.0 million. In March 1999, we extended and increased our line of credit with a bank which allows us to borrow up to $5.0 million for working capital purposes and to obtain of letters of credit. The line of credit expires in March 2000. Amounts available under the line of credit are a function of eligible accounts receivable and bear interest at the bank's prime rate, which was 7.75% on March 31, 1999. At March 31, 1999, we had letters of credit outstanding under the line aggregating $561,000. The bank line of credit is secured by our inventory and accounts receivable.

Cash provided by operating activities was $2.3 million, $8.4 million, $6.7 million and $8.8 million for the fiscal years ended March 31, 1996, 1997 and 1998 and for the nine months ended December 31, 1998. Cash provided by operating activities was primarily derived from net income generated and, to a lesser degree, increases in deferred revenue, accrued expenses, and depreciation and amortization in each period. This was partially offset by increases in accounts receivable in fiscal 1996 and fiscal 1998 and for the nine months ended December 31, 1998 and increases in inventories in fiscal 1996, fiscal 1997 and fiscal 1998. All of these increases were due to the growth of our business.

Cash used by investing activities was $788,000, $9.7 million and $6.9 million for the fiscal years ended March 31, 1996, 1997 and 1998. Cash used by investing activities in fiscal 1996, fiscal 1997 and fiscal 1998 was primarily due to purchases of marketable securities and purchases of fixed assets and, in fiscal 1997, also due to loans that were made to stockholders. Cash provided by investing activities was $6.9 million for the nine months ended December 31, 1998, which was primarily due to the maturity of marketable securities, partially offset by purchases of fixed assets.

Cash provided by financing activities was $5.9 million for the fiscal year ended March 31, 1996, which represent the net proceeds derived from the sale of Series A Preferred Stock. In January 1999, we received gross proceeds of $44.5 million from the sale of Class B Convertible Common Stock and all of the proceeds were used to redeem shares of Series A Preferred Stock, Non-Voting Common Stock and common stock. Cash provided by financing activities was $2,000, $22,000 and $43,000 for the fiscal years ended March 31, 1997 and 1998 and for the nine months ended December 31, 1998, which was primarily due to proceeds received upon the exercise of stock options.

As of December 31, 1998, our primary commitments consisted of obligations outstanding under operating leases. Future noncancelable minimum lease commitments are $861,000, $959,000, $1.0 million, and $683,000 for fiscal years 2000, 2001, 2002 and 2003.

We expect to experience growth in our working capital needs for the foreseeable future in order to execute our business plan. We anticipate that operating activities, as well as planned capital expenditures, will constitute a material use of our cash resources. In addition, we may utilize cash resources to fund acquisitions or investments in complementary businesses, technologies or products. We believe that the net proceeds from this offering, together with our current cash and cash equivalents and cash generated from operations, will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures for at least the next 12 months.

Year 2000 Readiness Disclosure

Many computers and software products accept only two digit entries in date fields which could cause problems distinguishing 21st century dates from 20th century dates. The use of computers and software products that are not "Year 2000" compliant could result in system failures or miscalculations causing business disruptions including the inability to process transactions, send invoices or perform other business activities. As a result, many computers and software products may need to be upgraded or replaced in order to meet Year 2000 requirements.

We have reviewed our products to determine whether they are Year 2000 compliant. Based on this review, we believe that most of our products are Year 2000 compliant. The NetScout WebCast Unix and Windows NT products are not currently Year 2000 compliant but are expected to be made Year 2000 compliant in the next product release (version 2.1), which is planned for the third calendar quarter of 1999.

We believe our current financial and accounting system is Year 2000 compliant. We anticipate that our financial and accounting systems will be upgraded during the third calendar quarter of 1999 and that such systems will also be Year 2000 compliant. All other commercially available internal systems used in our daily operations including our computers, software packages, telephones, security systems, and shipping systems have either been determined to be compliant, have been certified compliant by the commercial provider, or are in the process of being tested and upgraded. We expect that our internal systems will be fully compliant by the end of the third calendar quarter of 1999.

Purchasing patterns of our customers or potential customers may be affected by Year 2000 issues. They may expend significant resources to correct their current systems for Year 2000 compliance which could result in reduced funds available for network management products. Year 2000 complications could also disrupt the operations of our customers which could delay purchases of network management products. Reduced funds or delayed purchases could have a material adverse effect on our business, operating results and financial condition.

In addition, we rely on suppliers and indirect channel partners who may be impacted by Year 2000 complications. To date, we have not conducted a Year 2000 review of our suppliers or indirect channel partners. We are currently evaluating the need to conduct a review of our suppliers' and indirect channel partners' Year 2000 compliance issues. Failure of our suppliers' systems to operate properly could require us to incur significant expenses to remedy problems or replace suppliers. Failure of our indirect channel partners' systems to operate properly could reduce our revenue from indirect distribution channels. Problems with our suppliers or indirect channel partners could have a material adverse effect on our business, operating results and financial condition.

Some of our products are sold to OEMs who incorporate them into their own product offerings. We do not know whether OEM products incorporating our products are or will be Year 2000 complaint. If such OEM products are not Year 2000 complaint, their customers could cancel or delay orders which, in time, would affect the orders that we receive from our OEM partners. Therefore, the failure of our OEM partners to be Year 2000 complaint could have a material adverse effect on our business, results of operations and financial condition.

To date, we have not incurred significant incremental costs in order to comply with Year 2000 requirements and do not expect to incur significant incremental costs in the foreseeable future. However, there can be no assurance that Year 2000 errors or defects will not be discovered in our products or our internal software systems. If such errors or defects are discovered, there can be no assurance that the costs of making such systems Year 2000 compliant will not have a material adverse effect on our business, operating results and financial condition.

We do not currently have any Year 2000 contingency plans. If we discover Year 2000 compliance issues, we intend to evaluate the need for one or more contingency plans relating to such issues.

Quantitative and Qualitative Disclosures About Market Risk

We consider all highly-liquid investments purchased with a maturity of three months or less to be cash equivalents, and those with maturities greater than three months are considered to be marketable securities. Cash equivalents and marketable securities are stated at amortized cost plus accrued interest, which approximates fair value. Cash equivalents and marketable securities consist primarily of money market instruments and U.S. Treasury bills. We currently do not hedge interest rate exposure, but do not believe that an increase in interest rates would have a material effect on the value of our marketable securities.

European Monetary Union

On January 1, 1999, eleven of the existing members of the European Union ("EU") joined the European Monetary Union. Ultimately, there will be a single currency within certain countries of the EU, known as the Euro, and one organization, the European Central Bank, responsible for setting European monetary policy. We have reviewed the impact the Euro will have on our business and whether this will give rise to a need for significant changes in our commercial operations or treasury management functions. Because our transactions are denominated in U.S. dollars, we do not believe that the Euro conversion will have any material effect on our business, financial condition or result of operations.

Recently Issued Accounting Pronouncements

In March 1998, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 establishes the accounting for costs of software products developed or purchased for internal use, including when such costs should be capitalized. We do not expect SOP 98-1, which is effective for us beginning April 1, 1999, to have a material effect on our financial condition or results of operations.

In April 1998, the AcSEC issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." Start-up activities are defined broadly as those one-time activities relating to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, commencing some new operation or organizing a new entity. Under SOP 98-5, the cost of start-up activities should be expensed as incurred. SOP 98-5 is effective for our fiscal year 2000 financial statements and we do not expect its adoption to have a material effect on our financial condition or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 is effective for all fiscal year quarters of fiscal years beginning after June 15, 1999. We do not expect SFAS No. 133 to have a material effect on our financial condition or results of operations.

Business

Introduction

We design, develop, manufacture, market and support an integrated family of products that enable businesses and service providers to manage the performance of computer networks and important business software applications. Our Application Flow Management ("AFM") solution consists of data collection devices and analysis and presentation software. AFM collects, aggregates and analyzes network and application data from a wide range of network technologies. Using this data, AFM provides real-time information regarding the performance of computer networks and individual software applications, such as e-mail, order entry and Web-based applications. Our solution provides this information to computer network and business managers in a user-friendly, graphical format.

Industry Background

Business enterprises increasingly rely on software applications and computer networks as strategic assets that are essential to business operations. Computer networks are being expanded to deliver important software applications, such as enterprise resource planning, e-mail, order entry, accounting and Web-based applications, to employees, suppliers, distributors and customers. Because of the dramatic increase in the number of users who depend on fast and reliable computer network access, even minor computer network malfunctions can result in significant business interruptions, lost revenue, decreased productivity and customer dissatisfaction. As a result, businesses are recognizing the critical importance of effective network and application performance management.

To support the growing number of users and demand for faster and more reliable network access, both business enterprises and service providers are making significant investments in advanced networking technology. The Gartner Group, a leading networking industry research company, estimates that the world-wide enterprise networking equipment market, excluding Internet remote access equipment, was $37.4 billion in 1998, growing at a five-year compounded annual rate of 28.2%. This growth has resulted in the introduction of new technologies addressing network speed and access, such as Fast Ethernet, Gigabit Ethernet, ATM and IP/Internet, and new network products addressing quality of service and security. The implementation of these new technologies and products has resulted in highly-complex, multi-vendor computer networks, which are more difficult to manage.

Traditional network performance management is a reactive process in which computer network managers respond to problems only after computer network performance has been impacted. This type of network performance management is based on receiving alerts from malfunctioning computer network devices or calls from computers network users indicating that performance has degraded. Highly-skilled technicians with portable network traffic analyzers are then dispatched to diagnose and resolve the computer network problems. While this approach helps computer network managers respond to technical problems, it does not provide sufficient information to proactively manage the overall computer network, measure the performance of applications, or address issues with computer network design. A further drawback of this approach is that network problems are often addressed by adding costly network capacity instead of identifying and correcting inefficiencies.

A new, proactive approach is emerging that is designed to anticipate and help prevent computer network problems before performance is degraded. This approach is based on analytical software that retrieves and analyzes information from data sources located on the computer network. These data sources include existing computer network devices, such as routers, switches and hubs, data collection software agents, and dedicated data collection devices, known as probes.

One class of proactive network management products relies on retrieving data from existing computer network devices. These products generally report on computer network utilization for use in network capacity planning and device status monitoring which can help prevent certain types of failures.

Because this class of products relies on limited, predefined data, originally intended for device management, it provides minimal information regarding network users or application performance. These solutions typically provide only historical and end-of-period reports because providing real-time information would significantly increase network traffic.

A second class of proactive network management products relies on retrieving data from proprietary software installed on users' desktop computers. These solutions provide information regarding application performance, but offer limited insight into the performance of the network. In addition, these solutions can be difficult to administer and can burden the processing power of desktop computers.

A third class of proactive network management products relies on placing probes on key parts of the computer network to provide continuous monitoring of computer network traffic. Comprised of dedicated computer hardware and software, most probes are based on the remote monitoring ("RMON") standard. In contrast with approaches that utilize existing network devices, probes contain proprietary software which allows the capture of a richer set of network information. In contrast with approaches that require the installation of software on desktop computers, probes contain processors which can capture, store and analyze traffic data on a computer network segment without impacting any existing devices on the computer network. Although probes provide the most robust data about network performance, most probes are unable to provide information regarding application performance, such as response time.

Business and computer network managers need a comprehensive approach to network and application performance management that enables them to anticipate and address network performance problems and align their computer resources to their business strategies. Although each of the new, proactive network management approaches provides better solutions than the traditional reactive approach, none of these approaches provides the ability to manage both network and application performance.

Netscout Solution

We design, develop, manufacture, market and support an integrated family of products to enable business managers to manage both network and application performance, which together comprise our Application Flow Management ("AFM") solution. AFM uses proprietary technology to deliver more functionality than other solutions. Our probes collect, aggregate and perform detailed analysis on a wide range of computer network data, including data from individual software applications. We believe that we currently offer the industry's most extensive family of probes, with models for a wide range of network technologies. In addition, our robust analytical software provides real-time network and application performance information in a user-friendly, graphical format. AFM addresses the following key aspects of network management:

- APPLICATION RESPONSE TIME MEASUREMENT. AFM measures and provides detailed, real-time information on application response time over the computer network. This information enables network managers to optimize application configuration, prioritize applications and proactively manage the computer network.

- MONITORING AND TROUBLESHOOTING. AFM allows real-time monitoring and trend analysis of network usage, performance and error conditions which help network managers prevent network malfunctions. When network problems do occur, detailed information expedites troubleshooting to minimize the impact.

- CAPACITY PLANNING. AFM measures trends in network usage by individual software application. Helps network managers make informed network spending decisions.

- POLICY ENFORCEMENT. AFM allows network managers to identify inappropriate or wasteful usage of the computer network. Network managers can use this information to ensure adherence to corporate policies and guidelines.

- ACCOUNTING AND CHARGE-BACK. AFM provides network usage information by user, department or application. When used in conjunction with accounting software packages, it allows customers to charge for internal network usage.

Strategy

Our objective is to enhance our leadership position in the network and application performance management market. Key elements of our strategy include:

EXTEND TECHNOLOGY LEADERSHIP IN INSTRUMENTATION. We intend to continue to devote significant resources to the development of new and innovative products, capitalizing on our extensive experience with large computer networks and our understanding of customer needs. As computer networks evolve, we intend to incorporate new technologies and provide solutions to enable businesses to manage and optimize the performance of their computer networks and critical software applications. We have an extensive track record of innovation, including the introduction of Ethernet probes in 1992, WAN probes in 1993, switch embedded probes and CDDI/FDDI probes in 1995, Fast Ethernet probes in 1996, WAN (T3) probes in 1997, ATM probes in 1998, and Channelized WAN and Fast EtherChannel probes in 1999. We are currently developing a Gigabit Ethernet probe that is planned for release later in 1999.

EXPAND REPORTING AND ANALYSIS SOFTWARE SUITE. We plan to develop new analysis, presentation and reporting software to leverage the extensive information collected by our probes. Our product family is designed to permit easy integration of enhanced analysis and reporting functions, as demonstrated by the release of Resource Monitor in 1994, NetScout Server and WebCast in 1997 and AppScout in 1999.

LEVERAGE INSTALLED BASE OPPORTUNITIES. We have sold a majority of our products through indirect distribution channels and have also sold our products directly to over 600 customers. Our installed base consists of over 25,000 hardware probes and over 50,000 switch-embedded agents. We intend to target existing users of our products with marketing and sales programs designed to promote the more extensive use of our data collection devices throughout their computer networks and the adoption of our management software options.

TARGET NEW MARKET OPPORTUNITIES. We market our products to potential customers in markets which we believe have the potential for growth. We have identified the following markets as having the potential for strong demand for our products:

- network management outsourcing companies, such as Compaq and WANG Global;

- connectivity service providers, such as MCI Worldcom and Concert Communications Company; and
- application service providers, which we believe is an emerging market.

CONTINUE TO LEVERAGE CISCO RELATIONSHIP. Since 1994, we have had a strategic relationship with Cisco. Our strategy is to further synchronize our product development and marketing activities with Cisco's business strategy, and to support Cisco's distribution of our products. Through our relationship with this computer networking industry leader, we have significantly increased the sale of our products and enhanced the market acceptance of our network and application performance management solutions.

EXPAND DISTRIBUTION CHANNELS. We plan to substantially increase the number of our field sales representatives. We also seek to develop additional indirect distribution channels to promote our products, including computer networking equipment and software application vendors, system integrators, distributors, resellers and service providers. We have strategic relationships with Paradyne Corporation, WaveTek Wandel Goltermann, Inc., FORE Systems, Inc. and Compaq Computer

Corporation designed to facilitate the distribution and market acceptance of our solutions. We are striving to increase sales outside of North America through the addition of sales personnel and increased marketing activities to support our indirect channel partners, including Cisco.

FACILITATE DEVELOPMENT OF COMPLEMENTARY THIRD-PARTY PRODUCTS. Our probes provide a rich source of data that can be used by third-party software products. As a means to increase demand for our products, we encourage the development of applications that leverage our solutions. For example, we have partnered with Concord Communications, Inc., DeskTalk Systems, Inc. and Apogee Networks, Inc. to develop interoperable, expanded solutions. We supply a developer's toolkit, which includes interfaces to our products, to enable the development of complementary products.

Products and Technology

Our AFM solution provides computer network and application performance management through three layers of products:

Graphic depicting the three layers of our products: Data Collection, Data Aggregation and Information and Presentation Analysis Our products are generally purchased as a complete system, consisting of multiple data sources, presentation and analysis software and optional data aggregation software for larger networks. A representative new customer would be a multinational corporation that deploys 25 to 50 probes, data aggregation software and our full suite of presentation and analysis software over a 12-month period. Depending on the type of network, such a deployment would typically cost between $100,000 and $300,000. After initial deployment of our solution, a customer can add additional probes and management software options on an individual basis. Our solution has been deployed in networks employing more than 500 probes.

Data Collection

Our data sources are based on the RMON standard and implement proprietary enhancements for additional functionality, such as application response time and switched network monitoring. We offer the following family of data sources:

PROBES. NetScout probes are dedicated data collection devices comprised of a standard hardware platform and proprietary software. Probes contain processors that capture, store and analyze data on a computer network. Our probes are best suited for parts of the computer network that require continuous monitoring and support a wide range of computer network technologies, including the following:

- Ethernet, Fast Ethernet, Fast EtherChannel and Token Ring;

- Sub-rate, T1/E1, T3/E3 WAN and Frame Relay;

- FDDI/CDDI; and

- Oc3 ATM.

SOFTWARE AGENTS. NetScout software agents are software-only data sources that run on server or desktop computers running the Windows NT operating system. This lower-cost alternative is best suited for parts of the computer network with lower traffic volume, such as branch office networks and remote user links.

SWITCH EMBEDDED AGENTS. Switch embedded agents are data sources operating in third-party network switches. One version of our switch embedded agent consists of our software embedded into the switch operating system. Because the switch embedded agent must utilize the switch's processor, it offers only a limited subset of our data collection functionality. Another version which has been implemented with Cisco requires the installation of a dedicated interface module into the switch. Because the module has its own processor, it can offer the full range of our data collection functionality.

DATA COLLECTION AGENT OPTIONS. Our data collection agent options are proprietary software enhancements for our probes and software agents. These options consist of:

- NetFlow Monitor. This enhancement allows certain types of our probes to collect traffic information stored in Cisco routers in order to provide a single, consolidated view of all traffic information to the network manager.

- Resource Monitor. With this option, our probes are enabled to collect information from network devices, including servers, to offer a more complete, end-to-end view of the network.

- Application Response Time Management Information Base (ART MIB). This option enables our probes or agents to monitor application response times on a given part of the network.

- VLAN Monitor. With this option, users can collect traffic information pertaining to a given subset of users within a switched network, giving additional flexibility to the network manager for troubleshooting and traffic accounting.

Data Aggregation

NETSCOUT SERVER. NetScout Server is an optional data aggregation software package that enables our AFM solution to effectively manage large computer networks. NetScout Server reduces overall computer network and application performance management traffic by aggregating, sorting, simplifying and storing data collected at remote sites. It then transmits only relevant periodic reports and real-time alarms through the WAN to the presentation and analysis software. This reduces consumption of costly WAN bandwidth. NetScout Server runs on the Microsoft Windows NT, Sun Solaris, HP-UNIX and IBM AIX operating platforms.

Information Presentation and Analysis

Our presentation and analysis software provides clear, meaningful, real-time displays of relevant network and application performance data to network and business managers in easy-to-read, graphical formats. We offer the following family of data presentation and analysis software:

NETSCOUT MANAGER PLUS. NetScout Manager Plus presents management reports based on data gathered from probes, embedded agents, software agents and NetScout Server. NetScout Manager Plus provides a suite of over 40 integrated functions, which include application-level management, monitoring and troubleshooting, capacity planning, policy enforcement and accounting.

APPSCOUT. AppScout uses our data sources to monitor the performance of applications over the network, including response time and bandwidth utilization by application or by user.

AppScout is a real-time, browser-based reporting solution that is especially useful when measuring service level conformance or deploying new applications.

WEBCAST. WebCast works in conjunction with NetScout Manager Plus and provides a portfolio of secure, easy-to-access reports viewable by authorized users from any Web browser.

Sales and Marketing

We sell our products through indirect distribution channels and a direct sales force. Our indirect channel partners include OEMs, distributors, resellers, system integrators and service providers. For the fiscal years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998, revenue from indirect channels represented 73%, 76% and 82%, respectively, of total revenue. Sales to Cisco, our largest indirect channel partner, represented 24%, 40% and 49%, respectively, of our total revenue during the same periods.

Our direct sales force works in cooperation with our indirect channel partners and devotes significant efforts to support sales through indirect distribution channels. We plan to substantially increase the number of our field sales representatives, which we believe will promote additional direct and indirect sales.

We use a consultative sales approach. Our inside sales representatives pre-qualify opportunities and set up appointments for members of the field sales team. An initial sales meeting will generally consist of a review of the prospect's specific computer network and application performance management needs and a demonstration of our products' capabilities. Often, the demonstration will be followed by a product evaluation on the customer's network. Our sales representative will often encourage one of our indirect channel partners to participate in the sales process. In addition, our indirect channel partners often request that we participate in sales presentations to their customers.

International sales are accomplished primarily through indirect distribution channels. Revenues from sales outside North America represented 12%, 12% and 11% of total revenue for the fiscal years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998, respectively. We believe that our North American indirect channel partners also resell a significant amount of our products internationally.

As of March 31, 1999, our North American field sales organization consisted of 43 employees. Our international field sales organization consisted of 10 employees with an office in the United Kingdom. In addition, we had 16 employees responsible for providing telesales and sales and administrative

support. In addition to our Westford, Massachusetts headquarters, we have sales offices in Maryland, North Carolina, Texas, Minnesota, Illinois, California, Oregon, and Ontario, Canada.

A key element of our market penetration strategy is the formation of strategic relationships with industry-leading network equipment vendors and software suppliers in various complementary areas. We believe these relationships increase our market presence and generate qualified opportunities to sell our solutions. As of March 31, 1999, our business development organization consisted of 10 employees.

Our marketing organization utilizes a variety of programs to promote the sale and acceptance of our solutions. As of March 31, 1999, our marketing organization consisted of 19 employees. Our marketing programs include:

- advertising;

- trade shows;

- public relations activities;

- direct mail;

- seminars and speaking engagements;

- brochures, data sheets and white papers; and - Web marketing.

Strategic Relationship with Cisco

Cisco is a significant distributor of our products under its private label. We sell NetScout Manager and NetScout probes to Cisco, which are resold by Cisco under the names TrafficDirector and SwitchProbes. We also license versions of our software for use in a range of Cisco switches for which we receive royalty payments and we provide development services to Cisco for which we receive engineering fees. Cisco has a worldwide, non-exclusive right to market and resell our products on a stand-alone basis and to incorporate certain components of our technology into its products. This relationship is governed by a project development and license agreement dated as of January 13, 1994 and a private labeling agreement dated as of May 15, 1996. These agreements have been amended and were extended until October 2000.

We work closely with Cisco on joint sales and marketing efforts. These include collaboration on product marketing, our participation in Cisco seminars, joint customer presentations, introductions to Cisco's international distributors and links between our web sites. We devote significant time and attention of senior management, as well as resources throughout our company, to making this partnership successful and believe that we have a strong business relationship.

Customers

We sell our products to businesses and organizations with large and medium-sized computer networks. We have sold a majority of our products through indirect distribution channels and have also sold our products directly to over 600 customers. Our customers operate in a wide variety of industries, such as financial services, transportation, manufacturing, insurance, retail and software development. The following is a partial list of our customers:

3M Corporation
Amoco Corporation
AT&T
Cargill Financial Services
CIGNA Corporation
Consumers Energy Company
Deutsche Bank AG London
Donaldson, Lufkin & Jenrette
The GAP, Inc.
Fidelity Investments
Goldman Sachs & Co.
Harvard Pilgrim Health Care
Lehman Brothers
Liberty Mutual Group
Lockheed Martin Financial Services
Los Alamos National Laboratory
Lotus Development Corp.
Mid America Energy Co.
Merrill Corporation
Morgan Stanley
NationsBank
NCR
Northwest Airlines
Providian Financial Corp
State Street Bank and Trust
Sun Microsystems, Inc.
Teradyne
Toys-R-Us
Xerox

The following are examples of selected client applications of our products:

The Problem Netscout's Solution the Result

Troubleshooting

A manufacturing firm with 8,400 employees at 75 networked locations in 23 countries was experiencing sluggish order entry response times which compromised the quality of customer service.

Using our AFM solution, the company monitored its network and identified a configuration problem that originated with the WAN service provider.

The WAN was properly reconfigured and, as a result, order entry response times returned to normal, and users stopped complaining of slow service.

Capacity Planning

A leading financial services company with 10,000 employees at 350 sites depended on its network to process 200,000 online financial trades and support up to 20 million Web site hits a day. This volume caused business-critical applications to slow down.

Using our AFM solution, the company was able to understand current and profile future capacity requirements for their network.

The company identified baseline usage patterns, which helped them to intelligently plan and implement infrastructure expenditures. Our AFM solution also identified remnants of a software test that was slowing down a remote server. As a result, the company avoided purchasing $90,000 in unnecessary bandwidth capacity.

Usage-based Accounting

A technology enterprise had a network with 12,500 users spanning 715 sites. The CEO wanted to economize and

Using our AFM solution, the network operations center designed a charge-back program for network usage. The program

The program has just been implemented in Europe and is expected to be rolled out in the U.S. in June 1999. The

challenged the network operations center to control network costs.	was based on quantifying bandwidth usage and response times by user and by application throughout the network.	company anticipates substantial reductions in overhead with network access tied to business goals.

Application Deployment

A large aerospace defense contractor wanted to move its email system from a local server to a remote server. This critical application had to continue running smoothly, and the network team was unsure if the WAN could handle the additional load.	Our AFM solution was installed to provide both application-level data and network-wide bandwidth usage information. The company was able to determine the current local server load and calculate how much data would flow across the WAN to the remote server.	The network team was able to confirm that the WAN had adequate capacity. Our solution minimized the risks involved in a major application re-deployment.

Support Services

We believe that providing a high level of customer service and technical support is critical to achieving effective product implementation and ensuring customer satisfaction. We offer a broad range of support and training services to our customers and work closely with our indirect channel partners to provide pre-sales and post-sales support.

We offer a toll-free technical support hotline to our customers under support agreements and to our indirect channel partners. This hotline is staffed by customer support engineers from 8:00 a.m. to 8:00 p.m., Eastern time, Monday through Friday, from our corporate headquarters in Westford, Massachusetts. As of March 31, 1999, our support services organization consisted of 11 employees.

Research and Development

We devote substantial resources to developing new products and enhancing existing products. Our market is characterized by rapid technological change, frequent product introductions and enhancements, evolving industry standards and rapidly changing customer requirements. We have a long record of product innovation, including:

CALENDAR YEAR INTRODUCED	PROBES AND AGENTS	INFORMATION AGGREGATION AND PRESENTATION SOFTWARE
1992	Ethernet, Token Ring	NetScout Manager
1993	--	--
1994	WAN	Resource Monitor
1995	CDDI/FDDI, Switch Embedded	
1996	Fast Ethernet	NetScout Manager Plus
1997	WAN (T3)	NetScout Server, WebCast
1998	ATM	--
1999	Channelized WAN, Fast EtherChannel	AppScout --
1999 (Planned)	Gigabit Ethernet	--

As of March 31, 1999, our research and development organization consisted of 52 employees. In addition, we contract with third parties to perform specific development projects. Research and development expenditures for the fiscal years ended March 31, 1997 and 1998 and for the nine months ended December 31, 1998 were approximately $3.0 million, $5.1 million and $5.3 million. To date, all research and development expenses have been expensed as incurred.

Competition

The market for our products is new and rapidly evolving, and is expected to become increasingly competitive as current competitors expand their product offerings and new companies enter the market. Our principal competitors include a number of companies offering one or more solutions for the network and applications performance management market, some of which compete directly with our products. For example, we compete with probe vendors, such as Hewlett-Packard, providers of network performance management solutions, such as Concord Communications and Micromuse, providers of application performance management solutions, such as International Network Services, and providers of portable network traffic analyzers, such as Network Associates. In addition, leading network equipment providers could offer their own or competitors' solutions in the future. We believe that the principal competitive factors in the network and applications performance management solutions market include:

- product performance, functionality and price;

- name and reputation of vendor;

- distribution strength; and - alliances with industry partners.

Although we believe that we currently compete favorably with respect to these factors, there can be no assurance that we can maintain our competitive position against current and potential competitors, especially those with greater financial, management, marketing, service, support, technical, distribution and other resources.

Manufacturing

Our manufacturing operations consist primarily of final product assembly, configuration and testing. We purchase components and subassemblies from suppliers and configure our hardware products to individual customer requirements. We inspect, test and use statistical process control to ensure the quality and reliability of our products. In February 1998, we obtained ISO 9001 quality systems registration, a certification showing that our procedures and manufacturing facilities comply with standards for quality assurance and manufacturing process control. As of March 31, 1999, our manufacturing organization consisted of 20 employees.

Although we generally use standard parts and components for our products, each of the computer network interface cards used in our probes 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. We have no supply commitments with our suppliers but believe that, in most cases, alternate suppliers can be identified if current suppliers are unable to fulfill our needs.

Intellectual Property Rights

Our success and competitiveness are dependent to a significant degree on the protection of our proprietary technology. We rely primarily on a combination of copyrights, trademarks, licenses, trade secret laws and restrictions on disclosure to protect our intellectual property and proprietary rights. We also enter into confidentiality agreements with our employees and consultants, and generally control access to and distribution of our documentation and other proprietary information.

We pursue registration of some of our trademarks in the U.S. and in other countries. We have registered the trademark NetScout in the U.S. and the European Union. We have filed applications for the NetScout trademark in Canada and Japan, and those applications are still pending. In addition, we have applications pending for the NetScout Logo and AppScout, in the U.S., Canada, Europe and Japan. We are also pursuing registration in the U.S. for the marks ART MIB, FrameScout and WebScout.

Employees

As of March 31, 1999, we had 209 employees, 160 of whom were based at our headquarters in Westford, Massachusetts. None of our employees is subject to a collective bargaining agreement. We believe that our relations with our employees are good.

Facilities

We lease approximately 97,500 square feet of space in an office building in Westford, Massachusetts for our headquarters. The lease expires in November 2002, and we have an option to extend the lease for an additional five-year term. We also lease office space in nine other cities for our sales and support personnel. We believe that these existing facilities are adequate to meet our foreseeable requirements or that suitable additional or substitute space will be available on commercially reasonable terms.

Legal Proceedings

From time to time we may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of third party trademarks and other intellectual property rights by us. We are not aware of any legal proceedings or claims that we believe will have,

individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

Management

Directors and Executive Officers

The directors and executive officers of NetScout are as follows:

NAME AGE POSITION

Anil K. Singhal	45	Chairman of the Board, Chief Executive Officer and Treasurer
Narendra Popat(1)	50	President, Chief Operating Officer, Secretary and Director
Charles W. Tillett	42	Vice President, Finance and Administration and Chief Financial Officer
Nathan Kalowski	53	Vice President, Business Development
Ashwani Singhal	38	Vice President, Engineering
Gerald Stabile	39	Vice President, Worldwide Sales and Services
Tracy Steele	39	Vice President, Manufacturing
Michael Szabados	47	Vice President, Marketing
Richard J. Egan(1)	63	Director
Joseph G. Hadzima, Jr.(1)(2)	47	Director
Kenneth T. Schiciano(2)	36	Director

(1) Member of the Compensation Committee (2) Member of the Audit Committee ANIL K. SINGHAL co-founded NetScout in June 1984 and has served as NetScout's Chairman of the Board, Chief Executive Officer and Treasurer since July 1993. From NetScout's inception until July 1993, Mr. Singhal was President of NetScout. Mr. Singhal has served as a director of NetScout since inception. Prior to founding NetScout, he was a Senior Architect and Project Manager at Wang Laboratories, a provider of computer systems, from 1979 until June 1984. Mr. Singhal is the brother of Ashwani Singhal, NetScout's Vice President, Engineering.

NARENDRA POPAT co-founded NetScout in June 1984 and has served as NetScout's President, Chief Operating Officer and Secretary since July 1993. From NetScout's inception until July 1993, Mr. Popat was Chairman of the Board and Treasurer of NetScout. Mr. Popat has served as a director of NetScout since inception. Prior to founding NetScout, he was a Senior Software Engineer at Wang Laboratories from 1980 until June 1984.

CHARLES W. TILLETT has served as NetScout's Vice President, Finance and Administration since May 1995 and Chief Financial Officer since April 1999. Mr. Tillett joined NetScout in July 1991 and served as Director, Finance and Administration from July 1991 until May 1995. Prior to joining NetScout, he served Fidelity Investments, a financial services firm, in various capacities, most recently as Project Manager.

NATHAN KALOWSKI has served as NetScout's Vice President, Business Development since August 1997. Mr. Kalowski joined NetScout in July 1993 and served as Vice President, Marketing from July 1993 until August 1997. Prior to joining NetScout, he was Vice President, Marketing for Proteon, a computer networking company, from 1988 until May 1993. He has also held various engineering, product management, marketing and executive positions at Texas Instruments, a diversified electronics company, General Electric, a diversified electronics company, and Digital Equipment Corporation, a computer hardware company.

ASHWANI SINGHAL has served as NetScout's Vice President, Engineering since October 1998. Mr. Singhal joined NetScout in 1987 and served as a Senior Software Engineer and Project Manager from 1987 until February 1997 and as Director of Engineering from February 1997 until October 1998. Prior to joining NetScout, he was a Senior Software Engineer at Symmetrix, an artificial intelligence systems company, from 1984 until 1987. Mr. Singhal is the brother of Anil Singhal, NetScout's Chairman of the Board and Chief Executive Officer.

GERALD STABILE has served as NetScout's Vice President, Worldwide Sales and Services since October 1998. Mr. Stabile joined NetScout in September 1997 and served as Vice President, Worldwide Sales from March 1998 until October 1998 and as Vice President, North American Sales from September 1997 until March 1998. Prior to joining NetScout, he served Olicom (formerly CrossComm Corporation), a developer of networking software, as Vice President, Americas from 1996 until September 1997 and as Sales Director from 1992 through 1995.

TRACY STEELE has served as NetScout's Vice President, Manufacturing since May 1997. Mr. Steele joined NetScout in November 1995 and served as Director of Manufacturing from November 1995 until May 1997. Prior to joining NetScout, he served as Director of Manufacturing for Scope Communications, a developer of hand-held network tools, from 1993 until November 1995.

MICHAEL SZABADOS has served as NetScout's Vice President, Marketing since August 1997. Prior to joining NetScout, he served as Chief Executive Officer of Jupiter Technology, Inc., a developer of frame relay access devices, from March 1997 until August 1997. He also served as Vice President, Product Management/Marketing at UB Networks, a computer networking company, from July 1994 until March 1997 and served as Director of Marketing at SynOptics Communications, a computer networking company, from 1991 until July 1994.

RICHARD J. EGAN has served as a director of NetScout since January 1999. Mr. Egan is a founder of EMC Corporation, a provider of computer storage systems and software. Mr. Egan has served EMC Corporation, a publicly-held company, as Chairman of the Board since January 1988, as a director since inception in 1979, as Chief Executive Officer from 1979 until January 1992 and as President from 1979 until January 1988. Mr. Egan is also a director of BEC Energy Company, a public utility.

JOSEPH G. HADZIMA, JR. has served as a director of NetScout since July 1998. Mr. Hadzima has been a Managing Director of Technology Enabling Company, LLC, a venture capital investment and technology commercialization company, since April 1998. Since June 1996, he has also served as Of Counsel at Sullivan & Worcester LLP, a law firm where he was a partner from October 1987 until June 1996. Mr. Hadzima served as Senior Vice President and General Counsel of Quantum Energy

Technologies Corporation, an energy and environmental products research and development company, from June 1996 until December 1998. Mr. Hadzima is also a Senior Lecturer at MIT Sloan School of Management.

KENNETH T. SCHICIANO has served as a director of NetScout since January 1999. Mr. Schiciano has been a Principal of TA Associates, Inc., a venture capital firm, since December 1994. Mr. Schiciano served as a Vice President of TA Associates from August 1989 until December 1994. Prior to that, Mr. Schiciano was a member of the technical staff of AT&T Bell Laboratories, a telecommunications company. Mr. Schiciano is also a director of Galaxy Telecom L.P. and several privately-held companies.

The Board of Directors is currently fixed at five members. NetScout's amended and restated certificate of incorporation, as in effect immediately following this offering, divides the Board of Directors into three classes. The members of each class of directors serve for staggered three-year terms. The Board of Directors is composed of (i) one Class I director (Mr. Schiciano), whose term expires upon the election and qualification of directors at the annual meeting of stockholders to be held in 2000, (ii) two Class II directors (Messrs. Singhal and Egan), whose terms expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2001 and (iii) two Class III directors (Messrs. Popat and Hadzima), whose terms expire upon the election and qualification of directors at the annual meeting of stockholders to be held in 2002.

Our executive officers are elected by and serve at the discretion of the Board of Directors. Except as noted above, there are no family relationships among any of our executive officers and directors.

Committees of the Board of Directors

We have a standing Compensation Committee and Audit Committee of the Board of Directors. The current members of the Compensation Committee are Messrs. Egan, Hadzima and Popat. The Compensation Committee's duties are to review and evaluate the salaries and incentive compensation of our management and employees and administer our 1990 Stock Option Plan, 1999 Stock Option and Incentive Plan and 1999 Employee Stock Purchase Plan.

The current members of the Audit Committee are Messrs. Hadzima and Schiciano. The Audit Committee is responsible for reviewing the results and scope of audits and other services provided by our independent public accountants and reviewing our system of internal accounting and financial controls. The Audit Committee also reviews such other matters with respect to our accounting, auditing and financial reporting practices and procedures as it may find appropriate or as may be brought to its attention.

Director Compensation

After this offering, non-employee directors will be reimbursed for their reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors or of any committee thereof. On July 14, 1998, we granted to Joseph Hadzima, a member of the board of directors, an option to

purchase 90,000 shares of common stock vesting over a four-year period, at an exercise price of $2.67 per share. No director who is an employee of NetScout will receive separate compensation for services rendered as a director.

Compensation Committee Interlocks and Insider Participation

In January 1999, NetScout's Board of Directors established the Compensation Committee and appointed Messrs. Popat, Egan and Hadzima to serve on the Compensation Committee. Messrs. Popat, Egan and Hadzima each had certain transactions with NetScout which we described in the "Certain Transactions" section of this prospectus.

The Compensation Committee evaluates the salaries and incentive compensation of management and employees of NetScout and administers our equity incentive plans. Other than Mr. Popat and as described under "Certain Transactions," no member of this committee was at any time during the past year an officer or employee of NetScout, was formerly an officer of NetScout or any of its subsidiaries, or had any relationship with NetScout. During the last year, none of our executive officers served as:

- a member of the compensation committee (or other committee of the Board of Directors 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 on the Compensation Committee of NetScout;

- a director of another entity, one of whose executive officers served on the Compensation Committee of NetScout; or - a member of the compensation committee (or other committee of the Board of Directors 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 a director of NetScout. See "Certain Transactions."

Executive Compensation

The following summary compensation table sets forth the total compensation paid or accrued for the fiscal year ended March 31, 1999 for (i) the Chief Executive Officer of NetScout and (ii) the four other most highly compensated executive officers of NetScout other than the Chief Executive Officer (collectively, the "Named Executive Officers").

Summary Compensation Table

		ANNUAL COMPENSATION(1)		
NAME AND PRINCIPAL POSITION		SALARY($)	BONUS($)	ALL OTHER COMPENSATION($)(2)

Anil K. Singhal..... 250,000 325,000 2,144 Chairman of the Board and Chief Executive Officer Narendra Popat..... 250,000 325,000 2,144 President and Chief Operating Officer Charles W. Tillett..... 150,000 100,000 2,462 Vice President, Finance and Administration and Chief Financial Officer Gerald Stabile..... 136,800 152,500 -- Vice President, Worldwide Sales and Services Michael Szabados..... 137,500 75,000 2,452 Vice President, Marketing (1) NetScout did not make any restricted stock awards, grant any stock appreciation rights or stock options or make any long-term incentive payments during the fiscal year ended March 31, 1999 to its Named Executive Officers. In accordance with the rules of the Securities and Exchange Commission, the compensation set forth in the table does not include certain perquisites and other benefits which do not exceed the lesser of $50,000 or 10% of the person's salary and bonus shown in the table.

(2) Composed of contributions to a defined contribution plan.

Option Grants in Last Fiscal Year

No stock option or stock appreciation rights were granted to any of the Named Executive Officers during the fiscal year ended March 31, 1999.

Year-end Option Table

The following table sets forth information regarding exercisable and unexercisable stock options held as of March 31, 1999 by each of the Named Executive Officers. There was no public trading market for our common stock as of March 31, 1999. Accordingly, the value of unexercised in-the-money options has been calculated by determining the difference between the exercise price per share and an assumed initial public offering price of $.

Aggregated Fiscal Year-end Option Values

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($)	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Anil K. Singhal.....	--	--	--	--	--	--
Narendra Popat.....	--	--	--	--	--	--
Charles W. Tillett.....	175,312	1,043,107(1)	--	79,687	--	
Gerald Stabile.....	21,900	56,721(2)	90,600	187,500		
Michael Szabados.....	33,000	85,470(2)	102,000	225,000		

(1) Calculated by determining the difference between the exercise price per share and the fair market value on the date of exercise.

(2) Calculated by determining the difference between the exercise price per share and the fair market value of $4.26 on the date of exercise, which was also the redemption date for these shares.

Stock Plans

1990 STOCK OPTION PLAN. The 1990 Stock Option Plan (the "1990 Stock Option Plan"), was adopted by the Board of Directors and approved by the stockholders on October 4, 1990. Under the 1990 Stock Option Plan, we are authorized to grant options to purchase shares of common stock intended to qualify as incentive stock options as defined under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), to our employees. In addition, we are authorized to grant non-qualified stock options to purchase shares of common stock to employees, consultants and directors. In general, options granted pursuant to the 1990 Stock Option Plan are exercisable within ten years of the original grant date and become exercisable over a period of four years from a specific date, and an additional 25% of the unexercisable options shall become exercisable immediately prior to the closing of a merger, acquisition, business combination or similar transaction which results in our existing stockholders owning less than 50% of NetScout's equity securities or assets. Options are not assignable or transferable except by will or the laws of descent or distribution. We have a right of repurchase for shares issued upon the exercise of options under certain circumstances, including unauthorized transfers of the shares and termination of the optionee's relationship with NetScout in certain situations. As of March 31, 1999, an aggregate of 4,640,438 shares of common stock at a weighted average exercise price of $1.90 per share were outstanding under the 1990 Stock Option Plan. No additional option grants will be made under the 1990 Stock Option Plan.

1999 STOCK OPTION AND INCENTIVE PLAN. Our 1999 Stock Option and Incentive Plan ("1999 Stock Option Plan") was adopted by our Board of Directors and is expected to be approved by our stockholders in April 1999. The 1999 Stock Option Plan provides for the grant of stock-based awards to our employees, officers and directors, consultants or advisors. Under the 1999 Stock Option 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 employees of NetScout. A total of 6,750,000 shares of common stock have been reserved for issuance under the 1999 Stock Option Plan. The maximum number of shares with respect to which awards may be granted to any employee under the 1999 Stock Option Plan shall not exceed 1,000,000 shares of common stock during any calendar year.

The 1999 Stock Option Plan is administered by the Compensation Committee. Subject to the provisions of the 1999 Stock Option Plan, the Compensation Committee has the authority to select the persons to whom awards are granted and 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 1999 Stock Option Plan provides, subject to certain conditions, that upon an acquisition of NetScout the vesting of all awards will accelerate by a period of one year.

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

1999 EMPLOYEE STOCK PURCHASE PLAN. The 1999 Employee Stock Purchase Plan (the "1999 Purchase Plan") was adopted by our Board of Directors and is expected to be approved by our stockholders in April 1999, to be effective upon the closing of this offering. The 1999 Purchase Plan provides for the issuance of a maximum of 750,000 shares of common stock.

The 1999 Purchase Plan will be administered by the Compensation Committee. All employees of NetScout whose customary employment is for more than 20 hours per week and for more than three months in any calendar year are eligible to participate in the 1999 Purchase Plan. Employees who would own 5% or more of the total combined voting power or value of NetScout's stock immediately after the grant of the option may not participate in the 1999 Purchase Plan. To participate in the 1999 Purchase Plan, an employee must authorize us to deduct an amount (not less than one percent nor more than 10 percent of a participant's total cash compensation) from his or her pay during six-month payment periods (each, a "Payment Period"). The first Payment Period will commence on the earlier to occur of (1) October 1, 1999 and (2) the first day of the first calendar month following the effective date of the Registration Statement on Form S-8 filed with respect to the shares issued under the 1999 Purchase Plan and shall end March 31, 2000. Thereafter, the Payment Periods will commence on the six-month periods commencing on April 1 and October 1, respectively, and ending on the following September 30 and March 31, respectively, of each year. In no case shall an employee be entitled to purchase more than 500 shares in any one Payment Period. The exercise price for the option granted in each Payment Period is 85% of the lesser of the last reported sale price of the common stock on the first or last business day of the Payment Period, in either event rounded up to the nearest cent. If an employee is not a participant on the last day of the Payment Period, such employee is not entitled to exercise his or her option, and the amount of his or her accumulated payroll deductions will be refunded. Options granted under the 1999 Purchase Plan may not be transferred or assigned. An employee's rights under the 1999 Purchase Plan terminate upon his or her voluntary withdrawal from the plan at any time or upon termination of employment. No options have been granted to date under the 1999 Purchase Plan.

401(K) Plan

We maintain a 401(k) plan qualified under Section 401 of the Code. All of our employees who are at least 21 years of age are eligible to participate in the 401(k) plan. Under the 401(k) plan, a participant may contribute a maximum of 15% of his or her pre-tax salary, commissions and bonuses through payroll deductions (up to the statutorily prescribed annual limit of $10,000 in calendar year 1999) to the 401(k) plan. The percentage elected by more highly compensated participants may be required to be lower. At the discretion of the Board of Directors, we may make matching contributions to the 401(k) plan. During the plan year ending December 31, 1998, we matched $.25 for each $1.00 of employee contributions up to 6% of salary. In addition, at the discretion of the Board of Directors, we may make profit-sharing contributions to the 401(k) plan for all eligible employees. During the plan year ending December 31, 1998, we made no profit-sharing contributions to the 401(k) plan.

Employment Agreements

Anil Singhal and Narendra Popat entered into employment agreements with NetScout on June 1, 1994, which were amended on January 14, 1999. Under the terms of these employment agreements, each of Messrs. Singhal and Popat receive a base salary of at least $250,000 and a year-end, non-discretionary bonus of at least $250,000. In the event that either Mr. Singhal or Mr. Popat is terminated without cause, or either decides to terminate his own employment for "good reason" each is entitled to receive severance benefits for three years as follows:

- for the first twelve months following termination, the greater of $175,000 or base salary as of the date of termination; and - for each of the following twelve month periods, an amount equal to 120% of the amount received in the immediately preceding twelve months.

"Good reason" means a change in executive responsibilities or a reduction in salary or benefits. Severance benefits will be discontinued if the executive secures alternative employment that is comparable as to position and pay. During any period in which Mr. Singhal or Mr. Popat is entitled to receive severance benefits, he shall also continue to receive all other benefits under the employment agreements including life insurance, medical insurance, and reimbursement for company car expenses. Each of Messrs. Singhal and Popat are also entitled to reimbursement of job placement expenses of up to $25,000 plus related travel expenses. If either Mr. Singhal or Mr. Popat is terminated with cause, he will not be entitled to any severance or other benefits, except as required by law. Each employment agreement provides for a five-year term commencing June 1, 1994 with automatic one-year renewals.

Certain Transactions

In February 1996, NetScout issued 631,579 shares of its Series A Preferred Stock to Greylock Equity Limited Partnership ("Greylock"), at a purchase price of $9.50 per share, for an aggregate of $6,000,000. Roger Evans, a general partner of the general partner of Greylock, served as a member of the Board of Directors of NetScout from February 1996 until January 1999. In January 1999, we

redeemed 315,789 shares of Series A Preferred Stock as described below. Upon the closing of this offering, the 315,790 outstanding shares of Series A Preferred Stock will automatically convert into 1,894,740 shares of common stock.

In January 1999, NetScout issued 6,977,254 shares of its Class B Convertible Common Stock at a purchase price of $6.388051 per share to certain affiliates of TA Associates, Inc. (the "TA Entities") for an aggregate consideration of $42,571,057 and to Egan-Managed Capital, L.P. for an aggregate consideration of $1,999,997. In connection with this transaction, Kenneth Schiciano and Richard Egan were elected to the Board of Directors. Mr. Schiciano is a Principal of TA Associates, Inc., which is either the manager or the general partner of the general partner of the TA Entities. Mr. Egan and his children own substantially all of the equity interests in Egan-Managed Capital, L.P. All of the proceeds from the Class B Convertible Common Stock financing were used to redeem shares of Series A Preferred Stock, Non-Voting Common Stock and common stock from the officers, directors and 5% stockholders and certain other persons as set forth below:

NAME	POSITION	TYPE OF SECURITY REDEEMED	NUMBER OF SHARES REDEEMED	AGGREGATE REDEMPTION PAYMENT
Greylock Equity Limited Partnership	5% stockholder and formerly represented on the Board of Directors	Series A Preferred Stock	315,789 (1,894,734 common stock equivalents)	$ 8,069,105

Anil K. Singhal Chairman of the Board, Voting Common Stock 3,562,124 $ 15,170,018 Chief Executive Officer and Treasurer Narendra Popat President, Chief Voting Common Stock 3,562,124 $ 15,170,018 Operating Officer, Secretary and Director Charles W. Tillett Vice President, Finance Non-Voting Common Stock 285,000 $ 1,213,730 and Administration and Chief Financial Officer Nathan Kalowski Vice President, Business Non-Voting Common Stock 285,000 $ 1,213,730 Development Ashwani Singhal Vice President, Non-Voting Common Stock 528,000 $ 2,248,594 Engineering Gerald Stabile Vice President, Non-Voting Common Stock 21,900 $ 93,266 Worldwide Sales and Services

NAME	POSITION	TYPE OF SECURITY REDEEMED	NUMBER OF SHARES REDEEMED	AGGREGATE REDEMPTION PAYMENT

Tracy Steele Vice President, Non-Voting Common Stock 9,000 $ 38,328 Manufacturing Michael Szabados Vice President, Non-Voting Common Stock 33,000 $ 140,537 Marketing Ralph Lowry Former Vice President, Non-Voting Common Stock 285,000 $ 1,213,730 International Sales Anil K. Singhal and Ashwani Singhal are brothers.

Upon closing of the offering, all of the 6,977,254 outstanding shares of Class B Convertible Common Stock will automatically convert into an aggregate of 10,465,881 shares of common stock. The holders of shares of common stock issuable upon conversion of the Class B Convertible Common Stock have

certain rights with respect to the registration by NetScout of their shares. See "Description of Capital Stock--Registration Rights."

On June 28, 1996, Anil K. Singhal borrowed $1,100,000 and Narendra Popat borrowed $900,000 from NetScout. In connection with the loans, Mr. Singhal pledged 851,616 shares of Voting Common Stock, and Mr. Popat pledged 696,780 shares of Voting Common Stock to NetScout. Each loan is evidenced by a promissory note and bears interest at 6.48% per annum, compounded semi-annually. Accrued interest is payable on an annual basis. Each of Mr. Singhal and Mr. Popat have agreed to repay the entire outstanding principal and interest on these loans upon the closing of this offering.

Joseph G. Hadzima, Jr., a member of the Board of Directors since July 1998, was a partner at the law firm of Sullivan & Worcester LLP until June 1996 and since June 1996 has served as Of Counsel at Sullivan & Worcester. Sullivan & Worcester was NetScout's counsel until October 1996.

Anil K. Singhal and Narendra Popat each own one-third (1/3) of the voting capital stock of Frontier Software Development Pvt. Ltd., a private company located in Bombay, India ("Frontier India"). Shirish Deodhar, a holder of 300,000 shares of Non-Voting Common Stock, oversaw the day-to-day operations of Frontier India. Frontier India provided engineering consulting services to NetScout from 1988 through 1999. Our payments to Frontier India were approximately $20,000 during fiscal year 1996 (which represented 3% of Frontier India's revenue), $352,000 during fiscal year 1997 (which represented 33% of Frontier India's revenue), $315,000 during fiscal year 1998 (which represented 19% of Frontier India's revenue) and $470,000 during fiscal year 1999. In 1991, the Industrial Credit and Investment Corporation of India Limited (the "ICICI") loaned $387,000 to NetScout and Frontier India to help finance the NetScout-Frontier India engineering consulting services arrangement. The amounts due to the ICICI have been paid in full.

In February 1999, Frontier India sold substantially all of its assets to Veritas Software Corporation USA, a Delaware corporation, and the Board of Directors of NetScout fully accelerated the vesting schedule applicable to Mr. Deodhar's 300,000 shares of Non-Voting Common Stock.

In May 1996, NetScout Systems (UK) Limited ("NetScout UK") was organized under the laws of England and Wales to serve as a wholly-owned subsidiary of NetScout. Messrs. Popat and Singhal were issued the outstanding shares of stock of NetScout UK. The shares are currently in the process of being transferred to NetScout.

NetScout believes that all transactions described above were made on terms no less favorable to it than would have been obtained from unaffiliated third parties. All future transactions, if any, with our executive officers, directors and affiliates will be on terms no less favorable to us than could be obtained from unrelated third parties and will be approved by a majority of the Board of Directors and by a majority of the disinterested members of the Board of Directors.

Principal and Selling Stockholders

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 31, 1999, and as adjusted to reflect the sale of the shares of common stock offered hereby, by: (a) each beneficial owner of more than 5% of our common stock; (b) each Named Executive Officer; (c) each director; (d) all executive officers and directors as a group; and (e) the selling stockholders. The address of each person listed on the table is c/o NetScout Systems, Inc., 4 Technology Park Drive, Westford, MA 01886, and each person has sole voting and investment power over the shares shown as beneficially owned, except to the extent authority is shared by spouses under applicable law unless otherwise noted below.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Shares of common stock issuable by NetScout to a person or entity named below pursuant to options which may be exercised within 60 days after March 31, 1999 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.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	NUMBER OF SHARES BEING OFFERED*	PERCENTAGE OF COMMON STOCK OUTSTANDING ---------- BEFORE OFFERING	PERCENTAGE OF COMMON STOCK OUTSTANDING ---------- AFTER OFFERING
Anil K. Singhal(1)	7,844,250	*	23.2%	*
Narendra Popat(2)	7,844,251	*	23.2	*
Charles W. Tillett(3)	675,750	*	2.0	*
Nathan Kalowski(4)	651,279	*	1.9	*
Ashwani Singhal(5)	1,272,000	*	3.8	*
Gerald Stabile(6)	90,600	*	*	*
Tracy Steele(7)	77,250	*	*	*
Michael Szabados(8)	124,500	*	*	*
Richard J. Egan(9)	--	*	*	*
c/o Egan-Managed Capital, L.P. 30 Federal Street Boston, MA 02110-2508 Joseph G. Hadzima, Jr. (10)	944,892	*	2.8	*
c/o Technology Enabling Company, LLC 238 Main Street, Suite 400 Cambridge, MA 02142 Kenneth T. Schiciano(11)	25,021	*	29.5	*
c/o TA Associates, Inc. 125 High Street Boston, MA 02110 TA Entities(12)	9,996,255	*	29.5	*
c/o TA Associates, Inc. 125 High Street Boston, MA 02110 Greylock Equity Limited Partnership	1,894,740	*	5.6	*
c/o Greylock Management Corporation One Federal Street Boston, MA 02110 All executive officers and directors as a group (11 persons)(13)	19,549,793	57.8%	*	*

The number of shares to be sold in this offering and the selling stockholders have not yet been determined.

(1) Includes an aggregate of 23,024 shares held in trust for the benefit of Mr. Singhal's children; Mr. Singhal's wife is one of two trustees of each such trust. Includes 510,000 shares held by a family limited partnership of which Mr. and Mrs. Singhal are the general and limited partners. Does not include 593,625 shares held in a grantor retained annuity trust for the benefit of Mr. Singhal.

(2) Includes 204,084 shares held in trust for the benefit of Mr. Popat's children; Mr. Popat's wife and Mr. Hadzima are the two trustees of such trust. Includes 510,000 shares held by a family limited partnership of which Mr. and Mrs. Popat are the general and limited partners. Does not include 593,625 shares held in a grantor retained annuity trust for the benefit of Mr. Popat; Mr. Hadzima is the sole trustee of such trust.

(3) Includes 15,938 shares issuable upon exercise of options exercisable within 60 days of March 31, 1999. Excludes 63,750 shares issuable upon the exercise of options that become exercisable upon the closing of this offering.

(4) Does not include 88,221 shares held in trusts for the benefit of Mr. Kalowski's children.

(5) Includes 60,450 shares owned by Mr. Singhal's wife.

(6) Consists of shares issuable upon the exercise of options exercisable within 60 days of March 31, 1999. Excludes 18,750 shares issuable upon the exercise of options that become exercisable upon the closing of this offering.

(7) Consists of shares issuable upon the exercise of options exercisable within 60 days of March 31, 1999.

(8) Consists of shares issuable upon the exercise of options exercisable within 60 days of March 31, 1999.

(9) Egan-Managed Capital, L.P. owns 469,626 shares. Although Mr. Egan does not have any voting or investment powers over the shares, Mr. Egan and his children own substantially all of the equity interest of Egan-Managed Capital, L.P.

(10) Includes 16,875 shares issuable upon the exercise of options exercisable within 60 days of March 31, 1999. Includes 204,084 shares held in trust for the benefit of Mr. Popat's children; Mrs. Popat and Mr. Hadzima are the two trustees of such trust. Includes 593,625 shares held in a grantor retained annuity trust for the benefit of Mr. Popat; Mr. Hadzima is the sole trustee of such trust. Mr. Hadzima disclaims beneficial ownership of all shares held in trust for the benefit of either Mr. Popat's children or Mr. Popat. The shares deemed to be beneficially owned by Mr. Hadzima does not include 79,992 shares held in trust for the benefit of Mr. Hadzima's children.

(11) Consists of shares in TA Executives Fund, LLC beneficially owned by Mr. Schiciano. Mr. Schiciano is a Principal of TA Associates, Inc. Mr. Schiciano disclaims beneficial ownership of the shares held by the TA Entities, except to the extent of his pecuniary interest therein.

(12) Includes 8,150,220 shares held by TA/Advent VIII, L.P., of which shares are being offered hereby; 1,528,176 shares held by Advent Atlantic & Pacific III, L.P., of which shares are being offered hereby; 154,854 shares held by TA Executives Fund, LLC, of which shares are being offered hereby; and 163,005 shares held by TA Investors, LLC, of which shares are being offered hereby. TA/Advent VIII, L.P., Advent Atlantic & Pacific III, L.P., TA Executives Fund, LLC and TA Investors, LLC are part of an affiliated group of investment partnerships referred to, collectively, as the "TA Entities." The general partner of TA/Advent VIII, L.P. is TA Associates VIII, LLC. The general partner of Advent Atlantic & Pacific III, L.P. is TA Associates AAP III, L.P. TA Associates, Inc. is the general partner of TA Associates AAP III, L.P. and is the sole manager of TA Associates VIII, LLC, TA Executives Fund, LLC and TA Investors, LLC. In such capacity, TA Associates, Inc. exercises sole voting and investment power with respect to all shares held of record by the named investment partnerships; individually, no stockholder, director or officer of TA Associates, Inc. is deemed to have or share such voting or investment power.

(13) Includes an aggregate of 325,162 shares issuable upon exercise of options exercisable within 60 days of March 31, 1999. Excludes 82,500 shares issuable upon exercise of options that become exercisable upon the closing of this offering.

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    If the underwriter's over-allotment option is exercised in full, NetScout
will sell an additional       shares and the following selling stockholders will
sell an additional       shares:
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Description of Capital Stock

Effective upon the closing of this offering and the filing of NetScout's Third Amended and Restated Certificate of Incorporation, the authorized capital stock of NetScout will consist of 150,000,000 shares of common stock, par value $.001 per share, and 5,000,000 shares of preferred stock, par value $.001 per share.

The following summary description of NetScout's capital stock, as of the closing of this offering, is not intended to be complete and is qualified by reference to the provisions of applicable law and to NetScout's Third Amended and Restated Certificate of Incorporation and Amended and Restated By-laws filed as exhibits to the registration statement of which this prospectus is a part.

Common Stock

As of March 31, 1999, there were 33,843,258 shares of common stock outstanding and held of record by 66 stockholders, after giving effect to the conversion of all outstanding shares of Non-Voting Common Stock, Class B Common Stock and Series A Preferred Stock upon the closing of this offering. Based upon the number of shares outstanding as of March 31, 1999 and giving effect to the issuance of the shares of common stock offered by NetScout hereby, there will be shares of common stock outstanding upon the closing of this offering. In addition, as of March 31, 1999, there were

outstanding stock options for the purchase of a total of 4,640,438 shares of Non-Voting Common Stock which upon the closing of the offering will be automatically converted into options to purchase an aggregate of 4,640,438 shares of common stock.

Holders of common stock are entitled to one vote per share for each share held of record on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Directors are elected by a plurality of the votes of the shares present in person or by proxy at the meeting. The holders of common stock are entitled to receive ratably such lawful dividends as may be declared by the Board of Directors. However, such dividends are subject to preferences that may be applicable to the holders of any outstanding shares of preferred stock. In the event of a liquidation, dissolution or winding up of the affairs of NetScout, whether voluntarily or involuntarily, the holders of common stock will be entitled to receive pro rata all of the remaining assets of NetScout available for distribution to its stockholders. Any such pro rata distribution would be subject to the rights of the holders of any outstanding shares of preferred stock. The common stock has no preemptive, redemption, conversion or subscription rights. All outstanding shares of common stock are fully paid and non-assessable. The shares of common stock to be issued by NetScout in this offering will be fully paid and non-assessable. The rights, powers, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which NetScout may designate and issue in the future. Upon the closing of this offering, there will be no shares of preferred stock outstanding.

Preferred Stock

The Board of Directors will be authorized, subject to any limitations prescribed by Delaware law, without further stockholder approval, to issue from time to time up to an aggregate of 5,000,000 shares of preferred stock, in one or more series. The Board of Directors is also authorized, subject to the limitations prescribed by Delaware law, to establish the number of shares to be included in each series and to fix the voting powers, preferences, qualifications and special or relative rights or privileges of each series. The Board of Directors is authorized to issue preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of common stock.

NetScout has no current plans to issue any preferred stock. However, the issuance of preferred stock or of rights to purchase preferred stock could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of the outstanding common stock of NetScout.

Registration Rights

The Amended and Restated Rights Agreement dated as of January 15, 1999, provides that the holders (the "Registration Rights Holders") of 10,465,881 shares of common stock (after giving effect to the conversion of the Class B Common Stock) (the "Registrable Shares") are entitled to certain rights with

respect to the registration of such shares under the Securities Act. If NetScout proposes to register any of its securities under the Securities Act, either for its own account or for the account of another securityholder, the Registration Rights Holders are entitled to notice of such registration and to include such Registrable Shares in such registration. However, in the event of a registration pursuant to an underwritten public offering of common stock, the underwriters shall have the right, subject to certain conditions, to limit the number of shares included in such registration.

In addition, after six months after this offering, the holders of at least 40% of the then outstanding Registrable Shares issued are entitled to request that NetScout file a registration statement under the Securities Act covering the sale of some or all of the shares held by the requesting holder or holders. Upon the receipt of such a request, NetScout is required to use its reasonable best efforts to effect such registration, subject to certain conditions and limitations. NetScout is not required to effect more than two such demand registrations for the Registration Rights Holders, and each such demand registration must have an offering value of at least $2,500,000.

Once NetScout has qualified to use Form S-3 to register securities under the Securities Act, the Registration Rights Holders have the right to request that NetScout file a registration statement on Form S-3 or any successor thereto for a public offering of all or any portion of their Registrable Shares, provided that the reasonably anticipated aggregate price to the public of such offering would not be less than $1,000,000. NetScout is not required to effect a registration in this manner more than once in any twelve-month period.

In general, all fees, costs and expenses of such registrations (other than underwriting discounts and commissions and fees and disbursements of counsel to the Registration Rights Holders) will be borne by NetScout. We have agreed to indemnify the Registration Rights Holders against, and provide contribution with respect to, certain liabilities relating to any registration in which any Registrable Shares of Registration Rights Holders are sold under the Securities Act.

The previously described registration rights shall terminate for a Registration Rights Holder at such time as such particular holder could sell all of such holder's shares under the terms of Rule 144(k) under the Securities Act.

ANTI-TAKEOVER EFFECTS OF PROVISIONS OF NETSCOUT'S THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND AMENDED AND RESTATED BY-LAWS AND DELAWARE LAW NetScout's Third Amended and Restated Certificate of Incorporation (the "Charter"), NetScout's Amended and Restated By-Laws (the "By-Laws") and the Delaware General Corporation Law contain certain provisions that could discourage, delay or prevent a change in control of NetScout or an acquisition of NetScout at a price which many stockholders may find attractive. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of common stock.

Third Amended and Restated Certificate of Incorporation and By-laws

The Charter provides for the division of the Board of Directors into three classes as nearly as equal in size as possible with staggered three-year terms. In addition, the Charter provides that directors may be removed only for cause by the affirmative vote of the holders of 75% of the shares of capital stock of NetScout entitled to vote. The By-Laws provide that, except as otherwise provided by law or the Charter, newly created directorships resulting from an increase in the authorized number of directors or vacancies on the Board may be filled only by:

- a majority of the directors then in office, even though less than a quorum may then be in office; or - the sole remaining director.

These provisions prevent a stockholder from enlarging the Board and filling the new directorships with such stockholder's own nominees without Board approval.

These provisions of the By-Laws may have the effect of discouraging a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of NetScout, or attempting to change the composition or policies of the Board, even though such attempts might be beneficial to NetScout or its stockholders.

The Charter and By-Laws provide that, unless otherwise prescribed by law, only a majority of the Board, the Chairman of the Board or the President is able to call a special meeting of stockholders. The Charter and the By-Laws also provide that, unless otherwise prescribed by law, stockholder action may be taken only at a duly called and convened annual or special meeting of stockholders and may not be taken by written consent. These provisions, taken together, prevent stockholders from forcing consideration by the stockholders of stockholder proposals over the opposition of the Board, except at an annual meeting.

The By-Laws provide that any action required or permitted to be taken by the stockholders of NetScout at an annual meeting or special meeting of stockholders may only be taken if NetScout is given proper advance notice of the action (the "Notice Procedure"). The Notice Procedure affords the Board an opportunity to consider the qualifications of proposed director nominees or the merit of stockholder proposals, and, to the extent deemed appropriate by the Board, to inform stockholders about such matters. The Notice Procedure also provides a more orderly procedure for conducting annual meetings of stockholders. The By-Laws do not give the Board any power to approve or disapprove stockholder nominations for the election of directors or proposals for action. However, the Notice Procedure may prevent a contest for the election of directors or the consideration of stockholder proposals. This could deter a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal if the proper advance notice procedures are not followed, without regard to whether consideration of such nominees or proposals might be harmful or beneficial to NetScout and its stockholders.

The General Corporation Law of Delaware provides generally that the affirmative vote of a majority of the shares issued and outstanding is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. The By-Laws require the affirmative vote of the holders of at least 75% of the issued and outstanding shares of capital stock of NetScout entitled to vote to amend or repeal any of the foregoing provisions of the By-Laws. The 75% stockholder vote would be in addition to any separate class vote that might be required pursuant to the terms of any series of preferred stock that might be outstanding at the time any such amendments are submitted to stockholders.

Delaware Law

NetScout is subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder.

Section 203 does not apply if:

- prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or - on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

The application of Section 203 may limit the ability of stockholders to approve a transaction that they may deem to be in their best interests.

Section 203 defines "business combination" to include:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation to or with the interested stockholder;

- subject to certain exceptions, any transaction which results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or - the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the past three years, and any entity or person associated with, affiliated with or controlling or controlled by such entity or person.

Limitation of Liability

The Charter provides that no director of NetScout shall be personally liable to NetScout or to its stockholders for monetary damages for breach of fiduciary duty as a director, except that the limitation shall not eliminate or limit liability to the extent that the elimination or limitation of such liability is not permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended.

The Charter further provides for the indemnification of NetScout's directors and officers to the fullest extent permitted by Section 145 of the Delaware General Corporation Law, including circumstances in which indemnification is otherwise discretionary. A principal effect of these provisions is to limit or eliminate the potential liability of NetScout's directors for monetary damages arising from breaches of their duty of care, subject to certain exceptions. These provisions may also shield directors from liability under federal and state securities laws.

Stock Transfer Agent

The transfer agent and registrar for the common stock is ChaseMellon Shareholder Services, L.L.C.

Shares Eligible for Future Sale

Prior to this offering, there has been no market for NetScout's stock. Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices from time to time. Furthermore, since only a limited number of shares will be available for sale shortly after the offering because of certain contractual and legal restrictions on resale (as described below), sales of substantial amounts of common stock of NetScout in the public market after the restrictions lapse could adversely affect the prevailing market price and the ability of NetScout to raise equity capital in the future.

Upon completion of this offering (based on shares outstanding as of March 31, 1999), NetScout will have outstanding an aggregate of shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. Of these shares, the shares sold in the offering will be freely tradable without restrictions or further registration under the Securities Act, unless such shares are purchased by an "affiliate" of NetScout as that term is defined in Rule 144 under the Securities Act (an "Affiliate").

The remaining shares of common stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act ("Restricted Shares") or are subject to the contractual restrictions described below. Of these restricted securities:

- 83,100 shares may be sold immediately after completion of this offering;

- 392,974 additional shares may be sold 90 days after the effective date of this offering;

- 20,901,303 additional shares may be sold upon expiration of the 180-day lock-up agreement; and - 10,465,881 additional shares may be sold commencing on January 15, 2000.

All of the officers and directors and certain stockholders and optionholders of NetScout have signed lock-up agreements in favor of the underwriters. As a result, these individuals are not permitted to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of common stock, other than shares purchased by certain securityholders of NetScout in the open market post-offering or shares sold as part of this offering, for a period of 180 days after the date of this prospectus, without the prior written consent of Credit Suisse First Boston Corporation. Credit Suisse First Boston Corporation currently has no plans to release any portion of the securities subject to lock-up agreements, but may do so without notice. When determining whether or not to release shares from the lock-up agreements, Credit Suisse First Boston Corporation will consider, among other factors, the stockholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least one year (including the holding period of any prior owner except when purchased from an Affiliate) would be entitled to sell a certain number of shares within any three-month period. That certain number of shares cannot exceed the greater of one percent of the number of shares of common stock then outstanding (which will equal approximately shares immediately after the offering), or the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about NetScout. Rule 144 also provides that Affiliates of NetScout who are selling shares of common stock that are not Restricted Shares must nonetheless comply with the same restrictions applicable to Restricted Shares with the exception of the holding-period requirement.

Under Rule 144(k), a person who is not deemed to have been an Affiliate of NetScout at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except when purchased from an Affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Accordingly, unless otherwise restricted, "144(k) shares" may therefore be sold immediately upon the completion of this offering.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from NetScout by its employees, directors, officers, consultants or advisors prior to the date the issuer becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). To be eligible for resale under Rule 701, shares must have been issued pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the Securities and Exchange Commission has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options (including exercises after the date of the offering). Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than Affiliates, subject only to the manner of sale provisions of Rule 144, and by Affiliates, under Rule 144 without compliance with its one-year minimum holding period requirements.

NetScout has agreed not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, for a period of 180 days after the date of this prospectus, without the prior written consent of Credit Suisse First Boston, subject to certain limited exceptions.

Following the offering, NetScout intends to file registration statements under the Securities Act covering approximately 12,140,438 shares of common stock issued pursuant to the exercise of stock options, subject to outstanding options or reserved for issuance under NetScout's 1990 Stock Option Plan, 1999 Stock Option and Incentive Plan and 1999 Employee Stock Purchase Plan. Accordingly, shares registered under such registration statements will, subject to Rule 144 provisions applicable to Affiliates, be available for sale in the open market, except to the extent that such shares are subject to NetScout's vesting or exercise restrictions or the contractual restrictions described above. See "Management--Stock Plans."

Underwriting

Under the terms and subject to the conditions contained in an underwriting agreement dated , 1999, the underwriters named below, for whom Credit Suisse First Boston Corporation, Bear, Stearns & Co. Inc., BT Alex. Brown Incorporated and Dain Rauscher Wessels, a division of Dain Rauscher

Incorporated, are acting as representatives, have severally but not jointly agreed to purchase from NetScout and the selling stockholders the following respective number of shares of common stock:

UNDERWRITERS NUMBER OF SHARES Credit Suisse First Boston Corporation..... Bear, Stearns & Co. Inc..... BT Alex. Brown Incorporated..... Dain Rauscher Wessels..... Total.....

The underwriting agreement provides that the obligations of the underwriters are subject to approval of certain conditions precedent and that the underwriters will be obligated to purchase all of the shares of the common stock offered hereby (other than those shares covered by the over-allotment option described below) if any are purchased. The underwriting agreement provides that, in the event of a default by an underwriter, in certain circumstances the purchase commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The following table summarizes the compensation to be paid to the underwriters by NetScout and the selling stockholders and the expenses payable by NetScout:

	PER SHARE	TOTAL WITHOUT OVER-ALLOTMENT	TOTAL WITH OVER-ALLOTMENT

Underwriting discounts and commissions payable by NetScout..... Expenses payable by NetScout..... Underwriting discounts and commissions payable by the selling stockholders.....

NetScout and certain of the selling stockholders have granted to the underwriters an option expiring on the 30th day after the date of this prospectus to purchase up to additional shares of common stock at the initial public offering price, less the underwriting discounts and commissions. Such option may be exercised only to cover over-allotments in the sale of shares of common stock. To the extent such option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares of common stock as it was obligated to purchase pursuant to the underwriting agreement.

NetScout and the selling stockholders have been advised by the representatives that the underwriters propose to offer the shares of common stock to the public initially at the public offering price set forth on the cover page of this prospectus and, through the representatives, to selling group members (who may include the underwriters) at such price less a concession of $ per share, and the underwriters and such selling group members may allow a discount of $ per share on sales to certain other broker-dealers. After the offering, the public offering price and concession and discount to dealers may be changed by the representatives.

The representatives have informed NetScout that they do not expect discretionary sales by the underwriters to exceed 5% of the shares being offered hereby.

NetScout, its officers and directors, and certain other existing stockholders and optionholders of NetScout have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of or transfer, directly or indirectly, or, in the case of NetScout, file with the Securities and Exchange Commission a registration statement relating to, any shares of common stock or securities exchangeable or exercisable for or convertible into shares of common stock or publicly disclose the intention to do any of the foregoing without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus, except under certain circumstances.

The underwriters have reserved for sale, at the initial public offering price, up to shares of the common stock for employees, directors and certain other persons associated with NetScout who have expressed an interest in purchasing such shares of common stock in the offering. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as other shares offered hereby.

NetScout and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments which the underwriters may be required to make in respect thereof.

NetScout has applied for listing of the common stock on The Nasdaq Stock Market's National Market under the symbol "NSCT."

Prior to the offering, there has been no public market for the common stock. The initial public offering price will be determined by negotiation between NetScout and the representatives. The principal factors to be considered in determining the initial public offering price include:

- the information set forth in this prospectus and otherwise available to the representatives;

- the history of, and the prospects for, NetScout and the industry in which it competes;

- an assessment of NetScout's management;

- the prospects for, and the timing of, future earnings of NetScout;

- the present state of NetScout's development and its current financial condition;

- the general condition of the securities markets at the time of the offering;

- the recent market prices of, and the demand for, publicly-traded common stock of companies in businesses similar to those of NetScout;

- market conditions for initial public offerings; and - other relevant factors.

There can be no assurance that an active trading market will develop for the common stock or that the common stock will trade in the market subsequent to the offering at or above the initial public offering price.

The representatives, on behalf of the underwriters, may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of shares of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when shares of the common stock originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than it would otherwise be in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Notice to Canadian Residents

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that NetScout prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are effected. Accordingly, any resale of the common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

Each purchaser of common stock in Canada who receives a purchase confirmation will be deemed to represent to NetScout and the dealer from whom such purchase confirmation is received that (1) such purchaser is entitled under applicable provincial securities laws to purchase such common stock without the benefit of a prospectus qualified under such securities laws, (2) where required by law, that such purchaser is purchasing as principal and not as agent, and (3) such purchaser has reviewed the text above under "Resale Restrictions."

Rights of Action (Ontario Purchasers)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by section 32 of the Regulation under the Securities Act (Ontario). As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

Enforcement of Legal Rights

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Notice to British Columbia Residents

A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that such purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any common stock acquired by such purchaser pursuant to the offering. Such a report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from NetScout. Only one such report must be filed in respect of common stock acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and with respect to the eligibility of the common stock for investment by the purchaser under relevant Canadian Legislation.

Legal Matters

The validity of the shares of common stock offered hereby will be passed upon for NetScout by Testa, Hurwitz & Thibeault, LLP, Boston, Massachusetts. Additional legal matters will be passed upon for the underwriters by Hale and Dorr LLP, Boston, Massachusetts.

Experts

The consolidated financial statements of NetScout Systems, Inc. as of March 31, 1997 and 1998, and for each of the three years in the period ended March 31, 1998, included in this prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

Where You Can Find More Information

NetScout has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 under the Securities Act with respect to the common stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement. For further information with respect to NetScout and the common stock, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of the contract or document filed as an exhibit to the registration statement, and each such statement is qualified in all respects by reference to such exhibit. Copies of the registration statement may be examined without charge at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Regional Offices of the Commission at Suite 1400, 500 West Madison Street, Chicago, Illinois 60661 and 7 World Trade Center, Thirteenth Floor, New York, New York 10048. Copies of all or any portion of the registration statement may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission also maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants, such as NetScout, that make electronic filings with the Commission.

NetScout intends to furnish to its stockholders annual reports containing financial statements audited by an independent public accounting firm.

Netscout Systems, Inc.

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for the years ended March 31, 1996, 1997 and 1998 and the nine months ended December 31, 1997 and 1998 (unaudited)..... F-4 Consolidated Statement of Redeemable Convertible Common Stock and Stockholders' Equity for the years ended March 31, 1996, 1997 and 1998 and the nine months ended December 31, 1998 (unaudited)..... F-5 Consolidated Statement of Cash Flows for the years ended March 31, 1996, 1997 and 1998 and the nine months ended December 31, 1997 and 1998 (unaudited)..... F-6 Notes to Consolidated Financial Statements..... F-7

Report of Independent Accountants

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

The three-for-two stock split authorized on April 14, 1999 described in Note 8 to the consolidated financial statements has not been consummated at April 21, 1999. When it has been consummated, we will be in a position to furnish the following report:

"In our opinion, the accompanying consolidated balance sheet and the related statements of income, of redeemable convertible common stock and stockholders' equity and of cash flows present fairly, in all material respects, the financial position of NetScout Systems, Inc. and its subsidiaries at March 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for the opinion expressed above."

PricewaterhouseCoopers LLP Boston, Massachusetts June 2, 1998, except for Note 8, as to which the date is April 14, 1999

Netscout Systems, Inc.

Consolidated Balance Sheet

(In Thousands, Except Share and Per Share Data)

	MARCH 31,	
PRO FORMA		
	----------	DECEMBER 31,

DECEMBER 31,	1997	1998	1998	1998
			(Unaudited) (Note 2)	
			(Unaudited)	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 6,514	$ 6,341	$ 22,024	$ 21,614
Marketable securities	5,841	8,834	--	--
Accounts receivable, net of allowance for doubtful accounts and returns of $1,693, $1,063 and $1,021 at March 31, 1997 and 1998 and December 31, 1998 (unaudited), respectively	2,192	4,295	7,118	7,118
Inventories	2,274	3,054	2,632	2,632
Refundable income taxes	--	708	--	--
Deferred income taxes	1,010	1,191	1,191	1,191
Prepaids and other current assets	203	560	542	542
Total current assets	18,034	24,983	33,507	33,097
Fixed assets, net	1,596	3,841	4,292	4,292
Notes receivable--stockholders	2,000	2,000	2,000	2,000
Deferred income taxes	73	396	396	396
Total assets	$ 21,703	$ 31,220	$ 40,195	$ 39,785
LIABILITIES, REDEEMABLE CONVERTIBLE COMMON STOCK AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 1,183	$ 2,951	$ 2,635	$ 2,635
Accrued compensation	1,758	2,690	2,938	2,938
Accrued other	369	403	711	711
Income tax payable	84	--	306	306
Customer deposits	1,262	1,246	1,129	1,129
Deferred revenue	2,238	3,530	3,958	3,958
Total current liabilities	6,894	10,820	11,677	11,677
Commitments and contingencies (Note 12)				

Redeemable convertible common stock: Class B redeemable convertible common stock, $.001 par value; No shares authorized, issued or outstanding at March 31, 1997 and 1998 and December 31, 1998 (unaudited); 6,977,254 shares authorized, no shares issued or outstanding at December 31, 1998

on a pro forma basis (unaudited)..... -- -- -- -- Stockholders' equity: Series A convertible preferred stock, $0.001 par value; 1,263,158 shares authorized, 631,579 shares issued and outstanding at March 31, 1997 and 1998 and December 31, 1998 (unaudited); no shares issued and outstanding at December 31, 1998 on a pro forma basis (unaudited)..... 5,964 5,964 5,964 -- Common stock, $0.001 par value: Voting, 39,918,273 shares authorized, 24,000,000 shares issued and outstanding at March 31, 1997 and 1998 and December 31, 1998 (unaudited); 50,384,154 shares authorized, 43,990,185 shares issued and 33,524,304 shares outstanding at December 31, 1998 on a pro forma basis (unaudited)..... 24 24 24 44 Non-voting, 39,918,273 shares authorized, 5,383,200, 5,412,000 and 5,734,830 shares issued and outstanding at March 31, 1997 and 1998 and December 31, 1998 (unaudited), respectively; no shares issued and outstanding at December 31, 1998 on a pro forma basis (unaudited)..... 5 5 6 -- Additional paid-in capital..... 238 896 1,010 51,121 Deferred compensation..... (173) (672) (550) (550) Treasury stock..... -- -- -- (44,394) Retained earnings..... 8,751 14,183 22,064 21,887 Total stockholders' equity..... 14,809 20,400 28,518 28,108 Total liabilities, redeemable convertible common stock and stockholders' equity..... $ 21,703 $ 31,220 $ 40,195 $ 39,785 The accompanying notes are an integral part of these consolidated financial statements.

Netscout Systems, Inc.

Consolidated Statement of Income

(In Thousands, Except Share and Per Share Data)

Nine Months Ended Year Ended March 31, December 31,

1996 1997 1998 1997 1998

(Unaudited)

Revenue:					
Product	$ 13,276	$ 25,159	$ 34,990	$ 23,944	$ 36,737
Service	1,521	3,888	5,143	3,455	6,329
License and royalty	886	1,601	2,696	1,772	5,814
Total revenue	15,683	30,648	42,829	29,171	48,880
Cost of revenue:					
Product	5,897	9,427	12,638	8,299	13,614
Service	138	528	784	510	

838					
Total cost of revenue.....	6,035	9,955	13,422	8,809	14,452
Gross margin.....	9,648	20,693	29,407	20,362	34,428
Operating expenses:					
Research and development.....	1,208	3,003	5,129	3,543	5,295
Sales and marketing.....	4,384	6,778	13,583	9,378	14,726
General and administrative.....	695	1,815	2,950	1,912	2,758
Total operating expenses.....	6,287	11,596	21,662	14,833	22,779
Income from operations.....	3,361	9,097	7,745	5,529	11,649
Interest income.....	23	471	750	561	669
Interest expense.....	(26)	(10)	(7)	(6)	(2)
Income before provision for income taxes...	3,358	9,558	8,488	6,084	12,316
Provision for income taxes.....	1,355	3,640	3,056	2,191	4,435
Net income.....	$ 2,003	$ 5,918	$ 5,432	$ 3,893	$ 7,881
Basic net income per share.....	$ 0.07	$ 0.21	$ 0.19	$ 0.13	$ 0.27
Diluted net income per share.....	$ 0.06	$ 0.17	$ 0.16	$ 0.11	$ 0.22
Shares used in computing:					
Basic net income per share.....	27,813,702	28,514,402	28,933,752	28,909,404	25,352,740
Diluted net income per share.....	33,689,729	34,377,926	34,748,294	34,450,260	35,694,174
Unaudited pro forma basic net income per share.....			$ 0.17		$ 0.24
Unaudited pro forma diluted net income per share.....			$ 0.16		$ 0.22
Shares used in computing:					
Unaudited pro forma basic net income per share.....			32,723,226		33,142,214
Unaudited pro forma diluted net income per share.....			34,748,294		35,694,174

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

NETSCOUT SYSTEMS, INC. CONSOLIDATED STATEMENT OF REDEEMABLE CONVERTIBLE COMMON STOCK AND STOCKHOLDERS' EQUITY (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

					COMMON STOCK
	CLASS B REDEEMABLE CONVERTIBLE COMMON STOCK		SERIES A CONVERTIBLE PREFERRED STOCK		VOTING

	NON-VOTING					
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	PAR VALUE
SHARES PAR VALUE						
Balance, March 31, 1996.....	--	$ --	631,579	$ 5,964	24,000,000	$ 24
5,356,800 $ 5						

Deferred compensation related to stock options granted.... Issuance of common stock pursuant to exercise of options..... 26,400 -- Amortization of deferred compensation..... Net income..... Balance, March 31, 1997..... -- -- 631,579 5,964 24,000,000 24 5,383,200 5 Deferred compensation related to stock options granted.... Issuance of common stock pursuant to exercise of options..... 28,800 -- Amortization of deferred compensation..... Net income..... Balance, March 31, 1998..... -- -- 631,579 5,964 24,000,000 24 5,412,000 5 Deferred compensation related to stock options granted.... Issuance of common stock pursuant to exercise of options..... 322,830 1 Amortization of deferred compensation..... Net income..... Balance, December 31, 1998 (unaudited)..... -- -- 631,579 5,964 24,000,000 24 5,734,830 6 Issuance of Class B redeemable convertible common stock, net of issuance costs of $410 (unaudited)..... 6,977,254 44,161 Purchase of treasury stock (unaudited)..... Conversion of outstanding shares into voting common stock (unaudited)..... (6,977,254) (44,161) (631,579) (5,964) 19,990,185 20 (5,734,830) (6) Balance, December 31, 1998 on a pro forma basis (unaudited)..... -- $ -- -- $ -- 43,990,185 $ 44 -- $ --

	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	TREASURY STOCK	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
Balance, March 31, 1996.....	$ 70	$ (47)	$ --	$ 2,833	$ 8,849

Deferred compensation related to stock options granted.... 166 (166) -- Issuance of common stock pursuant to exercise of options..... 2 2 Amortization of deferred compensation..... 40 40 Net income..... 5,918 5,918 Balance, March 31, 1997..... 238 (173) -- 8,751 14,809 Deferred compensation related to stock options granted.... 636 (636) -- Issuance of common stock pursuant to exercise of options..... 22 22 Amortization of deferred compensation..... 137 137 Net income..... 5,432 5,432 Balance, March 31, 1998..... 896 (672) -- 14,183 20,400 Deferred compensation related to stock options granted.... 72 (72) -- Issuance of common stock pursuant to exercise of options..... 42 43 Amortization of deferred compensation..... 194 194 Net income..... 7,881 7,881 Balance, December 31, 1998 (unaudited)..... 1,010 (550) -- 22,064 28,518 Issuance of Class B redeemable convertible common stock, net of issuance costs of $410 (unaudited)..... 44,161 Purchase of treasury stock (unaudited)..... (44,394) (177) (44,571) Conversion of outstanding shares into voting common stock (unaudited)..... 50,111 -- Balance, December 31, 1998 on a pro forma basis (unaudited)..... $ 51,121 $ (550) $ (44,394) $ 21,887 $ 28,108 The accompanying notes are an integral part of these consolidated financial statements.

Netscout Systems, Inc.

Consolidated Statement of Cash Flows

(In Thousands, Except Share and Per Share Data)

Nine Months Ended Year Ended March 31, December 31,

1996 1997 1998 1997 1998

(Unaudited)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 2,003	$ 5,918	$ 5,432	$ 3,893	$ 7,881
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	382	1,171	1,470	969	1,454
Loss on disposal of fixed assets	26	78	171	95	50
Compensation expense associated with equity awards	3	40	137	67	194
Deferred income taxes	(68)	(848)	(504)	--	--
Changes in assets and liabilities:					
Accounts receivable	(2,466)	1,480	(2,103)	(1,891)	(2,823)
Inventories	(1,114)	(773)	(780)	(164)	422
Refundable income taxes	--	--	(708)	(975)	708
Prepaids and other current assets	(91)	(82)	(357)	(195)	18
Accounts payable	1,169	(405)	1,768	670	(316)
Accrued expenses	590	1,022	966	134	556
Income taxes payable	1,024	(1,122)	(84)	(84)	306
Customer deposits	(133)	1,227	(16)	(123)	(117)
Deferred revenue	1,003	693	1,292	716	428
Net cash provided by operating activities	2,328	8,399	6,684	3,112	8,761
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of marketable securities	--	(5,841)	(2,993)	(1,910)	--
Proceeds from maturity of marketable securities	--	--	--	--	8,834
Issuance of notes receivable--stockholders	--	(2,000)	--	--	--

```
  Purchase of fixed assets.....................................       (788)    (1,844)    (3,886)
(3,092)    (1,955)
      Net cash (used) provided by investing activities.........       (788)    (9,685)    (6,879)
(5,002)     6,879
CASH FLOWS FROM FINANCING ACTIVITIES:
  Proceeds from issuance of Series A convertible preferred
    stock, net of issuance costs...............................      5,964         --         --
--         --
  Proceeds from issuance of common stock.......................         --          2         22
22         43
  Repayments of mortgages payable..............................        (52)        --         --
--         --
      Net cash provided by financing activities.................      5,912          2         22
22         43
Net increase (decrease) in cash and cash equivalents............      7,452     (1,284)      (173)
(1,868)    15,683
Cash and cash equivalents, beginning of year....................        346      7,798      6,514
6,514      6,341
Cash and cash equivalents, end of period........................  $   7,798  $   6,514  $   6,341  $
4,646  $  22,024
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
  Cash paid for interest.......................................  $      22  $      10  $       7  $
6  $       2
  Cash paid for income taxes...................................        400      4,340      4,351
3,250      3,421
```

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

Netscout Systems, Inc.

Notes to Consolidated Financial Statements

(In Thousands, Except Share and Per Share Data)

1. Nature of Business and Basis of Presentation

NetScout Systems, Inc. ("NetScout") designs, develops, manufactures, markets and supports an integrated family of products that enable businesses and service providers to manage the performance of computer networks and important business software applications. NetScout's principal markets are the domestic and international business markets. NetScout manages its business as a single segment.

The consolidated financial statements include the accounts of NetScout and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

2. Summary of Significant Accounting Policies

Financial Instruments

The carrying value of NetScout's financial instruments, which include cash and cash equivalents, marketable securities, accounts receivable, notes receivable, accounts payable and accrued expenses, approximate their fair values.

Cash, Cash Equivalents and Marketable Securities

NetScout considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, and those with maturities greater than three months are considered to be marketable securities. Cash equivalents and marketable securities are stated at amortized cost plus accrued interest, which approximates fair value. Cash equivalents and marketable securities consist primarily of money market instruments and U.S. Treasury bills.

NetScout accounts for its investments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under the provision of SFAS No. 115, NetScout has classified its investments as "available-for-sale" and any associated unrealized gains or losses, if material, are recorded as a separate component of stockholders' equity until realized. At March 31, 1997 and 1998, any unrealized gains or losses were immaterial.

At March 31, 1998 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 with any one financial institution by evaluating the credit worthiness of the financial institutions with which it invests.

Revenue Recognition

Product revenue is recognized upon shipment, provided that fees are fixed and determinable and collection of the related receivable is probable. Sales to indirect channel partners that are subject to return privileges are recognized upon shipment, net of an allowance for estimated product returns which is based on NetScout's return policy and historical experience. Customer payments received in advance of product shipments are recorded as customer deposits.

Service revenue consists primarily of customer fees from support agreements, installation and training. Revenue from support agreements is deferred and recognized ratably over the support period. Revenue from installation and training is recognized as the work is performed.

Netscout Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) License and royalty revenue consists primarily of royalties paid under license agreements by OEMs who incorporate components of NetScout's data collection technology in their own products or who reproduce and sell NetScout's software products. License revenue is recognized when NetScout becomes contractually entitled to receive license fees, provided that such fees are fixed and determinable and collection is probable. Royalty revenue is recognized based upon product shipment by the license holder.

Concentration of Credit Risk and Significant Customers

Concentration of credit risk is limited as NetScout sells its products to a large number of customers in many different industries and geographic areas. At March 31, 1998, two customers accounted for approximately 21% and 19%, respectively, of NetScout's accounts receivable. Management believes its credit policies are prudent and reflect normal industry terms and business risk. In addition, NetScout maintains reserves for potential credit losses, and such losses historically have been minimal and within management's expectations. NetScout does not anticipate non-performance by counterparties and, accordingly, does not require collateral.

During the year ended March 31, 1996, three customers accounted for approximately 17%, 14% and 10%, respectively, of NetScout's total revenue. During the year ended March 31, 1997, one customer accounted for approximately 24% of NetScout's total revenue. During the year ended March 31, 1998, two customers accounted for approximately 40% and 12%, respectively, of NetScout's total revenue.

(Unaudited)

During the nine months ended December 31, 1998, one customer accounted for 49% of NetScout's total revenue.

Inventories and Concentrations of Suppliers

Inventories are stated at the lower of cost or market with cost being determined on the first-in, first-out method.

NetScout purchases the majority of its product components from a limited number of vendors. Although there is a concentration of sources of supply, management believes that the nature of its business requires sourcing and marketing products from the limited number of vendors who have

expertise in manufacturing the components for NetScout's products. A change in or loss of one or more of these vendors could cause a delay in filling customer orders and a possible loss of sales, which could adversely affect results of operations.

Fixed Assets

Fixed assets are stated at cost and depreciated using the straight-line method over their estimated useful lives.

Netscout Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) RESEARCH AND DEVELOPMENT AND COMPUTER SOFTWARE DEVELOPMENT COSTS Costs incurred in the research and development of NetScout's products are expensed as incurred, except for certain software development costs. Costs associated with the development of computer software are expensed prior to establishment of technological feasibility (as defined by SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed") and capitalized thereafter when material to NetScout's financial position or results of operations. No software development costs were capitalized during the years ended March 31, 1996, 1997 and 1998, since costs incurred subsequent to establishment of technological feasibility were not material.

Accounting for Stock-based Compensation

NetScout accounts for stock-based awards to employees using the intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employes," and related interpretations. NetScout has adopted the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," through disclosure only (Note 9). All stock-based awards to non-employees are accounted for at their fair value in accordance with SFAS No. 123 and, for awards made after November 16, 1998, in accordance with Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18").

Advertising Expense

NetScout recognizes advertising expense as incurred. Advertising expense was approximately $13, $70 and $146 for the years ended March 31, 1996, 1997 and 1998, respectively.

UNAUDITED PRO FORMA BALANCE SHEET AND UNAUDITED PRO FORMA STATEMENT OF REDEEMABLE CONVERTIBLE COMMON STOCK AND STOCKHOLDERS' EQUITY As discussed in Note 8, NetScout issued 6,977,254 shares of Class B Redeemable Convertible Common Stock ("Class B Convertible Common Stock") at $6.39 per share in January 1999. NetScout used the proceeds from this financing to repurchase 7,124,247, 1,446,900 and 315,789 shares of Voting Common Stock, Non-Voting Common Stock and Series A Convertible Preferred Stock ("Series A Preferred Stock"), respectively.

Upon the closing of NetScout's initial public offering, all of the outstanding shares of Class B Convertible Common Stock, Series A Preferred Stock and Non-Voting Common Stock will automatically convert into 10,465,881, 3,789,474 and 5,734,830 shares, respectively, of Voting Common Stock (Note 8). These transactions have been reflected in the unaudited pro forma balance sheet and unaudited pro forma statement of redeemable convertible common stock and stockholders' equity as of December 31, 1998.

Net Income Per Share

Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during the period, excluding shares of common stock subject to repurchase. Diluted net income per share is computed by dividing

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) income available to common stockholders by the sum of the weighted average number of shares of common stock outstanding during the period and the weighted average number of potential common stock from the assumed exercise of stock options and common stock subject to repurchase using the "treasury stock" method and the assumed conversion of the Series A Convertible Preferred Stock.

Unaudited Pro Forma Net Income Per Share

Pro forma basic and diluted net income per share have been computed assuming the conversion of all outstanding shares of Class B Convertible Common Stock, Series A Preferred Stock and Non-Voting Common Stock into common stock, as if the shares had converted immediately upon their issuance.

Unaudited Interim Financial Statements

Data and information as of December 31, 1998 and for the nine months ended December 31, 1997 and 1998 is unaudited. In the opinion of NetScout's management, the December 31, 1997 and 1998 unaudited interim consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and result of operations for that period. The results of operations for the nine month period ended December 31, 1998 are not necessarily indicative of the results of operations for the year ended March 31, 1999.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at March 31, 1997 and 1998 and the reported amounts of revenues and expenses during fiscal 1996, 1997 and 1998. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In March 1998, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 establishes the accounting for costs of software products developed or purchased for internal use, including when such costs should be capitalized. NetScout does not expect SOP 98-1, which is effective for NetScout beginning April 1, 1999, to have a material effect on its financial condition or results of operations.

In April 1998, the AcSEC issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." Start-up activities are defined broadly as those one-time activities relating to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, commencing some new operation or organizing a new entity. Under SOP 98-5, the cost of start-up activities should be expensed as incurred. SOP 98-5 is effective for NetScout's fiscal year 2000 financial statements and NetScout does not expect its adoption to have a material effect on its financial condition or results of operations.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard establishes accounting and reporting

Netscout Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. NetScout does not expect SFAS No. 133 to have a material effect on its financial condition or results of operations.

3. Inventories

Inventories consist of the following:

MARCH 31, ---------- DECEMBER 31, 1997 1998 1998

			(UNAUDITED)
Raw materials	$ 1,503	$ 2,482	$ 1,862
Work-in-process	229	259	317
Finished goods	542	313	453
	$ 2,274	$ 3,054	$ 2,632

4. Fixed Assets

Fixed assets consist of the following:

	ESTIMATED USEFUL LIFE IN YEARS	MARCH 31, 1997	MARCH 31, 1998
Furniture and fixtures	3-7	$ 286	$ 788
Computer equipment and purchased software	3	1,737	2,815
Demonstration units	2	756	971
Leasehold improvements	5	244	1,815
		3,023	6,389
Less--accumulated depreciation and amortization		1,427	2,548
		$ 1,596	$ 3,841

5. Notes Receivable--stockholders

In June 1996, the Board of Directors approved $1,100 and $900 loans to two voting stockholders ($2,000 in the aggregate). The loans are collateralized by 1,548,396 shares of Voting Common Stock of NetScout. The loans have five-year terms with an interest rate of 6.48%, compounded semi-annually and payable annually.

6. Line of Credit

At March 31, 1998, NetScout had a revolving line of credit with a bank under which it can borrow up to $3,000 based upon a percentage of eligible accounts receivable. This line of credit was set to expire on March 11, 1999. Borrowings under the line are payable on demand and bear interest at the bank's prime rate. Under the terms of the agreement, NetScout is required to comply with certain

6. LINE OF CREDIT (CONTINUED) restrictive covenants, which require that NetScout maintain minimum amounts of profitability and liquidity. The line of credit is secured by NetScout's accounts receivable and inventory. NetScout was in compliance with all restrictive covenants at March 31, 1998. No borrowings were outstanding under the line of credit at March 31, 1998 (Note 12).

(Unaudited)

In March 1999, the revolving line of credit was modified to allow NetScout to borrow up to $5,000 based on a percentage of eligible accounts receivable and to extend the expiration date to March 2000.

7. Net Income Per Share

Below is a summary of the shares used in computing basic and diluted net income per share for the years indicated:

Nine Months Ended Year Ended March 31, December 31,

1996 1997 1998 1997 1998

(Unaudited)

Weighted average number of shares outstanding	27,813,702	28,514,402	28,933,752	28,909,404	29,352,740
Shares attributable to Series A Preferred Stock	3,789,474	3,789,474	3,789,474	3,789,474	3,789,474
Shares attributable to restricted Non-Voting Common Stock	1,258,602	823,104	440,430	456,174	232,613
Stock options	827,951	1,250,946	1,584,638	1,295,208	2,319,347
Shares used in computing diluted net income per share	33,689,729	34,377,926	34,748,294	34,450,260	35,694,174

Stock options to purchase 185,400, 98,051, 11,798 and 141,644 shares of Non-Voting Common Stock for the years ended March 31, 1997 and 1998 and for the nine months ended December 31, 1997 and 1998 (unaudited), respectively, were outstanding at period end but were not included in the computation of diluted net income per share because the exercise prices of the options were greater than the average fair value of the common stock for the respective period.

8. Capital Stock

In January 1999, NetScout issued 6,977,254 shares of Class B Convertible Common Stock to independent financial investors at $6.39 per share ($4.26 per common equivalent) for net proceeds of $44,161. NetScout used the proceeds from this financing to repurchase shares of the Company's capital stock--see Treasury Stock below.

The Class B Convertible Common Stock and Series A Preferred Stock have the following characteristics:

Netscout Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

8. Capital Stock (Continued) Voting Rights

The holders of the Class B Convertible Common Stock shall be entitled to that number of votes equal to the number of shares of Voting Common Stock into which each share could be converted with regard to any matter submitted to the shareholders for a vote. The holders of the Series A Preferred

Stock have no voting rights, except rights to elect board directors.

Dividend Rights

The holders of the Class B Convertible Common Stock and Series A Preferred Stock are entitled to receive, when and as declared by the Board of Directors and out of funds legally available, noncumulative dividends at the rate of $.64 and $.95, respectively, per share per annum, payable in preference and priority to any payment of any dividend on common stock. No dividends or other distributions shall be made with respect to the common stock, until all declared dividends on the Class B Convertible Common Stock and Series A Preferred Stock have been paid. Through March 31, 1998, no cash dividends have been declared or paid by NetScout.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the affairs of NetScout, the holders of the then outstanding Class B Convertible Common Stock and Series A Preferred Stock shall receive for each share an amount equal to the sum of $6.39 and $9.50 per share of Class B Convertible Common Stock and Series A Preferred Stock, respectively, plus all declared but unpaid dividends, payable in preference and priority to any payments made to the holders of the then outstanding common stock.

Conversion

Each share of Class B Convertible Common Stock shall be convertible at any time, at the option of the stockholder, into one and one-half shares of Voting Common Stock. Each share of Class B Convertible Common Stock shall automatically be convertible (i) into shares of Voting Common Stock upon the closing of an initial public offering in which gross proceeds are at least $40,000 and in which the price per common share to the public is at least $8.53 or (ii) into Voting Common Stock upon the written election of holders of not less than a majority of the then outstanding shares of Class B Convertible Common Stock, voting as a class, at any other time. Each share of Series A Preferred Stock may be converted at any time, at the option of the stockholder, into six shares of Non-Voting Common Stock. Each share of Series A Preferred Stock shall automatically be converted (i) into shares of Voting Common Stock upon the closing of an initial public stock offering in which gross proceeds are at least $10,000, and in which the price per common share to the public is at least $3.17, or (ii) into Voting Common Stock at such time upon the election of holders of not less than two-thirds of the then outstanding shares of Series A Preferred Stock, when NetScout's common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 or (iii) into Non-Voting Common Stock upon the election of holders of not less than two-thirds of the then outstanding shares of Series A Preferred Stock.

Netscout Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

8. Capital Stock (Continued) Redemption

The holders of not less than a majority of the outstanding shares of Class B Convertible Common Stock may require NetScout to redeem 33.3%, 66.7% and 100% of their outstanding shares on January 15, 2004, 2005 and 2006, respectively. The redemption amount per share will be equal to the sum of $6.39 plus all declared but unpaid dividends.

Non-voting Common Stock

Shares of Non-Voting Common Stock are automatically convertible to shares of Voting Common Stock upon the closing of an initial public stock offering.

Restriction Agreement

In August 1995, NetScout issued 300,000 shares of restricted Non-Voting Common Stock to a related party in exchange for services to be performed. The shares were scheduled to become unrestricted in August 2005. The fair value ascribed to the shares was $50 which was recorded as deferred compensation and was being charged to NetScout's results of operations ratably over the service period of the related party. In February 1999, NetScout terminated the restriction agreement allowing the shares to become unrestricted and recognized the remaining balance of deferred compensation as a charge to options at that time.

Stock Split

In December 1998, NetScout authorized and effected a two-for-one stock split on the voting and non-voting common stock. As a result, all common stock share data included in the accompanying financial statements and notes have been retroactively restated for the split.

On April 14, 1999, NetScout authorized a three-for-two stock split on the voting and non-voting common stock. As a result, all common stock share data included in the accompanying financial statements and notes have been retroactively restated for the split.

Treasury Stock

In January 1999, NetScout repurchased 7,124,247 shares of Voting Common Stock and 1,446,900 shares of Non-Voting Common Stock for $4.26 per share and 315,789 shares of Series A Preferred Stock for $25.55 per share ($4.26 per common equivalent) for a total of $44,571. Of this amount, $44,394 was recorded as treasury stock and $177 was recorded as a charge to operations. The amount charged to operations was for 63,900 shares of Non-Voting Common Stock repurchased from employees who acquired the stock under NetScout's stock option plan and did not hold such stock for at least six months.

Reserved Shares

NetScout has reserved 4,710,084 shares of Non-Voting Common Stock for issuance under the 1990 Stock Option Plan (Note 9). NetScout has also reserved 13,911,558 shares of Voting Common Stock for issuance upon conversion of NetScout's Series A Preferred Stock and Non-Voting Common Stock. In

8. CAPITAL STOCK (CONTINUED) addition, NetScout has reserved 3,789,474 shares of Non-Voting Common Stock for issuance upon conversion of NetScout's Series A Preferred Stock.

9. 1990 Stock Option Plan

In October 1990, NetScout adopted the 1990 Stock Option Plan (the "Plan"). The Plan provides for the granting of incentive and non-qualified stock options to employees, directors and consultants of NetScout. The Plan, as amended, allows for the issuance of options to purchase up to 4,776,084 shares of Non-Voting Common Stock. The Board of Directors determines the term of each option, option price, number of shares for which each option is granted and the rate at which each option is exercisable. 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).

In April 1998, NetScout increased the shares available under the Plan to 6,771,999 shares of Non-Voting Common Stock.

Transactions under the Plan during the years ended March 31, 1996, 1997 and 1998 are summarized as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding--March 31, 1995	833,850	$ .01
Granted (weighted average fair value of $.05 per share)	276,000	.21
Exercised	(10,800)	.01
Canceled	(100,800)	.01
Outstanding--March 31, 1996	998,250	.07
Granted (weighted average fair value of $.29 per share)	2,106,750	.94
Exercised	(26,400)	.08
Canceled	(81,000)	.32
Outstanding--March 31, 1997	2,997,600	.67
Granted (weighted average fair value of $.53 and $1.09 per share for options with exercise prices equal to and less than the market price, respectively, at the date of grant)	1,794,000	1.91
Exercised	(28,800)	.87
Canceled	(345,900)	1.45
Outstanding--March 31, 1998	4,416,900	1.11

9. 1990 STOCK OPTION PLAN (CONTINUED) The following tables summarize information about employee options outstanding and exercisable at March 31, 1998:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE
$.002 to .50	1,835,250	7.2	$ .29
1.00 to 1.33	505,500	8.3	1.03
1.67	1,669,650	9.2	1.67
2.67	406,500	9.8	2.67
	4,416,900	8.4	1.11

RANGE OF EXERCISE PRICES	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$.002 to .50	768,510	$ .17
1.00 to 1.33	101,100	1.03

1.67	166,350	1.67
	1,035,960	.49

As of March 31, 1996 and 1997, 198,570 and 406,140 options were exercisable, respectively, under the Plan. As of March 31, 1998, there were 293,184 shares of Non-Voting Common Stock available for grant under the Plan.

Fair Value Disclosures

As discussed in Note 2, NetScout has adopted SFAS No. 123 through disclosure only. Had compensation cost for NetScout's option plan been determined based on the fair value at the grant dates, as prescribed in SFAS No. 123, NetScout's net income and basic and diluted net income per share on a pro forma basis would have been as follows:

Year Ended March 31,

	1996	1997	1998
Net income:			
As reported	$ 2,003	$ 5,918	$ 5,432
Pro forma	$ 2,000	$ 5,824	$ 5,208
Basic net income per share:			
As reported	$ .07	$ .21	$ .19
Pro forma	$ .07	$ .20	$ .18
Diluted net income per share:			
As reported	$ .06	$ .17	$ .16
Pro forma	$ .06	$ .17	$ .15

9. 1990 STOCK OPTION PLAN (CONTINUED) The fair value of each option grant is estimated on the date of grant using the minimum value method with the following assumptions for grants in 1996, 1997 and 1998: dividend yield of 0.0%; risk-free interest rates of 5.9%, 6.4% and 6.0% for 1996, 1997 and 1998, respectively; and a weighted-average expected option term of 5 years. Because options granted after the initial filing for NetScout's initial public offering must contain a volatility factor under SFAS No. 123, additional option grants are expected to be made each year and options vest over several years, the above pro forma disclosures are not representative of pro forma effects of reported net income for future years.

In May 1996, NetScout granted 498,000 options to purchase Non-Voting Common Stock to a consultant in exchange for services to be performed. The fair value ascribed to the shares was $166 which was recorded as deferred compensation and is being charged to NetScout's results of operations ratably over the service period.

In September 1997, NetScout granted 60,000 options to purchase Non-Voting Common Stock to consultants for services to be performed. In November 1997, the EITF finalized Issue No. 96-18. Under EITF 96-18, the compensation expense that will ultimately be recognized for options issued to these consultants will be measured at the vesting dates of the underlying options. NetScout has recorded deferred compensation at a preliminary value of $118 of these options which have not vested as of March 31, 1998. As these options vest over five years, NetScout will be required to remeasure the fair value of these options at each reporting period prior to vesting and then finally at the vesting dates of the options. Changes in the estimated fair value of these options will be recognized as compensation expense in the period of the change. For the year ended March 31, 1998, NetScout recorded $27 of compensation expense related to these options.

In September 1997, NetScout granted 777,000 options to purchase Non-Voting Common Stock at $1.67 per share to employees. At the grant date, NetScout estimated the fair value of the common stock to be $2.33 per share. In accordance with APB No. 25, NetScout recorded $518 of deferred compensation which will be charged to NetScout's results of operations over the vesting period of the options, generally four years. For the year ended March 31, 1998, NetScout recorded $66 of compensation expense related to these options.

(Unaudited)

In March 1999, NetScout terminated the agreement with the consultants and a total of 24,000 options vested. As a result, NetScout recorded an additional $105 of compensation expense related to these options. In February 1999, NetScout granted 458,250 options to purchase Non-Voting Common Stock to employees. At the date of grant, NetScout estimated the fair value of the common stock to be $6.45 per share. In accordance with APB No. 25, NetScout recorded $968 of deferred compensation which will be charged to NetScout's results of operations over the vesting period of the options, generally four years.

10. Retirement Plan

In 1996, NetScout established a 401(k) plan, which is intended to qualify under Section 401(k) of the Internal Revenue Code of 1986, pursuant to which NetScout matches 25% of the employee's contribution up to 6% of the employee's salary. NetScout contributions vest at a rate of 20% per year

10. RETIREMENT PLAN (CONTINUED) of service. NetScout made matching contributions of $35, $57 and $121 to the plan for the years ended March 31, 1996, 1997 and 1998, respectively.

11. Income Taxes

The components of the provision for income taxes are as follow:

Year Ended March 31,

	1996	1997	1998
Current provision:			
Federal	$ 1,111	$ 3,438	$ 2,859
State	312	1,050	701
	1,423	4,488	3,560
Deferred tax benefit:			
Federal	(58)	(721)	(426)
State	(10)	(127)	(78)
	(68)	(848)	(504)
	$ 1,355	$ 3,640	$ 3,056

The components of deferred tax assets are as follows:

March 31,

	1997	1998
Deferred tax assets:		
Reserves	$ 713	$ 486
Accrued expenses	275	226
Fixed assets	52	335
Deferred revenue	22	479
Other	21	61
	$ 1,083	$ 1,587

Netscout Systems, Inc.

Notes to Consolidated Financial Statements (Continued)

(In Thousands, Except Share and Per Share Data)

11. INCOME TAXES (CONTINUED) The income tax provision computed using the federal statutory income tax rate differs from NetScout's effective tax rate primarily due to the following:

Year Ended March 31,

	1996	1997	1998
Statutory U.S. federal tax rate	34.0%	34.0%	34.0%
State taxes, net of federal tax benefit	6.2	6.4	4.8
Foreign sales corporation exempt income	(1.0)	(.8)	(1.5)
Research and development tax credits	(.9)	(1.3)	(1.7)
Nondeductible expenses	2.1	(.2)	.4
	40.4%	38.1%	36.0%

12. Commitments and Contingencies

Leases

NetScout leases office space under operating leases. Total rent expense under the leases was $50, $198 and $942 for the years ended March 31, 1996, 1997 and 1998, respectively. Future noncancelable minimum lease commitments are as follows:

Year Ending March 31,

1999	$ 829
2000	861
2001	959
2002	1,024
2003	683
Total minimum lease payments	$ 4,356

Under the terms of its principal office lease, NetScout is required to maintain a letter of credit totaling $561 under its $3,000 revolving line of credit (Note 6).

Pursuant to a product development arrangement, NetScout pays royalties on certain network management and monitoring software it developed and is selling. Royalties accrue at rates ranging from 2% to 4% of gross product and contract sales, up to a maximum of $992. Royalty expense under the agreement was $260, $451 and $16 for the years ended March 31, 1996, 1997 and 1998, respectively.

(Unaudited)

Contingencies

In August 1998, a former employee made claims against NetScout and an employee stockholder and alleged unspecified damages. The former employee filed a related claim with the Massachusetts Commission Against Discrimination in December 1998. Based on the information available to date, NetScout believes that the claim is without merit and intends to vigorously defend this claim. As this

12. COMMITMENTS AND CONTINGENCIES (CONTINUED) matter is at a preliminary stage, NetScout is unable to predict the outcome or the amount of related expense or loss, if any.

In addition to the matter noted above, 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 other current legal proceedings and claims will not have a material adverse effect on NetScout's financial position or results of operations.

Employment Agreement

In January 1999, NetScout amended an employee agreement with two employee stockholders to provide that each employee stockholder will receive a base salary of at least $250 and a year-end, non-discretionary bonus of at least $250. The employment agreement is terminable at will, but provides that if either employee's employment is terminated by NetScout without cause, or either decides to terminate his own employment for "good reason", as defined, each is entitled to receive severance benefits for three years as follows: (i) for the first twelve months following termination, the greater of $175 or base salary as of the date of termination; and (ii) for each subsequent twelve-month period, an amount equal to 120% of the amount received in the immediately preceding twelve months. Each employment agreement provides for a five-year term commencing June 1, 1994 with automatic one-year renewals.

13. Related Party Transactions

For the years ended March 31, 1996, 1997 and 1998, NetScout paid approximately $20, $352 and $315, respectively, to an affiliate, which is two-thirds owned by the two voting common stockholders of NetScout, for consulting services.

14. Geographic Information

Revenue was distributed geographically as follows:

Year Ended March 31,

	1996	1997	1998
North America	$ 12,106	$ 26,823	$ 37,518
Other international	3,577	3,825	5,311
	$ 15,683	$ 30,648	$ 42,829

Substantially all of NetScout's identifiable assets are located in the United States.

Netscout Systems, Inc. Schedule Ii--valuation and Qualifying Accounts

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO OPERATIONS	DEDUCTIONS (1)	BALANCE AT END OF PERIOD

Year ended March 31, 1996 Reserves and allowances deducted from asset accounts Allowance for doubtful accounts and returns..... $ 178,000 845,000 826,000 $ 197,000 Year ended March 31, 1997 Reserves and allowances deducted from asset accounts Allowance for doubtful accounts and returns..... $ 197,000 3,019,000 1,523,000 $1,693,000 Year ended March 31, 1998 Reserves and allowances deducted from asset accounts Allowance for doubtful accounts and returns..... $ 1,693,000 (249,000) 381,000 $1,063,000 (1) Doubtful accounts written off, net of recoveries

[Logo]

Part Ii Information Not Required in the Prospectus

Item 13. Other Expenses of Issuance and Distribution.

Estimated expenses (other than underwriting discounts and commissions) payable in connection with the sale of the common stock offered hereby are as follows:

SEC registration fee	$ 28,773
NASD filing fee	10,850
Nasdaq National Market listing fee	95,000
Printing and engraving expenses	120,000
Legal fees and expenses	300,000
Accounting fees and expenses	225,000
Blue Sky fees and expenses (including legal fees)	5,000
Transfer agent and registrar fees and expenses	5,000
Miscellaneous	10,377
Total	$ 800,000

NetScout will bear all expenses shown above.

Item 14. Indemnification of Directors and Officers.

The Delaware General Corporation Law and the Company's charter and by-laws provide for indemnification of the Company's directors and officers for liabilities and expenses that they may incur in such capacities. In general directors and officers are indemnified with respect to actions taken in good faith in a manner reasonably believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal action or proceeding, actions that the indemnitee had no reasonable cause to believe were unlawful. Reference is made to the Company's charter and by-laws filed as Exhibits 3.3 and 3.5 hereto, respectively.

The Underwriting Agreement provides that the Underwriters are obligated, under certain circumstances, to indemnify directors, officers and controlling persons of the Company against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). Reference is made to the form of Underwriting Agreement filed as Exhibit 1.1 hereto.

In addition, the Company has an existing directors and officers liability insurance policy.

Item 15. Recent Sales of Unregistered Securities.

In the three fiscal years preceding the filing of this registration statement, the Company has issued the following securities that were not registered under the Securities Act:

(a) Issuances of Capital Stock.

In January 1999, the Company issued 6,977,254 shares of its Class B Convertible Common Stock, par value $.001 per share (the "Class B Common Stock"), to certain affiliates of TA Associates, Inc. and to Egan-Managed Capital, L.P., at $6.388051 per share, for aggregate consideration of $44,571,054. All of the proceeds from the Class B Common Stock financing were used to redeem shares of the Company's Series A Preferred Stock, Non-Voting Common Stock and common stock held by certain persons, including certain officers and directors of NetScout. Upon closing of this offering, the 6,977,254 outstanding shares of Class B Common Stock will automatically convert into 10,465,881 shares of common stock.

In February 1996, NetScout issued 631,579 shares of its Series A Preferred Stock, par value $.001 per share (the "Series A Preferred"), to Greylock Equity Limited Partnership ("Greylock"), at purchase price of $9.50 per share, for an aggregate of $6,000,000. Roger Evans, a general partner of the general partner of Greylock, served as a member of the Board of Directors of NetScout from February 1996 until January 1999. Upon closing of this offering, the 315,790 shares of outstanding Series A Preferred will automatically convert into an aggregate of 1,894,740 shares of common stock.

(b) Grants and Exercises of Stock Options As of March 31, 1999, the Company has outstanding options to purchase an aggregate of 4,640,438 shares of Non-Voting Common Stock under the 1990 Stock Option Plan exercisable at a weighted average exercise price of $1.90 per share. From April 1, 1996 to March 31, 1999, the Company issued 696,986 shares of Non-Voting Common Stock for an aggregate purchase price of $278,982 pursuant to exercise of employee options.

Upon closing of this offering, each share of Non-Voting Common Stock will convert into one share of common stock.

No underwriters were involved in the foregoing sales of securities. Such sales were made in reliance upon an exemption from the registration provisions of the Securities Act set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering or the rules and regulations thereunder, or, in the case of options to purchase common stock, Rule 701 under the Securities Act. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

(A) Exhibits:

Exhibit No. Exhibit

1.1* Form of Underwriting Agreement.

3.1 Second Amended and Restated Certificate of Incorporation of NetScout.

3.2 Form of Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of NetScout.

3.3, 4.1 Form of Third Amended and Restated Certificate of Incorporation of NetScout.

3.4 By-laws of NetScout.

3.5, 4.2 Form of Amended and Restated By-laws of NetScout.

4.3* Specimen Certificate for shares of NetScout's Common Stock.

5.1* Legal Opinion of Testa, Hurwitz & Thibeault, LLP.

10.1** 1990 Stock Option Plan, as amended.

10.2** 1999 Stock Option and Incentive Plan.

10.3** 1999 Employee Stock Purchase Plan.

10.4 Stock Purchase and Redemption Agreement dated December 31, 1999 by and among NetScout, Greylock Equity Limited Partnership, certain affiliates of TA Associates, Inc. and Egan-Managed Capital, L.P.

10.5 Amended and Restated Rights Agreement entered into as of January 15, 1999 by and among NetScout, Greylock Equity Limited Partnership, certain affiliates of TA Associates, Inc. and Egan-Managed Capital, L.P.

10.6 Lease dated August 18, 1997 between NetScout and Michelson Farm-Westford Technology Park Limited Partnership.

10.7 Amended and Restated Loan and Security Agreement dated March 12, 1998 by and between NetScout and Silicon Valley Bank.

Exhibit No. Exhibit

10.8 Loan Modification Agreement entered into March 11, 1999 between NetScout and Silicon Valley Bank.

+10.9 OEM Agreement dated as of February 3, 1998 by and between SDL Communications, Inc. and NetScout.

+10.10 Project Development and License Agreement dated as of July 13, 1994 by and between Cisco Systems, Inc. ("Cisco") and NetScout.

+10.11 Amendment No. 1 to the Project Agreement and Design License Agreement dated as of January 4, 1995 by and between Cisco and NetScout.

+10.12 Private Label Agreement effective as of October 17, 1995 by and between Cisco and NetScout.

+10.13 Amendment to Private Label Agreement and Project Development and License Agreement dated May 15, 1996 by and between Cisco and NetScout.

+10.14 Amendment No. 3 to the Private Label Agreement and Project Development and License Agreement by and between Cisco and NetScout.

+10.15 Amendment No. 4 to Private Label Agreement and Project Development and License Agreement effective as of February 23, 1998 by and between Cisco and NetScout.

10.16** Agreement Relating to Employment dated June 1, 1994 by and between NetScout and Anil Singhal.

10.17** Amendment No. 1 to Agreement Relating to Employment dated January 14, 1999 by and between NetScout and Anil Singhal.

10.18** Agreement Relating to Employment dated June 1, 1994 by and between NetScout and Narendra Popat.

10.19** Amendment No. 1 to Agreement Relating to Employment dated January 14, 1999 by and between NetScout and Narendra Popat.

10.20 Secured Term Note for $1,100,000, Partially Non-Recourse, dated June 28, 1996, Payable to NetScout by Anil Singhal.

10.21 Stock Pledge Agreement, made as of June 28, 1996, between Anil Singhal and NetScout.

10.22 Secured Term Note for $900,000, Partially Non-Recourse, dated June 28, 1996. Payable to NetScout by Narendra Popat.

10.23 Stock Pledge Agreement, made as of June 28, 1996, between Narendra Popat and NetScout.

21.1 Subsidiaries of NetScout.

23.1* Consent of Testa, Hurwitz & Thibeault, LLP (contained in Exhibit 5.1).

23.2 Consent of PricewaterhouseCoopers LLP.

24.1 Power of Attorney (contained on page II-5).

27.1 Financial Data Schedule.

* To be filed by amendment.

** Indicates a management contract or any compensatory plan, contract or arrangement.

+ Confidential materials omitted and filed separately with the Securities and Exchange Commission.

(B) Financial Statement Schedules.

Schedule II--Valuation and Qualifying Accounts All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are either not applicable or the required information is included with the Consolidated Financial Statement and Notes thereto, and therefore have been omitted.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes (1) to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser; (2) that for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and (3) that for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Westford, Massachusetts on April 22, 1999.

Netscout Systems, Inc.

By: /s/ ANIL K. SINGHAL Anil K. Singhal CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD

Power of Attorney and Signatures

We, the undersigned officers and directors of NetScout Systems, Inc., hereby severally constitute and appoint Anil K. Singhal, Narendra Popat and Charles Tillett, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us in our names in the capacities indicated below, any registration statement related to the offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933 (a "462(b) Registration Statement"), any and all amendments and exhibits to this registration statement or any 462(b) Registration Statement, and any and all applications and other documents to be filed with the Securities and Exchange Commission pertaining to the registration of the securities covered hereby or thereby, and generally to do all things in our names and on our behalf in such capacities to enable NetScout Systems, Inc. to comply with the provisions of the Securities Act of 1933 and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE(S)	DATE
/s/ ANIL K. SINGHAL - ---------- Anil K. Singhal	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	April 22, 1999
/s/ NARENDRA POPAT - ---------- Narendra Popat	President, Chief Operating Officer and Director	April 22, 1999
/s/ CHARLES TILLETT - ---------- Charles Tillett	Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	April 22, 1999

/s/ JOSEPH G. HADZIMA, JR. Director April 22, 1999 Joseph G. Hadzima, Jr.

/s/ KENNETH T. SCHICIANO Director April 22, 1999 Kenneth T. Schiciano /s/ RICHARD J. EGAN Director April 22, 1999 Richard J. Egan