NETSCOUT SYSTEMS INC
Form 10-K
May 20, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

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

For the fiscal year ended March 31, 2015

OR

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

    For the transition period from   to
Commission file number 0000-26251

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

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

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

Securities registered pursuant to Section 12(b) of the Act:	Name of each exchange on which registered: NASDAQ Global
Common Stock, $0.001 Par value	Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨   Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨   NO x

The aggregate market value of common stock held by non-affiliates of the registrant as of September 30, 2014 (based on the last reported sale price on the Nasdaq Global Select Market as of such date) was approximately $1,763,327,709. As of May 13, 2015, there were 40,761,729 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the fiscal year 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Except as expressly incorporated by reference, the proxy statement is not deemed to be part of this report.

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FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2015
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PART I

Item 1. Business
Overview
We are an industry leader for advanced network, application and service assurance solutions, providing high-quality performance analytics that help enterprise, government and service provider customers proactively manage service delivery and identify emerging performance problems. Our offerings help customers around the world quickly resolve technology issues that cause business disruptions or negatively impact the user experience. We design, develop, manufacture, market, license, sell and support these products in integrated hardware and software solutions that are used by commercial enterprises, large governmental agencies and telecommunication service providers in some of the world's largest, most demanding and complex internet protocol (IP) based service delivery environments.

We have been a technology innovator in the three-plus decades since our founding in 1984. Our solutions continue to change how organizations manage and optimize the delivery of business applications and services and assure user experience across global IP networks. We have continually enhanced and expanded our product portfolio to meet the needs of organizations by providing solutions to manage dynamic network and application environments and by improving user experience by providing high-value analytics that help validate and assure service availability, quality and reliability. Our solutions are based on a patented Adaptive Service Intelligence™ (ASI) technology which uses traffic data to provide important service metrics related to network, application, server, database, and user communities performance in real-time.

Our solutions are intended to help users in various roles within enterprises, government agencies and service providers to: quickly analyze data, achieve real-time visibility into and intelligence about their organization's operations, identify service delivery issues early, improve service levels, reduce operational costs, mitigate security risks, and drive better business decisions. By providing a highly scalable and flexible real-time service delivery management platform, our customers are able to optimize the performance of their IP-based networks and the applications and services that run across them, using our analytics to proactively identify and resolve potential issues before users are impacted. As a result, our customers are able to maximize their return on investment and mitigate a myriad of risks associated with unreliable service delivery and poor user experience. Our value proposition to our customers is helping them to manage their complex network and IT infrastructures to achieve their business and financial objectives.

Our mission is to enable IT groups and service providers to realize maximum benefit with minimal risk from technological advances, like IP convergence, network function virtualization (NFV), software defined networking (SDN), virtualization, cloud, mobility, bring your own device (BYOD), web, and the scale of the evolving Internet of Things (IoT) by managing the inherent complexity in a cost-effective manner. Our Adaptive Service Intelligence (ASI) technology has the potential of not only expanding our leadership in the network performance management (NPM) and application performance management (APM) space, but also has potential to extend our reach into new adjacent markets such as cyber security and business intelligence.

Many of the largest service providers, cloud-based businesses and enterprise customers rely on us to assure service delivery and a high-quality experience for their end users. Our customers are in just about every vertical market including financial, health care, utilities, internet, manufacturing, retail, and transportation, as well as service providers and major government agencies. We are a market leader in helping service providers get a return on their 4G/LTE investment by providing them with the intelligence they need about a range of important aspects of service delivery from handset performance on their networks and subscriber preferences to network traffic trends and overall network speed.

We have three primary customer groups; enterprise customers, service provider customers and government customers. Within the enterprise and government segments, our solutions support a wide-range of enterprise IT operations and management organizations including network operations, application managers, network operations centers, network engineering, security operations and service delivery teams. Within the service provider segment, our solutions support a broad range of operational users including network operations, group network engineering, service

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

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

On October 12, 2014, NetScout, Danaher Corporation (Danaher), Potomac Holding LLC, a wholly-owned subsidiary of Danaher (Newco), RS Merger Sub I, Inc., a wholly-owned subsidiary of the NetScout (Merger Sub) and RS Merger Sub II, LLC, a wholly-owned subsidiary of NetScout (Merger Sub II and, together with Merger Sub, the Merger Subs), entered into an Agreement and Plan of Merger and Reorganization (the Merger Agreement) pursuant to which NetScout will acquire the communications group business of Danaher conducted under the brands Tektronix Communications, Fluke Networks and Arbor Networks, but excluding Danaher's data communications cable installation business and its communication service provider business (the Communications Business) in a Reverse Morris Trust transaction (the Transaction). For additional information regarding the proposed acquisition, see Note 20 of our Notes to Consolidated Financial Statements.

Markets

Enterprise Markets

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

- IT Operational Excellence – We deliver real-time and historical information that provides the necessary insight to restore service, manage capacity, and understand the quality of the users' experience.

- Data Center Modernization and Cloud Computing – We enable IT organizations to manage the delivery of services across virtual and physical environments, providing a comprehensive, unified real-time view into network, application, server, and user communities' performance. We proactively detect emerging issues with the ability to help analyze both physical and virtual services delivery environments within the data center enables organizations to optimize datacenter infrastructure investments, protect against service degradations, and simplify the operation of complex, multi-tier application environments in consolidated, state-of-the-art data centers. Our solutions are often used by enterprises to support private cloud computing environments that are aimed at enabling greater, more cost-effective accessibility to applications without compromising the reliability and security of those applications and the network.

- Unified Communications (UC) – We deliver deep application-level unified visibility into voice, data and video services side-by-side in order to understand the interrelationships of all UC services that traverse the network infrastructure and assess quality and performance of the delivery of these services. As a result, our real-time, actionable intelligence helps customers to deliver a high-quality UC experience as users make calls, video conference and engage in instant messaging. We also help desktop, network, telecom, and application teams manage UC through a common platform across complex, geographically dispersed, and multi-vendor environments.

- New Application Service Rollout - We provide enterprise customers with a holistic view of the new applications and services as they are introduced into their IT environment. This view enables customers to see the relationships and interdependencies across all service delivery components including applications, network, servers, databases, and enabling protocols so they can deliver a superior user experience, achieve outstanding service quality and drive return on their application investments.

- Application and Desktop Virtualization - We provide clear and actionable insights that help customers fully realize the operational benefits associated with Application and Desktop Virtualization, and reduce the time it takes to identify and resolve service problems. We offer visibility across all virtual desktop infrastructure (VDI) tiers including remote access, client, virtualization, web, front-end application, and related database systems, and help customers gain actionable metrics from monitoring and analyzing the consumption and performance of VDI services.

- CyberSecurity – Cyberattacks are becoming more sophisticated and target users, applications, infrastructure, and mobile devices. We provide an additional layer of visibility that provides insight into potential emerging security issues missed by traditional security tools. We also provide incident response activities with deep-dive network forensics and offer contextual information surrounding a specific alert or incident to enhance investigative capabilities

and avoid false positives.

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Government Markets

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

Telecommunication Service Provider Markets

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

- For Mobile Operators – The fundamental transformation of the mobile network to all-IP enables mobile operators to build highly-scalable service delivery environments to offer new services to meet the growing subscriber demand for data, voice and video-centric services and to consolidate and simplify network operations. However, to capitalize fully on the value of IP and the significant market opportunities, mobile operators need detailed IP packet-level insight and core-to-access visibility.

- For Fixed-line and Cable Operators – The growing demand for high-bandwidth triple-play services, broadband connectivity, content anywhere, IP-TV, on-demand video traffic, new extended WiFi initiatives and carrier Ethernet services presents service providers with significant revenue opportunities. IP has become the de facto convergence mechanism for access, distribution and core networks, enabling new service offerings, simplifying network operations while reducing total cost of operations. For example, we also are starting to see cable operators use our solutions to monitor and manage their local area WiFi connectivity services. To realize these benefits, operators need comprehensive insight into IP services, service usage, service availability, application awareness, traffic load, network availability and network performance.

Products & Technology Overview

NetScout continuously develops its solutions to meet the increasing demands and ever changing technology landscape of IP networks, service and applications. In recent years, we have delivered major product upgrades across our product lines, more tightly integrating deep packet analysis and forensics into our top-down performance management workflows, improving the flexibility of our industry-leading intelligent early warning capabilities, and adding support for new sources of user experience and performance related metrics.

During Fiscal Year 2015, we continued to invest in development programs aimed at enhancing our range of offerings, including delivering new features and functionality for our nGeniusONE™ Service Assurance platform that addresses the evolving requirements of our enterprise, service provider and government customers. The nGeniusONE platform is powered by Adaptive Service Intelligence™ (ASI) 2.0, NetScout's next generation Deep Packet Inspection (DPI) technology that exploits the inherent richness of packet-flow data to provide real-time, contextual analysis of service, network, and application performance. The patented ASI technology is a critical differentiating technology that enables the creation of statistical metadata, session transaction records and adaptive session traces enabling real-time, scalable monitoring of all users, all applications and all services consistently across the network. NetScout's solutions are used by customers to better understand and manage network and application performance, alert themselves to problems that impacting end users, validate services and network policy, plan and optimize network capacity, generate timely reports and conduct deep forensic and historical analysis. Key products include:

nGeniusONE™ Service Assurance Solution – Used to support NetScout's enterprise, service provider and government customers, the nGeniusONE Service Assurance Solution platform enables customers to predict, preempt, and resolve network and service delivery problems while facilitating the optimization and capacity planning of their network

infrastructures. Key features within the nGeniusONE^{TM} platform include:

- Service Dashboard - Providing at-a-glance metrics, holistic status visibility of business services, network and application components, enabling network and IT professionals to focus their triage efforts where needed most.

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- Performance Analysis: Offering comprehensive analysis of specific application transactions, such as email, databases, enabling services, and unified communications, as well as traffic analysis to identify the root cause of performance issues. The specialized service monitors provide holistic visibility into application sessions, their query/response volume, their latencies, and any errors associated with the specific servers, including affected user communities.
- Session Analysis: Enabling drilldowns, with context, from service monitors to specific session-level analysis related to the issue being investigated.
- Packet Analysis: Facilitating detailed analysis of network traffic at a granular, packet level, along with forensic evidence collection that is relevant to the issue at hand based on the context of the workflows already performed.

NetScout's nGeniusONE Service Assurance Solution also provides other high-value complementary capabilities including:

- nGenius UC Server for monitoring and managing advanced unified communications (UC) across a range of collaboration tools including IP-based telephony, video and instant messaging;
- nGenius Subscriber Intelligence for visibility into mobile data sessions across a range of mobile network architectures;

NetScout's product family also includes:

- nGenius Intelligent Data Sources for data collection - NetScout's Intelligent Data Sources provide the capabilities of gathering and analyzing information rich packet-flow data from across the network to enable the granular analysis and reporting capabilities of the nGenius Service Assurance Solution. The nGenius Intelligent Data Sources consist of: (1) the InfiniStream appliances, which provide hardware-based data capture and metadata creation for the nGenius Service Assurance Solution; (2) the nGenius VI2000, which extends NetScout's visibility into virtualized and cloud environments by embedding the ASI technology into virtual machines (VMs); and (3) nGenius Collectors, which support collection of network-based statistics from network equipment supporting standards-based data such as Cisco NetFlow, jFlow and sFlow.
- nGenius Packet Flow Switches and Taps for data aggregation and distribution - NetScout's comprehensive network monitoring fabric switching solution provides targeted network traffic access to an increasing number of monitoring systems, including the nGeniusONE Performance Management platform, as well as other monitoring and security systems. It enables flexible access to packet-flow traffic to support diverse network traffic monitoring operations including performance management, service delivery management, and security monitoring. NetScout's Test Access Point (TAP) family provides the nGenius InfiniStream appliances and nGenius packet flow switches with full, non-disruptive access to network traffic while remaining transparent to the networking infrastructure with multiple link type and speed options.
- NetScout Test Optimization Products - NetScout's packet flow switches and management software support test laboratories in their efforts to optimize the performance and speeds of network equipment within simulated network infrastructures.
- nGenius NetFlow Solutions for analyzing and managing enterprise networks by leveraging specific flow-based data such as Cisco NetFlow, Juniper J-Flow, sFlow, Huawei NetStream, and Cisco IP SLA test results collected from flow-capable network devices such as routers or switches.

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Integration with Third-party Solutions

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

Growth Strategy

Our key objectives have been to continue to gain market share in the wireless service provider market and to accelerate our enterprise growth by extending into the application performance management segment. In addition, given the nature of the customers in our government segment, we believe future cybersecurity products would be effective in this market. We believe that the acquisition of Danaher's Communications Business (see Note 20 of our Consolidated Financial Statements) will further accelerate key elements of our strategy, which include:

- Drive technology innovation – NetScout will continue to invest in research and development, and leverage the strong technical and domain expertise across its organization. As a result of the planned acquisition of the Communications Business, NetScout's base of research and development professionals is expected to grow by more than 400% from its current level of over 350 people. The combined company's engineering teams will be focused on advancing technical innovation across its broad product portfolio. By capitalizing on NetScout's extensive experience with global enterprise, service provider and government organizations with IP-based networks, NetScout will be well positioned to cross-leverage its technology development across all major platforms and relevant technologies to address the evolving demands of current and prospective customers. NetScout works closely with its largest enterprise and service provider customers to better understand and address their near-term and longer-term requirements. By better understanding the key, time-sensitive needs of NetScout's global customer base, NetScout will continue to enhance and extend its product line to meet the increasing challenges of managing a diverse range of services over an increasingly global network environment.

- Continued portfolio enhancements – We plan to continue to enhance our products and solutions to address the management challenges associated with virtualization, cloud computing, service-oriented architectures, VoIP, video, and telepresence technologies. In addition, we will continue to drive our solutions to help IT organizations address the challenges of complex service delivery, datacenter consolidation, branch office consolidation and optimization, increasing mobility and the move to a more process-oriented operating environment. The acquisition will add Tektronix Communications' high-value troubleshooting capabilities, which targets service providers, with Fluke Networks' troubleshooting capabilities, which targets small to mid-sized enterprises. These capabilities are expected to complement NetScout's traditional strengths in monitoring large, complex IP-based networks and the mission-critical services that run across them. Over the longer term, NetScout anticipates that the post-acquisition product roadmap integration would support migrating key features and functionalities from various product platforms into new, higher value solutions at more attractive price points that will appeal to a broader range of customers globally.

- Extension into adjacent markets – By enhancing and expanding NetScout's product portfolio, NetScout can also enter complementary adjacent markets that will help it further expand its customer relationships and increase its total addressable market. For example, the acquisition of the Arbor Networks business will bring new security offerings that complement NetScout's core range of solutions by helping customers identify, mitigate and remediate complex technical threats and unauthorized intrusions into their network and IT infrastructures. The Arbor Networks business

will accelerate NetScout's entry into cyber security with market-leading solutions used by leading service providers and enterprises to prevent and mitigate distributed denial of service (DDoS) attacks. In addition, the acquisition will bring new solutions for optimizing the radio access networks (RANs) of service providers and sophisticated business intelligence analytics that are used by service providers to increase customer satisfaction, reduce churn, and increase profits.

- Enable pervasive visibility – We intend to continue to expand our intelligent data source family to enable our customers to achieve greater visibility into more places across their end-to-end network environment. We plan to

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integrate various capabilities, including our Adaptive Service Intelligence software, across the combined company's product portfolio to enable wider deployment of our technology within virtual computing environments, network devices and computing platforms and to support a broader range of network and application performance management, security and business intelligence requirements. This includes fortifying and enhancing our capabilities and technology by supporting new and innovative ways to address the ongoing challenges associated with the increasing volume of data traffic and enable scalable support for 40 Gigabit, 100 Gigabit topologies and increasing global deployments of IPv6. Advancing these capabilities will enable NetScout to cross-sell a wider range of solutions into NetScout's existing base of customers using solutions from the Communications Business, as well as increase business with the current base of Communications Business customers by cross-selling NetScout solutions.

- Expand our customer base in both enterprise and service provider markets – It is our intention to substantially grow our presence in both the enterprise and service provider markets. In the enterprise market, we are growing our installed base to include a broader number of top-tier enterprise customers as well as extending to reach mid-market enterprise customers. We intend to increase the use of our products across the IT organization to include new operational groups by expanding their capabilities and value. In the service provider market, we are expanding our presence by winning new service provider customers. We are also expanding our service provider footprint further out into the radio access network and deeper into the core. As a result of the acquisition, NetScout will have a larger direct sales force with specialized expertise in targeting the enterprise, service provider and government markets, along with a more extensive global network of value-added resellers and systems integrators.

- Increase market relevance and awareness – The acquisition will substantially expand our customer base around the world. To generate increased demand for NetScout's products, NetScout will implement marketing campaigns aimed at promoting its thought leadership and driving lead generation for its technology, products and solutions among both enterprise and service provider customers. In addition, we will continue to drive industry initiatives around managing service delivery.

- Extend our technology partner alliance ecosystem – Supporting a larger, more global customer base as a result of the acquisition will require alliances with complementary solutions providers. We plan to continue to enhance our technology value, product capabilities and customer relevance through the continued integration of our products into technology partner products. This includes both interoperability integration efforts, as well as embedding our technology into alliance partner products to gain a more pervasive footprint across both enterprise and service provider networks.

- Pursue strategic acquisitions – We completed five acquisitions in recent years that helped broaden our capabilities, products and technologies, and better position the Company to meet the needs of its customers and prospects. After the acquisition of the Communications Business, we plan to be opportunistic in pursuing strategic acquisitions in order to achieve key business and technology objectives.

- Improve cost structure and drive efficiencies – We have continued to improve our profitability as we have expanded our business. We will continue to focus on directing prudent investment into the key technology, product development, sales and marketing, and other initiatives that will enable us to drive long-term profitable growth. We believe that the Danaher Communications Business acquisition will create a range of opportunities to further improve the Company's operating profitability by pursuing cost synergies. NetScout will seek to leverage its purchasing power and extend its proven manufacturing techniques in ways that can improve product gross margin. In addition, NetScout plans to integrate certain operations that have previously been managed separately across various business and product lines. NetScout also expects to achieve synergies by using common infrastructure platforms, and by eliminating or reducing redundancies associated with pre-existing resources, programs and capabilities.

Support Services

Customer satisfaction is a key driver of NetScout's success. NetScout's MasterCare™ support programs offer customers various levels of high quality support services to assist in the deployment and use of our solutions. We have support personnel strategically deployed across the globe to deliver 24/7 telephone support to our premium MasterCare customers. Certain support services, such as on-site support activities, are provided by qualified third party support partners. In addition many of our certified resellers provide Partner Enabled Support to NetScout end-users. This is

especially prevalent in international locations where time zones and language, among other factors, make it more efficient for end-users to have the reseller provide initial support functions. MasterCare support also includes updates to our software and firmware at no additional charge, if and when such updates are developed and made generally available to our commercial customer base. If ordered, MasterCare support commences upon expiration of the standard warranty for software. For software, which also includes firmware, the standard warranty commences upon shipment and expires 90 days thereafter. With regard to hardware, the standard warranty

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commences upon shipment and expires 12 months thereafter. We believe our warranties are consistent with commonly accepted industry standards.

Manufacturing

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

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

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

Sales and Marketing

Sales

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

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

We also maintain an indirect reseller and distribution channel. Sales to customers outside the United States are primarily export sales through channel partners. Our channel partners assist us by improving our reach to customers, extending our presence in new markets, and marketing and selling our products to a broad array of organizations globally. We sell through a range of channel partners including value added resellers, value added distributors, resellers, and system integrators, to our enterprise, service provider and government customers. Historically and currently, we have used indirect distribution channels principally as intermediaries on contractual terms for customers with whom we have no contract. Our sales force meets with end user customers to present NetScout products and solutions, conduct demonstrations, provide evaluation equipment, recommend detailed product solutions, develop product deployment designs and timelines, and assist in establishing financial and other justification for the proposed solution. During this selling process, a channel partner, who has contracts with both the end customer and NetScout, may be brought in to facilitate the transaction and to provide fulfillment services. In the case of international channel partners, those services usually also include currency translation and support. In the U.S., fulfillment services are usually limited to invoicing and cash collection. Under this approach, we have limited dependence upon channel

partners for the major elements of the selling process. In many cases, there are multiple channel partners with the required contractual relationships, so dependence on any single channel partner is not significant.

Total revenue from indirect channels represented 49% of our total revenue for the fiscal years ended March 31, 2015, 2014 and 2013. During the fiscal year ended March 31, 2015, two direct customers accounted for more than 10% of total revenue, while no indirect channel partner accounted for more than 10% of total revenue. During the fiscal year ended March

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

Our sales force is organized into four main geographic teams covering sales around the globe: United States, Europe, Asia and the rest of the world. Revenue from sales outside the United States represented 23%, 24% and 25% of our total revenue in the fiscal years ended March 31, 2015, 2014 and 2013, respectively. For additional information regarding our sales by geographic location, see Note 18 of our Notes to Consolidated Financial Statements.

Marketing

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

Key elements of our marketing strategy focus on thought leadership, market positioning, market education, go to market strategies, reputation management, demand generation, and the acceleration of our strategic selling relationships with local and global resellers, systems integrators, and our technology alliance partners. During fiscal year 2015, NetScout began investment to redesign the NetScout logo and further fortify and amplify the NetScout brand. These activities are expected to continue into fiscal year 2016.

Research and Development

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

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

Seasonality

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