

NETSCOUT SYSTEMS INC  
Form DEF 14A  
August 13, 2004

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**NETSCOUT SYSTEMS, INC.**

(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
Not Applicable

(2) Aggregate number of securities to which transaction applies:  
Not Applicable

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
Not Applicable

(4) Proposed maximum aggregate value of transaction:  
Not Applicable

(5) Total fee paid:  
Not Applicable

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:  
Not Applicable

(2) Form, Schedule or Registration Statement No.:  
Not Applicable

(3) Filing Party:  
Not Applicable

(4) Date Filed:

Not Applicable

August 13, 2004

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of NetScout Systems, Inc. to be held at 9:00 a.m., local time, on Wednesday, September 15, 2004, at Testa, Hurwitz & Thibault, LLP, High Street Tower, 125 High Street, Boston, Massachusetts.

At this Annual Meeting, you will be asked to elect two directors to a three-year term and to ratify the selection of the firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, as auditors for the fiscal year ending March 31, 2005.

Details regarding the matters to be acted upon at this meeting appear in the accompanying Proxy Statement. Please give this material your careful attention.

If you are a stockholder of record, please sign, date and otherwise complete the enclosed proxy card and return it promptly in the enclosed postage-prepaid envelope whether or not you plan to attend the meeting. If your shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone please refer to your enclosed vote instruction form for instructions. It is important that your shares be voted whether or not you attend the meeting in person. If you attend the meeting, you may vote in person even if you have previously returned your vote in accordance with the foregoing. Your prompt cooperation will be greatly appreciated.

Very truly yours,

ANIL K. SINGHAL

*President and Chief Executive Officer*

**NETSCOUT SYSTEMS, INC.**

**310 Littleton Road**

**Westford, MA 01886**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held September 15, 2004**

To the Stockholders of NetScout Systems, Inc.:

The Annual Meeting of Stockholders of NetScout Systems, Inc., a Delaware corporation, will be held on Wednesday, September 15, 2004, at 9:00 a.m., local time, at Testa, Hurwitz & Thibault, LLP, High Street Tower, 125 High Street, Boston, Massachusetts, for the following purposes:

1. To elect two (2) Class II directors to serve for a three-year term or until their respective successors are elected and qualified.
2. To ratify the selection of the firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, as auditors for the fiscal year ending March 31, 2005.
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only stockholders of record at the close of business on July 22, 2004 are entitled to notice of and to vote at the meeting.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to sign, date and otherwise complete the enclosed proxy card and return it promptly in the enclosed postage-prepaid envelope whether or not you plan to attend the meeting. If your shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone please refer to your enclosed vote instruction form for instructions. If you attend the meeting, you may vote in person even if you have previously returned your vote in accordance with the foregoing.

By Order of the Board of Directors,

ANIL K. SINGHAL

*President and Chief Executive Officer*

Westford, Massachusetts

August 13, 2004

**WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE SIGN, DATE AND OTHERWISE COMPLETE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF THE PROXY CARD IS MAILED IN THE UNITED STATES. IF YOUR SHARES ARE HELD IN A BANK OR BROKERAGE ACCOUNT, YOU MAY BE ELIGIBLE TO VOTE ELECTRONICALLY OR BY TELEPHONE PLEASE REFER TO YOUR ENCLOSED VOTE INSTRUCTION FORM FOR INSTRUCTIONS.**

**NETSCOUT SYSTEMS, INC.**

**310 Littleton Road**

**Westford, MA 01886**

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**PROXY STATEMENT**

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**August 13, 2004**

**General**

Proxies in the form enclosed with this Proxy Statement are solicited by the Board of Directors of NetScout Systems, Inc., a Delaware corporation (the Corporation), for use at the Annual Meeting of Stockholders to be held on Wednesday, September 15, 2004, at 9:00 a.m., local time, at Testa, Hurwitz & Thibault, LLP, High Street Tower, 125 High Street, Boston, Massachusetts, or at any adjournments thereof (the Meeting). An Annual Report to Stockholders containing financial statements for the fiscal year ended March 31, 2004 is being mailed together with this Proxy Statement to all stockholders entitled to vote at the Meeting. This Proxy Statement and the form of proxy were first mailed to stockholders on or about August 13, 2004.

The purpose of the Meeting is to elect two Class II directors to the Corporation's Board of Directors and to ratify the selection of the firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, as auditors for the fiscal year ending March 31, 2005.

**Record Date and Voting Securities**

Only stockholders of record at the close of business on July 22, 2004 (the Record Date) will be entitled to receive notice of and to vote at the Meeting. As of that date, 30,524,657 shares of common stock of the Corporation were issued and outstanding. The holders of common stock are entitled to one vote per share on any proposal presented at the Meeting. Stockholders may vote whether or not they plan to attend the Meeting by completing, signing and dating the accompanying proxy card and returning it in the postage-prepaid envelope enclosed for that purpose. If a stockholder's shares are held in a bank or brokerage account, such stockholder may be eligible to vote electronically or by telephone such stockholder should refer to the enclosed form for instructions. If a stockholder attends the Meeting, such stockholder may vote in person even if such stockholder has previously returned his or her vote in accordance with the foregoing.

**Revocability of Proxies**

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Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Corporation, before the taking of the vote at the Meeting, a written notice of revocation bearing a later date than the proxy submitted previously; (ii) duly completing a later-dated proxy, including a proxy completed electronically or by telephone, relating to the same shares and delivering it to the Secretary of the Corporation before the taking of the vote at the Meeting; or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute a revocation of a proxy). *Any written notice of revocation or subsequent proxy should be sent so as to be delivered to NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886, Attention: Secretary, at or before the taking of the vote at the Meeting.*

### **Quorum and Voting**

The representation in person or by proxy of at least a majority of the outstanding shares of common stock entitled to vote at the Meeting is necessary to constitute a quorum for the transaction of business. Votes withheld



from any nominee, abstentions and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum for the Meeting. A non-vote occurs when a nominee holding shares for a beneficial owner votes on one proposal but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner.

In the election of directors, the nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to vote at the Meeting shall be elected as directors. On all other matters being submitted to stockholders, an affirmative vote of a majority of the shares present or represented and voting on each such matter is required for approval. An automated system administered by the Corporation's transfer agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately. Abstentions are included in the number of shares present or represented and voting on each matter and, therefore, with respect to votes on specific proposals, will have the effect of negative votes. Broker non-votes are not so included.

The persons named as attorneys-in-fact in the proxies, Anil K. Singhal, Narendra V. Popat and David P. Sommers, were selected by the Board of Directors and are officers of the Corporation. All properly executed proxies returned in time to be counted at the Meeting will be voted. Where a choice has been specified on the proxy with respect to the foregoing matters, the shares represented by the proxy will be voted in accordance with the specifications. If no such specifications are indicated, such proxies will be voted FOR the nominees to the Board of Directors and FOR ratifying the selection of PricewaterhouseCoopers LLP, independent registered public accounting firm, as auditors for the fiscal year ending March 31, 2005.

The Board of Directors knows of no other matters to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board of Directors will be voted with respect thereto in accordance with the judgment of the persons named as attorneys-in-fact in the proxies.

**PROPOSAL 1****ELECTION OF DIRECTORS****Nominees**

The size of the Board of Directors is currently fixed at seven members. The Corporation's by-laws and its certificate of incorporation divide the Board of Directors into three classes. The members of each class of directors serve for staggered three-year terms. Messrs. Singhal and Egan are the Class II directors whose terms expire at this Annual Meeting of Stockholders and are nominees for re-election as directors of the Corporation. The Board of Directors is also composed of (i) two Class III directors (Messrs. Papat and Hadzima), whose terms expire upon the election and qualification of directors at the Annual Meeting of Stockholders to be held in 2005, and (ii) three Class I directors (Messrs. DeMarines, Mullarkey and Schiciano), whose terms expire upon the election and qualification of directors at the Annual Meeting of Stockholders to be held in 2006.

The Board of Directors has nominated and recommended that Messrs. Singhal and Egan who are currently members of the Board of Directors be re-elected as Class II directors, to hold office until the Annual Meeting of Stockholders to be held in the year 2007 or until their successors have been duly elected and qualified or until their earlier resignation or removal. The Board of Directors knows of no reason why the nominees would be unable or unwilling to serve, but if either should for any reason be unable or unwilling to serve, the proxies will be voted for the election of such other person for the office of director as the Board of Directors may recommend in the place of such nominee. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS****A VOTE FOR THE NOMINEES LISTED BELOW**

The following table sets forth the nominees to be elected at the Meeting and, for each director whose term of office will extend beyond the Meeting, the year such nominee or director was first elected a director, the positions currently held by the nominee and each director with the Corporation, the year each nominee's or director's term will expire and class of director of each nominee and each director:

**Nominee s or Director s**

| Name and Year                |                                                            | Year Term   | Class of |
|------------------------------|------------------------------------------------------------|-------------|----------|
| First Became a Director      | Position(s) with the Corporation                           | Will Expire | Director |
| <b>Nominees:</b>             |                                                            |             |          |
| Anil K. Singhal              | President, Chief Executive Officer, Treasurer and Director | 2004        | II       |
| 1984                         |                                                            |             |          |
| John R. Egan                 | Director                                                   | 2004        | II       |
| 2000                         |                                                            |             |          |
| <b>Continuing Directors:</b> |                                                            |             |          |
| Narendra V. Papat            | Chairman of the Board and Secretary                        | 2005        | III      |

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|                        |          |  |      |     |
|------------------------|----------|--|------|-----|
| 1984                   |          |  |      |     |
| Joseph G. Hadzima, Jr. | Director |  | 2005 | III |
| 1998                   |          |  |      |     |
| Victor A. DeMarines    | Director |  | 2006 | I   |
| 2004                   |          |  |      |     |
| Vincent J. Mullarkey   | Director |  | 2006 | I   |
| 2000                   |          |  |      |     |
| Kenneth T. Schiciano   | Director |  | 2006 | I   |
| 1999                   |          |  |      |     |

**PROPOSAL 2**

**RATIFICATION OF SELECTION OF AUDITORS**

The Audit Committee of the Board of Directors has selected the firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, to serve as auditors for the fiscal year ending March 31, 2005. PricewaterhouseCoopers LLP has served as the Corporation's accountants since 1993. It is expected that a member of the firm of PricewaterhouseCoopers LLP will be present at the Meeting with an opportunity to make a statement if so desired and will be available to respond to appropriate questions from the Corporation's stockholders. The ratification of this selection is not required under the laws of the State of Delaware, where the Corporation is incorporated, but the results of this vote will be considered by the Audit Committee of the Board of Directors in selecting auditors for future fiscal years.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE**

**RATIFICATION OF THIS SELECTION OF AUDITORS**

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**DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth the director nominees to be elected at the Meeting, the directors and the executive officers of the Corporation, their ages, and the positions currently held by each such person with the Corporation.

| <u>Name</u>            | <u>Age</u> | <u>Position(s)</u>                                                      |
|------------------------|------------|-------------------------------------------------------------------------|
| Anil K. Singhal        | 50         | President, Chief Executive Officer, Treasurer and Director              |
| Narendra V. Popat      | 55         | Chairman of the Board and Secretary                                     |
| David P. Sommers       | 57         | Senior Vice President, General Operations and Chief Financial Officer   |
| John W. Downing        | 46         | Vice President, Worldwide Sales Operations                              |
| Lisa A. Fiorentino     | 38         | Vice President, Finance and Administration and Chief Accounting Officer |
| Michael Szabados       | 52         | Senior Vice President, Product Operations                               |
| Victor A. DeMarines    | 67         | Director                                                                |
| John R. Egan           | 46         | Director                                                                |
| Joseph G. Hadzima, Jr. | 52         | Director                                                                |
| Vincent J. Mullarkey   | 56         | Director                                                                |
| Kenneth T. Schiciano   | 41         | Director                                                                |

*Anil K. Singhal* co-founded the Corporation in June 1984 and has served as the Corporation's President, Chief Executive Officer, Treasurer and Director since January 2001. Prior to this, Mr. Singhal had served as Chairman of the Board, Chief Executive Officer and Treasurer from July 1993 to December 2000. Mr. Singhal has served as a director of the Corporation since its inception.

*Narendra V. Popat* co-founded the Corporation in June 1984 and has served as the Corporation's Chairman of the Board and Secretary since January 2001. Prior to this, Mr. Popat had served as President, Chief Operating Officer and Secretary from July 1993 to December 2000. Mr. Popat has served as a director of the Corporation since its inception.

*David P. Sommers* has served as the Corporation's Senior Vice President, General Operations and Chief Financial Officer since January 2001. Prior to this, Mr. Sommers served as the Corporation's Vice President and Chief Financial Officer from April 2000 to December 2000. From November 1998 until January 2000, Mr. Sommers was Senior Vice President and Chief Financial Officer of FlexiInternational Software, Inc., a publicly-held developer and marketer of financial accounting software.

*John W. Downing* has served as the Corporation's Vice President, Worldwide Sales Operations since September 2000, when he joined the Corporation. Prior to joining the Corporation, he was Vice President, Worldwide Sales at GenRad Corporation, a manufacturer of electronic testing equipment and production solutions, from April 1998 until September 2000.

*Lisa A. Fiorentino* has served as the Corporation's Vice President, Finance and Administration since January 2001. In January 2002, Ms. Fiorentino was also appointed to the position of Chief Accounting Officer. Ms. Fiorentino joined the Corporation in August 1995 and served as Vice President, Finance from January 2000 until December 2000, as Director of Finance from May 1997 until January 2000 and as Controller from August 1995 until April 1997.

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*Michael Szabados* has served as the Corporation's Senior Vice President, Product Operations since January 2001. Mr. Szabados joined the Corporation in August 1997 and served as Vice President, Marketing from August 1997 to December 2000.

*Victor A. DeMarines* has been a director of the Corporation since June 2004. From 1962 until his retirement in 2000, Mr. DeMarines was the President and Chief Executive Officer of MITRE Corporation, a not-for-profit organization that manages Federally Funded Research and Development Centers for the Department of Defense, Federal Aviation Administration and Internal Revenue Service. Mr. DeMarines continues to serve as a member of the Board of Trustees and of the Executive Committee and as Chairman of the Technology Committee of MITRE Corporation. Since 2002, he has been a member of the Board of Directors and the Stock Option Committee and the Chairman of the Audit Committee of Verint Systems Inc., a publicly-held provider of systems for security applications and enterprise business intelligence.

*John R. Egan* has been a director of the Corporation since October 2000. Mr. Egan is a founding managing partner of Egan-Managed Capital, a Boston-based venture capital fund specializing in New England, information technology, and early-stage investments, which began in the fall of 1996. Since 1992, he has been a member of the Board of Directors at EMC Corporation, a publicly-held provider of computer storage systems and software.

*Joseph G. Hadzima, Jr.* has been a director of the Corporation since July 1998. Mr. Hadzima has been a Managing Director of Main Street Partners, LLC, a venture capital investing and technology commercialization company, since April 1998. Since June 1996, he has also served as Of Counsel at Sullivan & Worcester LLP, a law firm where he was a partner from October 1987 to June 1996. Mr. Hadzima is also a Senior Lecturer at MIT Sloan School of Management.

*Vincent J. Mullarkey* has been a director of the Corporation since November 2000. Mr. Mullarkey was the Senior Vice President, Finance and Chief Financial Officer of Digital Equipment Corporation from 1994 until his retirement in September 1998. Since leaving Digital Equipment Corporation, Mr. Mullarkey has also been involved with several companies in the real estate industry.

*Kenneth T. Schiciano* has been a director of the Corporation since January 1999. Mr. Schiciano has been a Managing Director of TA Associates, Inc., a venture capital firm, since December 1999. Mr. Schiciano served as a Principal of TA Associates from January 1995 to December 1999.

There are no family relationships among any of the Corporation's executive officers and directors.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the Corporation's common stock as of the Record Date by (i) each beneficial owner of more than 5% of the Corporation's common stock, (ii) each executive officer named in the Summary Compensation Table, (iii) each director, and (iv) all executive officers and directors as a group.

Unless otherwise noted, the address of each person listed on the table is c/o NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886, and each person has sole voting and investment power over the shares shown as beneficially owned, except to the extent authority is shared by spouses under applicable law or as unless otherwise noted below.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (SEC). Shares of common stock issuable by the Corporation to a person or entity named below pursuant to options which may be exercised within 60 days of the Record Date are deemed to be beneficially owned and outstanding for purposes of calculating the number of shares and the percentage beneficially owned by that person or entity. However, these shares are not deemed to be beneficially owned and outstanding for purposes of computing the percentage beneficially owned by any other person or entity.

| Name and Address of Beneficial Owner | Number of Shares   | Percentage of Class |
|--------------------------------------|--------------------|---------------------|
|                                      | Beneficially Owned | Beneficially Owned  |
| Anil K. Singhal(1)                   | 3,370,015          | 11.0%               |
| Narendra V. Popat(2)                 | 2,758,968          | 9.0%                |
| David P. Sommers(3)                  | 212,771            | *                   |
| Michael Szabados(4)                  | 234,126            | *                   |
| John W. Downing(5)                   | 115,813            | *                   |
| Victor A. DeMarines(6)               | 10,000             | *                   |
| John R. Egan(7)                      | 30,000             | *                   |
| c/o Egan-Managed Capital             |                    |                     |
| 30 Federal Street                    |                    |                     |
| Boston, MA 02110                     |                    |                     |
| Joseph G. Hadzima, Jr.(8)            | 169,372            | *                   |
| c/o Main Street Partners, LLC        |                    |                     |
| One Broadway, Suite 1300             |                    |                     |
| Cambridge, MA 02142                  |                    |                     |
| Kenneth T. Schiciano(9)              | 53,278             | *                   |
| c/o TA Associates, Inc.              |                    |                     |
| 125 High Street                      |                    |                     |
| Boston, MA 02110                     |                    |                     |
| Vincent J. Mullarkey(10)             | 50,000             | *                   |
| TA Entities(11)                      | 4,427,015          | 14.5%               |



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c/o TA Associates, Inc.

125 High Street

Boston, MA 02110

|                                    |           |       |
|------------------------------------|-----------|-------|
| Brown Capital Management, Inc.(12) | 4,458,200 | 14.6% |
|------------------------------------|-----------|-------|

1201 N. Calvert Street

Baltimore, MD 21202

|                  |           |      |
|------------------|-----------|------|
| Abha Singhal(13) | 1,530,972 | 5.0% |
|------------------|-----------|------|

|                                                                  |           |       |
|------------------------------------------------------------------|-----------|-------|
| All executive officers and directors as a group (11 persons)(14) | 7,095,546 | 22.6% |
|------------------------------------------------------------------|-----------|-------|

\* Less than 1% of the outstanding common stock.

(1) Includes 37,236 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004. Includes an aggregate of 457,233 shares held in trust for the benefit of Mr. Singhal's children; Mr. Singhal

- is one of two trustees of each such trust. Includes 340,000 shares held by a family limited partnership, of which Mr. Singhal and his spouse are the general partners, and trusts for the benefit of their children are the limited partners. Does not include 1,190,972 shares held directly by Mr. Singhal's spouse and 1,000,000 shares held in a grantor retained annuity trust for the benefit of Mr. Singhal's spouse.
- (2) Includes 37,236 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004. Includes an aggregate of 333,717 shares held in trust for the benefit of Mr. Popat's children; Mr. Popat is one of two trustees of each such trust. Includes 340,000 shares held by a family limited partnership, of which Mr. Popat and his spouse are the general partners, and trusts for the benefit of their children are the limited partners. Includes 149,480 shares held by the Hope Foundation USA Investment Trust; Mr. Popat is a trustee of such trust. Does not include an aggregate of 136,056 shares held in trust for the benefit of Mr. Popat's children; Mr. Popat's spouse is one of two trustees of each such trust. Does not include 130,000 shares held by the Popat Family Trust. Does not include 381,943 shares held directly by Mr. Popat's spouse and 2,000,000 shares held in a grantor retained annuity trust for the benefit of Mr. Popat's spouse.
  - (3) Includes 206,771 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004.
  - (4) Includes 220,226 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004. Includes 1,900 shares owned by Mr. Szabados' daughters. Mr. Szabados disclaims beneficial ownership of the shares held by his daughters.
  - (5) Includes 102,813 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004.
  - (6) Entirely comprised of shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004.
  - (7) Entirely comprised of shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004.
  - (8) Includes 90,000 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004. The shares deemed to be beneficially owned by Mr. Hadzima do not include an aggregate of 41,328 shares held in trust for the benefit of Mr. Hadzima's children.
  - (9) Includes 14,311 shares of TA Investors LLC and 3,354 shares of High Street Partners L.P. beneficially owned by Mr. Schiciano. Includes 5,613 shares held directly by Mr. Schiciano and 30,000 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004. Mr. Schiciano is a Managing Director of TA Associates, Inc. Mr. Schiciano disclaims beneficial ownership of the shares held by the TA Entities as well as the shares issuable upon the exercise of options, except to the extent of his pecuniary interest therein.
  - (10) Includes 30,000 shares issuable upon the exercise of options exercisable within 60 days of July 22, 2004.
  - (11) Includes 3,343,002 shares held by TA/Advent VIII L.P.; 874,313 shares held by Advent Atlantic & Pacific III L.P.; 88,596 shares held by TA Executives Fund LLC; and 93,259 shares held by TA Investors LLC. 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 Partners L.P. TA Associates, Inc. is the general partner of TA Associates AAP III Partners 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., through an executive committee, 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. Also includes 1,008 shares held directly by TA Associates, Inc. and 26,837 shares held by High Street Partners L.P., a general partnership whose individual general partners have voting and investment power over the shares beneficially owned by such general partner.
  - (12) Based solely on a Schedule 13G/A filed with the SEC on February 11, 2004.
  - (13) Includes 340,000 shares held by a family limited partnership, of which Mrs. Singhal and her spouse are the general partners, and trusts for the benefit of their children are the limited partners. Does not include 1,000,000 shares held in a grantor retained annuity trust for the benefit of Mrs. Singhal. Does not include 2,535,546 shares held directly by Mrs. Singhal's spouse and 37,236 shares issuable to Mrs. Singhal's spouse upon the exercise of options exercisable within 60 days of July 22, 2004. Does not include an aggregate of 457,233 shares held in trust for the benefit of Mrs. Singhal's children; Mrs. Singhal's spouse is one of two trustees of each such trust.
  - (14) Includes an aggregate of 877,891 shares issuable upon exercise of options exercisable within 60 days of July 22, 2004.

## CORPORATE GOVERNANCE

### **Independence of Members of the Board of Directors**

The Board of Directors has determined that each of Messrs. DeMarines, Egan, Hadzima, Mullarkey and Schiciano is independent within the meaning of the Corporation's director independence standards and the director independence standards of The Nasdaq Stock Market, Inc. (Nasdaq). Furthermore, the Board of Directors has determined that each member of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, respectively, of the Board of Directors is independent within the meaning of the Corporation's, Nasdaq's and the SEC's independence standards, as applicable.

### **Executive Sessions of Independent Directors**

Executive sessions of the independent members of the Board of Directors are held following each regularly scheduled in-person meeting of the Board of Directors. Executive sessions do not include any directors who are not independent within the meaning of the Corporation's and Nasdaq's director independence standards, and the Lead Independent Director, currently Mr. Egan, is responsible for chairing the executive sessions.

### **Policies Governing Director Nominations**

#### *Director Qualifications*

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

Directors must be individuals of the highest ethical character and integrity and share the values of the Corporation as reflected in the Corporation's Code of Business Conduct;

Directors must have reputations, both personal and professional, consistent with the image and reputation of the Corporation;

Directors must be free of conflicts of interest that would interfere with the proper performance of the responsibilities of a director;

Directors must have the ability to exercise sound business judgment;

Directors must be willing and able to devote sufficient time to the affairs of the Corporation and be diligent in fulfilling the responsibilities of a director and/or committee member, as the case may be;

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Directors must have substantial business or professional experience and expertise and be able to offer meaningful and practical advice and guidance to the Corporation's management based on that experience and expertise; and

Directors must have a commitment to enhancing stockholder value.

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

An understanding of and experience in the network performance management solutions market, the market for networking solutions generally and related accounting, legal, finance, product, sales and/or marketing matters;

Experience on other public or private company boards, unless a director otherwise provides complementary capabilities or qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission; and

Leadership experience with public companies or other major organizations.

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

*Process for Identifying and Evaluating Director Nominees*

The Board of Directors is responsible for nominating persons for election as directors of the Corporation. The Board of Directors delegates the selection and nomination process to the Nominating and Corporate Governance Committee, with the expectation that other members of the Board of Directors, and of management, will be requested to take part in the process as appropriate.

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

*Procedures for Recommendation of Director Nominees by Stockholders*

The Nominating and Corporate Governance Committee will consider director candidates who are recommended by stockholders of the Corporation. Stockholders, in submitting recommendations for director candidates to the Nominating and Corporate Governance Committee, shall adhere to the following procedures:

The Nominating and Corporate Governance Committee must receive any such recommendation for nomination not later than the close of business on the 120th day nor earlier than the close of business on the 150th day prior to the first anniversary of the date of the proxy statement delivered to stockholders in connection with the preceding year's Annual Meeting of Stockholders.

Such recommendation for nomination must be in writing and include the following information:

Name and address of the stockholder making the recommendation, as they appear on the Corporation's books and records, and of such record holder's beneficial owner;

Number of shares of capital stock of the Corporation that are owned beneficially and held of record by such stockholder and such beneficial owner;

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Name of the individual recommended for consideration as a director nominee;

All other information relating to the recommended candidate that would be required to be disclosed in solicitations of proxies for the election of directors or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including the recommended candidate's written consent to being named in the proxy statement as a nominee and to serving as a director if approved by the Board of Directors and elected); and

A written statement from the stockholder making the recommendation stating why such recommended candidate meets the Corporation's criteria and would be able to fulfill the duties of a director.

Nominations must be sent to the attention of the Director, Investor Relations of the Corporation by one of the three methods listed below:

(1) By U.S. mail (including courier or other expedited delivery service):

NetScout Systems, Inc.

310 Littleton Road

Westford, MA 01886

Attn: Director, Investor Relations

(2) By facsimile:

(978) 614-4004

Attn: Director, Investor Relations

(3) By email:

ir@netscout.com

The Director, Investor Relations of the Corporation will promptly forward any such nominations to the Nominating and Corporate Governance Committee. As a requirement to being considered as a director for nomination to the Corporation's Board of Directors, a candidate will need to satisfy the following minimum requirements:

A candidate must undergo a comprehensive private investigation background check from a qualified company of the Corporation's choosing; and

A candidate must complete a detailed questionnaire regarding their experience, background and independence.

Once the Nominating and Corporate Governance Committee receives the nomination of a candidate and the candidate has satisfied the minimum requirements above, such candidacy will be evaluated and a recommendation with respect to such candidate will be delivered to the Board of Directors.

**Policy Governing Security Holder Communications with the Board of Directors**

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

For communications directed to the Board of Directors as a whole, stockholders may send such communications to the attention of the Chairman of the Board via one of the three methods listed below:

(1) By U.S. mail (including courier or other expedited delivery service):

NetScout Systems, Inc.

310 Littleton Road

Westford, MA 01886

Attn: Chairman of the Board, c/o Director, Investor Relations

(2) By facsimile:

(978) 614-4004

Attn: Chairman of the Board, c/o Director, Investor Relations



(3) By email:

ir@netscout.com

For stockholder communications directed to an individual director in his or her capacity as a member of the Board of Directors, stockholders may send such communications to the attention of the individual director via one of the three methods listed below:

(1) By U.S. mail (including courier or other expedited delivery service):

NetScout Systems, Inc.

310 Littleton Road

Westford, MA 01886

Attn: [Individual Director], c/o Director, Investor Relations

(2) By facsimile:

(978) 614-4004

Attn: [Individual Director], c/o Director, Investor Relations

(3) By email:

ir@netscout.com

The Corporation will forward any such stockholder communications to the Chairman of the Board, as a representative of the Board of Directors, and/or to the director to whom the communication is addressed, on a periodic basis. The Corporation will forward such communications by certified U.S. mail to an address specified by each director and the Chairman of the Board for such purposes or by secure electronic transmission.

**Policy Governing Director Attendance at Annual Meetings of Stockholders**

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The Corporation's policy is that one of the regularly scheduled in-person meetings of the Board of Directors shall be scheduled on the same day as the Corporation's annual meeting of stockholders, and all directors are encouraged to attend the Corporation's annual meeting of stockholders. All members of the Board of Directors attended the Annual Meeting of Stockholders held on September 16, 2003.

### **Code of Ethics**

The Corporation has adopted a code of ethics as defined by regulations promulgated under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act), which applies to all of the employees, officers and directors of the Corporation and its subsidiaries, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A current copy of the Code of Business Conduct is available at the Corporate Governance section of the Corporation's website at <http://www.netscout.com/investors/>. The Corporation intends to disclose amendments to or waivers from provisions of the Code of Business Conduct that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on its website, available at <http://www.netscout.com/investors/>.

For more corporate governance information, you are invited to access the Corporate Governance section of the Corporation's website, available at <http://www.netscout.com/investors/>. Contents of the Corporation's website are not part of, or incorporated by reference into, this Proxy Statement.

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Board of Directors

The Board of Directors met eight times during the fiscal year ended March 31, 2004. Each of the directors attended at least 75% of the total number of meetings of the Board of Directors and the committees on which they served during fiscal year 2004. The Board of Directors has standing Audit, Compensation, Nominating and Corporate Governance and Stock Option Committees.

### Audit Committee

The Audit Committee of the Board of Directors, of which Messrs. DeMarines, Egan, Hadzima and Mullarkey are currently the only members, is responsible for (1) reviewing and overseeing (i) the financial reports provided by the Corporation to the SEC, the Corporation's stockholders or to the general public and (ii) the Corporation's accounting policies, internal accounting controls, internal controls over financial reporting, auditing functions and financial reporting practices; (2) ensuring the independence of the independent auditor and thereby furthering the integrity of the Corporation's financial reporting; and (3) establishing procedures designed to facilitate (i) the receipt, retention and handling of complaints regarding disclosure controls and procedures, internal controls over financial reporting and accounting, internal accounting control or auditing matters and (ii) the receipt of confidential, anonymous submissions by employees of the Corporation of concerns regarding questionable accounting or auditing matters. A current copy of the Audit Committee Charter is attached to this Proxy Statement as Annex A. The Audit Committee met nine times during the fiscal year ended March 31, 2004. Mr. Mullarkey serves as the Chairman of the Audit Committee and qualifies as an audit committee financial expert under the rules of the SEC. The Board of Directors has determined that each member of the Audit Committee, including Mr. Mullarkey, is independent within the meaning of the Corporation's and Nasdaq's director independence standards and the SEC's heightened director independence standards for audit committee members.

### Compensation Committee

The Compensation Committee, of which Messrs. Egan and Hadzima are currently the only members, is responsible for discharging the responsibilities of the Board of Directors relating to the compensation of the Corporation's executives, administering the Corporation's incentive compensation and stock plans, reviewing and making recommendations with respect to the Corporation's benefit plans and human resource activities and producing an annual report on executive compensation for inclusion in the Corporation's proxy statement in accordance with applicable rules and regulations. A current copy of the Compensation Committee Charter is available at the Corporate Governance section of the Corporation's website at <http://www.netscout.com/investors/>. The Compensation Committee met four times during the fiscal year ended March 31, 2004. Mr. Hadzima serves as the Chairman of the Compensation Committee. The Board of Directors has determined that each member of the Compensation Committee is independent within the meaning of the Corporation's and Nasdaq's director independence standards.

### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of the Board of Directors, of which Messrs. Egan and Hadzima are currently the only members, was established by the Board of Directors on April 27, 2004. The Nominating and Corporate Governance Committee is responsible for identifying individuals qualified to become members of the Board of Directors and recommending to the Board of Directors the director nominees for election and monitoring compliance with and periodically reviewing the Corporation's Code of Business Conduct and Corporate Governance Guidelines. The Nominating and Corporate Governance Committee may also, in its discretion, consider nominees recommended by stockholders of the Corporation. A current copy of the Nominating and Corporate Governance Committee Charter is available at the Corporate

Governance section of

the Corporation's website at <http://www.netscout.com/investors/>. Mr. Egan serves as the Chairman of the Nominating and Corporate Governance Committee. The Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent within the meaning of the Corporation's and Nasdaq's director independence standards.

### **Stock Option Committee**

The Stock Option Committee of the Board of Directors, of which Mr. Singhal is currently the only member, is responsible for granting stock options to employees and consultants of the Corporation who are not executive officers or directors of the Corporation and to generally exercise rights similar to those held by the Compensation Committee with respect to those grants. The Stock Option Committee operates under guidelines established by the Board of Directors and reports all options granted at each regularly scheduled meeting of the Board of Directors. The Stock Option Committee took action by written consent eleven times during the fiscal year ended March 31, 2004.

### **Report of Audit Committee of the Board of Directors**

This report is submitted by the Audit Committee of the Board of Directors, which reviews with the Corporation's independent auditors and management the annual financial statements and independent auditors' opinion, reviews the results of the audit of the Corporation's annual financial statements by the independent auditors, evaluates the effectiveness of the independent auditors, recommends the retention of the independent auditors to the Board of Directors and reviews the Corporation's accounting policies and internal accounting and financial controls. The Audit Committee of the Board of Directors is currently comprised of Messrs. DeMarines, Egan, Hadzima and Mullarkey, four non-employee directors of the Corporation, and each is independent within the meaning of the Corporation's and Nasdaq's director independence standards. Mr. DeMarines joined the Board of Directors and the Audit Committee in June 2004, after the filing of the Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2004. The Audit Committee operates under a written charter adopted by the Board of Directors, a current copy of which is attached to this Proxy Statement as Annex A.

The Audit Committee oversees the Corporation's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Corporation's Annual Report on Form 10-K with management, including a discussion of the quality, not just the acceptability, of the implementation of accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Corporation's implementation of accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from management and the Corporation, including the matters in the written disclosures required by the Independence Standards Board and considered the compatibility of any non-audit services with the auditors' independence.

The Audit Committee discussed with the Corporation's management and independent auditors the overall plans for their respective audits. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Corporation's internal controls, and the overall quality of the Corporation's financial reporting. The Audit Committee held nine meetings during fiscal year 2004.



The Audit Committee has reviewed the audited financial statements of the Corporation at March 31, 2004 and for each of the two prior years ended March 31, and has discussed them with both management and PricewaterhouseCoopers LLP, the Corporation's independent registered public accounting firm. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90 (Communications with Audit Committees), as currently in effect. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as currently in effect, and has discussed with PricewaterhouseCoopers LLP that firm's independence. Based on its review of the financial statements and these discussions, the Audit Committee concluded that it would be reasonable to recommend, and on that basis did recommend, to the Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended March 31, 2004.

**Respectfully submitted by the Audit Committee**

Vincent J. Mullarkey, Chairman

Victor A. DeMarines

John R. Egan

Joseph G. Hadzima, Jr.

**COMPENSATION AND OTHER INFORMATION**

**CONCERNING DIRECTORS AND EXECUTIVE OFFICERS**

**Executive Compensation Summary**

The following summary compensation table sets forth the total compensation paid or accrued for the fiscal years ended March 31, 2004, 2003 and 2002 to (i) the Chief Executive Officer of the Corporation during the fiscal year ended March 31, 2004 and (ii) each of the four other most highly compensated executive officers of the Corporation during the fiscal year ended March 31, 2004. The Chief Executive Officer and the four other most highly compensated executive officers of the Corporation listed below are collectively referred to below as the Named Executive Officers. The dollar amounts listed in the column entitled All Other Compensation are comprised of contributions to a defined contribution plan, tax consulting reimbursement and other miscellaneous taxable benefits.

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