



**NetScout Systems, Inc.
Third-Quarter Fiscal Year 2016 Financial Results Conference Call
Management's Prepared Remarks**

January 28, 2016

A. Kramer: Safe Harbor Statement and Other Details

Thank you and good morning everyone. Welcome to NetScout's fiscal year 2016 third-quarter conference call for the period ended December 31, 2015. Joining me on this morning's call are:

- Anil Singhal, NetScout's co-founder, president and CEO;
- Michael Szabados, NetScout's chief operating officer; and
- Jean Bua, NetScout's executive vice president and chief financial officer

We have included a slide presentation that accompanies our prepared remarks. For those listeners who have dialed into the call this morning and would like to view this slide presentation, you can find it by going to our website at www.netscout.com/investors and then clicking on today's webcast. You can advance the slides in the webcast viewer to follow along with our commentary. We will try to remember to call out the slide number we are referencing in our remarks.

As you know, our third-quarter results reflect the first full quarter of combined operations since completing our acquisition of Danaher's Communications Business in mid-July. In terms of our agenda for today's call, Anil Singhal will share his perspective on our third-quarter results and, more importantly, offer his perspective on our outlook for the remainder of the fiscal year particularly as it relates to the opportunities and challenges that we believe lie ahead. Our COO Michael Szabados will offer some insights on near-term integration activity and key drivers for

customer adoption. CFO Jean Bua will then provide additional detail on our third-quarter financial performance as well as discuss our guidance.

Slide #3: Safe Harbor Statement and Non-GAAP Financial Metrics

Moving on to slide #3:

Safe Harbor Statement

I would like to remind everybody listening that forward-looking statements in this conference call are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and other federal securities laws. Investors are cautioned that statements in this presentation, which are not strictly historical statements, constitute forward-looking statements which involve risks and uncertainties. Forward-looking statements in this communication are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934 and other federal securities laws. Investors are cautioned that statements in this communication, which are not strictly historical statements, including without limitation, the statements related to the financial guidance for NetScout, statements related to the Company's future stock repurchase activities, expectations regarding future financial performance including gross margins and the ability to mitigate the impact of any revenue shortfalls, continued availability of additional amounts under credit facility, expectations regarding improved penetration into and across our customer base, product development plans and timing, integration activities, cost-control initiatives, and our plans and expectations through fiscal year 2017 and beyond, constitute forward-looking statements which involve risks and uncertainties. Actual results could differ materially from the forward-looking statements due to

known and unknown risk, uncertainties, assumptions and other factors. Such factors include slowdowns or downturns in economic conditions generally and in the market for advanced network and service assurance solutions specifically; the volatile foreign exchange environment; the Company's relationships with strategic partners; dependence upon broad-based acceptance of the Company's network performance management solutions; the presence of competitors with greater financial resources than ours and their strategic response to our products; failure to comply with the financial or other covenants under our credit facilities, changes in the various factors impacting the Company's decisions regarding timing and volume of stock repurchases; our ability to retain key executives and employees; lower than expected demand for the Company's products and services; and the ability of NetScout to successfully integrate the merged assets and the associated technology and achieve operational efficiencies. For a more detailed description of the risk factors associated with the Company, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2015 and the Company's subsequent Quarterly Reports on Form 10-Q, which are on file with the Securities and Exchange Commission. NetScout assumes no obligation to update any forward-looking information contained in this communication or with respect to the announcements described herein.

Non-GAAP Reconciliation

Finally, I would like to remind you all that while the slide presentation includes both GAAP and Non-GAAP results, unless otherwise stated, financial information discussed on today's conference call will be on a non-GAAP basis only. Non-GAAP items are described and reconciled to GAAP results in today's press release and they are included at the end of the slide

presentation that is made available online on our website. As Jean will note, the timing and magnitude of the acquisition will skew period-to-period comparisons and potential discussions related to growth rates. If we do note a growth rate, we will strive to clarify the nature of the comparison.

As we detailed in our press release today, NetScout reported strong third-quarter results as our non-GAAP revenue and EPS exceeded our plans entering the quarter. However, we have revised our fiscal year 2016 revenue targets downward to reflect current market conditions while also refining our non-GAAP EPS guidance within the range of our original guidance. We know you likely have many questions about this as well as other areas of interest so I'll turn the call over to Anil at this point to start us off. Anil, please go ahead.

Anil Singhal:

Thank you Andy. Good morning to everyone listening and thank you for joining us today.

As Andy mentioned, I will briefly recap our results this quarter and then discuss current market conditions and their impact on our outlook. I will also review our quarterly highlights as well as provide an update on some of the activities and initiatives that we anticipate will play an important role in shaping our performance as we look ahead to fiscal year 2017. There are three slides that will accompany my comments, so please refer to slide number 5.

Slide 5: Q3 FY16 Performance & Integration Status

For the third quarter of fiscal year 2016, we generated non-GAAP revenue of \$333.4 million, which was ahead of our plan due to the strong revenue performances in our service provider and enterprise markets. At the same time, we remained disciplined with regard to our cost structure while funding key development, sales and integration initiatives. As a result, our profitability at both the gross and operating margin levels came in ahead of plan, enabling us to report non-GAAP EPS of 58 cents per diluted share. We also generated good free cash flow this quarter. Jean will be covering our quarterly performance in more detail later on the call.

It was almost six months ago, in mid-July 2015, that we completed our acquisition of Danaher's Communications Business. Since that time, we have made important progress on a wide range of activities and initiatives including:

- The sales teams focused on our two target markets, enterprise and service provider, have been integrated, enabling us to present a unified message to our customers;

- In terms of product integration, the first major milestone in our long-term product roadmap is on track and we plan to have the first phase of the combined service assurance solution ready for selling this spring;
- Various other integration activities spanning marketing, manufacturing, and back-office systems that support the business and our employees have progressed on schedule. We are on the path to complete some of the other major integration milestones before the end of our fiscal year. Michael will provide more details on this later;
- Our leadership position in the marketplace continues to strengthen as a result of our broader customer base, global reach, powerful combination of proven technologies and domain expertise in solving many of the complex problems that our customers are facing;
- In addition, the employees of the acquired businesses are enthusiastic about our strategic direction and the opportunity at NetScout, which has enabled us to enjoy very strong retention, particularly at the most senior levels;
- Finally, I have spent time with virtually every tier-one service provider that we work with around the globe during the past six months to better understand their strategies and challenges. They are excited about our product vision and the roadmaps that I shared with them. I will be doing a similar outreach with our large enterprise customers over the coming months;

Slide 6: FY16 Outlook

Turning to slide number 6, I'd like to discuss our outlook. Based in part on some of those

initial customer visits in the summer and early fall, we noted on our last investor conference call that the service provider spending environment appeared to be quite fluid with slightly elongated purchasing cycles. Nevertheless, as we moved through the third quarter and up until very recently, we still believed that NetScout was on track to achieve its fiscal year 2016 financial targets, with the low end of the original revenue guidance range viewed as a reasonable floor. In addition to a robust third quarter, we were counting on a very strong finish to our fiscal year since most tier-one service providers typically allocate meaningful capital at the beginning of the new calendar year in conjunction with supporting their projects.

However, we believe the uncertain macroeconomic environment is causing concern among our customer base regarding their own plans for calendar year 2016. During my recent travels and as part of my recent dialogue with a number of our large service provider customers during January, we now believe that there is a bias from some of our larger customers toward preserving their capital budgets in the first calendar quarter. As indicated by recent news, the 2016 capital spending forecasts from major tier-one service providers indicate a relatively stressed capital cycle. Related to this, as the pressure on our customers' operating and capital budgets intensifies, we are now starting to see the potential for slower progress on some of their projects, with longer sales cycles and order delays.

These new dynamics have changed the timing and magnitude related to some of the larger projects that were ongoing at some of our global tier-one service provider customers. We estimate that these changes will negatively impact our expectation for our fourth-quarter revenue by over 50 million dollars. These customers still value our solutions and are excited about our expanded

technology capabilities. However, from a business perspective, their funding processes have slowed significantly as they focus on incremental cost containment for the time being. We see that some of these projects are still moving forward, but at a slower pace or with a change in the scope of the project.

As a result of extensive discussions both with our customers and with our business and sales leaders, we've come to the conclusion that it is prudent to take a more cautious view on our near-term revenue outlook, and thus we've lowered our fiscal year 2016 revenue guidance range to be between one billion and fifteen million dollars (\$1.015 billion) to one billion and twenty five million dollars (\$1.025 billion).

We are, however, committed to preserving our earnings performance to the greatest extent possible. Despite the anticipated reduction in our full-year revenue, we believe that we can still maintain a healthy full-year operating margin and deliver an EPS performance that is still within the range of our original guidance. To mitigate the impact of the revenue shortfall to earnings, we will continue to vigilantly monitor expense levels across the board, which includes tightly controlling fourth-quarter discretionary spending, and carefully managing the pace and timing of any hiring.

Additionally, as we continue to advance the planning process for our next year, we will be focused on accelerating margin improvement in FY 2017. To do that, we plan to closely examine our cost structure in combination with advancing our new product development initiatives, which we believe will help drive notable improvement in gross margin next year. In the interim, there are a number of recent highlights that we should not lose sight of in addition to the high-level integration

progress that I previously outlined. Let's move to slide number 7 for that.

Slide 7: Recent Highlights

Service Provider Update

In the service provider segment, we supported our existing tier-one service providers in North America during the third quarter in their efforts to keep pace with higher traffic volumes and deliver high-quality, next-generation services, such as voice over LTE. And, as Michael will detail, we continue to see carriers outside of North America turn to NetScout to help them roll out their 4G networks, although the pace of these roll outs, particularly in Europe, has still been relatively slow. In addition, we are seeing notable growth in spend from our cable MSO customers who are extending the scope of our engagements to include monitoring of their WiFi infrastructures.

We also continued to gain traction in this market segment with complementary products that enable end-to-end visibility. These include our packet flow switches for efficient aggregation of network traffic, and radio access network optimization tools for diagnosing and troubleshooting network and device issues, understanding real-time traffic trends, and minimizing costly and time-consuming manual testing of the mobile radio network.

Our end-to-end network monitoring capabilities are further complemented by our security division, Arbor Networks. Arbor had a strong quarter overall with good growth in the service provider segment, as a number of tier-1 customers expanded their deployment of Arbor's solutions to keep pace with the growth of traffic over their networks and the needs of their end-user customers.

We also made good progress on the development and introduction of an integrated probing solution. As we've discussed on prior calls, our integrated probe, which we will call the Infinistream NG, will integrate support for the best-in-class troubleshooting software from Tektronix Communications in addition to the innovative, proactive IP monitoring from NetScout. The platform's support for the TekComms troubleshooting capabilities has begun testing, and we expect it will be generally available, on schedule, in early Spring to coincide with our annual user conference in May. We believe that adoption of this platform by our service provider customers will be a key driver for improving the company's gross margin in fiscal year 2017 even in a tighter spending environment.

Enterprise Update

In our Enterprise segment, we continued to benefit from solid demand for nGeniusONE in the government vertical as well as in manufacturing and business services. Our performance in the financial services sector has remained relatively lackluster although revenue was up notably over the second quarter. We continue to see softness in this sector as financial institutions prioritize their spending on key compliance and security initiatives. Nevertheless, we remain confident in our ability to improve our penetration across our customer base, and we are advancing a number of product development and go-to-market initiatives that we believe will help us drive sustainable growth in the enterprise segment as we move through fiscal year 2017.

One example of this is our efforts to integrate nGeniusONE with certain features and functionality from Fluke's systems products, most notably TruView. We expect to bring some of

these capabilities to market with the next release of nGeniusONE this fall.

In security, we continue to see healthy demand for Arbor's Distributed Denial of Service, or DDoS, solutions by enterprise customers across a range of industries, most notably financial services, retail and education. As we move forward, Arbor is planning to launch a new product later this quarter that will extend its capabilities beyond DDoS by targeting a different network security challenge – advanced persistent threat. Arbor's advanced threat solution is designed to enable enterprise organizations to more effectively find and quickly contain security breaches. We believe that Arbor's scale, visibility into and understanding of the world's most complex networks, and their sophisticated analytics will enable us to gain traction in what is currently a fragmented marketplace that is expected to grow rapidly over the coming years.

Summary

I'd like to offer a few closing comments before I turn the call over to Michael. Over the past three decades, NetScout has managed through multiple market downturns and come out the other side in a stronger position. I believe that we are far better positioned today to navigate the current environment than in years past. The technology trends impacting our customers today and into the future, including virtualization, digital transformation and big data, are very exciting and fast moving. We believe that our technology will be an important asset in their ability to embrace these trends and thrive in an increasingly connected world. We remain confident that our experience, leadership, breadth and depth of innovative solutions, operational scale, excellent financial foundation and long-standing customer relationships will continue to serve us well moving forward.

And while the failure to meet our top-line targets, due to worsening market conditions,

during the first year following our acquisition of the Danaher Communication Business is disappointing, we still expect to deliver a strong operating margin and non-GAAP EPS performance that we will build upon going forward. We believe that a more accurate reflection of the performance of the combined company will become apparent in fiscal year 2017 and beyond. We are in the early stages of an exciting transition from legacy products to integrated solutions that we believe can leverage our differentiated software technology, drive further traction with customers worldwide and help us accelerate margin improvement moving into the next fiscal year. Although the market conditions are difficult at the moment, we remain enthusiastic about our strategic direction and the many exciting initiatives now underway that we expect will play an important role in our ability to create significant value for all of our key stakeholders over the longer term.

Although we do not yet have a clear view on how the environment could impact demand levels in fiscal year 2017, we will move into the next fiscal year starting on April first with an eye toward realizing the promise of the acquisition in terms of extending our market and technology leadership in a larger total addressable market, innovating to meet the evolving needs of our expansive customer base, and leveraging our global scale. We plan to be focused on taking the necessary steps to accelerate margin improvement, showcase our earnings power and generate strong cash flow, even if we are operating in a slower growth environment for a protracted period. We are very excited about our future plans in terms of new products, new go-to-market strategies and continued integration progress. We will share more details about our plans for fiscal year 2017 when we report our fourth-quarter and full-year results in early May.

With that said, I will now turn the call over to Michael.

Slide 9: Key Developments

Michael Szabados:

Thank you Anil and good morning everyone. Slide number 9 provides an overview of the areas I plan to cover. First, I'd like to provide an update on our integration efforts. Next, I will highlight some key customer wins that we believe help showcase NetScout's value proposition in the marketplace. I will close by reviewing some of the go-to-market highlights that we believe will further contribute to fortifying and expanding our market leadership.

First, in terms of our integration initiatives, we have made good progress with our efforts to separate from the transitional services agreements with Danaher Corporation. At this point, we have discontinued many employee-related support items and we are on track to integrate the Fluke and VSS enterprise systems into NetScout's enterprise system by this summer. We are also on track to bring Fluke's manufacturing processes for its monitoring systems in-house to our existing facilities in Westford, Massachusetts. We also expect to migrate production of Fluke's portable tools product lines to a trusted, high-quality contract manufacturing firm within this quarter. In addition, we are planning to have our service provider and enterprise sales forces on a common CRM platform along with the related sales compensation platforms at the end of this fiscal quarter. This will represent a major milestone in our plan to ultimately realize synergies from our infrastructure support organizations. We are also advancing the cross-training activities required to maximize the productivity of the service provider and enterprise sales forces that we integrated last quarter. We expect that this investment will play an important role in further harvesting existing customer relationships and expanding our customer base next year.

In terms of our progress with customers, there are several wins during the past quarter that further validate the investments we continue to make in R&D to address the evolving needs of our customers and further differentiate our offerings in the marketplace. Although the service provider selling environment has become more challenging, we are seeing that joining forces with Tektronix Communications is resonating with customers. For example, one tier-1 service provider recently returned to NetScout after several years and has made multi-million dollar purchases for the past two quarters after concluding that its use of an alternative solution was unable to live up to its expectations. And while the initial build-out of 4G networks in North America has been largely accomplished, we continue to pursue – and win – new networks outside of the U.S. In South Asia, we are working diligently to support the upcoming launch of a new state-of-the-art 4G network. This project will rely on a wide range of products from NetScout that include packet flow switches, instrumentation for monitoring and troubleshooting, customer experience management analytics and eventually some of our integrated capabilities.

Turning to the enterprise, as Anil mentioned, our traction remains very strong in the government sector and we continued to enjoy robust growth this past quarter. One of the drivers was a recently completed multi-million dollar project for a branch of the U.S. military. This project involved upgrading and expanding their use of our nGeniusONE solution, which includes our instrumentation, our unified communications and collaboration management module, packet flow switches and security. Another great success story is our relationship with one of the largest not-for-profit health care organizations. Over the years, they've continued to expand their use of nGeniusONE and this past quarter, they made a multi-million dollar investment in our packet flow switches and probes to monitor the data centers that support its electronic medical records system

that is widely accessed by doctors, nurses, staff and members.

In terms of security, Arbor Networks brings a wealth of domain expertise to our organization. Last quarter, we highlighted Arbor's investments to significantly enhance and expand its product portfolio to address a wider range of customer requirements – including new on-premise and cloud capabilities that provide enterprise customers with greater deployment and cost flexibility. We are pleased to see that these developments are already producing tangible results. This quarter, Arbor won a highly competitive deal, worth well over a million dollars, with a major European financial service organization. The customer wanted a multi-layer deployment scenario and Arbor Cloud was the choice. Arbor Cloud delivers integrated on-premise protection against stealthy application-layer attacks with cloud-based protection against large DDoS attacks. Arbor's continued investment in DDoS protection is the reason why they have been the market leader for more than a decade.

As we move into the final quarter of fiscal year 2016, we continue to drive thought leadership and build broader awareness of the company as a market leader. NetScout once again made the Software Magazine's top 500 list as one of the five largest Infrastructure and Network Management providers. Arbor's leadership in the DDoS market was reaffirmed by Infonetics, which recently named Arbor as the top supplier of DDoS mitigation appliances overall, as well as in the Carrier, Enterprise and Mobile market segments. We are building on this type of recognition with a range of marketing programs aimed at elevating NetScout's message to the marketplace. We're also in the process of delivering a more consistent and cohesive web presence across our various business units, and we expect that this effort will continue to evolve as we move into the year. In addition, we are also planning to better leverage the digital marketing expertise we've gained with the

inclusion of Fluke Networks to further advance our lead generation and cultivation programs.

That concludes my remarks at this point. I'll turn it over to Jean for the financial review.

Slide 10: CFO Review

Jean Bua:

Thank you Michael and good morning everyone.

This morning, I will review our performance for the third quarter, and then review our guidance for the completion of our 2016 fiscal year. As a reminder, our results this quarter reflect the first full quarter contribution of the acquired Danaher Communications assets. There are a number of acquisition-related items that impacted our GAAP results so our convention will be to refer to our non-GAAP results unless otherwise noted. On a related note, and consistent with our comments earlier on the call, the timing and magnitude of the acquisition will impact comparisons with the prior year periods and any other extrapolations of our third-quarter results may not be representative. When possible, we will frame our results against prior periods on a pro forma basis.

Slide 11: Income Statement

To begin our financial discussion, we will be starting with slide number 11 of our presentation.

For our third fiscal quarter, total revenue was 333.4 million dollars. As Anil noted, our revenue performance was accentuated by strong end-of-year spend by our customers. We generated notable pro forma growth with our service provider customers that underpinned a pro forma, FX-neutral revenue growth of approximately six percent.

Product revenue was 216.4 million, or 65 percent of total revenue with service revenue comprising the remainder. This is generally consistent with last quarter's composition and largely in line with the information we shared at our Investor Day event this past summer.

Gross profit was 254.8 million dollars. Our gross margin percentage for the quarter was 76.4 percent, which reflects the overall product mix for the quarter that was skewed more favorably to nGeniusONE.

Operating income for the quarter was 88.3 million dollars with a 26.5 percent operating income margin. This reflects the overall top-line performance of the business in combination with prudent expense management as we invested in the advancement of key integration, development, and sales and marketing programs.

For the third quarter, we reported net income of 57.2 million dollars, or 58 cents per diluted share, which was 18 cents higher than the consensus estimate. A significant majority of the upside, nearly 15 cents, reflected the operating leverage associated with the strong revenue performance. Our non-GAAP tax rate for the quarter was approximately 33% as the benefit of the reinstatement of the R&D tax credit was partially offset by geographic shifts in income this quarter. Our repurchase of 700,000 shares of common stock during the quarter benefited EPS by little less than half of a penny. The net income margin was 17.1 percent.

In terms of our non-GAAP performance for the first nine months, total revenue during this period was 715.9 million dollars. Product revenue for the first three quarters was 450.7

million dollars with service revenue coming in at 265.2 million dollars. For the first nine months of fiscal year 2016, EPS was one dollar and forty seven cents.

Slide 12: Total Revenue Composition

Slide 12 illustrates our revenue performance by segment for the third quarter and the first nine months of fiscal year 2016. My commentary will focus on the third-quarter performance since this is the first full quarter of reporting for the combined business.

Approximately 55 percent of total quarterly revenue came from our Service Provider segment with the remainder coming from Enterprise. In terms of some color within the segments, legacy NetScout and Arbor turned in very strong performances in the service provider segment this quarter while TekComs was down slightly. In the enterprise, NetScout grew modestly, which was more than offset by declines in the enterprise revenue from Fluke and Arbor. Some of the year-over-year decline was related to the timing and magnitude of some large enterprise deals last year, particularly at Arbor.

Slide 13: Revenue by Geography

Let's turn to slide 13 for a review of revenue by geography. For this slide, we'll focus on the quarterly revenue mix, which was 67 percent domestic and 33 percent international. As previously mentioned, the relative strength of revenue from U.S.-based service provider skewed the mix. Within our international third-quarter revenue, Europe represented 17 percent of revenue with 7 percent for Asia and 9 percent for the rest of the world.

During the third quarter, we had one customer that represented greater than 10 percent of revenue, which reflects contributions from multiple NetScout business units. No other customer represented more than 5 percent of revenue.

Slide 14: Balance Sheet Highlights & Free Cash Flow

Slide 14 details our balance sheet highlights and free cash flow.

We ended the quarter with cash, cash equivalents, short-term marketable securities and long-term marketable securities of 376.2 million dollars, which was up sequentially by 24.8 million dollars. In combination with the undrawn portion of our 5-year revolver, our liquidity exceeded 900 million dollars.

For the first three quarters of fiscal year 2016, our free cash flow was 50 million dollars. Taking into account the timing of remittances from Danaher for certain accounts receivables collected under our transitional services agreement, the free cash flow for the three quarters of 2016 would have been approximately 75 million dollars. Our free cash flow for the three quarters of 2016 has been negatively affected by certain one-time items involving the payment of approximately \$24 million dollars for business development and integration-related activities including investment banking fees and other professional services costs related to the acquisition. Our third-quarter fiscal year 2016 free cash flow was 52.3 million dollars.

Accounts receivable net of allowances was 245.0 million dollars. At the end of the prior

quarter, accounts receivable was 165.1 million dollars and at the end of our last fiscal year, 2015, accounts receivable was 82.2 million dollars. The increase in accounts receivable from the prior year end reflects the incremental receivables from the acquired business. The sequential increase in accounts receivable represents the increased revenue in combination with the increase in service renewal bookings. Days sales outstanding was 71 days for the quarter versus a DSO of 62 days for the same period in the prior year. The increase reflects the timing of billings in the quarter.

Our total deferred revenue was 312.4 million dollars and trended across the combined company's operations consistent with our expectations entering the quarter.

Our primary financial objective is to maximize total shareholder return, and we consistently evaluate our share repurchase activities as well as other value-creating vehicles such as M&A, strategic partnerships, and dividends. Our on-going capital allocation policy incorporates detailed financial planning and analysis, and we consider multiple factors including operations, strategic business investments, prudent leverage, liquidity, free cash flow, cost of capital, market conditions and other metrics. We strive to maintain a strong financial profile in accordance with certain metrics, which includes a liquidity range between 2 to 3 times EBITDA, cash on hand between a range of 350 to 500 million dollars, and gross leverage in the 1 to 2 times EBITDA range.

Our capital deployment priorities are to maintain financial capacity to further invest in our product development, either through in-house development or through acquired technologies.

We currently seek to distribute excess cash flow to our shareholders through share repurchase and our target share repurchase strategy relies on three primary components:

- 1) The first component is compensation neutrality, which is oriented around repurchasing shares issued for employee compensation;
- 2) A second component is opportunistic repurchases based on market, economics, and other conditions; and
- 3) The third component is overall prudent financial management for any excess capital.

To that end, during the past three years, we have continuously repurchased shares representing the compensation neutrality portion. This past quarter, we repurchased 700,000 shares for 24.7 million dollars. For the three quarters of fiscal 2016, we have repurchased 5.3 million shares for a total of 203.8 million dollars. At this time, we currently anticipate being active in the market during our fourth quarter.

Slides 15 and 16: Guidance – FY 2016

Let's turn to our guidance for fiscal year 2016 on Slide 15.

As we outlined in today's press release, NetScout updated its fiscal year 2016 guidance. Our guidance today reflects the Company's progress-to-date, our updated view into the fourth quarter, as well as modifications to certain acquisition-related accounting adjustments, and the impact of share repurchase activities through the third quarter of fiscal year 2016.

Focusing more specifically on our non-GAAP guidance for fiscal year 2016, as Anil

noted, we are sensitive to the service providers spending pressures given the current macroeconomic environment. When we spoke on our October call, we saw a range of opportunities that supported our reaffirmation of the original non-GAAP revenue guidance. However, as Anil described, despite the strong performance this quarter, we now expect to fall short of our original revenue guidance targets and we have revised the range accordingly to reflect a more conservative view of the closing of certain large projects related to our service provider customer base.

Our original full-year guidance ranged from one billion and fifty million dollars to 1.1 billion dollars (\$1.050 billion to \$1.1 billion). Our revised full-year revenue guidance now calls for between one billion and fifteen million dollars and one billion and twenty-five million dollars (\$1.015 billion and \$1.025 billion). This full-year guidance implies fourth-quarter revenue in the range of 300 million dollars to 310 million dollars.

To further echo Anil's earlier comments in terms of our profitability, we are committed to preserving our earnings performance in spite of the very disappointing revenue shortfall. We've traditionally been disciplined with regard to expense management, and that will continue into our final quarter of the year. We believe that controlling discretionary spending activities and carefully managing staffing levels will help dampen the impact of lower revenue. Our prior guidance for non-GAAP net income per diluted share guidance ranged from one dollar and eighty two cents (\$1.82) to one dollar and ninety seven cents (\$1.97). We now anticipate that non-GAAP net income per diluted share will be in the range of one dollar and eighty two cents (\$1.82) to one dollar and ninety cents (\$1.90).

In terms of more detailed modeling assumptions, with regard to the tax rate, we anticipate a full year effective tax rate in the range of approximately 34 to 35 percent, which is lower than our prior range due to the reinstatement of the R&D tax credit. We expect the average weighted diluted shares outstanding for fiscal year 2016 to be close to 99 million shares in the final quarter with the average weighted diluted shares for the year being around 83 million.

Within our guidance reconciliation of GAAP earnings to non-GAAP earnings that is provided on slide 16, there are a couple of items worth noting.

- First, we incurred 5.8 million dollars of business development and integration expenses in the third quarter, which primarily represents one-time costs associated with certain integration activities going forward. These expenses are primarily associated with the use of outside professional firms related to transitioning from certain support agreements with Danaher. We expect this line item to be two million dollars next quarter and we will factor this into our FY17 guidance accordingly.
- Secondly, the deal-related, post-combination services costs of \$8.9 million dollars in the third quarter represent the costs associated with the retention programs put in place by Danaher for certain of Danaher's former employees. These former Danaher employees were part of the transition plan to NetScout as a result of the transaction. There is one retention program still outstanding and it will continue through the second quarter of the next fiscal year. Although these costs are fully reimbursable to NetScout by Danaher, under GAAP guidance, they are required

to be expensed given that they relate to a period after the close hence these expenses are considered compensation under GAAP reporting requirements. We anticipate that the additional milestones related to these programs will impact the fourth quarter by approximately 3 million dollars.

That concludes my formal review of our financial results. Before we transition to Q&A, I would like to reiterate to our shareholders that we will continue to be proactive in helping them understand our business in the context of both the near-term and longer-term challenges and opportunities in front of us.

To that end:

- We will be on the road in February visiting current and prospective shareholders in Baltimore, Boston, New York and Chicago.
- We will also be presenting at the Wells Fargo Cyber Security Conference on February 17 in Boston.

That concludes our prepared remarks this morning. Thank you again for joining us and we're now ready to answer questions. Operator, you may now begin the Q&A session.