



## 2006 Letter to Stockholders

Dear Fellow Stockholders, Employees, Customers, and Friends,

Fiscal year 2006 was a watershed for NetScout as we demonstrated the success of the growth strategy we introduced in 2005. Led by a 24 percent increase in product revenues, our total revenues expanded at a strong 15 percent rate. Beyond revenue growth, our primary focus was on improving operating profitability. We reached our target of an 8 percent operating margin in our third quarter, ahead of expectations, and our fiscal year 2007 earnings per share was 18 cents, up 100 percent from 2005. Confidence in our growth strategy permitted us to raise our long-term business model operating margin targets and set earnings per share growth targets for the next two years.

Growth was driven by several factors. We are experiencing increasing recognition in our market of the importance of sophisticated tools to address emerging IT application management challenges, including convergence of data, voice, and video applications over virtualized networks and the initial implementations of Service-Oriented Architectures. As a result, we saw a flurry of acquisitions in our industry last year, an indicator of the heightened interest with which significant players are regarding our market. Increased awareness by our industry's larger participants, we believe, will be a positive factor in our partnering efforts going forward.

We have already begun to see returns on prior year investments in our new product releases, specifically our acquisitions of Nextpoint and Quantiva. In 2006, we integrated the Quantiva technology into our *nGenius* product family, providing automated analysis and fault management, and dramatically reducing mean time to repair for IT operations. Our investment has enabled us to drive a higher rate of new product introductions. Together, these elements are propelling market acceptance of NetScout's vision of managing application flows across the enterprise infrastructure from both the network and application flow vantage points. We also continue to see strength in the wireless carrier market, where our products are used to monitor delivery of IP-based, revenue-generating applications in the carriers' quest to deliver profitable, high quality services to customers.

In 2006, we announced our Application Fabric Performance Management architecture, or AFPM, a strategic architecture that extends our market-leading *nGenius* Performance Management System, including our new *nGenius* Analytics solution. We recently began shipping AFPM products. AFPM is designed to address complex application environments in both enterprise and carrier markets. NetScout is uniquely positioned to drive innovation like this in the industry with our *nGenius* System, based on real time traffic sensors that continuously monitor application traffic across multi-vendor infrastructures.

In summary, fiscal year 2006 was one in which we demonstrated the potential of our technology, products, and market position. We are optimistic about future growth and creation of shareholder value. The foresight and clarity of the vision that has enabled us to stay the course during years of more modest growth and profitability is now being demonstrated in our performance and movement of the marketplace toward our solution. We look forward to fiscal year 2007--and beyond--with great anticipation.

We would like to thank our employees, customers, partners, and investors for their continued support and we look ahead to sharing our future successes with all of you in the coming fiscal year.

Sincerely,

A handwritten signature in black ink, appearing to read "Anil K. Singhal".

Anil K. Singhal  
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Narendra V. Popat".

Narendra V. Popat  
Chairman of the Board