

OPNET TECHNOLOGIES INC  
Form 10-Q  
August 09, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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

For the quarterly period ended June 30, 2006

OR

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

(Commission file number: 000-30931)

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**OPNET TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

**7372**  
(Primary Standard Industrial  
Classification Code Number)

**52-1483235**  
(I.R.S. Employer  
Identification No.)

**7255 Woodmont Avenue**

**Bethesda, MD 20814**

(Address of principal executive office)

**(240) 497-3000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer or large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's Common Stock outstanding on July 31, 2006 was 20,358,244.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements****OPNET TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)****(unaudited)**

	<b>June 30,</b>	<b>March 31,</b>
	<b>2006</b>	<b>2006</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 69,509	\$ 66,710
Marketable securities	17,403	19,151
Accounts receivable, net of \$140 in allowance for doubtful accounts at June 30, and March 31, 2006, respectively	15,017	12,765
Unbilled accounts receivable	3,238	2,616
Deferred income taxes, prepaid expenses and other current assets	2,313	2,339
	<u>          </u>	<u>          </u>
Total current assets	107,480	103,581
Property and equipment, net	6,340	6,088
Intangible assets, net	1,449	1,240
Goodwill	14,639	14,639
Deferred income taxes and other assets	1,720	1,799
	<u>          </u>	<u>          </u>
Total assets	\$ 131,628	\$ 127,347
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 749	\$ 1,019
Accrued liabilities	7,509	8,539
Deferred and accrued income taxes	1,283	527
Current portion of notes payable		47
Deferred rent	112	89
Deferred revenue	17,586	15,800
	<u>          </u>	<u>          </u>
Total current liabilities	27,239	26,021
	<u>          </u>	<u>          </u>
Notes payable		103
Deferred rent	991	1,033
Deferred revenue	882	779
Deferred income tax	14	13
	<u>          </u>	<u>          </u>

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Total liabilities	29,126	27,949
<b>Commitments and contingencies (Note 9)</b>		
Stockholders' equity:		
Common stock-par value \$0.001; 100,000 authorized; 26,850 and 26,738 shares issued at June 30 and March 31, 2006, respectively; 20,307 and 20,194 shares outstanding at June 30 and March 31, 2006, respectively	27	27
Additional paid-in capital	83,610	80,984
Deferred compensation	(1,866)	(393)
Retained earnings	28,485	26,850
Accumulated other comprehensive (loss)	(29)	(345)
Treasury stock, at cost 6,543 shares at June 30 and March 31, 2006	(7,725)	(7,725)
<b>Total stockholders' equity</b>	<b>102,502</b>	<b>99,398</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 131,628</b>	<b>\$ 127,347</b>

See accompanying notes to condensed consolidated financial statements.

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## OPNET TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,	
	2006	2005
<b>Revenue:</b>		
New software licenses	\$ 10,326	\$ 6,626
Software license updates and technical support	6,454	5,773
Professional services	5,852	4,078
<b>Total revenue</b>	<b>22,632</b>	<b>16,477</b>
<b>Cost of revenue:</b>		
New software licenses	126	180
Software license updates and technical support	707	619
Professional services	3,741	3,274
Amortization of acquired technology	191	192
<b>Total cost of revenue</b>	<b>4,765</b>	<b>4,265</b>
<b>Gross profit</b>	<b>17,867</b>	<b>12,212</b>
<b>Operating expenses:</b>		
Research and development	5,216	4,511
Sales and marketing	8,063	5,918
General and administrative	2,768	2,950
<b>Total operating expenses</b>	<b>16,047</b>	<b>13,379</b>
<b>Income (loss) from operations</b>	<b>1,820</b>	<b>(1,167)</b>
Interest and other income, net	903	513
<b>Income (loss) before provision for income taxes</b>	<b>2,723</b>	<b>(654)</b>
Provision (benefit) for income taxes	1,088	(200)
<b>Net income (loss)</b>	<b>\$ 1,635</b>	<b>\$ (454)</b>
Basic net income (loss) per common share	\$ 0.08	\$ (0.02)
Diluted net income (loss) per common share	\$ 0.08	\$ (0.02)
Basic weighted average common shares outstanding	20,190	20,315

Diluted weighted average common shares outstanding	20,664	20,315
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See accompanying notes to condensed consolidated financial statements.

**Table of Contents****OPNET TECHNOLOGIES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,635	\$ (454)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	578	606
Provision for losses on accounts receivable		(2)
Deferred income taxes	44	48
Non-cash stock-based compensation expense	285	10
Loss on disposition of fixed assets	6	2
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(2,874)	3,149
Prepaid expenses and other current assets	17	12
Other assets	49	21
Accounts payable	(270)	(486)
Accrued liabilities	(1,140)	(1,253)
Accrued income taxes	752	(303)
Tax benefit from exercise of stock options		7
Deferred revenue	1,889	(271)
Deferred rent	(19)	18
<b>Net cash provided by operating activities</b>	<b>952</b>	<b>1,104</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(645)	(431)
Purchase of investments	(6,266)	(9,679)
Proceeds from sale/maturity of investments	8,000	23,152
Acquired technology	(290)	
<b>Net cash provided by investing activities</b>	<b>799</b>	<b>13,042</b>
<b>Cash flows from financing activities:</b>		
Payment of note payable	(150)	
Acquisition of treasury stock		(361)
Proceeds from exercise of common stock options	658	34
Tax benefit from exercise of stock options	210	
Issuance of common stock under employee stock purchase plan		239
<b>Net cash provided by (used in) financing activities</b>	<b>718</b>	<b>(88)</b>
Effect of exchange rate changes on cash and cash equivalents	330	(242)



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Net increase in cash and cash equivalents	2,799	13,816
Cash and cash equivalents, beginning of period	66,710	38,171
Cash and cash equivalents, end of period	\$ 69,509	\$ 51,987

See accompanying notes to condensed consolidated financial statements.

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**OPNET TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**(unaudited)**

**1. Organization and Significant Accounting Policies**

**Organization.** OPNET Technologies, Inc., or OPNET (hereafter, the company) is a provider of management software for networks and applications. The Company's solutions address: application performance management, capacity planning and design, network operations, and network research and development. The Company differentiates itself from traditional management providers by focusing on analytics. Traditional management tools emphasize monitoring and reporting, which are inherently reactive processes. In contrast, the Company focuses on algorithms and modeling to rapidly troubleshoot and resolve performance problems; and, even more importantly, to proactively prevent problems from occurring. The Company sells products to corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers. The Company markets product suites in North America primarily through a direct sales force and, to a lesser extent, several resellers and original equipment manufacturers. Internationally, the Company conducts research and development through a wholly-controlled subsidiary in Ghent, Belgium and markets products through wholly-owned subsidiaries in Paris, France; Frankfurt, Germany; Slough, United Kingdom; and Sydney, Australia; third-party distributors; and value-added resellers. The Company is headquartered in Bethesda, Maryland and has offices in Cary, North Carolina; Dallas, Texas; Santa Clara, California; and Nashua, New Hampshire.

The accompanying condensed consolidated financial statements include the Company's results and the results of the Company's wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or SEC regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Company's Annual Report on Form 10-K, for the year ended March 31, 2006 filed with the SEC. The March 31, 2006 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. In the opinion of management, these interim condensed consolidated financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly our results for the interim periods. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions.