OPNET TECHNOLOGIES INC
Form 10-Q
August 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

(Commission file number: 000-30931)

OPNET TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**7372**	**52-1483235**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(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)

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

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

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

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

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

The number of shares of the registrant s Common Stock outstanding on August 4, 2009 was 20,759,288.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	June 30, 2009	March 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,456	$ 90,990
Marketable securities	1,000	999
Accounts receivable, net of $307 and $713 in allowance for doubtful accounts at June 30 and March 31, 2009, respectively	22,910	24,086
Unbilled accounts receivable	5,242	5,476
Inventory	581	722
Deferred income taxes, prepaid expenses and other current assets	4,668	4,043
Total current assets	124,857	126,316
Property and equipment, net	13,742	13,984
Intangible assets, net	5,707	6,193
Goodwill	14,639	14,639
Deferred income taxes and other assets	5,109	4,932
Total assets	$ 164,054	$ 166,064
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,205	$ 485
Accrued liabilities	9,757	11,561
Other income taxes	1,072	849
Deferred rent	402	364
Deferred revenue	30,166	30,223
Total current liabilities	42,602	43,482
Accrued liabilities	67	69
Deferred rent	2,455	2,571
Deferred revenue	3,029	2,910
Other income taxes	559	527
Total liabilities	48,712	49,559

Commitments and contingencies (Note 10)

Stockholders equity:		
Common stock-par value $0.001; 100,000,000 shares authorized; 27,926,794 and 27,903,470 shares issued at June 30 and March 31, 2009, respectively; 20,675,930 and 20,658,514 shares outstanding at June 30 and March 31, 2009, respectively	28	28
Additional paid-in capital	93,840	93,292
Retained earnings	37,351	39,570
Accumulated other comprehensive loss	(607)	(1,171)
Treasury stock, at cost 7,250,864 and 7,244,956 shares at June 30 and March 31, 2009, respectively	(15,270)	(15,214)
Total stockholders equity	115,342	116,505
Total liabilities and stockholders equity	$ 164,054	$ 166,064

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, 2009	Three Months Ended June 30, 2008
Revenue:		
New software licenses	$ 8,914	$ 12,936
Software license updates, technical support and services	11,300	9,741
Professional services	7,513	7,417
Total revenue	27,727	30,094
Cost of revenue:		
New software licenses	1,106	629
Software license updates, technical support and services	1,227	1,121
Professional services	5,031	5,527
Amortization of acquired technology and customer relationships	436	579
Total cost of revenue	7,800	7,856
Gross profit	19,927	22,238
Operating expenses:		
Research and development	7,886	7,523
Sales and marketing	10,303	10,935
General and administrative	2,362	2,835
Total operating expenses	20,551	21,293
(Loss) income from operations	(624)	945
Interest and other income, net	68	425
(Loss) income before (benefit) provision for income taxes	(556)	1,370
(Benefit) provision for income taxes	(197)	563
Net (loss) income	$ (359)	$ 807
Basic net (loss) income per common share	$ (0.02)	$ 0.04
Diluted net (loss) income per common share	$ (0.02)	$ 0.04
Basic weighted average common shares outstanding	20,448	20,217
Diluted weighted average common shares outstanding	20,448	20,416

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Cash flows from operating activities:		
Net (loss) income	$ (359)	$ 807
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,304	1,374
Provision for losses on accounts receivable	(174)	64
Deferred income taxes	19	308
Non-cash stock-based compensation expense	427	380
Non-cash accretion of market discount on marketable securities	(1)	
Loss on disposition of fixed assets		21
Changes in assets and liabilities:		
Accounts receivable	1,584	(5,973)
Inventory	(94)	54
Prepaid expenses and other current assets	(305)	164
Other assets	(586)	15
Accounts payable	634	411
Accrued liabilities	(975)	1,266
Accrued income taxes	(195)	146
Deferred revenue	62	932
Deferred rent	(78)	(75)
Excess tax benefit from exercise of stock options		(1)
Net cash provided by (used in) operating activities	1,263	(107)
Cash flows from investing activities:		
Purchase of property and equipment	(564)	(1,544)
Proceeds from sale/maturity of investments		7,700
Net cash (used in) provided by investing activities	(564)	6,156
Cash flows from financing activities:		
Acquisition of treasury stock	(56)	(31)
Proceeds from exercise of common stock options	119	96
Excess tax benefit from exercise of stock options		1
Payment of dividend to stockholders	(1,860)	
Net cash (used in) provided by financing activities	(1,797)	66
Effect of exchange rate changes on cash and cash equivalents	564	12
Net (decrease) increase in cash and cash equivalents	(534)	6,127
Cash and cash equivalents, beginning of period	90,990	71,410

Cash and cash equivalents, end of period	$ 90,456	$ 77,537

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(unaudited)

1. Organization and Significant Accounting Policies

Organization. OPNET Technologies, Inc. (hereafter, the Company or OPNET), is a provider of software products and related services for managing networks and applications. The Company s software products address application performance management, network planning, engineering and operations, and network research and development. The Company sells products to corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers. The Company markets software products and related services 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 software products and related services through wholly-owned subsidiaries in Paris, France; Frankfurt, Germany; Slough, United Kingdom; and Singapore; 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 and wholly-controlled 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, 2009 filed with the SEC. The March 31, 2009 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 the Company s results for the interim periods. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. In addition, the Company s operating results for the three months ended June 30, 2009 may not be indicative of the operating results for the full fiscal year or any other future period.

Supplemental Cash Flow Information

	Three Months Ended June 30,	
	2009	2008
	(in thousands)	
Cash paid during the period:		
Income tax payments	$ 9	$ 50
Non-cash financing and investing activities:		
Change in unrealized gain on marketable securities	$	$ 180
Restricted stock issued	$ 114	$ 142
Accrued liability for the purchase of property and equipment	$ 35	$ 170

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2. Significant Accounting Policies

The following discussion updates the Company s disclosures on significant accounting policies (as previously outlined in the Company s Annual Report on Form 10-K for the year ended March 31, 2009) to include an overview of the impact of accounting pronouncements adopted in the current fiscal year.

In June 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, or FSP No. EITF 03-6-1. FSP No. EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share, or EPS, pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginnings after December 15, 2008. The Company applied the provisions of FSP EITF 03-6-1 in fiscal 2010. The Company s participating securities include nonvested restricted stock. FSP EITF 03-6-1 was applied retrospectively and therefore prior period information was adjusted.

In May 2009, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 165, Subsequent Events, or SFAS No. 165, to be effective for interim or annual financial periods ending after June 15, 2009. SFAS No. 165 does not materially change the existing guidance but introduces the concept of financial statements being available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure is intended to alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS No. 165 became effective for the Company on April 1, 2009 and the adoption did not have an impact on its financial statements. The Company has evaluated subsequent events through August 6, 2009, which is the date of its Form 10-Q filing.

3. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, or SFAS No. 141R. SFAS No. 141R, which replaced SFAS No. 141, requires that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R also establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R also requires that acquisition-related costs be recognized separately from the business combination. SFAS No. 141R will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008.

In April 2009, the FASB issued FASB Staff Position, or FSP, SFAS No. 141R, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP SFAS No. 141 R. FSP SFAS No. 141R amends and clarifies SFAS No. 141, Business Combinations, in regards to the initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination. FSP SFAS No. 141R applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS No. 5, Accounting for Contingencies , if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS No. 141R. FSP SFAS No. 141R will be effective for the first annual reporting period beginning on or after December 15, 2008. FSP SFAS No. 141R will apply prospectively to business combinations for which the acquisition date is on or after the effective date.

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In April 2008, FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets, or FSP No. FAS 142-3. FSP FAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . The FSP is ef