

OPNET TECHNOLOGIES INC
Form 10-Q
August 09, 2004

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, 2004

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)

Edgar Filing: OPNET TECHNOLOGIES INC - Form 10-Q

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)

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 registrants were 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.). Yes No

The number of shares of the registrant's Common Stock outstanding on June 30, 2004 was 20,115,791.

TABLE OF CONTENTS

<u>ITEM</u>	<u>Page</u>
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
1. <u>Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, and March 31, 2004</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended June 30, 2004 and 2003</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2004 and 2003</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9
3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
4. <u>Controls and Procedures</u>	25
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
1. <u>Legal Proceedings</u>	25
2. <u>Changes in Securities and Use of Proceeds</u>	25
6. <u>Exhibits and Reports on Form 8-K</u>	25
<u>Signatures</u>	26
<u>Exhibit Index</u>	27

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

	June 30, 2004	March 31, 2004
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,345	\$ 41,492
Marketable securities	43,304	40,001
Accounts receivable, net of \$294 and \$341 in allowance for doubtful accounts at June 30 and March 31, 2004, respectively	9,320	10,044
Unbilled accounts receivable	2,366	2,559
Deferred income taxes, prepaid expenses and other current assets	1,788	1,772
	<u> </u>	<u> </u>
Total current assets	99,123	95,868
Property and equipment, net	6,251	6,410
Intangible assets, net	1,106	1,240
Goodwill	12,212	12,212
Deferred income taxes and other assets	1,073	952
	<u> </u>	<u> </u>
Total assets	<u>\$ 119,765</u>	<u>\$ 116,682</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 217	\$ 934
Accrued liabilities	4,119	4,218
Deferred and accrued income taxes	1,039	173
Deferred revenue	13,652	12,918
	<u> </u>	<u> </u>
Total current liabilities	19,027	18,243
Notes payable	300	300
Deferred rent	1,018	994
Deferred revenue	644	774
	<u> </u>	<u> </u>
Total liabilities	20,989	20,311
Commitments and Contingencies (Note 8)		
Stockholders' equity:		
Preferred stock- par value \$0.001; 5,000 shares authorized, no shares issued and outstanding at June 30 and March 31, 2004		

Edgar Filing: OPNET TECHNOLOGIES INC - Form 10-Q

Common stock-par value \$0.001; 100,000 authorized; 26,250 and 26,184 shares issued at June 30 and March 31, 2004, respectively; 20,116 and 20,050 shares outstanding at June 30 and March 31, 2004, respectively	26	26
Additional paid-in capital	78,247	77,808
Deferred compensation	(5)	(21)
Retained earnings	24,701	22,661
Accumulated other comprehensive loss	(93)	(3)
Treasury stock, at cost - 6,134 shares at June 30 and March 31, 2004	(4,100)	(4,100)
	<u>98,776</u>	<u>96,371</u>
Total stockholders' equity		
	<u>\$ 119,765</u>	<u>\$ 116,682</u>

See accompanying notes to condensed consolidated financial statements.

OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended	
	June 30,	
	2004	2003
Revenues:		
New software licenses	\$ 8,046	\$ 6,166
Software license updates and technical support	4,656	3,341
Professional services	4,085	2,798
Total revenues	16,787	12,305
Cost of revenues:		
New software licenses	194	257
Software license updates and technical support	551	376
Professional services	2,506	1,537
Amortization of acquired technology	134	125
Total cost of revenues	3,385	2,295
Gross Profit	13,402	10,010
Operating expenses:		
Research and development	3,395	3,197
Sales and marketing	5,450	4,527
General and administrative	1,703	1,382
Total operating expenses	10,548	9,106
Income from operations	2,854	904
Interest and other income, net	196	151
Income before provision for income taxes	3,050	1,055
Provision for income taxes	1,010	291
Net income	\$ 2,040	\$ 764
Basic net income per common share	\$ 0.10	\$ 0.04
Diluted net income per common share	\$ 0.10	\$ 0.04
Weighted average common shares outstanding (basic)	20,083	19,452
Weighted average common shares outstanding (diluted)	20,986	20,150



See accompanying notes to condensed consolidated financial statements.

OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended	
	June 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 2,040	\$ 764
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	569	527
Provision for losses on accounts receivable		61
Deferred income taxes	(163)	132
Expense related to employee and other stock options	16	79
Changes in assets and liabilities:		
Accounts receivable	917	(937)
Prepaid expenses and other current assets	75	252
Other assets	(148)	(138)
Accounts payable	(717)	384
Accrued liabilities	(99)	407
Accrued income taxes	965	115
Deferred revenue	604	779
Deferred rent	24	94
Net cash provided by operating activities	4,083	2,519
Cash flows from investing activities:		
Purchase of property and equipment	(276)	(201)
Purchase of investments	(19,228)	(8,320)
Proceeds from sale/maturity of investments	15,925	
Net cash used in investing activities	(3,579)	(8,521)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	258	231
Proceeds from issuance of common stock under employee stock purchase plan	181	147
Net cash provided by financing activities	439	378
Effect of exchange rate changes on cash and cash equivalents	(90)	(38)
Net increase (decrease) in cash and cash equivalents	853	(5,662)
Cash and cash equivalents, beginning of period	41,492	70,251
Cash and cash equivalents, end of period	\$ 42,345	\$ 64,589

Edgar Filing: OPNET TECHNOLOGIES INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

OPNET TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Significant Accounting Policies

Organization. OPNET Technologies, Inc. (OPNET , we or us) is a leading provider of management software for networks and applications. Our solutions address: application performance troubleshooting; network configuration auditing; network capacity and resiliency planning; application deployment planning; and network technology R&D. We sell our products to corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers. We market our product suite in North America primarily through a direct sales force and, to a lesser extent, several resellers and original equipment manufacturers. Internationally, we conduct research and development through our wholly-controlled subsidiary in Ghent, Belgium and market our products through our wholly-owned subsidiaries in Paris, France; Slough, United Kingdom; and Sydney, Australia; third-party distributors; and value-added resellers. OPNET is headquartered in Bethesda, MD and has offices in Cary, NC; Dallas, TX; and Santa Clara, CA.

The accompanying condensed consolidated financial statements include our results and the results of our 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 (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the 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, 2004, filed with the SEC. The March 31, 2004 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. 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates. In addition, our operating results for the three months ended June 30, 2004 may not be indicative of the operating results for the full fiscal year or any other future period.

Stock-Based Compensation. We account for stock-based compensation given to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and accordingly, recognize compensation expense for fixed stock option grants only when the exercise price is less than the quoted market price of the shares on the date of the grant. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure, permits the use of either a fair-value based method or the intrinsic value method provided in APB Opinion No. 25 to account for employee stock-based compensation arrangements. Companies that elect to use the intrinsic value method provided in APB Opinion No. 25 are required to disclose the pro forma net income (loss) and earnings (loss) per share that would have resulted from the use of the fair value method. We have provided below the pro forma disclosures of the effect on net income and earnings per share for the three months ended June 30, 2004 and 2003, respectively, as if SFAS No. 123 had been applied in measuring compensation expense for all periods.

	Three Months Ended	
	June 30,	
	2004	2003
	(in thousands, except per share data)	
Net income	\$ 2,040	\$ 764
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	16	9
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(838)	(991)
Pro forma net income (loss)	\$ 1,218	\$ (218)
Basic net income (loss) per common share:		
As reported	\$ 0.10	\$ 0.04
Pro forma	\$ 0.06	\$ (0.01)
Diluted net income (loss) per common share:		
As reported	\$ 0.10	\$ 0.04
Pro forma	\$ 0.06	\$ (0.01)

2. Intangible Assets

Intangible assets consisted of the following:

	At June 30,	At March 31,
	2004	2004
	(in thousands)	
Acquired technology	\$ 2,682	\$ 2,682
Accumulated amortization	(1,576)	