

OPNET TECHNOLOGIES INC
Form 10-Q
February 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2007

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
(State or other jurisdiction of incorporation or organization)

7372
(Primary Standard Industrial

52-1483235
(I.R.S. Employer

Classification Code Number)
7255 Woodmont Avenue

Identification No.)

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 was required to file such reports), and (2) has been subject

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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 February 4, 2008 was 20,429,579.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements
OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	December 31, 2007	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,461	\$ 34,766
Marketable securities	52,295	56,615
Accounts receivable, net of \$83 and \$133 in allowance for doubtful accounts at December 31, and March 31, 2007, respectively	20,344	21,604
Unbilled accounts receivable	5,213	3,696
Inventory	268	
Deferred income taxes, prepaid expenses and other current assets	4,124	4,366
Total current assets	111,705	121,047
Property and equipment, net	10,590	8,745
Intangible assets, net	9,275	899
Goodwill	14,639	14,639
Deferred income taxes and other assets	3,334	2,328
Total assets	\$ 149,543	\$ 147,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 471	\$ 276
Accrued liabilities	8,880	8,321
Other income taxes	243	458
Deferred rent	234	210
Deferred revenue	25,272	22,414
Total current liabilities	35,100	31,679
Accrued liabilities	59	259
Deferred rent	1,853	1,956
Deferred revenue	1,275	893
Other income tax	550	
Total liabilities	38,837	34,787
Commitments and contingencies (Note 11)		
Stockholders' equity:	27	27

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Common stock-par value \$0.001; 100,000 authorized; 27,460 and 27,289 shares issued at December 31, and March 31, 2007, respectively; 20,363 and 20,641 shares outstanding at December 31, and March 31, 2007, respectively

Additional paid-in capital	88,951	86,881
Retained earnings	34,942	34,815
Accumulated other comprehensive income	459	394
Treasury stock, at cost 7,096 and 6,647 shares at December 31, and March 31, 2007, respectively	(13,673)	(9,246)
Total stockholders' equity	110,706	112,871
Total liabilities and stockholders' equity	\$ 149,543	\$ 147,658

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 December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Revenue:				
New software licenses	\$ 10,224	\$ 10,974	\$ 28,550	\$ 32,483
Software license updates, technical support and services	8,889	7,185	25,573	20,622
Professional services	6,904	6,363	20,217	17,666
Total revenue	26,017	24,522	74,340	70,771
Cost of revenue:				
New software licenses	370	197	733	518
Software license updates, technical support and services	1,066	752	3,305	2,220
Professional services	4,886	4,033	13,778	11,556
Amortization of acquired technology and customer relationships	604	182	933	559
Total cost of revenue	6,926	5,164	18,749	14,853
Gross profit	19,091	19,358	55,591	55,918
Operating expenses:				
Research and development	7,190	5,512	19,993	16,101
Sales and marketing	10,744	8,259	28,859	25,226
General and administrative	3,503	2,854	8,933	8,242
Total operating expenses	21,437	16,625	57,785	49,569
(Loss) income from operations	(2,346)	2,733	(2,194)	6,349
Interest and other income, net	902	993	2,953	2,884
(Loss) income before provision for income taxes	(1,444)	3,726	759	9,233
(Benefit) provision for income taxes	(132)	702	123	2,847
Net (loss) income	\$ (1,312)	\$ 3,024	\$ 636	\$ 6,386
Basic net (loss) income per common share	\$ (0.06)	\$ 0.15	\$ 0.03	\$ 0.32
Diluted net (loss) income per common share	\$ (0.06)	\$ 0.14	\$ 0.03	\$ 0.30
Basic weighted average common shares outstanding	20,273	20,365	20,389	20,270
Diluted weighted average common shares outstanding	20,273	21,387	20,711	21,125

See accompanying notes to condensed consolidated financial statements.

OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 636	\$ 6,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,650	1,767
Provision for losses on accounts receivable	26	28
Deferred income taxes	(458)	128
Non-cash stock-based compensation expense	1,125	1,148
Loss on disposition of fixed assets		9
Changes in assets and liabilities:		
Accounts receivable	(283)	(5,056)
Inventory	(140)	
Prepaid expenses and other current assets	326	(1,114)
Other assets	(134)	36
Accounts payable	195	(741)
Accrued liabilities	930	(1,137)
Accrued income taxes	(564)	10
Deferred revenue	3,240	3,450
Deferred rent	(79)	93
Excess tax benefit from exercise of stock options	(32)	(301)
Net cash provided by operating activities	7,438	4,706
Cash flows from investing activities:		
Acquisition of certain assets from Network Physics	(10,005)	
Purchase of property and equipment	(3,548)	(1,559)
Purchase of investments	(93,557)	(97,817)
Proceeds from sale/maturity of investments	97,878	62,750
Acquired technology		(331)
Net cash used in investing activities	(9,232)	(36,957)
Cash flows from financing activities:		
Payment of note payable		(150)
Acquisition of treasury stock	(4,427)	(847)
Proceeds from exercise of common stock options	356	2,042
Excess tax benefit from exercise of stock options	32	301
Issuance of common stock under employee stock purchase plan	482	364
Net cash (used in) provided by financing activities	(3,557)	1,710
Effect of exchange rate changes on cash and cash equivalents	46	744
Net decrease in cash and cash equivalents	(5,305)	(29,797)
Cash and cash equivalents, beginning of period	34,766	66,710

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Cash and cash equivalents, end of period	\$ 29,461	\$ 36,913
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See accompanying notes to condensed consolidated financial statements.

OPNET TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

(in thousands, except per share data)

(unaudited)

1. Organization and Significant Accounting Policies

Organization. OPNET Technologies, Inc., (hereafter, the Company or OPNET), is a provider of software solutions for managing networks and applications. The Company's solutions address application performance management, network operations, capacity management 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 product solutions 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; Sydney, Australia; and Singapore; wholly-controlled subsidiary in Ghent, Belgium; third-party distributors; and value-added resellers. The wholly-owned subsidiary in Singapore was registered in August 2007. 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, 2007 filed with the SEC. The March 31, 2007 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 and nine months ended December 31, 2007 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 December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(in thousands)			
Cash paid during the period:				
Income tax payments	\$ 392	\$ 629	\$ 1,295	\$ 2,699
Non-cash financing and investing activities:				
Restricted stock issued	9	358	613	825
Accrued liability for the purchase of property and equipment			92	27

2. Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation, or FIN, No. 48, Accounting for Uncertainty in Income Taxes, which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards, or SFAS, No. 109,

Accounting for Income Taxes. Under FIN No. 48, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company adopted FIN No. 48 effective April 1, 2007, and the cumulative effect of applying FIN No. 48, recorded to the opening balance of retained earnings on April 1, 2007, was \$509.

In December 2007, FASB issued Statement of Financial Accounting Standards No. 141R, or SFAS No. 141R, Business Combinations. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be effective for business combinations entered into after April 1, 2009.

3. Stock-Based Compensation

The Company's Amended and Restated 2000 Stock Incentive Plan, or 2000 Plan, provides for the granting of incentive and non-qualified stock options and restricted stock to purchase up to 5,540 shares of the Company's common stock. The number of shares available for issuance will automatically increase on the first trading day of each calendar year by an amount equal to the lesser of 3% of the shares of common stock outstanding on the last trading day of the preceding calendar year, or an amount determined by the Board of Directors, not to exceed an annual increase of 1,000 shares. The Board of Directors voted not to increase the number of shares for issuance on the first trading day of calendar year 2006 or calendar year 2007. Options are granted for terms up to ten years and generally vest over periods ranging from one to six years from the date of the grant. Restricted stock granted to employees under this plan generally vests over three or four years from the date the restricted stock grants are approved by the Board of Directors. Restricted stock granted to non-employees under this plan generally vests over one year from the date of the grant. New option grants and restricted stock grants are granted from new shares of the Company's common stock.

The Company's 1993 Incentive Stock Option Plan, or 1993 Plan, provides for the granting of incentive stock options to purchase up to 3,000 shares of common stock of the Company. Options are granted for terms of up to ten years, and generally vest over periods ranging from one to six years from the date of the grant. The Board of Directors approved a resolution to make no further grants for options or stock awards under the 1993 Plan upon approval of the 2000 Plan.

In March 2000, the Board of Directors approved the adoption of the 2000 Director Stock Option Plan, which provides for the automatic annual granting of options to purchase stock to the Company's directors, who are not its employees, for up to a total of 225 shares of common stock of the Company.

During fiscal year 2001, the Board of Directors approved the adoption of the 2000 Employee Stock Purchase Plan, or ESPP, which provides every employee, including members of the Board of Directors who are employees, to collectively purchase up to a total of 300 shares of common stock of the Company. An employee may authorize a payroll deduction up to a maximum of 10% of her or his compensation during the plan period. The purchase price for each share purchased is the lesser of 85% of the closing price of the common stock on the first or last day of the plan period and is considered compensatory under SFAS 123R, Share-Based Payments.

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Excess tax benefits from the exercise of stock options are presented as a cash flow from financing activity. For the three months ended December 31, 2007 and 2006, excess tax benefits from the exercise of stock options were \$9 and \$160, respectively. For the nine months ended December 31, 2007 and 2006, excess tax benefits from the exercise of stock options were \$32 and \$301, respectively.

A summary of the total stock-based compensation expense for the three and nine months ended December 31, 2007 and 2006 is as follows:

	Three Months Ended		Nine Months Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	(in thousands)			
Stock options	\$ 107	\$ 133	\$ 373	\$ 828
Restricted stock	168	88	424	164
ESPP	87	63	328	156
Total stock-based compensation	\$ 362	\$ 284	\$ 1,125	\$ 1,148

A summary of the total nonvested stock-based deferred compensation at December 31, 2007 and 2006 is as follows:

	December 31, 2007	December 31, 2006
Restricted stock	\$ 1,468	\$ 1,040
Stock options	272	826
ESPP	28	21
Total nonvested stock-based compensation	\$ 1,768	\$ 1,887

The cost of the nonvested restricted stock, stock options and ESPP at December 31, 2007 are expected to be recognized over a weighted average period of 1.3 years, 4 months and 1 month, respectively.

Stock Options

The Company's stock option programs are accounted for as equity awards. The expense is based on the grant-date fair value of the options granted, and is recognized over the requisite service period.

A summary of the option transactions for the three and nine months ended December 31, 2007 and 2006 is as follows:

	Three Months Ended December 31, 2007				Weighted Average Grant Date Fair Value Per Share
	Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value (in thousands)	
Outstanding at beginning of period	2,797	\$ 10.78		\$	\$ 7.55
Granted		\$		\$	\$
Exercised	(27)	\$ 6.86		\$ 93	\$ 4.71
Forfeited or expired	(36)	\$ 12.86		\$	\$ 8.89
Outstanding at end of period	2,734	\$ 10.79	4.18	\$	\$ 7.56
Exercisable at end of period	2,656	\$ 10.84	4.11	\$	\$ 7.61

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Nonvested at end of period	78	\$	9.00	6.60	\$	29	\$	6.00
Nonvested options expected to be exercised	74	\$	9.00	6.60	\$	5	\$	6.00

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Three Months Ended December 31, 2006

	Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	3,091	\$ 10.53		\$ 12,868	\$ 7.36
Granted		\$		\$	\$
Exercised	(123)	\$ 8.00		\$ 914	\$ 5.61
Forfeited or expired	(4)	\$ 7.63		\$ 26	\$ 4.18
Outstanding at end of period	2,964	\$ 10.64	5.16	\$ 12,048	\$ 7.45
Exercisable at end of period	2,762	\$ 10.71	4.96	\$ 11,074	\$ 7.58
Nonvested at end of period	202	\$ 9.63	7.91	\$ 974	\$ 5.69

Nine Months Ended December 31, 2007

	Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	2,841	\$ 10.73		\$	\$ 7.51
Granted		\$		\$	\$
Exercised	(58)	\$ 6.09		\$ 252	\$ 4.24
Forfeited or expired	(49)	\$ 12.79		\$	\$ 8.91
Outstanding at end of period	2,734	\$ 10.79	4.18	\$	\$ 7.56
Exercisable at end of period	2,656	\$ 10.84	4.11	\$	\$ 7.61
Nonvested at end of period	78	\$ 9.00	6.60	\$ 29	\$ 6.00

Nine Months Ended December 31, 2006

	Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	3,233	\$ 10.37		\$ 13,957	\$ 7.31
Granted	30	\$ 13.25		\$ 36	\$ 3.90
Exercised	(270)	\$ 7.58		\$ 1,713	\$ 5.34
Forfeited or expired	(29)	\$ 11.34		\$ 92	\$ 7.69
Outstanding at end of period	2,964	\$ 10.64	5.16	\$ 12,048	\$ 7.45
Exercisable at end of period	2,762	\$ 10.71	4.96	\$ 11,074	\$ 7.58
Nonvested at end of period	202	\$ 9.63	7.91	\$ 974	\$ 5.69

No stock options vested during the three months ended December 31, 2007.

To estimate the grant-date fair value of its stock options, the Company uses the Black-Scholes option-pricing model. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the following: the option's exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a risk-free interest rate; the estimated option term; and the expected volatility. For the risk-free interest rate, the Company uses a U.S. Treasury Bond due in a number of years equal to the option's expected term. To determine expected volatility, the Company analyzes the historical volatility of its stock over the expected term of the option.

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During the three months ended December 31, 2007, there were no stock options granted.

Compensation cost for option grants is recognized on a straight-line basis over the requisite service period for the entire award (from the date of grant through the period of the last separately vesting portion of the grant). Compensation cost is recognized within the statement of operations in the same expense line as the cash compensation paid to the respective employees. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation. The Company has concluded that its historical forfeiture rate is the best measure to estimate future forfeitures of granted stock options. The impact on compensation cost due to changes in the expected forfeiture rate will be recognized in the period that they become known. To date there has been no change in the Company's forfeiture rate, so there has been no impact on compensation cost.

During the three months ended December 31, 2007 and 2006, respectively, we received proceeds of approximately \$186 and \$983 and issued 27 and 123 shares of common stock, pursuant to employee and Director exercises of stock options. During the nine months ended December 31, 2007 and 2006, respectively, we received proceeds of approximately \$356 and \$2,042 and issued 59 and 270 shares of common stock, pursuant to employee exercises of stock options.

Restricted Stock

The Company's restricted stock grants are accounted for as equity awards. The expense is based on the price of the Company's common stock on the date of grant, and is recognized on a straight-line basis over the requisite service period. The Company did not grant any restricted stock prior to February 2006. The Company's restricted stock agreements do not contain any post-vesting restrictions.

A summary of the restricted stock grants for the three and nine months ended December 31, 2007 and 2006 is as follows:

	Three Months Ended December 31, 2007		Three Months Ended December 31, 2006	
	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share (in thousands, except per share data)	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share
Nonvested at beginning of period	184	\$ 11.73	86	\$ 10.55
Granted	1	\$ 9.53	25	\$ 14.61
Vested	(5)	\$ 13.80	(1)	\$ 13.44
Forfeited				
Nonvested at end of period	180	\$ 11.66	110	\$ 11.44

	Nine Months Ended December 31, 2007		Nine Months Ended December 31, 2006	
	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share (in thousands, except per share data)	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share
Nonvested at beginning of period	127	\$ 12.14	43	\$ 9.39
Granted	59	\$ 10.83	68	\$ 12.80
Vested	(5)	\$ 13.80	(1)	\$ 13.44
Forfeited	(1)			
Nonvested at end of period	180	\$ 11.66	110	\$ 11.44

ESPP

During fiscal 2001, the Board of Directors approved the adoption of the 2000 Employee Stock Purchase Plan, or ESPP, which provides all eligible employees, including members of the Board of Directors who are employees, to collectively purchase up to a total of 300 shares of the Company's common stock. An employee may authorize a payroll deduction up to a maximum of 10% of his or her compensation during the plan period. The purchase price for each share purchased is the lesser of 85% of the closing price of the common stock on the first or last day of the plan period. The plan period for the Company's ESPP ends in January and July of each year.

During the nine months ended December 31, 2007 and 2006, respectively, employees purchased 55 and 47 shares of common stock under the ESPP, resulting in proceeds to us of approximately \$482 and \$364.

4. Acquisition of Certain Assets of Network Physics, Inc.

On October 19, 2007, the Company completed the acquisition of certain assets of Network Physics, Inc. (Network Physics). Pursuant to the asset purchase agreement, the purchase price totaled \$10,005 and was paid in cash from the Company's working capital. The Company accounted for the asset acquisition as the purchase of productive assets and followed the guidance in SFAS 141 to perform the purchase price allocation. The Company expensed \$718 in transaction-related professional services costs during the three months ended December 31, 2007 in connection with the asset acquisition. The Company has conducted a preliminary review and analysis of the purchase price allocation and expects to complete the final analysis by March 31, 2008. A summary of the assets acquired follows:

	At December 31, 2007 (in thousands)	Amorization Method	Useful Life
Current assets	\$ 45		
Property, plant and equipment	569	Straight-line	1-3 years
Acquired technology	7,442	Straight-line	5 years
Customer relationships	1,124	Double-declining balance	4.5 years
Acquired workforce	825	Double-declining balance	5 years
 Total consideration	 \$ 10,005		

The assets acquired were recorded at estimated fair values as determined by the Company's management based on information currently available and on current assumptions as to future operations. The Company obtained valuation services from an independent company to assist in the Company's determination of the fair value of acquired intangibles and their remaining useful lives.

The Company's purchase of certain assets of Network Physics constituted the acquisition of productive assets and not the acquisition of a business under Emerging Issues Task Force, or EITF, 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business."

5. Intangible Assets

Intangible assets consisted of the following:

	At December 31, 2007	At March 31, 2007
	(in thousands)	
Acquired and purchased technology	\$ 11,990	\$ 2,047
Customer relationships	1,124	
Acquired workforce	825	

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Total	13,939	2,047
Less: accumulated amortization	(4,664)	(1,148)
Intangible assets, net	\$ 9,275	\$ 899

Intangible assets associated with acquired and purchased technology consist of acquired technology related to the Company's acquisitions of a software product for modeling voice communications in December 2003, Altaworks in October 2004, purchased technology from RadView Software, Ltd. in December 2005 and SQMworks, Inc. in April 2006 and the purchase of technology from Network Physics in October 2007. Intangible assets associated with customer relationships and acquired workforce relate to the purchase of certain assets from Network Physics in October 2007. Acquired and purchased intangible assets resulted in amortization expense for the three months ended December 31, 2007 and 2006 of \$686 and \$182, respectively and for the nine months ended December 31, 2007 and 2006 of \$1,015 and \$559, respectively. Amortization expense from acquired and purchased technology and customer relationships is included in cost of revenue in the condensed consolidated statements of operations. Amortization expense from acquired workforce is included in research and development expenses in the condensed consolidated statements of operations. The Company amortizes acquired and purchased technology on a straight-line basis over their expected useful lives of three to five years. The customer relationships and workforce assets that the Company purchased from Network Physics are amortized on a double declining balance basis over their expected useful lives of four and one half years and five years, respectively. The Company currently expects future amortization expense attributable to these intangible assets of \$686 for the remainder of fiscal 2008, \$2,497 in the fiscal 2009, \$1,845 in fiscal 2010, \$1,726 in fiscal 2011, \$1,726 in fiscal 2012, and \$794 in fiscal 2013.

Goodwill is primarily derived from the acquisitions of Altaworks in October 2004, WDM NetDesign in January 2002, and NetMaker in March 2001. The Company made no adjustment to goodwill during the nine month period ended December 31, 2007.

6. Property and Equipment

Property and equipment consisted of the following at December 31, 2007 and March 31, 2007:

	At December 31, 2007	At March 31, 2007
Computer equipment	\$ 9,238	\$ 7,866
Leasehold improvements	6,721	4,395
Construction in progress	180	2,320
Purchased software	3,591	2,165
Office furniture and equipment	1,871	1,456
Total	21,601	18,202
Less: accumulated depreciation	(11,011)	(9,457)
Property and equipment, net	\$ 10,590	\$ 8,745

In December 2006, we entered into an operating lease in Bethesda, Maryland to increase the office space of our corporate facilities. At March 31, 2007, we had \$2,320 in construction in progress associated with the build out of this space. We completed the build out and moved into the space in April 2007.

Depreciation expense for the three months ended December 31, 2007 and 2006 was \$639 and \$428, respectively. Depreciation expense for the nine months ended December 31, 2007 and 2006 was \$1,635 and \$1,208, respectively.

7. Earnings Per Share

The following is a reconciliation of the amounts used in calculating basic and diluted net income per common share for the three and nine months ended December 31, 2007 and 2006:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(in thousands, except per share data)			
Net (loss) income (numerator):				
Basic and diluted net income	\$ (1,312)	\$ 3,024	\$ 636	\$ 6,386
Shares (denominator):				
Weighted average basic shares outstanding	20,273	20,365	20,389	20,270
Plus:				
Effect of other dilutive securities - options		997	295	843
Effect of other dilutive securities - unvested stock		25	27	12
Weighted average diluted shares outstanding	20,273	21,387	20,711	21,125
Net income per common share:				
Basic	\$ (0.06)	\$ 0.15	\$ 0.03	\$ 0.32
Diluted	\$ (0.06)	\$ 0.14	\$ 0.03	\$ 0.30

The effect of options and unvested stock were anti-dilutive for the three months ended December 31, 2007 as the Company incurred a net loss during the period.

8. Stockholders Equity

Treasury Stock. On January 31, 2005, the Company announced that the Board of Directors had authorized the repurchase of up to 1,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions. This stock repurchase program does not have a specified termination date. Any repurchased shares will be available for use in connection with the Company's stock plans or other corporate purposes. The Company expended \$1,780 and \$395 to purchase 200 and 25 shares during the three months ended December 31, 2007 and 2006, respectively, at average prices of \$8.90 and \$15.79 per share, respectively. The Company expended \$4,413 and \$847 to purchase 448 and 59 shares during the nine months ended December 31, 2007 and 2006, respectively, at average prices of \$9.85 and \$14.37 per share, respectively. As of December 31, 2007, the Company has expended \$9,558 to purchase 962 shares of common stock at an average price of \$9.94 under this program.

During the three months ended December 31, 2007, the Company repurchased shares of restricted stock from employees to satisfy the minimum statutory withholding obligations with respect to the income recognized by these employees upon the vesting of their restricted stock shares during the quarter. The Company expended \$14 to purchase 1 share through this transaction.

9. Business Segment and Geographic Information

The Company operates in one industry segment, the development and sale of computer software programs and related services. The Chief Executive Officer evaluates the performance of the Company using one industry segment. Revenue from transactions with United States government agencies was approximately 34% and 40% of total revenue for the three months ended December 31, 2007 and 2006, respectively. Revenue from transactions with United States government agencies was approximately 42% and 44% of total revenue for the nine months ended December 31, 2007 and 2006, respectively. No single customer accounted for 10% or more of revenue for the three or nine months ended December 31, 2007 and 2006. In addition, there was no country, with

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the exception of the United States, where aggregate sales accounted for 10% or more of total revenue. Substantially all assets were held in the United States at December 31, and March 31, 2007. Revenue by geographic area and as a percentage of total revenue follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
(dollars in thousands)				
Geographic Area:				
United States	\$ 20,025	\$ 19,329	\$ 59,701	\$ 56,786
International	5,992	5,193	14,639	13,985
Total revenue	\$ 26,017	\$ 24,522	\$ 74,340	\$ 70,771
Geographic Area:				
United States	77.0%	78.8%	80.3%	80.2%
International	23.0%	21.2%	19.7%	19.8%
Total revenue	100.0%	100.0%	100.0%	100.0%

10. Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments, and unrealized gain or loss on marketable securities. The components of comprehensive income, net of tax, are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
(in thousands)				
Net (loss) income	\$ (1,312)	\$ 3,024	\$ 636	\$ 6,386
Foreign currency translation adjustments	4	165	65	723
Unrealized gain (loss) on marketable securities		5		(18)
Total comprehensive (loss) income	\$ (1,308)	\$ 3,194	\$ 701	\$ 7,091

11. Commitments and Contingencies

On September 27, 2004, the Company received notice of a lawsuit filed by Compuware Corporation, in the United States District Court for the Eastern District of Michigan, alleging patent infringement and seeking injunctive relief and unspecified monetary damages. On February 6, 2006, the Company filed a lawsuit against Compuware Corporation in Montgomery County, Maryland, Circuit Court, seeking damages and injunctive relief for Compuware's misappropriation and misuse of the Company's trade secrets, confidential and proprietary information and unfair competition; however, the lawsuit was not served on Compuware. On April 10, 2006, the Company signed a confidential settlement agreement with Compuware Corporation that amicably resolved all disputed matters in the lawsuits filed by each company in Michigan and in Maryland on terms the Company believes are favorable to it. Specifically, no material amounts were exchanged by the parties and the settlement agreement did not entail a royalty or licensing agreement between the parties.

The Internal Revenue Service, or IRS, is examining the Company's federal corporate income tax returns for fiscal 2002 and 2003. While the IRS examination of its returns is not final at this time, the Company has reached an agreement with respect to the amount of research and development tax credits that it claimed on the Company's tax returns for those years. As a result of this agreement, the Company reduced the amount of the research and development tax credits claimed on its tax returns for fiscal 2002 and 2003 by approximately \$350 in aggregate. The IRS also asserted tax deficiencies related to the timing of revenue reported on its tax returns for fiscal 2002 and 2003. The IRS has asserted that revenue associated with certain contracts reported on the

Company's fiscal year 2003 tax return should have been included in taxable income on its tax return for the fiscal 2002. The Company does not believe any tax deficiencies related to the timing of reporting revenue will be material to the financial statements.

The Company accounts for guarantees in accordance with Financial Accounting Standards Board issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (Interpretation No. 45). Interpretation No. 45 elaborates on the disclosures required in financial statements concerning obligations under certain guarantees. It also clarifies the requirements related to the recognition of liabilities by a guarantor at the inception of certain guarantees. The provisions related to recognizing a liability at inception of the guarantee do not apply to product warranties or indemnification provisions in the Company's software license agreements.

Under the terms of substantially all of the Company's license agreements, it has agreed to defend and pay any final judgment against its customers arising from claims against such customers that the Company's software products infringe the intellectual property rights of a third party. To date: i) the Company has not received any notice that any customer is subject to an infringement claim arising from the use of its software products, ii) the Company has not received any request to defend any customers from infringement claims arising from the use of its software products, and iii) the Company has not paid any final judgment on behalf of any customer related to an infringement claim arising from the use of its software products. Because the outcome of infringement disputes are related to the specific facts in each case, and given the lack of previous or current indemnification claims, the Company cannot estimate the maximum amount of potential future payments, if any, related to its indemnification provisions. However, the Company believes these indemnification provisions will not have a material adverse effect on its operating performance or financial condition. As of December 31, 2007, the Company has not recorded any liabilities related to these indemnifications.

The Company's standard license agreement includes a warranty provision for software products. The Company generally warrants for the first ninety days after delivery that the software shall operate substantially as stated in the then current documentation provided that the software is used in a supported computer system. The Company provides for the estimated cost of product warranties based on specific warranty claims, provided that it is probable that a liability exists and provided the amount can be reasonably estimated. To date, the Company has not had any material costs associated with these warranties.

The Company is involved in other claims and legal proceedings arising from normal operations. The Company does not expect these matters, individually or in the aggregate, to have a material effect on the Company's financial condition, results of operations, or cash flows.

12. Income Taxes

The Company's effective tax rate was 9.2% and 18.8% for the three months ended December 31, 2007 and 2006, respectively. The Company's effective tax rate was 16.2% and 30.8% for the nine months ended December 31, 2007 and 2006, respectively. The effective tax rate differs from the statutory tax rate principally due to tax credits available to the Company and due to tax exempt interest earned. The decrease in the Company's effective tax rate for the three and nine months ended December 31, 2007, as compared to the same periods in the prior fiscal year, was largely due to the Company's lower projected fiscal book income relative to the projected fiscal book to tax differences and an increase in tax exempt interest income and tax credits.

Effective April 1, 2007, the Company adopted FIN No. 48. As a result of the implementation, the Company recognized a \$538 increase to its liability for unrecognized tax benefits. The portion of the increase that was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet was \$509. The total amount of gross unrecognized tax benefits as of April 1, 2007 was \$810. Of this total, \$781 (net of federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. At December 31, 2007, the gross unrecognized benefit was \$836, \$801 of which would favorably affect the effective income tax rate in future periods.

The following table summarizes the tax years that are either currently under audit or remain open under the statute of limitations and are subject to examination by the tax authorities in the most significant jurisdictions that the Company operates:

Australia	FY02	FY07
Belgium	FY05	FY07
France	FY03	FY07
Germany	FY04	FY07
United Kingdom	FY06	FY07
United States	FY02	FY03
	FY05	FY07
Maryland	FY05	FY07
New York	FY04	FY07

The Company's continuing practice is to recognize interest and penalties, if any, related to income tax matters in interest expense in its Consolidated Statement of Operations and penalties as part of general and administrative expense in its Condensed Consolidated Statement of Operations. In conjunction with the adoption of FIN 48, the Company recognized \$19 and \$9 for the payment of interest and penalties, respectively, at April 1, 2007 which is included in accrued interest on the balance sheet. During the three and nine months ended December 31, 2007, the Company recognized \$2 and \$5 in potential interest expense associated with uncertain tax positions. The total accrued interest and accrued penalties related to uncertain tax positions at December 31, 2007 is \$26 and \$9, respectively.

The Company believes it is reasonably possible that significant changes in the liability for uncertain tax positions will occur in the next twelve months as a result of final decisions related to the voluntary payments of its state and local income taxes. In the aggregate, the Company believes the liability for uncertain tax positions could decrease by \$230 in the next twelve months.

13. Subsequent Event

On February 4, 2008, the Company's Board of Directors approved an increase of 1,000 shares under the Company's stock repurchase program. The increase is in addition to the repurchase of up to 1,000 shares authorized by the Board of Directors in January 2005. This stock repurchase program does not have a specified termination date. Any repurchased shares will be available for use in connection with the Company's stock plans or other corporate purposes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (in thousands, except per share data)

The following discussion and analysis relate to our financial condition and results of operations for the three and nine months ended December 31, 2007 and 2006, and should be read in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this report. You should also read the following discussion and analysis in conjunction with the consolidated financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report on Form 10-K for the year ended March 31, 2007, filed with the SEC. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Part II, Item 1A Risk Factors and elsewhere in this Quarterly Report on Form 10-Q.

Overview

OPNET Technologies, Inc. is a provider of software solutions for managing networks and applications. Our solutions address: application performance management, network operations, capacity management, and network research and development. Our customers include corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers. Our solutions are designed to help our customers make better use of resources, reduce operational problems and improve competitiveness.

We operate in one reportable industry segment, the development and sale of computer software programs and related services. Our operations are principally in the United States, and we have subsidiaries in Australia, Belgium, France, Germany, the United Kingdom and Singapore. The wholly-owned subsidiary in Singapore was registered in August 2007. We primarily depend upon our direct sales force to generate revenue in the United States. Sales outside the United States are made through our international sales team as well as third-party distributors and value-added resellers, who generally are responsible for providing technical support and service to customers within their territory.

Our revenue is derived from three primary sources: (1) new software licenses, (2) software license updates, technical support and services, and (3) professional services, which include consulting and training services for customers without current maintenance agreements. New software license revenue represents all fees earned from granting customers licenses to use our software and fees associated with hardware necessary to run our software, and excludes revenue derived from software license updates, which are included in software license updates, technical support, and services revenue. Our software master license agreement provides our customers with the right to use our software either perpetually, which we refer to as perpetual licenses, or during a defined term, generally for one to four years, which we refer to as term licenses. For the nine months ended December 31, 2007, perpetual licenses represented approximately 97% of software license revenue transactions. Substantially all of our software license arrangements include both perpetual and/or term licenses and software license updates, technical support, and services. Software license updates, technical support, and services revenue represent fees associated with the sale of unspecified license updates, technical support and when-and-if available training under our maintenance agreements. We offer professional services, under both time-and-material and fixed-price agreements, primarily to facilitate the adoption of our solutions.

We consider our consulting services to be an integral part of our business model as they are centered on our software product offerings. Because our consulting services facilitate the adoption of our solutions, we believe that they ultimately generate additional sales of software licenses.

The key strategies of our business plan include increasing sales to existing customers, increasing deal size by selling modules and introducing new products, improving our sales and marketing execution, establishing alliances to extend our market reach, increasing our international presence and increasing profitability. We have

focused our sales, marketing, and other efforts on corporate enterprise and United States government opportunities, and to a much lesser extent, service provider and network equipment manufacturer opportunities. Our focus and strategies are designed to increase revenue and profitability. Because of the uncertainty surrounding the amount and timing of revenue growth, we expect to need to closely manage the increases in our total expenses as we implement these strategies.

In April 2007, we entered into a multi-year worldwide distribution agreement with Computer Associates that built upon the referral agreement entered into with Computer Associates in November of 2005. Under the terms of the agreement, Computer Associates is distributing our IT Guru Systems Planner Solution and we will collaborate with Computer Associates to offer professional services and support.

In November 2005, we entered into a global sales and marketing referral agreement with Computer Associates. Under the terms of the agreement, Computer Associates began marketing our systems performance and capacity modeling technologies. Computer Associates began sales of our products under this agreement in the third quarter of fiscal 2006, and we started recording revenue from this relationship during the third quarter of fiscal 2006.

In March 2005, we entered into a multi-year worldwide distribution agreement with Cisco Systems. Under the terms of the agreement, Cisco is distributing a broad range of our software products. We will also collaborate with Cisco's Network Management Technology Group to develop new network management solutions. Cisco began sales of our products in the second half of calendar 2005, and we started recording revenue from the Cisco Systems agreement during the fourth quarter of fiscal 2006.

Acquisition of Certain Assets of Network Physics

On October 19, 2007, we completed the acquisition of certain assets of Network Physics for a total purchase price of \$10,005. We paid the purchase price in cash from working capital. As a result of the acquisition, we acquired technology that enabled us to accelerate the release of our ACE Live solutions, which have been in development since the summer of 2006 and were under development to address the appliance-based end user monitoring market. In addition to the technology acquired from Network Physics, we also acquired certain non-executive employees who will provide us with greater engineering depth and technical expertise. We did not acquire Network Physics' value-added reseller agreements or associated relationships, which generated substantially all of their revenue.

The purchase of certain assets of Network Physics did not constitute the purchase of a business for purposes of SEC reporting or for purposes of financial reporting under SFAS 141, Business Combinations or EITF No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business. Certain key attributes of Network Physics necessary for continuity of operations did not remain with the acquired assets after the acquisition including a portion of the non-executive employee base, executive employees, market distribution systems and customer maintenance contracts. Furthermore, the transferred set of Network Physics' activities could not sustain normal operations for the purpose of providing a return to investors.

Management believes that financial information related to Network Physics prior to the acquisition would not be material or relevant to an understanding of our operations subsequent to the asset acquisition for several key reasons. First, value-added resellers used by Network Physics to market and distribute their products to customers and generate substantially all of their revenue were not acquired. Second, significant changes were made to the purchased technology in order to distribute the technology to our customers. Third, our decision to purchase certain assets of Network Physics was based on the end-user appliance based market opportunity that we believe exists and the complementary nature of our existing performance management solutions to the end-user appliance based market and was not based on the nature and amount of revenue historically generated by Network Physics. Finally, we did not acquire the rights to any continuing revenue stream including customer maintenance contracts.

Summary of Our Financial Performance and Trends That May Affect Business and Future Results

During the three months ended December 31, 2007, or Q3 2008, as compared to the three months ended September 30, 2007, or Q2 2008, we experienced an increase in total revenue, gross profit, and deferred revenue while experiencing a decrease in gross margin, income from operations, net income and cash, cash equivalents and marketable securities.

The following table summarizes information derived from the unaudited condensed consolidated financial statements and other key metrics:

	Three Months Ended		Amount Change	Percentage Change
	December 31, 2007	September 30, 2007		
(dollars in thousands, except per share data)				
Operations Data:				
Total revenue	\$ 26,017	\$ 24,991	\$ 1,026	4.1%
Total cost of sales	\$ 6,926	\$ 5,965	\$ 961	16.1%
Gross profit	\$ 19,091	\$ 19,026	\$ 65	0.3%
Gross profit as a percentage of total revenue (gross margin)	73.4%	76.1%		
Total operating expenses	\$ 21,437	\$ 18,815	\$ 2,622	13.9%
(Loss) income from operations	\$ (2,346)	\$ 211	\$ (2,557)	(1211.8)%
(Loss) income from operations as a percentage of total revenue (operating margin)	(9.0)%	0.8%		
Net (loss) income	\$ (1,312)	\$ 1,301	\$ (2,613)	(200.8)%
Diluted net (loss) income per common share	\$ (0.06)	\$ 0.06	\$ (0.12)	(200.0)%
Total employees (period end)	552	525	27	5.1%
Total average employees	551	527	24	4.6%
Total consultants (period end)	119	117	2	1.7%
Total average quota-carrying sales persons (does not include managers or inside sales reps)	84	78	6	7.7%
Financial Condition and Liquidity Data:				
Cash, cash equivalents, and marketable securities (period end)	\$ 81,756	\$ 93,230	\$ (11,474)	(12.3)%
Cash flows provided by (used in) operating activities	\$ 1,037	\$ (1,245)	\$ 2,422	194.5%
Total deferred revenue (period end)	\$ 26,547	\$ 22,026	\$ 4,521	20.5%

The increase in total revenue in Q3 2008 from Q2 2008 was attributable to an increase in international revenue of \$1,431 partially offset by a \$406 decrease in domestic revenue. Our international revenue increased 31.4% to \$5,992 for Q3 2008 from \$4,561 for Q2 2008. Our domestic revenue decreased 2.0% to \$20,025 for Q3 2008 from \$20,430 for Q2 2008. International revenue accounted for 23.0% and 18.3% of total revenue for Q3 2008 and Q2 2008, respectively. The increase in international revenue in Q3 2008 as compared to Q2 2008 was primarily due to an increase in revenue from corporate enterprise customers, and to a lesser extent, an increase in revenue from international government customers, which was partially offset by a decrease in revenue from service providers. The decrease in domestic revenue in Q3 2008 as compared to Q2 2008 was primarily due to a decrease in revenue from United States government customers which was partially offset by an increase in revenue from corporate enterprise customers, and to a lesser extent, an increase in revenue from network equipment manufacturers. We expect revenue from sales outside the United States to continue to account for a significant portion of total revenue in the future, but fluctuate from period to period. We believe that continued growth and profitability will require further expansion of the sales, marketing and customer service functions in international markets.

Our gross profit increased \$65 to \$19,091 for Q3 2008 from \$19,026 for Q2 2008, and our gross margin for Q3 2008 decreased to 73.4% from 76.1% for Q2 2008. The sequential decrease in gross margin was primarily attributable to a \$439 increase in amortization of acquired technology and customer relationships primarily from our acquisition of certain assets of Network Physics (see Note 4 to the Condensed Consolidated Financial Statements for additional information related to our acquisition of certain assets of Network Physics), a \$310 increase in the cost of professional services and an increase in the cost of revenue for new software licenses of \$217 primarily related to the cost of hardware necessary to deliver our ACE Live solutions. The cost of sale increases were partially offset by an increase in total revenue of \$1,026, largely due to an increase in new software license revenue of \$587 and an increase in software license update, technical support and services revenue of \$396. Gross margin on new software license revenue for Q3 2008 was 96.4%, while gross margin on software license updates, technical support and services revenue and on professional services revenue was 88.0% and 29.2%, respectively.

Our operating margin decreased to negative 9.0% during Q3 2008 from positive 0.8% during Q2 2008. The decrease in operating margin during Q3 2008 as compared to Q2 2008 was largely the result of a \$2,622 increase in operating expenses largely due to expenses associated with our purchase of certain assets of Network Physics. The increase in operating expense was the result of a \$1,276 increase in sales and marketing expense largely due to increased sales commissions and personnel costs, a \$572 increase in research and development costs largely due to increased personnel and facility costs related to increased staffing levels associated with the acquisition of certain assets of Network Physics and a \$774 increase in general and administrative costs largely due to \$718 of professional services expense associated with the acquisition of certain assets of Network Physics.

We anticipate the following trends and patterns over the next several quarters:

Total Revenue. We expect future growth opportunities in revenue to come from sales to enterprise customers and the United States government. We expect to generate incremental revenue from the release of our ACE Live solutions, which was accelerated by the integration of technology we acquired from Network Physics. Furthermore, we expect the release of our ACE Live solutions to increase future growth opportunities related to our existing products by generating complementary sales. We expect revenue from sales to service providers and network equipment manufacturers to fluctuate from quarter to quarter with the potential for periods of declining license revenue. Our ability to increase professional services revenue will depend upon our ability to maintain several large consulting contracts with the United States government and to attract and retain additional qualified consultants, including those with security clearances. As a result of these factors, we believe that we may experience fluctuations in quarterly revenue.

International Revenue. Our international sales are impacted by the mix of direct and indirect sales channels and our focus on increasing sales to corporate enterprises. We believe that these factors impact the timing of sales orders as well as our ability to forecast future revenue. As a result, we expect our international revenue in absolute dollars and as a percentage of total revenue to fluctuate from quarter to quarter.

Gross Profit Margin. We anticipate an increase in the cost of professional services primarily from hiring additional consultants to support demand for our consulting services. Our overall gross profit margin will be affected by the profitability of individual consulting engagements. We also anticipate an increase in the cost of new software license revenue related to the cost of hardware necessary to deliver our ACE Live solutions. Our overall gross profit margin will continue to be affected by the percentage of total revenue generated from professional services, as revenue from new software licenses and revenue from software license updates, technical support and services have substantially higher gross margins than the gross margin on revenue from professional services. Amortization of technology associated with the purchase and/or acquisition of technology we may make in future periods could also impact our gross profit margin.

Research and Development Expenses. We believe that investments in research and development will be required to maintain our competitive position, broaden our product lines and support channel initiatives, as well as enhance the features and functionality of our current products. We hired engineers in conjunction with our

acquisition of technology from Network Physics. We anticipate hiring additional engineers, and we expect to incur additional research and development expenses in connection with such new hires. We expect that the absolute dollar amount of research and development expenditures will continue to grow but could generally decrease as a percentage of total revenue in future periods. Our ability to decrease these expenses, as a percentage of revenue, will depend upon increases in revenue, among other factors.

Sales and Marketing Expenses. We depend upon our direct sales model to generate revenue and believe that increasing the size of our quota-carrying sales team is essential for long-term growth. We plan to add quota-carrying sales persons during the remainder of fiscal 2008 to pursue our growth strategies. We anticipate that we will continue to commit substantial resources to sales and marketing in the future and that sales and marketing expenses may increase both in absolute dollars and as a percentage of total revenue in future periods.

General and Administrative Expense. We expect the dollar amount of general and administrative expenses to increase as we continue to expand our operations but generally decrease as a percentage of total revenue in future periods. Our ability to decrease these expenses as a percentage of revenue will depend upon increases in our revenue, among other factors.

Operating Margin. Because a significant portion of our software license arrangements close in the latter part of each quarter, we may not be able to adjust our cost structure in the short-term to respond to lower than expected revenue, which would adversely impact our operating margin and earnings.

Critical Accounting Policies and Use of Estimates

Effective April 1, 2007, we adopted FIN No. 48. As a result of the implementation, we recognized a \$538 increase to our liability for unrecognized tax benefits. The portion of the increase that was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet was \$509. The total amount of gross unrecognized tax benefits as of April 1, 2007 was \$810. Of this total, \$781 (net of federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. At December 31, 2007, the gross unrecognized benefit was \$836, \$801 of which would favorably affect the effective income tax rate in future periods.

The following table summarizes the tax years that are either currently under audit or remain open under the statute of limitations and are subject to examination by the tax authorities in the most significant jurisdictions that we operate:

Australia	FY02	FY07
Belgium	FY05	FY07
France	FY03	FY07
Germany	FY04	FY07
United Kingdom	FY06	FY07
United States	FY02	FY03
	FY05	FY07
Maryland	FY05	FY07
New York	FY04	FY07

Our continuing practice is to recognize interest and penalties, if any, related to income tax matters in interest expense in our Condensed Consolidated Statement of Operations and penalties as part of general and administrative expense in our Condensed Consolidated Statement of Operations. In conjunction with the adoption of FIN 48, we recognized \$19 and \$9 for the payment of interest and penalties, respectively, at April 1, 2007 which is included in accrued interest on the balance sheet. During the three and nine months ended December 31, 2007, we recognized \$2 and \$5 in potential interest expense associated with uncertain tax positions. The total accrued interest and accrued penalties related to uncertain tax positions at December 31, 2007 is \$26 and \$9, respectively.

We believe it is reasonably possible that significant changes in the liability for uncertain tax positions will occur in the next twelve months as a result of final decisions related to the voluntary payments of our state and local income taxes. In the aggregate, we believe the liability for uncertain tax positions could decrease by \$230 in the next twelve months.

Results of Operations

The following table sets forth items from the consolidated statements of operations expressed as a percentage of total revenue for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Revenue:				
New software licenses	39.3%	44.8 %	38.4%	45.9%
Software license updates, technical support and services	34.2	29.3	34.4	29.1
Professional services	26.5	25.9	27.2	25.0
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
New software licenses	1.4	0.9	1.0	0.8
Software license updates, technical support and services	4.1	3.1	4.4	3.1
Professional services	18.8	16.4	18.5	16.3
Amortization of acquired technology and customer relationships	2.3	0.7	1.3	0.8
Total cost of revenue	26.6	21.1	25.2	21.0
Gross profit	73.4	78.9	74.8	79.0
Operating expenses:				
Research and development	27.6	22.5	27.0	22.8
Sales and marketing	41.3	33.7	38.8	35.6
General and administrative	13.5	11.6	12.0	11.6
Total operating expenses	82.4	67.8	77.8	70.0
(Loss) income from operations	(9.0)	11.1	(3.0)	9.0
Interest and other income, net	3.5	4.0	4.0	4.1
(Loss) income before provision for income taxes	(5.5)	15.1	1.0	13.1
(Benefit) provision for income taxes	(0.5)	2.9	0.1	4.0
Net (loss) income	(5.0)%	12.2%	0.9%	9.1%

The following table sets forth, for each component of revenue, the cost of each component of revenue as a percentage of the related revenue for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
Cost of Revenue:				
New software licenses	3.6%	1.8%	2.6%	1.6%
Software license updates, technical support and services	12.0	10.5	12.9	10.8

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Professional services	70.8	63.4	68.2	65.4
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Revenue

New Software License Revenue. New software license revenue was \$10,224 and \$10,974 for the three months ended December 31, 2007 and 2006, respectively, representing a decrease of 6.8%. For the three months ended December 31, 2007, as compared to the same period in fiscal 2007, the decrease in license revenue was due largely to a decrease in revenue from United States government customers and service providers, which was partially offset by an increase in revenue from corporate enterprise customers and international government customers. New software license revenue was \$28,550 and \$32,483 for the nine months ended December 31, 2007 and 2006, respectively, representing a decrease of 12.1%. For the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, the decrease in license revenue was due largely to a decrease in revenue from United States government customers, and to a much lesser extent, revenue from network equipment manufacturers.

Software License Updates, Technical Support and Services Revenue. Software license updates, technical support and services revenue was \$8,889 and \$7,185 for the three months ended December 31, 2007 and 2006, respectively, representing an increase of 23.7%. Software license updates, technical support and services revenue was \$25,573 and \$20,622 for the nine months ended December 31, 2007 and 2006, respectively, representing an increase of 24.0%. Software license updates, technical support and services revenue growth rates are affected by the overall new software license revenue growth rates, as well as the renewal rate of annual maintenance contracts by existing customers. The increase in software license updates, technical support and services revenue for the three and nine months ended December 31, 2007, as compared to the same periods in fiscal 2007, reflects increases in the overall customer-installed base.

Professional Services Revenue. The components of professional services revenue for the three and nine months ended December 31, 2007 and 2006 are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(in thousands)			
Consulting services revenue	\$ 6,655	\$ 6,006	\$ 19,679	\$ 16,565
Training revenue	249	357	538	1,101
Professional services revenue	\$ 6,904	\$ 6,363	\$ 20,217	\$ 17,666

Professional services revenue was \$6,904 and \$6,363 for the three months ended December 31, 2007 and 2006, respectively, representing an increase of 8.5%. Consulting services revenue accounted for 96.4% and 94.4% of professional services revenue for the three months ended December 31, 2007 and 2006, respectively. The increase for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily due to an increase in revenue from corporate enterprise customers. Professional services revenue was \$20,217 and \$17,666 for the nine months ended December 31, 2007 and 2006, respectively, representing an increase of 14.4%. Consulting services revenue accounted for 97.3% and 93.8% of professional services revenue for the nine months ended December 31, 2007 and 2006, respectively. The increase for the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily due to an increase in revenue from corporate enterprise customers and United States government customers, partially offset by a decrease in revenue from network equipment manufacturers.

In January 2003, we were awarded a consulting contract with the United States Department of Defense. In February 2006, we were awarded the contract option for calendar year 2006 in the amount of \$2,899. The option contributed approximately \$2,329 and \$596 of consulting revenue for fiscal 2007 and 2006, respectively. In February 2007, we were awarded the last contract option for calendar year 2007 in the amount of \$2,119. As of December 31, 2007 we received additional awards of \$2,905 associated with the original award of \$2,119. The option for calendar year 2007 and associated additional awards of \$2,905 received as of December 31, 2007

contributed approximately \$167 of consulting revenue for fiscal 2007 and approximately \$447 and \$1,283 of consulting revenue for the three and nine months ended December 31, 2007, respectively. Our results of operations could be adversely affected, as there are no remaining extensions associated with this contract and because there is no guarantee of additional funding.

International Revenue.

Our international revenue was \$5,992 and \$5,193 for the three months ended December 31, 2007 and 2006, respectively, representing an increase of 15.4%. Our international revenue increased as a percentage of total revenue to 23.0% for the three months ended December 31, 2007 from 21.2% for the same period in fiscal 2007. The increase in our international revenue for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of an increase in revenue from corporate enterprise customers, and to a lesser extent, revenue from international government customers, partially offset by a decrease in revenue from service providers. Revenue from enterprise customers accounted for the largest percentage of international revenue for the three months ended December 31, 2007 and 2006, respectively. Our international revenue was \$14,639 and \$13,985 for the nine months ended December 31, 2007 and 2006, respectively, representing an increase of 4.7%. Our international revenue decreased slightly as a percentage of total revenue to 19.7% for the nine months ended December 31, 2007 from 19.8% for the same period in fiscal 2007. The increase in our international revenue was primarily the result of an increase in revenue from corporate enterprise customers and international government customers, partially offset by a decrease in revenue from network equipment manufacturers. Revenue from enterprise customers accounted for the largest percentage of international revenue for the nine months ended December 31, 2007 and 2006, respectively. Our international revenue is primarily generated in Europe and Japan. We have focused our efforts on increasing international revenue from enterprise customers.

Cost of Revenue.

Cost of new software license revenue consists primarily of the cost of hardware associated with our ACE Live solutions and royalties, and to a lesser extent, media, manuals, and distribution costs. Cost of license updates, technical support and services revenue consists of personnel-related costs necessary to provide technical support and training to customers with active maintenance contracts on a when-and-if-available basis, royalties, media, and distribution costs. Cost of professional services revenue consists primarily of personnel-related costs necessary to provide consulting and training to customers without active maintenance contracts. Gross margins on new software license revenue and software license updates, technical support and services revenue are substantially higher than gross margin on professional services revenue, due to the low amount of cost for delivering new software licenses and providing technical support and maintenance compared with the relatively high personnel costs associated with providing consulting services and customer training.

Cost of New Software License Revenue. Cost of software license revenue was \$370 and \$197 for the three months ended December 31, 2007 and 2006, respectively. The increase in costs was primarily the result of \$195 related to hardware associated with our ACE Live solutions, partially offset by a decrease in royalty expense. Gross margin on software license revenue decreased slightly to 96.4% for the three months ended December 31, 2007 from 98.2% for the same period in fiscal 2007. Cost of software license revenue was \$733 and \$518 for the nine months ended December 31, 2007 and 2006, respectively. The increase in costs was primarily the result of \$195 related to the hardware associated with our ACE Live solutions. Our ACE Live solutions were released during the three months ended December 31, 2007. As a result, the cost of hardware associated with our ACE Live solutions has not previously been a cost of new software license revenue. Gross margin on software license revenue decreased to 97.4% for the nine months ended December 31, 2007 from 98.4% for the same period in fiscal 2007.

Cost of Software License Updates, Technical Support and Services Revenue. Cost of software license updates, technical support and services revenue were \$1,066 and \$752 for the three months ended December 31, 2007 and 2006, respectively. The increase in the cost of software license updates, technical support and services revenue for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of a \$200 increase in the cost of providing training to maintained customers on a when-and-if available basis beginning January 1, 2007, and a \$65 increase in the cost of labor associated with increases in staffing levels necessary to provide technical support to our customers. Gross margin on software license updates, technical support and services revenue decreased to 88.0% for the three months ended December 31, 2007 from 89.5% for the same period in fiscal 2007. Gross margin decreased for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, as a result of costs associated with providing training to maintained customers on a when-and-if available basis beginning January 1, 2007, and to a lesser extent, increases in the cost of labor associated with providing technical support to our customers. Stock-based compensation expense allocated to cost of software license updates, technical support and services was \$5 and \$3 for the three months ended December 31, 2007 and 2006, respectively. Cost of software license updates, technical support and services revenue was \$3,305 and \$2,220 for the nine months ended December 31, 2007 and 2006, respectively. The increase in the cost of software license updates, technical support and services revenue for the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of a \$709 increase in the cost of providing training to maintained customers on a when-and-if available basis beginning January 1, 2007 and a \$243 increase in the cost of labor associated with increases in staffing levels necessary to provide technical support to our customers. Gross margin on software license updates, technical support and services revenue decreased to 87.1% for the nine months ended December 31, 2007 from 89.2% for the same period in fiscal 2007. Gross margin decreased for the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, as a result of costs associated with offering training to maintained customers on a when-and-if available basis beginning January 1, 2007, and to a lesser extent, increases in the cost of labor associated with providing technical support to our customers. Stock-based compensation expense allocated to cost of software license updates, technical support and services was \$15 and \$12 for the nine months ended December 31, 2007 and 2006, respectively.

Cost of Professional Services Revenue. Cost of professional services revenue was \$4,886 and \$4,033 for the three months ended December 31, 2007 and 2006, respectively. The increase in cost of professional services revenue for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily due to an increase in personnel and facility costs related to the increase in our consulting staff necessary to meet demand for our consulting services. Gross margin on professional services revenue decreased to 29.2% for the three months ended December 31, 2007 from 36.6% for the same period in fiscal 2007. The decrease in gross margin for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of a decrease in the effective billing rates of certain consulting projects. Stock-based compensation expense allocated to cost of professional services was \$31 and \$23 for the three months ended December 31, 2007 and 2006, respectively. Cost of professional services revenue was \$13,778 and \$11,556 for the nine months ended December 31, 2007 and 2006, respectively. The increase in cost of professional services revenue for the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily due to an increase in personnel and facility costs related to the increase in our consulting staff necessary to meet demand for our consulting services. Gross margin on professional services revenue decreased to 31.9% for the nine months ended December 31, 2007 from 34.6% for the same period in fiscal 2007. The decrease in gross margin for the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of a decrease in the effective billing rates of certain consulting projects. Stock-based compensation expense allocated to cost of professional services was \$109 and \$147 for the nine months ended December 31, 2007 and 2006, respectively.

Operating Expenses

Research and Development. Research and development expenses were \$7,190 and \$5,512 for the three months ended December 31, 2007 and 2006, respectively, representing an increase of 30.4%. Research and development expenses were \$19,993 and \$16,101 for the nine months ended December 31, 2007 and 2006,

respectively, representing an increase of 24.2%. The increase in expenses for the three and nine months ended December 31, 2007, as compared to the same period in fiscal 2007, was largely due to higher personnel and facility costs resulting from increased staffing levels required for developing new products as well as sustaining and upgrading existing products. Stock-based compensation expense allocated to research and development was \$129 and \$88 for the three months ended December 31, 2007 and 2006, respectively, and \$400 and \$420 for the nine months ended December 31, 2007 and 2006, respectively.

Sales and Marketing. Sales and marketing expenses were \$10,744 and \$8,259 for the three months ended December 31, 2007 and 2006, respectively, representing an increase of 30.1%. The increase in expense was primarily due to higher personnel costs as a result of increased staffing levels necessary to pursue our business plan and higher commission expense. Sales and marketing expenses were \$28,859 and \$25,226 for the nine months ended December 31, 2007 and 2006, respectively, representing an increase of 14.4%. The increase in expense was due to higher personnel costs as a result of increased staffing levels necessary to pursue our business plan and increased commission expense, and to a lesser extent, higher conference costs and advertising, partially offset by a decrease in professional services fees. Stock-based compensation expense allocated to sales and marketing was \$91 and \$53 for the three months ended December 31, 2007 and 2006, respectively, and \$284 and \$245 for the nine months ended December 31, 2007 and 2006, respectively.

General and Administrative. General and administrative expenses were \$3,503 and \$2,854 for the three months ended December 31, 2007 and 2006, respectively, representing an increase of 22.7%. General and administrative expenses were \$8,933 and \$8,242 for the nine months ended December 31, 2007 and 2006, respectively, representing an increase of 8.4%. The increase in expense for the three and nine month periods was largely the result of \$718 of professional services expense associated with the acquisition of certain assets of Network Physics. Stock-based compensation expense allocated to general and administrative expense was \$106 and \$117 for the three months ended December 30, 2007 and 2006, respectively, and \$317 and \$323 for the nine months ended December 31, 2007 and 2006, respectively.

Interest and Other Income, net. Interest and other income, net, was \$902 and \$993 for the three months ended December 31, 2007 and 2006, respectively. The decrease in interest and other income for the three months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of a decrease in total cash, cash equivalents and marketable securities. Interest and other income, net, was \$2,953 and \$2,884 for the nine months ended December 31, 2007 and 2006, respectively. The increase in interest and other income for the nine months ended December 31, 2007, as compared to the same period in fiscal 2007, was primarily the result of an increase in interest rates, which was partially offset by a decrease in total cash, cash equivalents and marketable securities.

Provision for Income Taxes. Our effective tax rate was 9.2% and 18.8% for the three months ended December 31, 2007 and 2006, respectively. Our effective tax rate was 16.2% and 30.8% for the nine months ended December 31, 2007 and 2006, respectively. The effective tax rate differs from the statutory tax rate principally due to the tax credits available to us and due to the amount of tax exempt interest earned. The decrease in our effective tax rate for the three and nine months ended December 31, 2007, as compared to the same periods in the prior fiscal year, was largely due to our lower projected fiscal book income relative to our projected fiscal book to tax differences and an increase in our tax exempt interest income and tax credits.

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through cash provided by operating activities and through the sale of equity securities. In August 2000, we completed our initial public offering in which we raised approximately \$54,114, net of underwriting discounts and offering expenses payable by us. As of December 31, 2007 we had cash, cash equivalents and marketable securities totaling \$81,756.

Cash provided by operating activities was \$7,438 and \$4,706 for the nine months ended December 31, 2007 and 2006, respectively. Cash provided by operating activities is primarily derived from net income, as adjusted for non-cash items such as depreciation and amortization expense, and changes in operating assets and liabilities. The increase in cash provided by operating activities was primarily attributable to a decrease in accounts receivable and prepaid expenses and other current assets and an increase in deferred revenue and accrued liabilities.

Net cash used in investing activities was \$9,232 and \$36,957 for the nine months ended December 31, 2007 and 2006, respectively. Investing activities include the purchase, sale or maturity of marketable securities, purchase of technology and expenditures for property and equipment. For the nine months ended December 31, 2007, we used funds of \$10,005 to purchase certain assets from Network Physics, funds of \$93,557 to purchase marketable securities, and funds of \$3,548 to purchase property and equipment. We received proceeds of \$97,878 from the sale or maturity of investments for the nine months ended December 31, 2007. For the nine months ended December 31, 2006, we used funds of \$97,817 to purchase marketable securities, funds of \$1,559 to purchase property and equipment, and funds of \$331 to purchase acquired technology. We received proceeds of \$62,750 from the sale or maturity of investments for the nine months ended December 31, 2006.

Net cash used in financing activities was \$3,557 for the nine months ended December 31, 2007, and net cash provided by financing activities was \$1,710 for the nine months ended December 31, 2006. We used \$4,413 and \$847 to acquire 448 and 59 shares of treasury stock during the nine months ended December 31, 2007 and 2006, respectively. We used cash of \$14 to repurchase shares of restricted stock from employees to satisfy the minimum statutory withholding obligations with respect to the income recognized by these employees upon the vesting of their restricted stock shares during the quarter. We used cash of \$150 to repay the principal balance of a loan from the Department of Economic Development of the State of Maryland under the Maryland Economic Development Assistance Fund during the nine months ended December 31, 2006. Cash provided by financing activities generally reflects the proceeds received from the exercise of stock options and the sale of common stock under our ESPP. Excess tax benefits from the exercise of stock options are presented as a cash flow from financing activities. For the nine months ended December 31, 2007 and 2006, excess tax benefits from the exercise of stock options were \$32 and \$301, respectively.

We had commitments under certain contractual arrangements to make future payments for goods and services. These contractual arrangements secure the rights to various assets and services to be used in the future in the normal course of business. For example, we are contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with current accounting rules, the future rights and related obligations pertaining to such contractual arrangements are not reported as assets or liabilities on our consolidated balance sheets. We expect to fund these contractual arrangements with our cash and marketable securities as well as cash generated from operations in the normal course of business.

The following table summarizes our contractual arrangements at December 31, 2007, and the timing and effect that such commitments are expected to have on our liquidity and cash flow in future periods.

Contractual Obligations	Total	Payments Due by Period (dollars in thousands)			
		Less Than 1 Year	1 3 Years	3 5 Years	More than 5 Years
Facilities Operating Lease Obligations	\$ 19,544	\$ 4,613	\$ 8,718	\$ 3,091	\$ 3,122
Purchase Obligations	194	109	85		
FIN 48 Liability	836	230	527	79	
Total	\$ 20,574	\$ 4,952	\$ 9,330	\$ 3,170	\$ 3,122

As of December 31, 2007, we did not have any capital lease obligations. For more information regarding our office space, see our Annual Report on Form 10-K for the year ended March 31, 2007.

On October 19, 2007, we completed the acquisition of certain assets from Network Physics. The acquisition of certain assets contributed key components to our product portfolio for application performance management. Pursuant to the asset purchase agreement, the purchase price of \$10,005 was paid in cash from our working capital. We are in the process of completing the purchase price allocation and expect to complete the final analysis prior to March 31, 2008.

We expect working capital needs to increase in the foreseeable future in order to execute our business plan. We anticipate that operating activities, as well as planned capital expenditures in the normal course of business, will constitute a material use of our cash resources. In addition, we may utilize cash resources to fund acquisitions or investments in complementary businesses, technologies or products.

We believe that our current cash and cash equivalents, marketable securities, and cash generated from operations will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures for at least the next 12 months.

Contingencies

The Internal Revenue Service, or IRS, is examining our federal corporate income tax returns for fiscal 2002 and 2003. While the IRS examination of our returns is not final at this time, we have reached an agreement with respect to the amount of research and development tax credits that we claimed on our tax returns for those years. As a result of this agreement, we reduced the amount of the research and development tax credits claimed on our tax returns for fiscal 2002 and 2003 by approximately \$350 in aggregate. The IRS also asserted tax deficiencies related to the timing of revenue reported on our tax returns for fiscal 2002 and 2003. The IRS has asserted that revenue associated with certain contracts reported on our fiscal year 2003 tax return, should have been included in taxable income on our tax return for fiscal 2002. We do not believe any tax deficiencies related to the timing of reporting revenue will be material to the financial statements.

We are involved in other claims and legal proceedings arising from our normal operations. We do not expect these matters, individually or in the aggregate, to have a material effect on our financial condition, results of operations, or cash flows.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We consider all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, and those with maturities greater than three months are considered to be marketable securities. Our cash equivalents and marketable securities consist primarily of investment grade securities with high credit ratings of relatively short duration that trade in highly liquid markets. Accordingly, we have no quantitative information concerning the market risks and believe that the risk is minimal. Our marketable securities currently include auction rate securities. The majority of the auction rate securities held in our investment portfolio as of December 31, 2007 were collateralized by United States government-backed obligations. We have no current indications that the auction rate securities we hold may be impaired or may be difficult to liquidate at their current value. However, volatility in the credit markets could impact our ability to liquidate these investments or cause the fair value of the securities to be impaired. If liquidity of the securities becomes prohibitive, we may be forced to hold the securities until maturity or until market conditions improve which could be as long as 30 years. If the fair value of the securities deteriorates we would be required to adjust the carrying value of the securities. We currently do not hedge interest rate exposure, but we do not believe that an increase in interest rates would have a material effect on the value of the cash equivalents or marketable securities.

At December 31, 2007, we had \$29,461 in cash and cash equivalents and \$52,295 in marketable securities. Based on our cash, cash equivalents, and marketable securities as of December 31, 2007, a 100 basis point increase/decrease in the interest rates would increase/decrease our annual interest income and cash flows by approximately \$818.

The majority of our revenue transactions outside the United States are denominated in local currencies and the majority of operating expenses associated with our foreign subsidiaries are denominated in local currencies; therefore, our results of operations are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound and the European Union Euro. We currently do not hedge foreign exchange rate risk. Due to the limited nature of our foreign operations, we do not believe that a 5% change in exchange rates would have a material effect on our business, financial condition, or results of operations.

ITEM 4. Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the disclosure controls and procedures as of December 31, 2007. The disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2007, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Except for the implementation of PeopleSoft General Ledger and Accounts Payable modules, there have been no changes in our internal control over financial reporting occurred during the fiscal quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

(in thousands, except per share data)

ITEM 1. Legal Proceedings

We are involved in various claims and legal proceedings arising from our normal operations. We do not consider any of these matters to be material.

ITEM 1A. Risk Factors

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Report and presented elsewhere by us from time to time.

Our operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our stock to decline.

Our operating results have fluctuated in the past, and are likely to fluctuate significantly in the future. Our financial results may as a consequence fall short of the expectations of public market analysts or investors, which could cause the price of our common stock to decline. Our revenue and operating results may vary significantly from quarter to quarter due to a number of factors, many of which are beyond our control. Factors that could affect our operating results include:

the timing of large orders;

changes in the proportion of software arrangements requiring contract accounting;

changes in the mix of our sales, including the mix between higher margin software products and lower margin services and maintenance, and the proportion of our license sales requiring us to make royalty payments;

the timing and amount of our marketing, sales, and product development expenses;

the cost and time required to develop new software products;

the introduction, timing, and market acceptance of new products introduced by us or our competitors;

changes in network technology or in applications, which could require us to modify our products or develop new products;

general economic conditions, which can affect our customers' purchasing decisions, the length of our sales cycle, and our customers' ability to pay us on time, if at all;

changes in our pricing policies or those of our competitors; and

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the timing and size of potential acquisitions by us.

We expect to make significant expenditures in all areas of our business, particularly sales and marketing operations, in order to promote future growth. Because the expenses associated with these activities are relatively fixed in the short term, we may be unable to adjust spending quickly enough to offset any unexpected shortfall in revenue growth or any decrease in revenue levels. In addition, our revenue in any quarter depends substantially on orders we receive and ship in that quarter. We typically receive a significant portion of orders in any quarter during the last month of the quarter, and we cannot predict whether those orders will be placed and shipped in that period. If we have lower revenue than we expect, we may not be able to respond quickly enough to reduce our operating expenses. Therefore, any significant shortfall in revenue or delay of customer orders could have an immediate adverse effect on our operating results in that quarter.

For all of these reasons, quarterly comparisons of our financial results are not necessarily meaningful, and you should not rely on them as an indication of our future performance.

If we do not successfully expand our sales force, we may be unable to increase our sales.

We sell our products primarily through our direct sales force, and we must expand the size of our sales force to increase revenue. If we are unable to hire or retain qualified sales personnel, if newly hired personnel fail to develop the necessary skills to be productive, or if they reach productivity more slowly than anticipated, our ability to increase our revenue and grow our business could be compromised. Our sales people require a long period of time to become productive, typically three to nine months. The time required to reach productivity, as well as the challenge of attracting, training, and retaining qualified candidates, may make it difficult to meet our sales force growth targets. Further, we may not generate sufficient sales to offset the increased expense resulting from growing our sales force, or we may be unable to manage a larger sales force.

The market for intelligent network management software is new and evolving, and if this market does not develop as anticipated, our revenue could decline.

We derive all of our revenue from the sale of products and services that are designed to allow our customers to manage the performance of networks and applications. Accordingly, if the market for intelligent network and application management software does not continue to grow, we could face declining revenue, which could ultimately lead to our becoming unprofitable. The market for intelligent network and application management software solutions is evolving. Therefore, we cannot accurately assess the size of the market and may be unable to identify an effective distribution strategy, the competitive environment that will develop, and the appropriate features and prices for products to address the market. If we are to be successful, our current and potential customers must recognize the value of intelligent network management software solutions, decide to invest in the management of their networks, and, in particular, adopt and continue to use our software solutions.

Our customers are primarily in four target groups and our operating results may be adversely affected by changes in one or more of these groups.

Our software solutions and services are designed to meet the needs of enterprises, United States government agencies, service providers, and network equipment manufacturers, and we market our solutions and services to those four customer groups. Consequently, our financial results depend, in significant part, upon the economic conditions of enterprises, United States government agencies, service providers, and network equipment manufacturers. An economic downturn or adverse change in the regulatory environment or business prospects for one or more of these customer groups may decrease our revenue or lower our growth rate.

There are no remaining extensions on our consulting contract with the United States Department of Defense which will cause us to lose the revenue associated with this contract.

In January 2003, we were awarded a consulting contract with the United States Department of Defense. In January 2005, United States Department of Defense exercised the second of four possible contract extensions. The funding under this contract for calendar year 2005 was \$2,965. In February 2006, United States Department of Defense exercised the third of four possible contract extensions. The funding under this contract for calendar year 2006 was \$2,899. In February 2007, we were awarded the last contract option for calendar year 2007 in the amount of \$2,119. As of December 31, 2007, we received additional awards of \$2,905 associated with the February 2007 award of \$2,119. There are no remaining extensions and no guaranteed additional funding associated with this contract.

A decline in information technology spending may result in a decrease in our revenue or lower our growth rate.

A decline in the demand for information technology among our current and prospective customers may result in decreased revenue or a lower growth rate for us because our sales depend, in part, on our customers' budgets for new or additional information technology systems and services. A continued economic downturn may cause our customers to reduce or eliminate information technology spending and force us to lower prices of

our solutions, which would substantially reduce the number of new software licenses we sell and the average sales price for these licenses. Accordingly, we cannot assure you that we will be able to increase or maintain our revenue.

Our sales to United States government agencies subject us to special risks that could adversely affect our business.

We derive a substantial portion of our revenue from sales directly or indirectly to United States government agencies. Transactions with United States government agencies accounted for approximately 42% and 44% of our total revenue for the nine months ended December 31, 2007 and 2006, respectively. Government sales entail a variety of risks including:

Government contracts are subject to the approval of appropriations by the United States Congress to fund the expenditures by the agencies under these contracts. Congress often appropriates funds for government agencies on a yearly basis, even though their contracts may call for performance over a number of years.

A significant decline in government expenditures generally, or a shift in budget priorities away from agencies or programs that we support, could cause a material decline in our government business. In particular, a decline in government spending on information technology or related services could hurt our government business.

Our products and services are included on a General Services Administration, or GSA schedule. We believe that the GSA schedule facilitates our sales to United States government agencies. The loss of the GSA schedule covering our products and services could adversely affect our results of operations.

We must comply with complex federal procurement laws and regulations in connection with government contracts, which may impose added costs on our business.

Some of our government business requires that we maintain facility security clearances, and requires some of our employees to maintain individual security clearances. If we were to lose these clearances, our government business might decline.

The federal government audits and reviews the performance of federal contractors on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations, and standards. An audit of our work could result in a finding that we overcharged the government, which could result in an adjustment to our previously reported operating results. If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with United States federal government agencies.

Many of our government contracts are firm fixed-price contracts. To the extent that the assumptions we have used in pricing these contracts prove inaccurate, we could incur and accrue losses on contracts, which would adversely affect our operating results.

A portion of our sales to the United States government are made indirectly as a subcontractor to another government contractor, referred to as the prime contractor, who has the direct relationship with the government. We also team with prime contractors to bid on competitive government opportunities for which we hope to serve as a subcontractor. If prime contractors lose existing business on which we serve as a subcontractor, or fail to win the competitive bids on which we team with them, our government business would be hurt.

We could face expense and delay if any of our competitors, or competitors of the prime contractors to which we serve as a subcontractor, protest or challenge contract awards made to us or our prime contractors pursuant to competitive bidding.

Federal government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. These rights and remedies allow government clients, among other things, to terminate existing contracts, with short notice, for convenience without cause; reduce or modify contracts or subcontracts; and claim rights in products, systems, and technology produced by us.

If our newest products, particularly those targeted primarily for enterprises and United States government agencies, do not gain widespread market acceptance, our revenue might not increase and could even decline.

We expect to derive a substantial portion of our revenue in the future from sales to enterprises and United States government agencies of our *Application Performance Management* and *Network Operations* product offerings. Our business depends on customer acceptance of these products and our revenue may not increase, or may even decline, if our target customers do not adopt and expand their use of our products.

We may not be able to grow our business if service providers do not buy our products.

An element of our strategy is to continue selling to service providers our Network Planning and Design and our Network Operations product offerings. Accordingly, if our products fail to perform favorably in the service provider environment, or fail to gain wider adoption by service providers, our business and future operating results could suffer.

Our lengthy and variable sales cycle makes it difficult to predict operating results.

It is difficult for us to forecast the timing and recognition of revenue from sales of our products because prospective customers often take significant time evaluating our products before licensing them. The period between initial customer contact and a purchase by a customer may vary from three months to more than a year. During the sales process, the customer may decide not to purchase or may reduce proposed orders of our products for various reasons, including changes in budgets and purchasing priorities. Our prospective customers routinely require education regarding the use and benefit of our products. This may also lead to delays in receiving customers' orders.

Our ability to increase our sales may be impaired if we do not expand and manage our indirect distribution channels.

To increase our sales, we must, among other things, further expand and manage our indirect distribution channels, which consist primarily of international distributors and original equipment manufacturers and resellers. If we are unable to expand and manage our relationships with our distributors, our distributors are unable or unwilling to market and sell our products effectively, or we lose existing distributor relationships, we might not be able to increase our revenue. Our international distributors and original equipment manufacturers and resellers have no obligation to market or purchase our products. In addition, they could partner with our competitors, bundle or resell competitors' products, or internally develop products that compete with our products.

We may not be able to successfully manage our expanding operations, which could impair our ability to operate profitably.

We may be unable to operate our business profitably if we fail to manage our growth. Our growth has sometimes strained, and may in the future continue to strain, our managerial, administrative, operational, and financial resources and controls. We plan to continue to expand our operations and increase the number of our full-time employees. Our ability to manage growth may depend in part on our ability to continue to enhance our operating, financial, and management information systems. Our personnel, systems, and controls may not be adequate to support our growth. In addition, our revenue may not continue to grow at a sufficient rate to absorb the costs associated with a larger overall employee base.

If we are unable to introduce new and enhanced products on a timely basis that respond effectively to changing technology, our revenue may decline.

Our market is characterized by rapid technological change, changes in customer requirements, frequent new product and service introductions and enhancements, and evolving industry standards. If we fail to develop and introduce new and enhanced products on a timely basis that respond to these changes, our products could become obsolete, demand for our products could decline and our revenue could fall. Advances in network management technology, software engineering, and simulation technology, or the emergence of new industry standards, could lead to new competitive products that have better performance, more features, or lower prices than our products and could render our products unmarketable.

Our future revenue is substantially dependent upon our existing customers continuing to license additional products, renew maintenance agreements, and purchase additional services.

Our existing customers have traditionally generated additional revenue from consulting services, renewed maintenance agreements, and purchase of additional software licenses, which represent a majority of our annual revenue. The maintenance agreements are generally renewable at the option of the customers and there are no mandatory payment obligations or obligations to license additional software. In addition, customers may decide not to purchase additional products or services. If our existing customers fail to renew their maintenance agreements or purchase additional products or services, our revenue could decrease.

Increases in professional services revenue as a percentage of total revenue could decrease overall margin.

We realize lower gross margin on professional service revenue than we do on other types of revenue. As a result, if professional services revenue increases as a proportion of total revenue, our gross margin will be lower.

The following table outlines the gross margin for our three types of revenue for the periods indicated:

	Nine Months Ended December 31,	
	2007	2006
New software licenses	97.4%	98.4%
Software license updates, technical support, and services	87.1	89.2
Professional services revenue	31.9	34.6

If we fail to retain our key personnel and attract and retain additional qualified personnel, we might not be able to maintain our current level of revenue.

Our future success and our ability to maintain our current level of revenue depend upon the continued service of our executive officers and other key sales and research and development personnel. The loss of any of our key employees, in particular Marc A. Cohen, our Chairman of the Board and Chief Executive Officer, and Alain J. Cohen, our President and Chief Technology Officer, could also adversely affect our ability to pursue our growth strategy. We do not have employment agreements or any other agreements that obligate any of our officers or key employees to remain with us.

We must also continue to hire highly qualified individuals, particularly software engineers and sales and marketing personnel. Our failure to attract and retain technical personnel for our product development, consulting services, and technical support teams may limit our ability to develop new products or product enhancements. Competition for these individuals is intense, and we may not be able to attract and retain additional highly qualified personnel in the future. In addition, limitations imposed by federal immigration laws and the availability of visas could impair our ability to recruit and employ skilled technical professionals from other countries to work in the United States.

Our international operations subject our business to additional risks, which could cause our sales or profitability to decline.

We plan to increase our international sales activities, but these plans are subject to a number of risks that could cause our sales to decline or could otherwise cause a decline in profitability. These risks include:

difficulty in attracting distributors that will market and support our products effectively;

greater difficulty in accounts receivable collection and longer collection periods;

the need to comply with varying employment policies and regulations that could make it more difficult and expensive to manage our employees if we need to establish more direct sales or support staff outside the United States;

potentially adverse tax consequences;

the effects of currency fluctuations; and

political and economic instability.

We expect to face increased competition, which could cause us to lose sales, resulting in lower profitability.

Increasing competition in our market could cause us to lose sales and become unprofitable. We believe that the market for intelligent network management software is likely to become more competitive as it evolves and the demand for intelligent network management solutions continues to increase. At least one of our current competitors and many of our potential competitors are larger and have substantially greater financial and technical resources than we do. In addition, it is possible that other vendors as well as some of our customers or distributors may develop and market solutions that compete with our products in the future.

If our products contain errors and we are unable to correct those errors, our reputation could be harmed and our customers could demand refunds from us or assert claims for damages against us.

Our software products could contain significant errors or bugs that may result in:

the loss of or delay in market acceptance and sales of our products;

the delay in introduction of new products or updates to existing products;

diversion of our resources;

injury to our reputation; and

increased support costs.

Bugs may be discovered at any point in a product's life cycle. We expect that errors in our products may be found in the future, particularly in new product offerings and new releases of our current products.

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Because our customers use our products to manage networks that are critical to their business operations, any failure of our products could expose us to product liability claims. In addition, errors in our products could cause our customers' networks and systems to fail or compromise their data, which could also result in liability to us. Product liability claims brought against us could divert the attention of management and key personnel, could be expensive to defend, and may result in adverse settlements and judgments.

Our software products rely on our intellectual property, and any failure to protect our intellectual property could enable our competitors to market products with similar features that may reduce our revenue and could allow the use of our products by users who have not paid the required license fee.

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products similar to our products, which could reduce our revenue. In addition, we may be unable to

prevent the use of our products by persons who have not paid the required license fee, which could reduce our revenue. Our success and ability to compete depend substantially upon the internally-developed technology that is incorporated in our products. Policing unauthorized use of our products is difficult, and we may not be able to prevent misappropriation of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as those in the United States. Others may circumvent the patents, copyrights, and trade secrets we own. In the ordinary course of business, we enter into a combination of confidentiality, non-competition, and non-disclosure agreements with our employees.

These measures afford only limited protection and may be inadequate, especially because our employees are highly sought after and may leave our employ with significant knowledge of our proprietary information. In addition, any confidentiality, non-competition and non-disclosure agreements we enter into may be found to be unenforceable, or our copy protection mechanisms embedded in our software products could fail or could be circumvented.

Our products employ technology that may infringe on the proprietary rights of others, and, as a result, we could become liable for significant damages.

We expect that our software products may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionalities of products in different industry segments overlap.

Regardless of whether these claims have any merit, they could:

be time-consuming to defend;

result in costly litigation;

divert our management's attention and resources;

cause us to delay or cease product shipments; or

require us to enter into royalty or licensing agreements.

These royalty or licensing agreements may not be available on terms acceptable to us, or at all. A successful claim of product infringement against us or our failure or inability to license the infringed or similar technology could adversely affect our business because we would not be able to sell the affected product without redeveloping it or incurring significant additional expense.

Future interpretations of existing accounting standards could adversely affect our operating results.

The Securities and Exchange Commission, American Institute of Certified Public Accountants, Financial Accounting Standards Board, and various other authoritative accounting bodies continue to issue interpretations and guidance for applying the relevant standards to a wide range of sales contract terms and business arrangements that are prevalent in the software industry. Future interpretations of existing accounting standards or changes in our business practices could result in future changes in our revenue recognition accounting policies that could have a material adverse effect on our results of operations.

As with other software vendors, we may be required to delay revenue recognition into future periods, which could adversely affect our operating results.

We have in the past had to, and in the future may have to, defer recognition for license fees due to several factors, including whether:

software arrangements include undelivered elements for which we do not have vendor specific evidence of fair value;

we must deliver services for significant customization, enhancements and modifications of our software;

the transaction involves material acceptance criteria or there are other identified product-related issues;

the transaction involves contingent payment terms or fees;

we are required to accept a fixed-fee services contract; or

we are required to accept extended payment terms.

Because of the factors listed above and other specific requirements under accounting principles generally accepted in the United States of America for software revenue recognition, we must have very precise terms in our software arrangements in order to recognize revenue when we initially deliver software or perform services. Negotiation of mutually acceptable terms and conditions can extend the sales cycle, and sometimes we do not obtain terms and conditions that permit revenue recognition at the time of delivery.

If we undertake acquisitions, they may be expensive and disruptive to our business and could cause the market price of our common stock to decline.

We completed our acquisition of certain assets of Network Physics in October 2007. We may continue to acquire or make investments in companies, products or technologies if opportunities arise. Any acquisition could be expensive, disrupt our ongoing business, distract our management and employees, and adversely affect our financial results and the market price of our common stock. We may not be able to identify suitable acquisition or investment candidates, and if we do identify suitable candidates, we may not be able to make these acquisitions or investments on commercially acceptable terms or at all. If we make an acquisition, we could have difficulty integrating the acquired technology, employees, or operations. In addition, the key personnel of the acquired company may decide not to work for us.

We also expect that we would incur substantial expenses if we acquired other businesses or technologies. We might use cash on hand, incur debt, or issue equity securities to pay for any future acquisitions. If we issue additional equity securities, our stockholders could experience dilution and the market price of our stock may decline.

Our products are subject to changing computing environments, including operating system software and hardware platforms, which could render our products obsolete.

The evolution of existing computing environments and the introduction of new popular computing environments may require us to redesign our products or develop new products. Computing environments, including operating system software and hardware platforms, are complex and change rapidly. Our products are designed to operate in currently popular computing environments. Due to the long development and testing periods required to adapt our products to new or modified computing environments, our research and development efforts could be distracted and we could experience significant delays in product releases or shipments, which could result in lost revenue and significant additional expense.

ITEM 2. Unregistered Sales of Securities and Use of Proceeds

In August 2000, we closed an initial public offering of our common stock. The Registration Statement on Form S-1 (No. 333-32588) was declared effective by the Securities and Exchange Commission on August 1, 2000 and we commenced the offering on that date. After deducting the underwriting discounts and commissions and the offering expenses, the net proceeds from the offering were approximately \$54,114. We continue to use the net proceeds for general corporate expenses, working capital and capital expenditures.

Issuer Purchases of Equity Securities

(share numbers in thousands)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 31, 2007				238
November 1 30, 2007	160	\$ 8.83	160	78
December 1 31, 2007	40	\$ 9.17	40	38
Total	200	\$ 8.90	200	38

(1) On January 31, 2005, our Board of Directors authorized the repurchase of up to 1,000 shares of our common stock from time to time on the open market or in privately negotiated transactions. This stock repurchase program does not have a specified termination date. Any repurchased shares will be available for use in connection with our stock plans or other corporate purposes. As of December 31, 2007, we had repurchased 962 shares of common stock under this program.

On February 4, 2008, our Board of Directors approved an increase of 1,000 shares under our stock repurchase program. The increase is in addition to the repurchase of up to 1,000 shares authorized by the Board of Directors in January 2005. This stock repurchase program does not have a specified termination date. Any repurchased shares will be available for use in connection with our stock plans or other corporate purposes.

ITEM 6. Exhibits

Exhibits: See Exhibit Index

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OPNET TECHNOLOGIES, INC.
(Registrant)

Date: February 11, 2008

By: /s/ MEL F. WESLEY
Name: **Mel F. Wesley**
Title: **Vice President and Chief Financial Officer**

OPNET TECHNOLOGIES, INC.

EXHIBIT INDEX

Exhibit

Number	Description	Source
*31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended	Exhibit 31.1 to this Quarterly Report on Form 10-Q.
*31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended	Exhibit 31.2 to this Quarterly Report on Form 10-Q.
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 32.1 to this Quarterly Report on Form 10-Q.
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 32.2 to this Quarterly Report on Form 10-Q.

* filed herewith