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OPNET TECHNOLOGIES INC
Form 10-Q
August 09, 2002

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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 June 30, 2002

OR

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

(Commission file number: 000-30931)

OPNET TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	7372	52-1483235
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

7255 Woodmont Avenue
Bethesda, MD 20814
(Address of principal executive office)

(240) 497-3000
(Registrant's telephone number, including area code)

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

At July 31, 2002, there were outstanding 19,251,265 shares of common stock of the registrant.

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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)

June
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ASSETS

Current assets:

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Cash and cash equivalents	\$ 6
Accounts receivable, net of \$293 and \$203 in allowance for doubtful accounts at June 30 and March 31, 2002, respectively	
Unbilled accounts receivable	
Refundable income taxes	
Prepaid expenses and other current assets	
Total current assets	7
Property and equipment, net	
Intangible assets, net	
Goodwill	1
Other assets	
Total assets	\$ 9
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$
Accrued liabilities	
Deferred and accrued income taxes	
Deferred revenue	
Total current liabilities	1
Note payable	
Deferred rent	
Deferred revenue	
Deferred income taxes	
Total liabilities	1

Commitments and contingencies	
Stockholders' equity:	
Preferred stock- par value \$0.001; 5,000 shares authorized, no shares issued and outstanding at June 30 and March 31, 2002	
Common stock-par value \$0.001; 100,000 authorized; 25,385 and 25,220 shares issued at June 30 and March 31, 2002, respectively; 19,251 and 19,086 shares outstanding at June 30 and March 31, 2002, respectively	
Additional paid-in capital	7
Deferred compensation	
Retained earnings	1
Accumulated other comprehensive income (loss)	
Treasury stock - 6,134 shares at June 30 and March 31, 2002	(4
Total stockholders' equity	8
Total liabilities and stockholders' equity	\$ 9
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See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended June 30,	
	2002	2001
	(in thousands, except per share data)	
Revenues:		
Software licenses	\$ 7,182	\$ 6,530
Services	3,995	4,600
Total revenues	11,177	11,130
Cost of revenues:		
Software licenses	200	110
Services	1,670	1,519
Total cost of revenues	1,870	1,629
Gross profit	9,307	9,501
Operating expenses:		
Research and development	3,141	3,154
Sales and marketing	4,518	4,169
General and administrative	1,185	985
Amortization of acquired technology	125	100
Total operating expenses	8,969	8,408
Income from operations	338	1,093
Interest and other income, net	283	651
Income before provision for income taxes	621	1,744
Provision for income taxes	172	569
Net income	\$ 449	\$ 1,175
Basic net income per common share	\$ 0.02	\$ 0.06
Diluted net income per common share	\$ 0.02	\$ 0.06
Weighted average common shares outstanding (basic)	19,163	18,809
Weighted average common shares outstanding (diluted)	19,910	20,238

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended June 30,	
	2002	2001
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 449	\$ 1,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	406	500
Provision for losses on accounts receivable	90	-
Deferred income taxes	(272)	(24)
Tax benefit from exercise of nonqualified stock options	-	53
Expense related to employee stock options	18	22
Changes in assets and liabilities:		
Accounts receivable	(887)	(747)
Prepaid expenses and other current assets	64	844
Loans to employees	-	231
Refundable income taxes	940	320
Deposits and other assets	62	16
Accounts payable	26	188
Accrued liabilities	(129)	(2,284)
Accrued income taxes	(53)	108
Deferred revenue	130	24
Deferred rent	66	84
Net cash provided by operating activities	910	510
Cash flows from investing activities:		
Acquisition	-	(1,156)
Purchase of property and equipment	(204)	(1,797)
Net cash used in investing activities	(204)	(2,953)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	156	212
Proceeds from issuance of common stock under employee stock purchase plan	165	209
Net cash provided by financing activities	321	421
Effect of exchange rate changes on cash and cash equivalents	11	(6)
Net increase (decrease) in cash and cash equivalents	1,038	(2,028)
Cash and cash equivalents, beginning of period	62,240	62,623
Cash and cash equivalents, end of period	\$ 63,278	\$ 60,595

See accompanying notes to condensed consolidated financial statements.

OPNET TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Nature of Operations

OPNET Technologies, Inc. ("OPNET", "we" or "us") provides intelligent network management software solutions that enable organizations to optimize the performance and maximize the availability of communications networks and networked applications. The OPNET product suite combines predictive modeling and a comprehensive understanding of networking technologies to enable network professionals to more effectively design and deploy networks, provision services, diagnose network and application performance problems, predict the impact of network changes, and efficiently plan capital investments. OPNET is headquartered in Bethesda, Maryland and has offices in Cary, NC; Dallas, TX; Santa Clara, CA; Paris, France; Oxford, United Kingdom; Sydney, Australia; and Ghent, Belgium.

The accompanying condensed consolidated financial statements include our results and the results of our wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The interim financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim 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, 2002, filed with the SEC. The March 31, 2002 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 financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly our results for the interim periods. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, our operating results for the three months ended June 30, 2002 may not be indicative of the operating results for the full fiscal year or any other future period.

2. Credit Agreement

Effective June 10, 2002, we entered into a \$10.0 million line of credit facility with a commercial bank. The line of credit permits the use of funds for general corporate purposes and the issuance of letters of credit up to a maximum of \$10.0 million. Borrowings under the credit facility are limited to 80% of eligible accounts receivable. We used the facility to issue a letter of credit for approximately \$3.4 million to satisfy the security deposit requirements for our corporate office lease. Interest is payable monthly, based on LIBOR plus the applicable margin ranging from 2% to 2.5% as stated in the loan agreement. The credit facility includes a fee in the amount of 0.25% per annum on the unused portion of the line of credit. The credit facility is collateralized by our accounts receivable and there are also certain financial ratios and conditions

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that we must maintain under the terms of the loan agreement, as well as certain covenants with which we must comply. The line of credit facility expires June 10, 2004. As of June 30, 2002, we had no borrowings under the available line of credit.

3. Stockholders' Equity

During the three months ended June 30, 2002, we received proceeds of approximately \$156,000 and issued 143,323 shares of Common Stock pursuant to employee exercises of stock options. During the three months ended June 30, 2002 employees purchased 21,708 shares of Common Stock under the 2000 Employee Stock Purchase Plan, resulting in proceeds to us of approximately \$165,000.

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4. Net Income per Common Share

The following is a reconciliation of the amounts used in calculating basic and diluted net income per common share for the three months ended June 30, 2002 and 2001:

	Three Months Ended June 30,	
	2002	2001
	(in thousands, except per share data)	
Income (Numerator):		
Net income (basic and diluted)	\$ 449	\$ 1,175
	=====	=====
Shares (Denominator):		
Weighted average shares outstanding (basic)	19,163	18,809
Plus:		
Effect of other dilutive securities - options	747	1,429
	-----	-----
Weighted average shares outstanding (diluted)	19,910	20,238
	=====	=====
Net income per common share:		
Basic net income per common share	\$ 0.02	\$ 0.06
Diluted net income per common share	\$ 0.02	\$ 0.06

5. Business Segment and Geographic Information

We operate in one industry segment, the development and sale of computer software programs and related services. Revenues from transactions with U.S. government agencies were approximately 33% and 25% of total revenues for the three months ended June 30, 2002 and 2001, respectively. Total receivables from transactions with U.S. government agencies were approximately 39% at June 30, 2002. Revenues from transactions outside the United States, based on shipping destination, were approximately 22% and 17% of total revenues for the three months ended June 30, 2002 and 2001, respectively. Substantially all assets were held in the United States at June 30 and March 31, 2002.

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6. Supplemental Cash Flow Information

	Three Months Ended June 30,	
	2002	2001
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ -	\$ 105
Cash paid for interest	-	43
Supplemental disclosure of non-cash activities:		
Accrued tenant allowance	\$ -	\$ 423
Post-closing acquisition adjustments	-	217

7. Comprehensive Income

Comprehensive income includes net income and foreign currency translation adjustments. For the three months ended June 30, 2002, our comprehensive income was \$460,000, and included accumulated foreign currency translation gains of approximately \$11,000.

8. New Accounting Pronouncement

In July 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 146 (SFAS No. 146), "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS No. 146 to have a material effect on our consolidated financial position, results of operations, or cash flows.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis relates to our financial condition and results of operations for the three months ended June 30, 2002 ("Quarter 2003") and June 30, 2001 ("Quarter 2002"), and should be read in conjunction with our 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 our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended March 31, 2002, filed with the SEC.

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This report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," and "would" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict or control accurately. The factors listed in this section, as well as any cautionary language contained herein, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should also carefully review the risks outlined in other documents that we file from time to time with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q that we will file in fiscal 2003.

Overview

Introduction. Founded in 1986, we are the pioneer and leading provider of intelligent network management software. OPNET software embeds expert knowledge on how network devices, network protocols, applications and servers operate. This intelligence enables users in network operations, engineering, planning, and application development to be far more effective in optimizing performance and availability of their networks and applications. We believe our software solutions generate significant return on investment to a broad customer base, including corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers by empowering them to rapidly make better use of resources, reduce operational problems and improve competitiveness.

We market focused software solutions for each of our target markets. OPNET IT Guru, which was launched in August 1998 and OPNET SP Guru, which was launched in June 2001, are our platform intelligent network management products for enterprises and service providers, respectively. OPNET WDM Guru, which was launched in December 2001, is an optical network planning product for network equipment manufacturers and service providers. OPNET Modeler, our first product that was launched in 1987, is a modeling and simulation product for network R&D, mainly sold to network equipment manufacturers. OPNET Netbiz applications are custom solutions developed with the OPNET Development Kit (ODK), which were launched in August 1998, and are sold primarily to network equipment manufacturers. Finally, OPNET VNE Server, which was launched in June 2002, is an on-line continuously operating software product that maintains a valid comprehensive view of the network, including infrastructure, configuration and performance data. OPNET VNE Server merges and validates multiple sources of information into a cohesive model. This product is sold mainly to enterprises and service providers. We sell each of these products to government and defense agencies.

Revenues. We generate revenues principally from licensing our intelligent network management software products and providing related services, including maintenance and technical support, consulting and training. Our software license revenues consist of perpetual and term license sales of our software products.

Our service revenues consist of fees from maintenance and technical support agreements, consulting services and training. The maintenance agreements covering our products provide for technical support and periodic unspecified product upgrades. In July 2001, we changed our business practice to allow our customers to separately purchase periodic unspecified product upgrades without purchasing technical support. Revenue related to periodic unspecified product upgrades is now included in license revenue. Revenue related to technical

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support is included in service revenue. License revenue from unspecified product upgrades was approximately \$1.7 million in Quarter 2003. We offer consulting services, generally under fixed-price agreements, primarily to provide product customization and enhancements. We provide classroom and on-site training to our customers on a daily fee basis.

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Revenues from sales outside of the United States represented approximately 22% and 17% of our total revenues in Quarter 2003 and 2002, respectively. Sales outside the United States were primarily made through our Paris, France and Oxford, United Kingdom offices as well as third-party distributors and value-added resellers, who are generally responsible for providing technical support and service to customers within their territory. We expect revenues from sales outside the United States to continue to account for a significant portion of our total revenues in the future. We believe that continued growth and profitability will require further expansion of our sales, marketing and customer service functions in international markets. We expect to commit additional time and development resources to customizing our products and services for selected international markets.

Results of Operations

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

	Three Months Ended June 30,	
	2002	2001
Revenues:		
Software licenses	64.3%	58.7%
Services	35.7	41.3
Total revenues	100.0	100.0
Cost of revenues:		
Software licenses	1.8	1.0
Services	14.9	13.6
Total cost of revenues	16.7	14.6
Gross profit	83.3	85.4
Operating expenses:		
Research and development	28.1	28.3
Sales and marketing	40.4	37.5
General and administrative	10.6	8.8
Amortization of acquired intangibles	1.1	0.9
Total operating expenses	80.2	75.5
Income from operations	3.1	9.9
Interest and other income, net	2.5	5.8
Income before provision for income taxes	5.6	15.7

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Provision for income taxes	1.6	5.1
	-----	-----
Net income	4.0%	10.6%
	=====	=====

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

	Three Months Ended June 30,	
	2002	2001
	-----	-----
Cost of software license revenues	2.8%	1.7%
Cost of service revenues	41.8	33.0

Revenues

Software License Revenues. Software license revenues were \$7.2 million and \$6.5 million for Quarter 2003 and Quarter 2002, respectively, representing an increase of 10.0% in Quarter 2003 from Quarter 2002. This growth is due to increased overall demand for our products, revenue contribution from new products, increased penetration of international markets, expansion of marketing and direct sales force and revenue contribution of approximately \$1.7 million from the change in business practice in July 2001 to allow customers to separately purchase unspecified product upgrades without purchasing technical support. However, revenue contribution from increased sales volume was partially offset by discounts associated with

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pricing strategies and product bundling. For Quarter 2003, growth in sales to enterprises of OPNET IT Guru, Application Characterization Environment ("ACE"), ACE Decode Module, NetDoctor and Flow Analysis offset a significant decline in sales to network equipment manufacturers of OPNET Modeler.

We may experience a slower rate of growth in overall software license revenues in the near-term due to potentially lower spending levels by enterprise IT organizations, service providers and network equipment manufacturers as a result of a challenging economy.

Service Revenues. Service revenues were \$4.0 million and \$4.6 million in Quarter 2003 and Quarter 2002, respectively, representing a decrease of 13.2% in Quarter 2003 from Quarter 2002. The decrease results from the adverse impact on service revenues from the change in business practice in July 2001 to allow customers to separately purchase unspecified periodic product upgrades (license revenue) and technical support (service revenue). This decrease is partially offset by growing demand for our consulting services, including engagements with U.S. government agencies, renewals of technical support contracts by our installed base of customers, and additional technical support contracts related to new license sales. We expect service revenues to decline in the near-term as more of our customers purchase unspecified periodic product upgrades separately from technical support. Our ability to grow service revenues will be dependent on our ability to expand our installed base of customers and our ability to

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maintain several large consulting contracts with U.S. government agencies.

Cost of Revenues

Cost of software license revenues consists primarily of royalties, media, manuals, and distribution costs. Cost of service revenues consists primarily of personnel-related costs in providing maintenance and technical support, consulting and training to customers. Gross margin on software license revenues is substantially higher than gross margin on service revenues, due to the low materials, packaging and other costs of software products compared with the relatively high personnel costs associated with providing services.

Cost of Software License Revenues. Cost of software license revenues were \$200,000 and \$110,000 in Quarter 2003 and Quarter 2002, respectively. Gross margin on software licenses revenue decreased to 97.2% for Quarter 2003 from 98.3% for Quarter 2002. The decrease in gross margin in Quarter 2003 from Quarter 2002 is primarily due to an increase in sales requiring royalty payments under licensing agreements.

Cost of Service Revenues. Cost of service revenues were \$1.7 million and \$1.5 million in Quarter 2003 and Quarter 2002, respectively, representing an increase of 9.9% in Quarter 2003 from Quarter 2002. Gross margin on service revenues decreased to 58.2% in Quarter 2003 from 67.0% in Quarter 2002 primarily due to a higher proportion of service revenues derived from consulting services, which provide lower gross margins than maintenance services. We expect cost of service revenues as a percentage of service revenues to vary based primarily on the profitability of individual consulting engagements.

Operating Expenses

Research and Development. Research and development expenses were \$3.1 million and \$3.2 million in Quarter 2003 and Quarter 2002, respectively. This slight decrease is the result of a reduction in discretionary bonuses in Quarter 2003 compared to Quarter 2002; partially offset by an increase in personnel costs from increased headcount as a result of the WDM NetDesign acquisition in January 2002 and increased staffing levels for developing new products as well as sustaining and upgrading existing products.

We believe that a significant level of research and development investment will be required to maintain our competitive position and broaden our product lines, as well as to enhance the features and functionality of our current products. We expect the absolute dollar amount of these expenditures will continue to grow but generally decrease as a percentage of total revenues in future periods. Our ability to decrease these expenses as a percentage of revenue will depend upon our revenue growth, among other factors.

Sales and Marketing. Sales and marketing expenses were \$4.5 million and \$4.2 million in Quarter 2003 and Quarter 2002, respectively. The 8.4% increase in Quarter 2003 from Quarter 2002 is primarily due to an increase in the size of our direct sales force, including the addition of sales offices in the United Kingdom and Australia in the second half of fiscal year 2002, increased commissions associated with the growth in revenues, and higher conference costs.

As a percentage of total revenues, sales and marketing expenses increased to 40.4% in Quarter 2003 from 37.5% in Quarter 2002. This increase was due to our additional investment of resources associated with developing market awareness for our products and increased costs related to our direct sales force. We anticipate that we will continue

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to commit substantial resources to sales and marketing in the future and that sales and marketing expenses may increase in absolute dollars and as a percentage of total revenue in future periods.

General and Administrative. General and administrative expenses were \$1.2 million and \$985,000 in Quarter 2003 and Quarter 2002, respectively. The 20.3% increase in Quarter 2003 from Quarter 2002 is primarily due to higher legal, accounting and other professional fees, bad debt expense and personnel costs. This increase was partially offset by a decrease in discretionary bonuses for Quarter 2003 compared to Quarter 2002.

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 revenues in future periods. Our ability to decrease these expenses as a percentage of revenues will depend upon our revenue growth, among other factors.

Amortization of Acquired Technology. In connection with our acquisitions of NetMaker in March 2001 and WDM NetDesign in January 2002, we recorded acquired technology of \$2.5 million. Amortization of acquired technology was \$125,000 in Quarter 2003 and \$100,000 in Quarter 2002.

Interest and Other Income, Net

Interest and other income, net were \$283,000 and \$651,000 in Quarter 2003 and Quarter 2002, respectively. The decrease of \$368,000 in Quarter 2003 from Quarter 2002 is primarily due to a reduction in interest income earned on our cash and cash equivalents due to the decline in interest rates throughout the period.

Provision for Income Taxes

Our effective tax rates were 28% and 33% for Quarter 2003 and Quarter 2002, respectively. The effective tax rate differs from the statutory tax rate and varies from period to period due principally to the amount of income before taxes from various tax jurisdictions and the amount of tax credits available to us in each period from incremental research expenditures.

We expect our effective tax rate in the near-term to range from 28% to 32%; however, future provisions for taxes will depend, among other things, on the mix and amount of worldwide income, the tax rates in effect for various tax jurisdictions and the amount of research 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 \$54.1 million, net of underwriting discounts and offering expenses payable by us. As of June 30, 2002, we had cash and cash equivalents totaling \$63.3 million.

Cash provided by operating activities was \$910,000 and \$510,000 for Quarter 2003 and Quarter 2002, respectively. Cash provided by operating activities is primarily derived from net income, as adjusted for depreciation and amortization and increases in deferred revenue, changes in accrued liabilities and increases in accounts receivable balances. The increase in cash provided by operations in Quarter 2003 from Quarter 2002 was generated, in part, by (i) the collection of refundable income taxes in Quarter 2003 from tax credits for incremental research expenditures and (ii) no discretionary bonus payments in Quarter 2003, offsetting the lower profitability in Quarter 2003. Accounts receivable

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increased \$797,000 from March 31, 2002 to June 30, 2002 due to higher customer billing activity late in Quarter 2003 and to the billing terms of certain consulting contracts.

Cash used in investing activities was \$204,000 and \$3.0 million for Quarter 2003 and Quarter 2002, respectively. The funds were used to purchase property and equipment for our corporate headquarters in Bethesda, Maryland. Cash used in investing activities for Quarter 2002 also includes the costs incurred for the NetMaker acquisition.

Cash provided by financing activities was \$321,000 and \$421,000 for Quarter 2003 and Quarter 2002, respectively. Cash provided by financing activities reflects the proceeds received from the exercise of stock options and the sale of common stock under our 2000 Employee Stock Purchase Plan.

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As discussed in Note 2 to our condensed consolidated financial statements, effective June 10, 2002, we entered into a \$10.0 million line of credit with a commercial bank, which expires in June 2004. Borrowings under our line of credit bear interest at an annual rate equal to LIBOR plus 2% to 2.5%. We have currently used \$3.4 million of the facility for a letter of credit that secures the lease for our headquarters in Bethesda, Maryland. There was no balance outstanding on this line of credit as of June 30, 2002.

As of June 30, 2002, we did not have any significant contractual commitments other than operating leases for office facilities.

We expect working capital needs to increase in the foreseeable future in order for us to execute our business plan. We anticipate that operating activities, as well as planned capital expenditures, 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 and cash generated from operations, along with available borrowings under our line of credit, will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures for at least the next 12 months.

Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles requires us to utilize accounting policies and make estimates and assumptions that affect our reported amounts. Future results may differ from these estimates under different assumptions or conditions. We consider the following accounting policies to be both important to the portrayal of our financial position and results of operations and require the exercise of significant, subjective, or complex judgment and/or estimates.

Revenue Recognition. We recognize revenue in accordance with Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition", as amended by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions", SOP No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" and the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

For our software arrangements, a determination needs to be made for each arrangement regarding whether the percentage-of-completion contract accounting

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method should be used to recognize revenue or whether revenue can be recognized when the software is delivered and all of the conditions of SOP 97-2 are met. Contract accounting is required if our services are essential to the arrangement. In some cases, our services are essential to the arrangement because they involve customization and enhancements, and our fees are paid in stages based upon the completion of defined service deliverables. As a result, we typically recognize revenue from these arrangements using contract accounting, which generally results in recording revenue over a longer period of time. In other cases, our services are not essential to the arrangement and the realization of our license fee is not dependent on the completion of such services. In these situations, we recognize software license revenue when (1) persuasive evidence of an arrangement exists, (2) the product has been delivered, (3) the fee is fixed or determinable, and (4) collectibility is probable, which generally results in recording revenue earlier than when contract accounting is used. The determination of whether our services are essential involves significant judgment and could have a material impact on our results of operations from period to period to the extent that significant new arrangements are not accounted for using contract accounting.

Under the percentage-of-completion contract accounting method, we recognize revenue from the entire arrangement based on the percentage of hours incurred related to our services compared to the total hours of such services. Using the percentage-of-completion method requires us to make estimates about the future cost of services and estimated hours to complete, which are subject to change for a variety of internal and external factors. A change in these estimates could result in a material adjustment to the amount of revenue recorded in any period under the arrangement.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make required payments and for the limited circumstances when the customer disputes the amounts due us. Our methodology for determining this allowance requires significant estimates. In estimating the allowance, management considers the age of the receivable, the creditworthiness of the customer, the economic conditions of the customer's industry and general economic conditions. While we believe that the estimates we use are reasonable, should any of these factors change, the estimates made by management will also change, which could impact the amount of our future

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allowance for doubtful accounts as well as future operating income. Specifically, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments to us, additional allowances may be required.

Valuation of Intangible Assets and Goodwill. We account for our goodwill and intangible assets in accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". Our intangible assets consist of acquired technology. They are recorded at cost and amortized on a straight-line basis over their expected useful lives of five years. We use the projected discounted cash flow method in valuing our acquired technology, using certain assumptions including revenue growth, cost levels, present value discount rate and working capital requirements. While we believe the assumptions used are reasonable, actual results will more likely than not differ from those assumptions. Future cash flows are subject to change for a variety of internal and external factors. We will periodically review the value of acquired technology for reasonableness. Changes in our assumptions at the time of future periodic reviews could result in impairment losses.

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Goodwill is recorded when the consideration paid for acquisitions exceeds the fair value of net tangible and intangible assets acquired. Goodwill is not amortized. We perform an annual review during our fourth quarter to identify any facts or circumstances that indicate the carrying value of goodwill is impaired. The review is based on various analyses including cash flow and profitability projections and the market capitalization of our common stock. Impairment, if any, is based on the excess of the carrying amount of goodwill over its fair value. No impairment has been indicated to date. Changes in our assumptions at the time of future periodic reviews could result in impairment losses.

Accounting for Software Development Costs. Costs incurred in the research and development of new software products are expensed as incurred until technological feasibility is established. Development costs are capitalized beginning when a product's technological feasibility has been established and ending when the product is available for general release to our customers. Technological feasibility is reached when the product reaches the working model stage. To date, products and enhancements have generally reached technological feasibility and have been released for sale at substantially the same time and all research and development costs have been expensed. Consequently, no research and development costs were capitalized in Quarter 2003 and Quarter 2002.

Certain Factors That May Affect Future Results

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 management 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 revenues 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;
- .. software arrangements requiring contract accounting;
- .. changes in the mix of our sales, including the mix between higher margin software products and somewhat 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 and the length of our sales cycle;

- .. changes in our pricing policies or those of our competitors; and
- .. 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 revenues in any quarter depend 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 revenues than we expect, we probably will not be able to reduce our operating expenses quickly in response. Therefore, any significant shortfall in revenues 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.

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

We derive all of our revenues 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 management software does not continue to grow, we could face declining revenues, which could ultimately lead to our becoming unprofitable. The market for intelligent network management software solutions is in an early stage of development. 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 markets and our operating results may be adversely affected by changes in one or more of these markets

As part of our focus on four targeted markets, our financial results depend, in significant part, upon the economic conditions of enterprise, U.S. government agencies, service provider and network equipment manufacturer markets. An economic downturn or adverse change in the regulatory environment or business prospects for one or more of these markets may decrease our revenues or lower our growth rate.

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

A decline in the demand for information technology among our current and prospective customers may result in decreased revenues or a lower growth rate for us because our sales depend, in part, on our customers' level of funding for new or additional information technology systems and services.

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A continued economic downturn may cause our customers to reduce or eliminate information technology spending and cause price erosion for 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 revenues.

If our newest products, particularly those targeted primarily for enterprises, do not gain widespread market acceptance, our revenues might not increase and could even decline

We expect to derive a substantial portion of our revenues in the future from sales to enterprises of version 8.1 of OPNET IT Guru, which was released in May 2002, Application Characterization Environment, which was released in fiscal 2000, products released in fiscal 2002, such as ACE Decode Module, NetDoctor and Flow Analysis, and OPNET VNE Server, which was released in June 2002. Our business depends on customer acceptance of these products and our revenues may not increase, or may decline, if our target customers do not adopt and expand their use of our products. To date, we have not achieved widespread market acceptance of our products. In addition, if our OPNET Modeler product, which we have been selling since 1987, continues to encounter declining sales, which could occur for a variety of reasons, including market saturation and the financial condition of network equipment manufacturers, and sales of our newer products do not grow at a rate sufficient to offset the shortfall, our revenues would decline.

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

A key element of our strategy is to increase sales to service providers, and our future performance will be significantly dependent upon increased adoption by service providers of our software products, including OPNET SP Guru and OPNET WDM Guru, both launched in fiscal 2002. Accordingly, if our products fail to perform favorably in the service provider environment or 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 revenues 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 scale down 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.

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 revenues. 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 revenues and grow our business could be compromised. Our sales people require a long period of time to

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become productive, typically three to six 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.

Our ability to increase our sales will 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 effectively market and sell our products, or we lose existing distributor relationships, we might not be able to increase our revenues. 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 rapid 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 will 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 revenues 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 revenues 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 revenues could fall. Advances in network management technology, software engineering, 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. In addition, the introduction and adoption of future network technologies or application architectures could reduce or eliminate the need for predictive network management software.

Our future revenue is substantially dependent upon our installed customer base continuing to license additional products, renew maintenance agreements and purchase additional services

Our installed customer base has traditionally generated additional revenue from consulting services, renewed maintenance agreements and license of other

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products. 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 customers fail to renew their maintenance agreements or purchase additional products or services, our revenues could decrease.

Increases in service revenues as a percentage of total revenues could decrease overall margins and adversely affect our operating results

We realize lower margins on service revenues than on software license revenues. As a result, if service revenues increase as a percentage of total revenues, our gross margins will be lower and our operating results may be adversely affected.

If we fail to retain our key personnel and attract and retain additional qualified personnel, we might not be able to sustain our revenue growth

Our future success and our ability to sustain our revenue growth 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 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 large numbers of 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.

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We expect to face intense 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. The market for intelligent network management software is evolving rapidly and is highly competitive. We believe that this market is likely to become more competitive as the demand for intelligent network management solutions continues to increase. Many of our current and 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 will 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 could cause our customers to demand refunds from us or assert claims for damages against us

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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;
- .. 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 will be found in the future, particularly in new product offerings and new releases of our current products.

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 revenues 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 revenues. 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 revenues. 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

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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 cease or delay 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, if 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

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business because we would not be able to sell the affected product without redeveloping it or incurring significant additional expense.

Possible adverse impact of interpretations of existing accounting pronouncements

Based on our reading and interpretations of SOPs 81-1, 97-2 and 98-9, and SAB 101, we believe that our current contract terms and business arrangements have been properly reported. However, the American Institute of Certified Public Accountants and its Software Revenue Recognition Task Force 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 business, financial condition and results of operations.

As with other software vendors, we may be required to delay revenue recognition into future periods that could adversely impact 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:

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- .. 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 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

In March 2001, we completed the NetMaker acquisition. 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, we could experience significant delays in product releases or

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shipments, which could result in lost revenues and significant additional expense.

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. Cash equivalents and marketable securities are stated at amortized cost plus accrued interest, which approximates fair value. Cash equivalents and marketable securities consist primarily of money instruments and U.S. Treasury bills. We currently do not hedge interest rate exposure, but do not believe that an increase in interest rates would have a material effect on the value of our marketable securities.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

OPNET is involved in various claims and legal proceedings arising from its normal operations. Management does not regard any of those matters to be material.

ITEM 2. Changes in 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 \$54.1 million.

As of June 30, 2002, the proceeds from the offering were used to fund approximately (i) \$7.6 million of general corporate expenses, working capital and capital expenditures, including \$4.8 million for capital expenditures and leasehold improvements related to our headquarters facility in Bethesda, Maryland, (ii) \$6.2 million of acquisition and acquisition-related expenses for the NetMaker acquisition, and (iii) \$1.4 million of the purchase price for WDM NetDesign. None of these amounts were paid directly or indirectly to any director, officer, or general partner of us or their associates, persons owning 10% or more of any class of our equity securities, or any affiliate of us. We have not allocated any of the remaining net proceeds to any identifiable uses. We may also use a portion of the net proceeds to acquire businesses, products, or technologies that are complementary to our business. Pending their use, we have invested the net proceeds in investment grade, interest-bearing securities.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits and Reports on Form 8-K

A. Exhibits: See Exhibit Index

B. Reports on Form 8-K

None.

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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)

By: /s/ Joseph W. Kuhn

Name: Joseph W. Kuhn
Title: Vice President of Finance and
Chief Financial Officer
(Principal Financial and Accounting
Officer)

Date: August 9, 2002

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OPNET TECHNOLOGIES, INC. EXHIBIT INDEX

Exhibit Number	Description
10.1	Loan Agreement, dated June 10, 2002, between Registrant and Bank of America, N.A.
10.2	Promissory Note, dated June 10, 2002, between Registrant and Bank of America, N.A.
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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