OPNET TECHNOLOGIES INC
Form 10-Q
February 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2011

OR

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

(Commission file number: 000-30931)

OPNET TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

7255 Woodmont Avenue

Bethesda, MD 20814

(Address of principal executive office)

(240) 497-3000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant s common stock outstanding on February 2, 2012 was 22,563,035.

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PART I. FINANCIAL INFORMATION

ITEM 1. ***Condensed Consolidated Financial Statements***

OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	December 31, 2011	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,967	$ 83,296
Marketable securities	39,837	31,432
Accounts receivable, net of $434 and $346 in allowance for doubtful accounts at December 31 and March 31, 2011, respectively	43,624	32,597
Unbilled accounts receivable	1,267	1,915
Inventory	257	666
Deferred income taxes, prepaid expenses and other current assets	6,935	4,289
	149,887	154,195
Property and equipment, net	13,895	12,701
Intangible assets, net	2,820	4,507
Goodwill	15,406	15,406
Deferred income taxes and other assets	5,458	5,014
Total assets	$ 187,466	$ 191,823
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,112	$ 1,247
Accrued liabilities	15,081	14,698
Other income taxes	489	186
Deferred rent	219	182
Deferred revenue	44,375	42,282
Total current liabilities	61,276	58,595
Accrued liabilities	148	107
Deferred rent	2,737	2,422
Deferred revenue	5,411	5,215
Other income taxes	741	661
Total liabilities	$ 70,313	$ 67,000

Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock-par value $0.001; 100,000,000 shares authorized; 30,205,418 and 29,883,409 shares issued at December 31 and March 31, 2011, respectively; 22,527,997 and 22,228,504 shares outstanding at December 31 and March 31, 2011, respectively	30	30
Additional paid-in capital	127,832	121,230
Retained earnings	12,424	25,348
Accumulated other comprehensive loss	(1,170)	(649)
Treasury stock, at cost 7,677,421 and 7,654,905 shares at December 31 and March 31, 2011, respectively	(21,963)	(21,136)
Total stockholders equity	117,153	124,823
Total liabilities and stockholders equity	$ 187,466	$ 191,823

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Revenue:				
Product	$ 24,426	$ 20,177	$ 64,454	$ 50,822
Product updates, technical support and services	15,749	13,908	45,854	39,280
Professional services	5,812	5,593	17,847	16,779
Total revenue	45,987	39,678	128,155	106,881
Cost of revenue:				
Product	4,319	2,893	10,718	6,672
Product updates, technical support and services	1,488	1,269	4,315	3,827
Professional services	4,077	3,689	11,694	12,186
Amortization of acquired technology and customer relationships	535	553	1,611	1,511
Total cost of revenue	10,419	8,404	28,338	24,196
Gross profit	35,568	31,274	99,817	82,685
Operating expenses:				
Research and development	9,275	8,757	27,605	25,398
Sales and marketing	14,923	13,265	40,993	35,117
General and administrative	3,078	3,649	9,371	9,607
Total operating expenses	27,276	25,671	77,969	70,122
Income from operations	8,292	5,603	21,848	12,563
Interest and other expense, net	(5)	(54)	(64)	(85)
Income before provision for income taxes	8,287	5,549	21,784	12,478
Provision for income taxes	2,964	1,225	7,486	3,900
Net income	$ 5,323	$ 4,324	$ 14,298	$ 8,578
Basic net income per common share	$ 0.23	$ 0.19	$ 0.63	$ 0.40
Diluted net income per common share	$ 0.23	$ 0.19	$ 0.62	$ 0.38

Basic weighted average common shares outstanding	22,304	21,608	22,192	21,263
Diluted weighted average common shares outstanding	22,736	22,230	22,667	21,921

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Cash flows from operating activities:		
Net income	$ 14,298	$ 8,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,703	4,284
Provision for losses on accounts receivable	142	473
Deferred income taxes	(711)	(526)
Non-cash stock-based compensation expense	1,844	1,456
Non-cash accretion of market discount on marketable securities	63	35
Loss on disposition of fixed assets	17	18
Changes in assets and liabilities, net of assets acquired:		
Accounts receivable	(10,497)	(1,684)
Inventory	43	628
Prepaid expenses and other current assets	(435)	(175)
Other assets	(94)	(597)
Accounts payable	(214)	337
Accrued liabilities	(212)	949
Accrued income taxes	2,356	939
Deferred revenue	2,289	(554)
Deferred rent	352	(345)
Excess tax benefit from exercise of stock options	(2,675)	(967)
Net cash provided by operating activities	11,269	12,849
Cash flows from investing activities:		
Acquisition of business		(2,225)
Purchase of property and equipment	(4,573)	(2,799)
Purchase of investments	(48,515)	(43,047)
Proceeds from sale/maturity of investments	40,040	8,066
Net cash used in investing activities	(13,048)	(40,005)
Cash flows from financing activities:		
Acquisition of treasury stock	(827)	(3,344)
Proceeds from exercise of common stock options	1,439	12,776
Excess tax benefit from exercise of stock options	2,675	967
Issuance of common stock under employee stock purchase plan	923	727
Payment of dividends to stockholders	(27,222)	(22,753)
Net cash used in financing activities	(23,012)	(11,627)
Effect of exchange rate changes on cash and cash equivalents	(538)	128

Net decrease in cash and cash equivalents	(25,329)	(38,655)
Cash and cash equivalents, beginning of period	83,296	104,681
Cash and cash equivalents, end of period	$ 57,967	$ 66,026

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(unaudited)

1. Organization and Significant Accounting Policies

Organization. OPNET Technologies, Inc. (hereafter, the Company or OPNET), is a provider of application and network performance management solutions. The Company s software products address applications performance management, or APM, network planning, engineering and operations, and network research and development. The Company sells products to corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers. The Company markets software products and related services in North America primarily through a direct sales force and, to a lesser extent, through an indirect sales channel program to extend its market reach called the Synergy Program. Internationally, the Company conducts research and development through a wholly-controlled subsidiary in Ghent, Belgium and markets software products and related services through (1) wholly-owned subsidiaries in Paris, France; Frankfurt, Germany; Slough, United Kingdom; Singapore; and Milton, Australia (2) a registered office in Beijing, China; (3) third-party distributors; and (4) value-added resellers. The Company is headquartered in Bethesda, Maryland and has offices in Cary, North Carolina; Dallas, Texas; Santa Clara, California; Nashua, New Hampshire; Colorado Springs, Colorado; Paris, France; Frankfurt, Germany; Slough, United Kingdom; Ghent, Belgium; Singapore; and Beijing, China.

The accompanying condensed consolidated financial statements include the Company s results and the results of the Company s wholly-owned and wholly-controlled subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2011 filed with the SEC on June 3, 2011. The March 31, 2011 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, 2011 may not be indicative of the operating results for the full fiscal year or any other future period.

Supplemental Cash Flow Information

	Nine Months Ended December 31,	
	2011	2010
	(in thousands)	
Cash paid during the period:		
Income tax payments	$ 5,717	$ 3,326
Non-cash financing and investing activities:		
Restricted stock issued	$ 2,377	$ 2,071
Accrued liability for the purchase of property and equipment	$ 203	$ 73
Net settlement of stock options	$ 1,355	$

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2. Significant Accounting Policies

See the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2011 filed with the Securities and Exchange Commission, or SEC, on June 3, 2011 for an overview of the significant accounting policies.

3. Recently Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU 2009-14, Certain Revenue Arrangement That Include Software Elements, (included in Accounting Standards Codification, or ASC, 985 Software) and ASU 2009-13, Multiple Deliverable Revenue Arrangements, which amends Emerging Issues Task Force Issue No. 08-1, Revenue Arrangements With Multiple Deliverables (as codified in ASC 605 Revenue Recognition). ASU 2009-14 amends the scoping guidance for software arrangements to exclude tangible products that contain software elements and nonsoftware elements that function together to interdependently deliver the product s essential functionality. ASU 2009-13 amends the current guidance on arrangements with multiple elements to (1) eliminate the separation criterion that requires entities to establish objective and reliable evidence of fair value for undelivered elements, (2) establish a selling price hierarchy to help entities allocate arrangement consideration to the separate units of account, (3) require the relative selling price allocation method for all arrangements (i.e., eliminate the residual method), and (4) significantly expand required disclosures. ASU 2009-14 and ASU 2009-13 were effective for the first annual reporting period beginning on or after June 15, 2010, and the Company adopted both standards on April 1, 2011. The adoption of ASU 2009-14 and ASU 2009-13 did not have a material impact on its results of operations or financial condition.

In December 2010, FASB issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (as codified in ASC 805 Business Combinations). The objective of ASU 2010-29 is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 Business Combinations to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 was effective for the company prospectively for business combinations for which the acquisition date is on or after April 1, 2011. The Company will be impacted by ASU 2010-29 if it makes an acquisition that is accounted for as a business combination.

In June 2011, the FASB issued ASU No. 2011-05: Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 amends current presentation guidance by eliminating the option for an entity to present the components of comprehensive income as part of the statement of changes in stockholder s equity and requires presentation of comprehensive income in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05, to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update are effective for first annual reporting period beginning after December 15, 2011, which will be the reporting period beginning April 1, 2012 for the Company. Early adoption is permitted. The adoption of ASU 2011-05 and the deferrals in ASU 2011-12 impact financial statement presentation only; accordingly, they will have no impact on the Company s results of operations or financial condition.

4. Stock-Based Compensation

In June 2009, the Company s stockholders approved the adoption of the 2010 Stock Incentive Plan, or the 2010 Plan, in response to the pending expiration of the Company s Amended and Restated 2000 Stock Incentive Plan, or the 2000 Plan. The 2010 Plan provides for the granting of stock options, restricted stock and other stock-based awards to employees, officers, directors, consultants and advisors. Subject to specified adjustments, the number of shares initially set aside and reserved for issuance under the 2010 Plan was 2,150,000 shares, which approximated the number of shares available for issuance under the 2000 Plan as of January 1, 2010, the effective date of the 2010 Plan. The Company s Board of Directors, or the Board, approved a resolution to make no further grants for options or stock awards under the 2000 Plan upon approval of the 2010 Plan.

The number of shares available for issuance under the 2010 Plan will automatically increase from time to time by a number equal to (i) in the event any outstanding stock option granted under the 2000 Plan should for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the number of shares that are not acquired under such stock

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option and (ii) in the event stock that has been issued to a participant under the 2000 Plan pursuant to restricted or unrestricted stock awards is subsequently forfeited or acquired by the Company as a result of a failure to vest or satisfy any other contingency, the number of such shares. The maximum aggregate number of additional shares that may become available for issuance in these situations is 2,000,000 shares, subject to specified adjustments.

The number of shares available for issuance under the 2010 Plan will automatically increase on the first trading day of each calendar year, beginning with 2011 and continuing through the term of the 2010 Plan, by an amount equal to the lesser of (i) three percent (3%) of the shares of the Company s common stock outstanding on the last trading day of the preceding calendar year, or (ii) an amount determined by the Board; provided, however, that in no event shall any such annual increase exceed 1,000,000 shares. This provision, commonly referred to as an evergreen provision, is similar to the provision in the 2000 Plan. The Board voted not to increase the number of shares available for issuance on the first trading day of calendar year 2011.

Options granted pursuant to the 2010 Plan will be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable option agreement, but no option may be granted for a term in excess of 10 years. The terms and conditions of any restricted stock awards granted under the 2010 Plan, including the conditions for repurchase or forfeiture and the issue price, if any, will be determined by the Board. The Board also has the right to grant other stock awards pursuant to the 2010 Plan having such terms and conditions as the Board may determine, including the grant of fully vested shares, the grant of securities convertible into shares of the Company s common stock and the grant of stock appreciation rights.

ASC 718, Stock Compensation, requires an entity to recognize an expense within its statement of operations for all share-based payment arrangements, which include employee stock option plans, restricted stock grants, and employee stock purchase plans. The Company has elected to use straight-line amortization of stock-based compensation expense for the entire award over the service period since the awards have only service conditions and graded vesting.

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. ASC 718 also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation. The impact on compensation cost due to changes in the expected forfeiture rate will be recognized in the period that they become known. 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 of 10% will be recognized in the period that they become known. The Company does not apply a forfeiture rate to the options granted to certain key executives or directors. The Company has concluded that historically certain key executives and directors will perform the requisite service to vest in award.

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, 2011 and 2010, excess tax benefits from the exercise of stock options were $439,000 and $752,000, respectively. For the nine months ended December 31, 2011 and 2010, excess tax benefits from the exercise of stock options were $2.7 million and $967,000, respectively.

A summary of the total stock-based compensation expense for the three and nine months ended December 31, 2011 and 2010 is as follows:

	Three Months Ended		Nine Months Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	(in thousands)			
Restricted stock	$ 502	$ 497	$ 1,253	$ 975
Employee Stock Purchase Plan shares	145	115	436	326
Stock options	52	52	155	155
Total stock-based compensation	$ 699	$ 664	$ 1,844	$ 1,456

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A summary of the total nonvested stock-based deferred compensation at December 31, 2011 and 2010 is as follows:

	December 31, 2011	December 31, 2010
	(in thousands)	
Restricted stock	$ 3,481	$ 2,301
Stock options	555	761
Employee Stock Purchase Plan shares	48	38
Total nonvested stock-based compensation	$ 4,084	$ 3,100

The deferred compensation at December 31, 2011 related to nonvested restricted stock, stock options, and the Company s 2000 Employee Stock Purchase Plan, or ESPP, shares is expected to be recognized over the following weighted average periods:

	Period
Restricted stock	1 year
Stock options	2 years
Employee Stock Purchase Plan shares	1 month

Stock Options

The Company s stock option grants 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, 2011 and 2010 is as follows:

	Three Months Ended December 31, 2011				
	Options	Weighted Average Exercise Price Per Option Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
	(dollars in thousands, except per share amounts)				
Outstanding at beginning of period	882,080	$ 9.33		$ 24,119	$ 5.40
Granted		$		$	$
Exercised	(38,865)	$ 9.23		$ 1,104	$ 6.42
Forfeited or expired	(7,000)	$ 8.95		$ 194	$ 6.19
Outstanding at end of period	836,215	$ 9.33	3.53	$ 22,858	$ 5.35
Exercisable at end of period	561,215	$ 9.11	1.49	$ 15,466	$ 5.93
Nonvested at end of period	275,000	$ 9.79	7.69	$ 7,392	$ 4.17
Nonvested expected to be exercised	247,500	$ 9.79	7.69	$ 6,653	$ 4.17

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	Three Months Ended December 31, 2010				
	Options	Weighted Average Exercise Price Per Option Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
	(dollars in thousands, except per share amounts)				
Outstanding at beginning of period	1,814,182	$ 10.64		$ 28,889	$ 6.91
Granted		$		$	$
Exercised	(447,950)	$ 11.56		$ 4,409	$ 8.19
Forfeited or expired	(102,000)	$ 19.50		$	$ 13.30
Outstanding at end of period	1,264,232	$ 9.59	3.34	$ 21,449	$ 5.94
Exercisable at end of period	989,232	$ 9.54	1.85	$ 16,837	$ 6.43
Nonvested at end of period	275,000	$ 9.79	8.69	$ 4,612	$ 4.17

	Nine Months Ended December 31, 2011				
	Options	Weighted Average Exercise Price Per Option Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
	(dollars in thousands, except per share amounts)				
Outstanding at beginning of period	1,131,997	$ 9.42		$ 30,847	$ 5.70
Granted		$		$	$
Exercised	(288,782)	$ 9.68		$ 8,519	$ 6.69
Forfeited or expired	(7,000)	$ 8.95		$ 194	$ 6.19
Outstanding at end of period	836,215	$ 9.33	3.53	$ 22,858	$ 5.35
Exercisable at end of period	561,215	$ 9.11	1.49	$ 15,466	$ 5.93
Nonvested at end of period	275,000	$ 9.79	7.69	$ 7,392	$ 4.17

	Nine Months Ended December 31, 2010				
	Options	Weighted Average Exercise Price Per Option Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
	(dollars in thousands, except per share amounts)				
Outstanding at beginning of period	2,494,082	$ 10.86		$ 39,167	$ 7.31
Granted		$		$	$
Exercised	(1,118,500)	$ 11.42		$ 7,701	$ 8.26
Forfeited or expired	(111,350)	$ 19.50		$	$ 13.30

Outstanding at end of period	1,264,232	$	9.59	3.34	$	21,449	$	5.94
Exercisable at end of period	989,232	$	9.54	1.85	$	16,837	$	6.43
Nonvested at end of period	275,000	$	9.79	8.69	$	4,612	$	4.17

During the three and nine months ended December 31, 2011 and 2010, no stock options vested or were granted.

To estimate the grant-date fair value of its stock options, the Company used 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

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estimated option term; and the expected volatility. For the risk-free interest rate, the Company used a United States Treasury Bond due in the number of years equal to the option s expected term. The estimated option term was calculated based upon the simplified method set out in ASC 718. The Company used the simplified method to determine the estimated option term because it lacked sufficient historical share option exercise data. To determine expected volatility, the Company analyzed the historical volatility of its stock over the expected term of the option.

During the three months ended December 31, 2011 and 2010, respectively, the Company received proceeds of approximately $184,000 and $5.2 million and issued 23,865 and 452,481 shares of common stock, respectively, pursuant to employee and director exercises of stock options. During the nine months ended December 31, 2011 and 2010, respectively, the Company received proceeds of approximately $1.4 million and $12.8 million and issued 162,282 and 1,123,031 shares of common stock, respectively, pursuant to employee and director exercises of stock options. In addition, 15,000 shares and 126,500 shares were issued during the three and nine months ended December 31, 2011, respectively, in net settlements of exercised 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 s restricted stock agreements do not contain any post-vesting restrictions.

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A summary of the restricted stock grants for the three and nine months ended December 31, 2011 and 2010 is as follows:

	Three Months Ended December 31, 2011		Nine Months Ended December 31, 2011	
	Restricted Stock Grants	Weighted Average Grant Date Fair Value Per Share	Restricted Stock Grants	Weighted Average Grant Date Fair Value Per Share
Nonvested at beginning of period	208,580	$ 24.43	190,613	$ 17.45
Granted	5,700	$ 35.74	71,567	$ 36.28
Vested	(6,161)	$ 25.26	(48,421)	$ 14.23
Forfeited		$	(5,640)	$ 15.96
Nonvested at end of period	208,119	$ 24.71	208,119	$ 24.71
Nonvested expected to vest	189,625	$ 24.69		

	Three Months Ended December 31, 2010		Nine Months Ended December 31, 2010	
	Restricted Stock Grants	Weighted Average Grant Date Fair Value Per Share	Restricted Stock Grants	Weighted Average Grant Date Fair Value Per Share
Nonvested at beginning of period	162,003	$ 12.20	183,797	$ 10.87
Granted	63,816	$ 25.07	103,645	$ 21.73
Vested	(13,171)	$ 21.97	(74,505)	$ 12.87
Forfeited	(527)	$ 14.68	(816)	$ 14.19
Nonvested at end of period	212,121	$ 15.46	212,121	$ 15.46

ESPP

The ESPP provides all eligible employees the ability to collectively purchase up to a total of 3,070,000 shares of the Company s common stock. On September 14, 2009, the stockholders voted to increase the number of shares authorized for issuance under the ESPP from 820,000 shares to 3,070,000 shares, effective February 1, 2010. 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 ESPP ends on the last day of January and July of each year.

Under the ESPP, the number of shares available for issuance automatically increases on February 1st of 2011 through 2015 by an amount equal to the lesser of (i) the average number of shares purchased under the ESPP during the last two Plan Periods (as defined in the ESPP) immediately preceding the applicable February 1 date, plus an additional number of shares equal to 5% of the Average Shares, or (ii) 300,000 shares, or a lesser amount determined by the Board. The Board determined not to increase the share reserve under the ESPP on February 1, 2011. To estimate the fair value of shares issued under the ESPP, the Company uses the Black-Scholes option-pricing model. The Black-Scholes model estimates the per share fair value of an ESPP share at the beginning of the plan period based on the following: the price of the underlying stock on the first day of the plan period; the estimated dividend yield; a risk-free interest rate; the term of the plan period (six months); and the expected volatility. For the risk-free interest rate, the Company uses a United States Treasury Bond due in six months. To determine expected volatility, the Company analyzes the historical volatility of its stock over the six months prior to the first day of the plan period.

During the nine months ended December 31, 2011 and 2010, employees purchased 36,673 and 70,178 shares of common stock under the ESPP, respectively, resulting in proceeds to the Company of approximately $923,000 and $727,000, respectively.

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5. Acquisition of DSAuditor from Embarcadero Technologies, Inc.

On August 25, 2010, the Company acquired substantially all the assets associated with the DSAuditor product line from Embarcadero Technologies, Inc., or Embarcadero, a privately held software company headquartered in San Francisco, California. The Company paid approximately $2.3 million cash to Embarcadero to acquire such assets. An initial payment of $25,000 was made in September 2009, and the remaining purchase price of $2.25 million was made in August 2010. DSAuditor is a software product that provides visibility into database activity and performance. The acquisition contributed key capabilities to the Company s product portfolio for APM.

The DSAuditor product line acquisition was accounted for as a business combination in accordance with the guidance outlined in ASC Topic 805. The acquisition date fair value of the total consideration transferred was approximately $2.3 million.

The following table summarizes the estimated fair values of the DSAuditor product line acquired and liabilities assumed on the acquisition date:

	At August 25, 2010 (in thousands)	Amortization Method	Useful Life
Property and equipment, net	$ 14	Straight-line	1 month - 3 years
Deferred revenue	(79)		
Identifiable intangible assets:			
Developed technology DS Auditor	1,458	Straight-line	5 years
Trade names and trademark	47	Straight-line	5 years
Customer relationships	27	Straight-line	5 years
Non-compete agreements	16	Straight-line	1 year
Total identifiable assets	1,483		
Goodwill	767		
Net assets acquired	$ 2,250		

Intangible Assets

Intangible assets consist primarily of the developed technology associated with the DSAuditor product acquired. The Company determined that estimated acquisition date fair value of the DSAuditor developed technology was approximately $1.5 million. The Company utilized an income approach known as the Relief-From-Royalty Method to value the acquired developed technology assets.

Goodwill

The excess of the consideration transferred over the fair values assigned to the assets acquired and liabilities assumed was $767,000, which represents the goodwill resulting from the acquisition. The goodwill is expected to be deductible for income tax purposes. The Company will test goodwill for impairment on an annual basis, or as impairment indicators are noted. As of December 31, 2011, there were no changes in the recognized amount of goodwill resulting from the acquisition of the DSAuditor product line.

6. Marketable Securities

At December 31 and March 31, 2011 marketable securities consisted of United States Treasury bills and United States Treasury notes with original maturities greater than three months and less than one year.

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The following table summarizes the Company s marketable securities at December 31 and March 31, 2011:

	December 31, 2011		
	Amortized Cost	Gross Unrealized Loss	Market Value
		(in thousands)	
United States government obligations	$ 39,839	$ (2)	$ 39,837
Total	$ 39,839	$ (2)	$ 39,837

	March 31, 2011		
	Amortized Cost	Gross Unrealized Gains	Market Value
		(in thousands)	
United States government obligations	$ 31,428	$ 4	$ 31,432
Total	$ 31,428	$ 4	$ 31,432

7. Fair Value

The following table details the fair value measurements within the three levels of fair value hierarchy of the Company s financial assets, consisting of cash, cash equivalents, and marketable securities at December 31 and March 31, 2011:

	Total Fair Value	Fair Value Measurement at December 31, 2011 Using		
		Level 1	Level 2	Level 3
		(in thousands)		
Cash	$ 48,616	$ 48,616	$	$
Money market funds	9,351	9,351		
United States government obligations included in marketable securities	39,837	39,837		
Total	$ 97,804	$ 97,804	$	$

	Total Fair Value	Fair Value Measurement at March 31, 2011 Using		
		Level 1	Level 2	Level 3
		(in thousands)		
Cash	$ 30,821	$ 30,821	$	$
Money market funds	48,976	48,976		
United States government obligations included in cash & cash equivalents	3,499	3,499		
United States government obligations included in marketable securities	31,432	31,432		
Total	$ 114,728	$ 114,728	$	$

At December 31 and March 31, 2011, the Company valued money market funds and United States government obligations using a Level 1 valuation because market prices in active markets for identical assets were readily available. The per-share net asset value of the Company s money market funds has remained at a constant amount of $1.00 per share. Also, as of December 31 and March 31, 2011, there were no withdrawal limits on redemptions for any of the money market funds that the Company holds. The Company did not value any financial assets using Level 2 or Level 3 valuations at December 31 or March 31, 2011.

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8. 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, 2011 and 2010:

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
	(dollars in thousands, except per share amounts)			
Net income (numerator):				
Basic and diluted net income attributable to common stockholders	$ 5,323	$ 4,324	$ 14,298	$ 8,578
Dividends paid on nonvested restricted stock	(184)	(135)	(227)	(165)
Net income available to common stockholders excluding nonvested restricted stock	$ 5,139	$ 4,189	$ 14,071	$ 8,413
Shares (denominator):				
Weighted average common shares outstanding basic	22,303,544	21,608,057	22,191,768	21,262,767
Effect of other dilutive securities - options	431,997	621,975	475,157	658,294
Weighted average diluted shares outstanding	22,735,541	22,230,032	22,666,925	21,921,061
Net income per common share:				
Basic	$ 0.23	$ 0.19	$ 0.63	$ 0.40
Diluted	$ 0.23	$ 0.19	$ 0.62	$ 0.38

The weighted average diluted shares outstanding during any period does not include shares issuable upon exercise of any stock option where the exercise price of the stock option is greater than the average market price because including such shares would be anti-dilutive. There were no options with an anti-dilutive effect during the three and nine months ended December 31, 2011 or 2010.

9. Stockholders Equity

Treasury Stock

On January 31, 2005, the Company announced that the Board had authorized the repurchase of up to 1,000,000 shares of the Company s common stock from time to time on the open market or in privately negotiated transactions. On February 4, 2008, the Company announced that the Board had authorized the repurchase of an additional 1,000,000 shares of the Company s common stock under the stock repurchase program. 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 $512,000 and $440,000 to purchase 14,317 and 16,774 shares during the three months ended December 31, 2011 and 2010, respectively, at average prices of $35.75 and $26.23 per share, respectively. The Company expended $827,000 and $3.3 million to purchase 22,516 and 213,875 shares during the nine months ended December 31, 2011 and 2010, respectively, at average prices of $36.44 and $15.63 per share, respectively.

Restricted stock shares withheld 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 and net settlements of exercised stock options are included in these totals.

As of December 31, 2011, the Company had repurchased 1,543,876 shares of common stock. Stock repurchased under the stock repurchase program, restricted stock shares withheld 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, and net settlements of exercised stock options are included in the total repurchased.

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Dividend

The following table summarizes the Company s cash dividend payments for the nine months ended December 31, 2011:

Declaration Date	Stockholder Record Date	Payment Date	Amount per Share
May 4, 2011	June 15, 2011	June 29, 2011	$ 0.12