OPNET TECHNOLOGIES INC
Form 10-K
June 29, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2001

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	52-1483235
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

7255 Woodmont Avenue, Bethesda, Maryland 20814-2959
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $ .001 par value

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 if disclosure of delinquent filers pursuant to Item

405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed using the closing sale price of the registrant's Common Stock on June 15, 2001, as reported on the Nasdaq National Market, was approximately $15.40 (affiliates included for this computation only: directors, executive officers and holders of more than 5% of the registrant's Common Stock).

The number of shares of the registrant's Common Stock outstanding on June 15, 2001 was 18,845,813.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on September 11, 2001, are incorporated by reference into Part III of this Form 10-K.

OPNET TECHNOLOGIES, INC.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED MARCH 31, 2001

This Annual 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 below under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors That May Affect Future Results," as well as any cautionary language in this Annual Report, 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 2001.

IT Guru(TM), Netbiz(TM), OPNET(R), OPNET Modeler(R), ServiceProvider Guru(TM), OPNET Technologies(TM), and OPNETWORK(R) are trademarks or service marks of OPNET. Other trademarks or service marks appearing in this Annual Report are the property of their respective holders.

We are a Delaware corporation, and our principal executive offices are located at 7255 Woodmont Avenue, Bethesda, Maryland 20814-2959 and our telephone number is (240) 497-3000. Our web site address is www.opnet.com. The information on our web site is not incorporated by reference into this Annual Report and should not be considered to be a part of this Annual Report. Our web site address is included in this Annual Report as an inactive textual reference only.

PART I

ITEM 1. BUSINESS

Overview

Our intelligent network management software solutions enable our customers to optimize the performance and maximize the availability of communications networks and networked applications. The OPNET product suite combines predictive simulation, intelligent configuration, and automated design. This comprehensive understanding of network technologies enable network professionals to more effectively design and deploy networks, provision services, diagnose network and application performance problems, optimize traffic flows and resource utilization, and predict the impact of network changes. Our OPNET product suite currently consists of three primary software solutions: OPNET IT Guru for service providers and enterprises, OPNET Modeler for network equipment manufacturers, and OPNET Netbiz for service providers and network equipment manufacturers. An additional primary software solution, OPNET ServiceProvider Guru for service providers, is expected to become generally commercially available at the end of June 2001. We believe our software solutions generate significant return on investment in networks and applications for service providers, enterprises, and network equipment manufacturers by empowering them to rapidly make better use of resources, reduce operational problems, and improve competitiveness.

We market our products to service providers, such as telecommunications carriers, ISPs, and ASPs, large and medium-sized enterprises, and network equipment manufacturers. Since inception, we have sold our products to service providers such as AT&T, British Telecom, MCI WorldCom, SBC Communications, Sprint, and UUNET Technologies; enterprises such as Boeing, IBM Global Services, National Semiconductor, RR Donnelley, and Texas Utilities; and network equipment manufacturers such as 3Com, Cisco Systems, Ericsson, Motorola, Nokia, and Nortel Networks.

Industry Background

Growth and Increased Complexity of Networks

Organizations are becoming increasingly reliant upon their communications networks and networked applications to successfully execute their business strategies. The increasing use of business applications, such as enterprise resource planning, corporate intranets, online transaction processing, e-mail, and streaming multimedia, has expanded the amount of network traffic within organizations, and has resulted in significant growth in underlying network infrastructures. In addition, the proliferation and widespread adoption of the Internet has expanded the role of networks beyond organizational boundaries, and these networks now represent the fundamental infrastructure for the electronic conduct of business, known as e-business or e-commerce. As a result, most organizations are recognizing that managing the growth and operation of their communications networks is critical to their business operations.

To support the rapidly expanding size and scope of communication requirements, network infrastructures have been developed based on a wide range of equipment, technologies, protocols, and network services. As a result, the operation of these networks is becoming increasingly complex. Service providers and enterprises must now manage the convergence of voice, data, and video traffic over wireline and wireless architectures by integrating numerous existing and emerging technologies. These technologies include Asynchronous Transfer Mode, or ATM, Internet Protocol, or IP, Voice over IP, IP Quality of Service, or IP-QoS, Multi-Protocol Label Switching, or MPLS, Frame Relay, Synchronous Optical Network, or SONET, Code Division Multiple Access, or CDMA, Digital Subscriber Line, or DSL, and data over cable. In addition, network data traffic is expected to grow rapidly. The growth of networks, network complexity, and network data traffic has forced organizations to confront significant challenges in the efficient and cost-effective management of networks and applications.

Today, communications networks are sophisticated, dynamic systems that evolve on a daily basis. The rate of network and traffic growth is challenging the ability of organizations to meet required service levels upon

which critical business applications and operations rely. Constant evaluation of and improvements to the network are essential to maintaining business and application performance. However, since modifications to the network and its traffic have the potential to result in network failures or service level degradation, network professionals need to plan and implement network changes in a controlled manner, taking into account the potential consequences of their actions.

Inadequacy of Traditional Network Management Solutions

As the complexity of networks continues to increase, so does the need for sophisticated solutions to manage network resources effectively. To date, network management systems have primarily played a reporting role. These systems typically collect, store, and analyze data about the traffic on the network, the status and performance of network devices and links, and the availability of network services and applications. While these traditional network management solutions play an important role in managing networks, they are limited by their focus on reporting past and present information. As a result, these solutions are primarily reactive to events occurring within the network.

Reactive network management solutions do not adequately support key network management functions, including network design and deployment, applications deployment, capacity planning, contingency planning, traffic engineering, budgeting, and deployment of network policies. This is because traditional network management products provide limited insight into how network resources will perform in response to future events. In general, the support for future planning provided by reactive network management products is limited to trend analysis and simple projections as to when key network and system resources will become overloaded. Traditional solutions are not able to forecast the impact of important changes that frequently occur in networks, such as traffic growth, failure of network components, adoption of new networking technologies, and reorganization of network assets. In addition, these solutions do not generally take into account the network as a whole, the interaction among network components, and the complex behaviors that are inherent to modern networks.

Market Opportunity

To remain competitive, organizations must deal with increased complexity, rapid growth, and continuous change in their communications networks. At the same time, every change to the network environment introduces the potential for performance degradation or system failures, and therefore, business interruptions and lost revenue. As a result, organizations need intelligent network management solutions that allow them to validate proposed network modifications and predict network and application performance in future scenarios. A predictive capability allows network professionals not only to test network and application performance under a wide range of operating conditions, but also to determine which network technologies are best suited to ultimately solve business problems. Business executives and network professionals need a comprehensive network management solution that enhances their ability to:

- generate revenue;
- reduce operating and capital costs;
- increase business productivity;
- improve operational efficiency;
- reduce time-to-market; and

. manage risk.

The OPNET Solution

Our suite of products represents the next generation of software solutions that advances network and application management beyond reactive problem identification and reporting to proactive problem resolution

and avoidance. The ability of our products to accurately model and simulate network and application performance is also valuable in the design and testing of new network equipment and technologies and is an effective sales tool for professionals who design and deploy networks. We believe that our software products provide the following benefits to our customers:

Reduced Network Operating Risks

Our products enable our customers to more effectively manage the risks associated with the necessary implementation of network upgrades and new services by helping network managers evaluate which measures can be taken to minimize potential network disruptions and maintain required service levels. For example, an enterprise deploying a new application on its network can use our products to determine if the performance of the application will meet prescribed service levels and to what extent the network traffic generated by the new application will compromise the service levels of existing applications on the network. Service providers can use our products as part of their overall planning process to minimize the risk that growth in their subscriber base or restructuring of their network infrastructure will jeopardize the availability or performance of their services.

Increased Productivity and Competitiveness

By using our products, network managers and application deployment teams can gain greater control over the performance of business applications that are critical to employee productivity and the competitiveness of the business. Our products enable network professionals to diagnose and resolve application performance problems that can prevent employees from carrying out essential business tasks. In addition, our products support informed decision-making and planning for network infrastructures that carry vital business data, including e-commerce and e-business transactions. Our products also enable network equipment manufacturers to test their equipment, technologies, and protocols more thoroughly, while considering a wider range of alternative designs, resulting in more robust networking products and faster introduction of products to the marketplace.

Reduced Network Operating Costs

Our OPNET suite of products enables our customers to better determine the appropriate financial commitments that should be made for network resources, including bandwidth, advanced network technologies, and network hardware. Using our products, network managers and planners can compare relative benefits of alternative technologies and network designs, and weigh these benefits in relation to the corresponding operational costs. Our products also provide organizations that operate networks the ability to determine achievable service levels and to understand whether network changes will render service levels unacceptable. By proactively managing service levels, these organizations are better able to reduce service level agreement violations that may require paying costly penalties to their clients. Additionally, these organizations are able to reduce costs caused by network interruptions.

New Revenue Opportunities

The increasing complexity and scale of networks is creating challenges for organizations that sell network equipment and network services. Our products help the sales forces of these organizations to automate the network design and proposal process and create competitive and consistent proposals, thereby streamlining the sales cycle. This allows sales representatives to focus on a greater number of sales opportunities. Additionally, our customers' sales forces can leverage the predictive capabilities of our products to demonstrate the performance of the proposed network design or network service prior to deployment. We believe that these features allow our customers to differentiate themselves from their competitors and enable the purchasers of network equipment and services to make better informed and quicker buying decisions.

Improved Customer Satisfaction

Our products improve satisfaction of network end users by enabling our customers, which are the providers of network services and technologies, to proactively manage and improve the quality and performance of their offerings. By using our products' predictive capabilities, service providers can ensure that adequate measures are taken to maintain the availability and performance of their services to their clients over networks experiencing rapid traffic growth and the introduction of changing technologies. For example, an ASP can use our software to uncover the primary factors that can contribute to the poor performance of an application and then determine the preferred approach to improving the application's performance.

Products

Our products use predictive simulation technology to support the assessment of future network and application performance under a wide range of operating conditions. Our products include model libraries that permit the simulation and analysis of major network technologies and communication protocols, such as Transmission Control Protocol/Internet Protocol, or TCP/IP, IP-QoS, Voice over IP, SONET, CDMA, Virtual Local Area Networks, or VLANs, Frame Relay, IP compression, data over cable, and ATM. We sell both off-the-shelf and customized products that offer interfaces to traditional network management systems and popular integration platforms, such as HP OpenView Network Node Manager, Tivoli NetView, NetScout Systems Manager Plus, and Oracle database products.

OPNET Modeler serves as a foundation for our other products, providing the broadest array of functionality. OPNET IT Guru and OPNET Netbiz represent progressively easier to use products, with functionality designed to address specific business needs. All of the primary products within the OPNET product suite use a significant amount of shared core software, allowing us to create new products more efficiently and to foster the interoperability of our products.

The following chart summarizes our OPNET product suite:

Product	Description	Target Customers
OPNET IT Guru	Enables users to predict the performance of networks and applications	Service providers and enterprises

OPNET Modeler	Enables designers to evaluate how complex networking equipment, technologies, and protocols will perform under simulated network conditions	Network equipment manufacturers
OPNET Netbiz	Automates network design, planning, provisioning, proposals, and analyses	Service providers and network equipment manufacturers
OPNET ServiceProvider Guru (expected availability: June 30, 2001)	Enables network providers to troubleshoot, validate, plan, and design networks	Service providers
OPNET Modules	Provide enhanced functionality for our primary software products	Entire customer base
OPNET Model Libraries	Libraries of models that simulate the behavior of networking technologies and communication protocols	Entire customer base

OPNET IT Guru

We began commercial distribution of OPNET IT Guru in August 1998. OPNET IT Guru uses our predictive simulation and modeling technology, which combines software models of network components, protocols, and applications into a single overall model, in order to forecast many aspects of network behavior. This capability enables service providers and enterprises to predict the performance of their networks and applications under a wide range of potential scenarios. OPNET IT Guru allows users to make comparisons among alternative approaches to managing the evolution of their networks and managing change within their networks, such as adopting new technologies, increasing capacity, and reorganizing assets. OPNET IT Guru also provides detailed views of an application's performance within a network. This enables network managers and application deployment teams to understand the impact of implementing a new application on existing applications, as well as the ability of a network to support the resulting traffic. OPNET IT Guru supports many popular communication protocols and networking technologies that operate within wireline and wireless networks.

OPNET Modeler

OPNET Modeler was our first product and was introduced in 1987. OPNET Modeler uses our device and protocol design environment, as well as our predictive simulation technology, to enable our customers to build software models of a broad range of network devices, communication protocols, and applications, and to combine these models to run simulations in order to predict network behavior and performance. These capabilities support the design, modeling, and development of network equipment and protocols. OPNET Modeler enables network equipment manufacturers to test product designs in a wide variety of scenarios prior to manufacturing. Using OPNET Modeler, network technology and equipment designers gain a better understanding of design tradeoffs earlier in the product development process, reducing the need for time-intensive and expensive hardware prototyping.

OPNET Netbiz

We began commercial distribution of OPNET Netbiz in August 1998. OPNET Netbiz provides network equipment manufacturers and service providers a platform for automating network design, provisioning, proposals, and analyses. OPNET Netbiz can incorporate customers' proprietary algorithms and organizational policies to automatically produce and optimize network configurations and designs. OPNET Netbiz enables network equipment manufacturers to provide vendor-specific planning solutions to their service provider customers, and enables service providers to differentiate service offerings from competitors, improve proposal quality, and accelerate business cycles.

OPNET ServiceProvider Guru

We expect to begin commercial distribution of OPNET ServiceProvider Guru at the end of June 2001. OPNET ServiceProvider Guru enables service providers to manage networks cost-effectively and improve network efficiency. Its advanced configuration troubleshooting and operational validation capabilities enable network operators to identify problems sooner and reduce mistakes. OPNET ServiceProvider Guru uses our predictive modeling and analysis technology to forecast many aspects of network behavior and enable service providers to improve network performance. In addition, OPNET ServiceProvider Guru provides sophisticated design and optimization capabilities that enable service providers to automatically produce more efficient, less costly network designs. Using OPNET ServiceProvider Guru, network operators are able to maintain a reliable infrastructure with high availability and superior service quality, accelerate deployment of new services, differentiate services from competitors, reduce capital and operating costs, and manage risk.

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OPNET Modules

We develop and sell a variety of software modules that provide enhanced functionality to OPNET IT Guru, OPNET Modeler, and OPNET Netbiz. Currently available OPNET modules include:

- Application Characterization Environment, for analyzing, diagnosing, and simulating the performance of applications within a network based on network traffic samples;

- Multi-Vendor Import, for importing network infrastructure and traffic information from other network management software applications;

- NetDoctor, for automatic validation of network and protocol configurations (expected to be released at the end of June 2001);

- Expert Service Prediction, for the definition and compliance testing of service level agreements;

- Radio and Terrain Modeling, for modeling wireless networks and the effects of terrain on those networks; and

- ERP Network Assessment, for the planning and analysis of three-tier application deployments, their effect on the network, and their ability to perform effectively within an existing network environment.

OPNET Model Libraries

The model libraries are used by OPNET IT Guru, OPNET ServiceProvider Guru, and OPNET Modeler to simulate and analyze major networking technologies and communication protocols. These libraries provide the building blocks used to generate models of networks. A network model consists of software objects that correspond to the devices, computers, and links that constitute the actual network of interest. The behavior of these objects is controlled by models of devices, computers, applications, communication protocols, and links. OPNET IT Guru, OPNET ServiceProvider Guru, and OPNET Modeler include extensive libraries of popular and emerging networking technologies and communication protocols, such as TCP/IP, hypertext transfer protocol, or HTTP, Open Shortest Path First routing, or OSPF, ATM, frame relay, and IP-QoS. Some of our model libraries are included in our base products and others are available for an additional fee.

Customers

Our customers include:

- service providers, including telecommunications carriers and ISPs;
- large and medium-sized enterprises that rely on networks to conduct business, including organizations that provide consulting for the planning, design, and troubleshooting of networks; and
- network equipment manufacturers.

Historically, our software license agreements generally have provided our customers with a perpetual license for the use of our software by a specified number of concurrent users. In the future, we intend to pursue a licensing model in which more of our licenses require annual renewal payments from our customers.

For the year ended March 31, 2001, we generated 22.4% of our total revenues from customers located outside the United States. No single customer accounted for more than 10% of our total revenues in any of the last three fiscal years. Note 15 to our financial statements presents information regarding revenues generated in the United States and internationally.

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Sales and Marketing

We sell our software through our direct sales force, our Paris office and international distributors, and a number of original equipment manufacturers and resellers. We have marketing relationships with original equipment manufacturers Hewlett-Packard and Agilent Technologies. To date, neither of these original equipment manufacturers has accounted for a material portion of our revenues. In North America, the majority of our sales are made by our direct sales force. As of March 31, 2001, our sales and marketing organization consisted of 76 employees located in our headquarters in Bethesda, Maryland, and our offices in Boston, Cary, Dallas, Paris, France, and Santa Clara. We intend to expand our sales and marketing organization through aggressive recruiting of qualified individuals.

Our direct sales force concentrates on sales opportunities in the United States. The direct sales force consists of 35 sales teams working out of sales offices in Bethesda, Boston, Cary, Dallas, and Santa Clara. Our international sales activities are primarily conducted by our Paris office and our 14 distributors that resell OPNET products in Germany, Scandinavia, the United Kingdom, the Middle East, India, Pakistan, Australia, China, Japan, Korea, and Singapore. International sales activities are managed by our vice president of international sales. In addition, we intend to establish additional technical sales support centers in some of our markets in order to better support our distributors.

We engage in marketing activities to increase awareness of our products among our potential customer base and to create sources of leads for our sales organization. Our marketing activities include:

. participation in networking industry tradeshows;

. seminars that introduce the capabilities of our software to potential customers;

. seminars designed specifically for organizations that are already our customers, but present significant potential for additional license sales;

. advertisement in trade journals and networking-oriented Web sites;

. direct mailings to potential customers;

. product briefings with industry analysts; and

. a variety of public relations activities, including our annual international user conference.

For each of the last four years, we have sponsored OPNETWORK, an annual international user conference convened in Washington, D.C. that focuses on predictive network management for professionals in all areas of networking and information technology. OPNETWORK '00, held in August 2000, included more than 400 hours of presentations and more than 75 guest speakers. Over 800 people attended OPNETWORK '00, representing a 33% increase from the previous year.

Service and Support

Our service and support offerings include:

. consulting and customization services;

. software maintenance, which includes providing software updates for major and minor revisions;

. technical support by telephone, e-mail, or fax; and

. training, which includes courses that enable our customers to more effectively use our products.

We offer consulting services to assist our clients in customizing their OPNET products. In particular, our customers typically buy customization services with their purchase of OPNET Netbiz. Customization services are performed by our consulting staff, which consists of software development engineers, quality assurance engineers, technical documentation specialists, and product managers. Some customers also choose to engage

our consulting services in proactive network management projects, including network planning, network design, diagnosis of network performance problems, and communication protocol design.

Software maintenance and technical support are purchased by our customers as a single package, generally on an annual basis. Purchasers of these services are provided with unspecified updates to the software they license from us as the unspecified updates are released. The fee for this service is generally determined as a percentage of the current price of product licenses.

We provide customer support from our support center at our headquarters in Bethesda, Maryland. Our technical support services are supported by a comprehensive information system that ensures that customer inquiries are addressed promptly, tracked until fully resolved, and recorded for future reference. Reports on the overall responsiveness of the technical support infrastructure, and the status of pending customer inquiries, are provided regularly to our technical support staff, technical support management, and executive management.

We have a core team of technical support staff supplemented by a number of product developers and consultants who perform technical support on a rotational basis. This staffing approach ensures that customers have access to the best available product expertise, while simultaneously providing product developers with direct customer feedback, which in turn helps us improve our products.

We regularly offer training courses to our customers to assist them in maximizing the benefit they receive from using our products. Our training classes cover a broad range of topics. Training classes are offered at our headquarters in Bethesda, Maryland, our facilities in Santa Clara, California and Cary, North Carolina, and at our customers' locations. As of March 31, 2001, our training staff consisted of three employees.

Research and Development

We believe that our ability to enhance our current products, and create new products in response to the needs of our customer base will be an important factor for our future success. Accordingly, we intend to continue to commit significant resources to product research and development. We expect to accomplish a large part of our product improvements and new product development through internal development efforts. New capabilities may also be integrated into our product lines through the acquisition of technologies or businesses, or the licensing of externally developed technologies.

Our total expenses for research and development for fiscal 2001, 2000, and 1999 were $8.3 million, $5.7 million, and $4.9 million, respectively. Our research and development efforts to date have been conducted in their entirety at our headquarters in Bethesda, Maryland, and all related costs have been expensed as incurred. As of March 31, 2001, our research and development staff consisted of 85 engineers and technical professionals.

Our research and development efforts are directed at increasing our revenues by expanding the scope of our solutions to address additional customer requirements. Our existing customers provide a meaningful source of information, which we use, and expect to continue to use, in order to guide our future product development. In addition, we invest, and intend to continue to invest, in research and analysis of trends in our industry and our product markets, and we expect that our future products will reflect the results of these analyses.

Competition

The market for our products is evolving rapidly and is highly competitive. We believe that this market is likely to become more competitive as the demand for predictive network management solutions continues to increase. Although none of our competitors offers a solution that is identical to ours, we are subject to current and potential competition from:

- software vendors with predictive network management offerings and application performance diagnosis solutions, such as Compuware;
- consultants who offer predictive network management advisory services; and
- customers who develop their own predictive network management capabilities, either internally or through outsourcing.

OPNET Netbiz also competes with solutions designed to facilitate and automate sales processes in general.

In addition, it is possible that other vendors as well as some of our customers or distributors will develop and market competitive solutions in the future. Many of our current and potential competitors are larger and have substantially greater financial and technical resources than we do.

We believe the principal competitive factors affecting the market for our software products are the following:

- scope, quality, and cost-effectiveness of network management solutions;
- industry knowledge and expertise;
- the interoperability of solutions with existing network management solutions;
- product performance, accuracy, technical features, ease of use, and price; and
- customer service and support.

Intellectual Property

We rely on a combination of copyright, trademark, patent, and trade secret laws, confidentiality agreements, and contractual provisions to protect our intellectual property. However, we believe that these laws and agreements afford us only limited protection. Despite our efforts to protect our intellectual property, unauthorized parties may infringe upon our proprietary rights. In addition, the laws of some foreign countries do not provide as much protection of our proprietary rights as do the laws of the United States.

We currently hold registered trademarks in the United States for OPNET and OPNET Modeler, and have pending applications in the United States for the trademark registrations of IT Guru, Netbiz and ServiceProvider Guru. We also hold additional registered trademarks in the United States and have additional pending applications. If not renewed, our registered trademarks will expire at various times between April 2007 and August 2010. We have applied for trademark protection in a number of international jurisdictions, and hold a registered trade mark in France for OPNET that will expire in 2010, if not renewed. In addition, we have one allowed patent for technology related to the OPNET product suite that will expire in 2018, and two pending patent applications that if granted would expire in 2019 and 2021. We believe that, because of the rapid pace of change in our industry, the intellectual property protection for our products will be a less significant factor for our future success than the knowledge, abilities, and experience of our employees.

Employees

As of March 31, 2001, we had 224 full-time employees, 221 of whom were located in the United States. These included 76 in sales and marketing, 35 in professional services, 85 in engineering, research, and

development, and 28 in finance and administration. Our employees are not represented by a collective bargaining agreement and we consider our relations with our employees to be good.

ITEM 2. PROPERTIES

Our corporate office and principal facility is located in Bethesda, Maryland and consists of approximately 60,000 square feet of office space held under a lease that expires on January 31, 2011, exclusive of renewal options. We also lease office space in Boston, Cary, Dallas, Santa Clara, and Paris, France.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the fourth fiscal quarter of 2001.

Executive Officers and Directors of the Registrant

Our executive officers and directors, and their ages as of May 31, 2001, are as follows:

Name	Age	Position
Marc A. Cohen...............	37	Chairman of the Board and Chief Executive Officer
Alain J. Cohen.............	34	President, Chief Technology Officer and Director
George M. Cathey(1).........	35	Senior Vice President of Engineering
Joseph F. Greeves...........	44	Senior Vice President of Finance and Chief Financial Officer
Pradeep K. Singh............	32	Senior Vice President of Engineering, Model Research and Development
Bruce R. Evans(2)(3)........	42	Director
Steven G. Finn, PhD(2)......	54	Director
William F. Stasior(2)(3)....	60	Director

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(1) Mr. Cathey is currently on a leave of absence from OPNET
(2) Member of the Audit Committee
(3) Member of the Compensation Committee

Set forth below is certain information regarding the professional experience for each of the above-named persons.

Marc A. Cohen, one of our founders, has served as our chairman of the board since our inception in 1986 and as our chief executive officer since 1994. From 1986 to 1992, Mr. Cohen was also a consultant with Booz.Allen & Hamilton, an international management and consulting company. Mr. Cohen received a bachelor's degree in engineering science from Harvard and a master's degree in electrical engineering from Stanford.

Alain J. Cohen, one of our founders, has served as our president and chief technology officer and as a member of our board of directors since our inception in 1986. Mr. Cohen received a bachelor's degree in electrical engineering from M.I.T.

George M. Cathey has served as our senior vice president of engineering since March 1999. From March 1991 to March 1999, Mr. Cathey served as our director of core technologies. Mr. Cathey received bachelor's and master's degrees in electrical engineering and computer science from M.I.T.

Joseph F. Greeves has served as our chief financial officer since November 1998 and as our senior vice president of finance since December 1999. Mr. Greeves also served as our vice president of finance from November 1998 through December 1999. From November 1997 to August 1998, Mr. Greeves served as vice president and chief financial officer of ACE*COMM, a telecommunications software company. From January 1995 to July 1997, Mr. Greeves served as vice president and chief financial officer of Fusion Systems, a semiconductor technology company. Mr. Greeves is a certified public accountant and received a bachelor's degree in accounting from the University of Maryland.

Pradeep K. Singh was appointed as our senior vice president of engineering, model research and development in March 2000. From March 1999 to March 2000, Mr. Singh served as our vice president of engineering, model research and development. From September 1995 to February 1999, he served as our director of model research and development. From October 1994 to August 1995, he was one of our software engineers. Mr. Singh received a bachelor's degree in engineering from Delhi College of Engineering (India) and a master's degree in electrical engineering from Clemson.

Bruce R. Evans has served as a member of our board of directors since September 1997. Mr. Evans has been with Summit Partners, a venture capital firm, since 1986, serving as a general partner since 1991 and managing partner since January 2001. Mr. Evans currently serves on the boards of directors of Omtool, Ltd., a provider of fax server and e-mail security software, and Private Business, Inc., a provider of software and services to community banks and several private companies. Mr. Evans received a bachelor's degree in mechanical engineering and economics from Vanderbilt University and an MBA from Harvard Business School.

Steven G. Finn has served as a member of our board of directors since March 1998. Dr. Finn has been a principal research scientist and lecturer at M.I.T. since 1991. Dr. Finn has also served as a consultant with Matrix Partners, a venture capital firm, since 1991.

William F. Stasior has served as a member of our board of directors since March 1998. Since October 1999, Mr. Stasior has served as senior chairman of Booz.Allen & Hamilton. From 1991 to October 1999, Mr. Stasior served as chairman of Booz.Allen & Hamilton. Mr. Stasior also served as chief executive officer of Booz.Allen & Hamilton from 1991 to April 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock began trading on the Nasdaq National Market on August 2, 2000, under the symbol "OPNT." The following table sets forth for the indicated periods the high and low sale prices of our common stock as reported by the Nasdaq National Market.

Period	High	Low
Fiscal Year Ended March 31, 2001:		
Second Quarter (beginning August 2, 2000)................	$55.75	$16.25
Third Quarter..	45.13	8.75
Fourth Quarter...	23.00	7.88

As of June 15, 2001, we had approximately 48 holders of record of common stock. Because many of these shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

We have never paid or declared any cash dividends on our common stock or other securities and do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain all future earnings, if any, for use in the operation of our business.

On March 30, 2001, we paid $5.0 million and issued 650,000 shares of our common stock to Make Systems, Inc., a California corporation ("Make"), pursuant to our acquisition of substantially all of the assets of Make's NetMaker division. Make was an accredited investor as defined in Rule 501 of the Securities Act of 1933, as amended (the "Securities Act"), and the common stock issued in this transaction was issued in reliance on the exemption from registration set forth under Rule 506 of the Securities Act. No underwriters were involved in the foregoing sale of securities.

On August 7, 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 to us from the offering were approximately $54.1 million.

As of March 31, 2001, approximately $6.1 million of the net proceeds of the offering had been used for general corporate purposes, including working capital and capital expenditures. From the date of the offering through March 31, 2001, we used approximately $3.3 million of the net proceeds for capital expenditures and leasehold improvements related to our new headquarters facility in Bethesda, Maryland. We also used $5.0 million of the net proceeds to purchase substantially all of the assets of Make's NetMaker division. 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 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report. The statement of operations data for the years ended March 31, 2001, 2000, and 1999, and the balance sheet data as of March 31, 2001 and 2000, are derived from, and are qualified by reference to, our audited consolidated financial statements included in this Annual Report. The balance sheet data as of March 31, 1999, 1998 and 1997, and the statement of operations data for the years ended March 31, 1998 and 1997 are derived from our audited consolidated financial statements that are not included in this Annual Report. Historical results are not necessarily indicative of results that may be expected for any future period.

	Year Ended March 31,				
	2001	2000	1999	1998	1997
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Software licenses	$18,939	$10,577	$ 6,715	$ 7,875	$ 5,596
Services	14,005	8,658	5,288	4,054	3,019
Total revenues	32,944	19,235	12,003	11,929	8,615
Cost of revenues:					
Software licenses	395	728	133	435	310
Services	4,750	2,875	1,249	980	698
Total cost of revenues	5,145	3,603	1,382	1,415	1,008
Gross profit	27,799	15,632	10,621	10,514	7,607
Operating expenses:					
Research and development	8,263	5,696	4,850	3,190	2,055
Sales and marketing	13,745	7,510	4,056	3,398	2,228
General and administrative	3,362	2,093	1,984	1,336	819
Purchased in-process research and development	770	--	--	--	--
Total operating expenses	26,140	15,299	10,890	7,924	5,102
Income (loss) from operations	1,659	333	(269)	2,590	2,505
Interest and other income	2,788	414	376	319	92
Income before provision (benefit) for income taxes	4,447	747	107	2,909	2,597
Provision (benefit) for income taxes	1,567	172	(100)	1,134	1,105
Net income	2,880	575	207	1,775	1,492
Accretion of transaction costs on redeemable convertible preferred stock	(6)	(14)	(14)	(9)	--
Net income applicable to common shares	$ 2,874	$ 561	$ 193	$ 1,766	$ 1,492

Basic net income (loss) from operations applicable per common share	$ .10	$ .03	$ (.02)	$ .21	$ .21
Diluted net income (loss) from operations per common share	$ .09	$ .02	$ (.02)	$ .20	$ .21
Basic net income applicable per common share(1)	$ .18	$ .04	$ .02	$ .15	$ .13
Diluted net income per common share	$ .16	$ .04	$ .02	$ .14	$ .13
Weighted average shares outstanding (basic)	16,440	12,912	12,831	12,237	11,674
Weighted average shares outstanding (diluted)	17,977	14,367	13,626	12,897	11,852
Balance Sheet Data:					
Cash and cash equivalents	$62,623	$ 8,765	$ 6,414	$ 7,227	$ 2,178
Working capital	56,474	7,112	6,806	8,135	3,280
Total assets	92,273	16,828	13,205	11,833	5,887
Redeemable convertible preferred stock	--	6,948	6,934	6,920	--
Total stockholders' equity	76,454	3,468	2,737	2,480	4,077

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(1) Basic earnings per share data for all years except for the year ended March 31, 2001, have been restated in accordance with EITF Topic No. D-95 (see Note 1 to our Consolidated Financial Statements).

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Certain Factors That May Affect Future Results" and elsewhere in this Annual Report.

Overview

We provide intelligent network management software products and related services. Our product suite currently consists of three primary software products: OPNET IT Guru, OPNET Modeler, and OPNET Netbiz. An additional primary software solution, OPNET ServiceProvider Guru for service providers, is expected to be released by June 30, 2001. We sell our OPNET suite of products to service providers, including telecommunications carriers; ISPs and ASPs; large and medium-sized enterprises; and network equipment manufacturers. We market our product suite in North America primarily through a direct sales force and, to a lesser extent, several resellers and original equipment manufacturers. In October 2000, we opened an office in Paris, France, as part of our effort to expand our global sales and marketing capabilities. Internationally, we market our products primarily through our Paris office and third-party distributors.

We sold our first products in 1987. Our operations, including acquisitions, have been financed principally through cash provided by operations, a venture financing in September 1997 and the proceeds of our initial public offering in August 2000. In August 1998, we introduced our OPNET IT Guru and OPNET Netbiz products and began a new marketing and sales strategy to focus on these new products. We expect that OPNET ServiceProvider Guru, a new software solution designed for service providers, will become generally available at the end of June 2001.

We generate revenues principally from licensing our 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 and royalty income. Software license revenues are recognized upon delivery, provided that fees are fixed and determinable, no significant modifications to the product are required, and collection of the related receivable is probable. Where significant modifications are required, software license revenues are recognized along with consulting fees on a percentage-of-completion basis as the modifications are performed. We allow customers to evaluate our software before purchase, and therefore it is our policy not to allow returns.

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. Revenues from maintenance and technical support agreements are deferred and recognized ratably over the support period. We offer consulting services primarily to provide product customization and enhancements. Consulting services are generally performed under fixed-price agreements and recognized as the work is performed on a percentage-of-completion basis. We provide classroom and on-site training to our customers on a daily fee basis.

Software license revenues and service revenues for which payment has been received, but that do not yet qualify for recognition as revenues, are reflected as deferred revenues.

Revenues from sales outside of the United States represented 22.4%, 25.0%, and 28.6% of our total revenues in the fiscal years ended March 31, 2001, 2000, and 1999, respectively. Sales outside the United States are primarily made through our Paris office and third-party distributors, 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.

In March 1999, we entered into a two-year non-renewable agreement with Cadence Design Systems ("Cadence"), that required us to make an aggregate payment of $1.0 million to Cadence and to pay a 50% royalty on specified sales of OPNET Modeler products sold to the portion of Cadence's customer base that used an existing Cadence product. For the years ended March 31, 2001 and 2000, Cadence royalties were $273,000 and $595,000, respectively. We amortized the $1.0 million payment over the two-year marketing support period as part of sales and marketing expenses, and charged the royalty payments to cost of software license revenues as the related revenue was recognized.

At various dates during the year ended March 31, 2000, we granted options to employees to purchase a total of 260,260 shares of common stock with exercise prices below the estimated fair market value at the dates of grant. We recorded compensation expense relating to these options of $107,000 and $36,000 for the years ended March 31, 2001 and 2000, respectively, resulting in a remaining deferred compensation balance of $180,000 at March 31, 2001.

On March 30, 2001, we acquired the NetMaker division of Make Systems, Inc. ("NetMaker") for consideration of $5.0 million in cash and 650,000 shares of our common stock. NetMaker offers a sophisticated suite of products that address the operational and engineering needs of traditional and next-generation network service providers. The acquisition contributed key components that enabled us to broaden our product suite for the service provider market. The acquisition was accounted for using the purchase method. See Note 2 to our consolidated financial statements for additional information related to our acquisition of NetMaker.

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:

	Year Ended March 31,		
	2001	2000	1999
Revenues:			
Software licenses	57.5%	55.0%	55.9%
Services	42.5	45.0	44.1
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Software licenses	1.2	3.8	1.1
Services	14.4	14.9	10.4
Total cost of revenues	15.6	18.7	11.5
Gross profit	84.4	81.3	88.5
Operating expenses:			
Research and development	25.1	29.6	40.4
Sales and marketing	41.7	39.1	33.8
General and administrative	10.2	10.9	16.5
Purchased research and development	2.4	--	--
Total operating expenses	79.4	79.6	90.7
Income (loss) from operations	5.0	1.7	(2.2)
Interest and other income (expense), net	8.5	2.2	3.1
Income before provision (benefit) for income taxes	13.5	3.9	0.9
Provision (benefit) for income taxes	4.8	0.9	(0.8)
Net income	8.7%	3.0%	1.7%

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:

	Year Ended March 31,		
	2001	2000	1999
Cost of software license revenues	2.1%	6.9%	2.0%
Cost of service revenues	33.9	33.2	23.6

Comparison of Years Ended March 31, 2001 and 2000

Revenues

Total revenues increased 71.3% to $32.9 million for fiscal 2001 from $19.2 million for fiscal 2000. We believe that the percentage increase in our total revenues achieved in this period is not necessarily indicative of future results. Software license revenues were 57.5% of total revenues for fiscal 2001 and 55.0% of total revenues for fiscal 2000.

Software License Revenues. Software license revenues increased 79.1% to $18.9 million for fiscal 2001 from $10.6 million for fiscal 2000. This increase was primarily due to the substantial growth in overall demand for our suite of products and broadening portfolio of related models and modules, increase in the average transaction size, expansion of our marketing and direct sales force and the growth of our international presence.

Service Revenues. Service revenues increased 61.8% to $14.0 million for fiscal 2001 from $8.7 million for fiscal 2000. This growth was primarily a result of increased maintenance and technical support contracts related to new license sales, increased renewals of these contracts by our installed base of customers, growing demand for consulting services, primarily for customization of our OPNET Netbiz product, and increased training services.

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, reflecting the low materials, packaging, and other costs of software products compared with the relatively high personnel costs associated with providing services. Cost of service revenues varies based upon the relative mix of maintenance and technical support, consulting and training services.

Cost of Software License Revenues. Cost of software license revenues decreased 45.7% to $395,000 for fiscal 2001 from $728,000 for fiscal 2000. Gross margin on software license revenues increased to 97.9% for fiscal 2001 from 93.1% for fiscal 2000. The decrease in cost of software license revenues and the related increase in margin was primarily due to a reduction in the level of sales requiring royalty payments under our March 1999 agreement with Cadence that required us to pay a 50% royalty for specified sales of OPNET

Modeler to the portion of Cadence's customer base that uses an existing Cadence product. This agreement ended on March 31, 2001.

Cost of Service Revenues. Cost of service revenues increased 65.2% to $4.8 million for fiscal 2001 from $2.9 million for fiscal 2000. Gross margin on service revenues decreased to 66.1% for fiscal 2001 from 66.8% for fiscal 2000. This slight decrease in margin was primarily due to a slightly higher proportion of service revenues derived from consulting services, which require more personnel costs and provide lower gross margin than maintenance services.

Operating Expenses

Research and Development. Research and development expenses consist primarily of salaries, related benefits and other engineering related costs. Research and development expenses increased 45.1% to $8.3 million for fiscal 2001 from $5.7 million for fiscal 2000. The increase was primarily related to increased research and development staffing levels for developing new products, including our new OPNET ServiceProvider Guru product, as well as sustaining and upgrading existing products. As a percentage of total revenues, research and development expenses decreased to 25.1% for fiscal 2001 from 29.6% for fiscal 2000. This decrease as a percentage of total revenues resulted from a proportionally smaller increase in research and development staffing levels relative to a higher level of revenues for fiscal 2001. We believe that a significant level of research and development investment will be required to maintain our competitive position and broaden our product lines, and expect that the dollar amount of these expenditures will continue to grow in future periods.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and related benefits, commissions, user conference costs, tradeshows, advertising, external consulting fees and other costs associated with our sales and marketing efforts. Sales and marketing expenses increased 83.0% to $13.7 million for fiscal 2001 from $7.5 million for fiscal 2000. This increase was primarily due to a substantial increase in the size of our direct sales force, increased commissions associated with the growth in revenues and a significant increase in the level of advertising, tradeshow and other marketing activities. As a percentage of total revenues, sales and marketing expenses increased to 41.7% for fiscal 2001 from 39.1% for fiscal 2000. The increase as a percentage of total revenues was due to our additional investment of resources associated with developing market awareness for our OPNET IT Guru and OPNET Netbiz products. We intend to continue to expand our global sales and marketing infrastructure and, accordingly, expect our sales and marketing expenses to increase in the future.

General and Administrative. General and administrative expenses consist primarily of salaries, related benefits and fees for recruiting, legal, accounting and other services. General and administrative expenses increased 60.6% to $3.4 million for fiscal 2001 from $2.1 million for fiscal 2000. The increased level of spending was primarily due to additional personnel costs and other expenses associated with our expansion of supporting infrastructure. As a percentage of total revenues, general and administrative expenses decreased to 10.2% for fiscal 2001 from 10.9% for fiscal 2000. We expect that the dollar amount of general and administrative expenses will increase as we continue to expand our operations.

Purchased In-Process Research and Development. In connection with the NetMaker acquisition, we obtained an independent valuation to determine the fair value of the net assets acquired and to allocate the purchase price. As a result of the purchase price allocation, we recorded an expense of $770,000 in the fourth quarter of fiscal 2001 representing the write-off of the fair value of acquired in-process research and development that had not reached technological feasibility nor had any alternative future use.

Interest and Other Income

Interest and other income increased 573.4% to $2.8 million for fiscal 2001 from $414,000 for fiscal 2000. The increase is primarily attributable to the interest earned on the proceeds from our initial public offering and the contribution of additional cash produced by our operations. This increase is partially offset by fees associated with our $3.4 million letter of credit outstanding at March 31, 2001.

Provision for Income Taxes

The provision for income taxes for fiscal year 2001 increased to $1.6 million from $172,000 in fiscal 2000. Our effective tax rate for fiscal 2001 was 35.2% compared to 23.0% in the prior year. The increase in the effective rate is primarily due to a reduction in the relative percentage of research and development tax credits available to us compared to the level of operating income.

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Comparison of Years Ended March 31, 2000 and 1999

Revenues

Total revenues increased 60.3% to $19.2 million for fiscal 2000 from $12.0 million for fiscal 1999. Software license revenues were 55.0% of total revenues for fiscal 2000 and 55.9% of total revenues for fiscal 1999.

Software License Revenues. Software license revenues increased 57.5% to $10.6 million for fiscal 2000 from $6.7 million for fiscal 1999. This increase was primarily due to the substantial growth in overall demand for our products, increased market acceptance of our OPNET IT Guru and OPNET Netbiz products, which were introduced in August 1998, and increased revenues generated through our indirect sales channels.

Service Revenues. Service revenues increased 63.7% to $8.7 million for fiscal 2000 from $5.3 million for fiscal 1999. This increase was primarily due to a substantial increase in demand for consulting services, primarily for customizing our OPNET Netbiz product, increased maintenance and technical support contracts related to new license sales, increased renewals of these contracts by our installed base of licenses and increased training services.

Cost of Revenues

Cost of Software License Revenues. Cost of software license revenues increased 447.4% to $728,000 for fiscal 2000 from $133,000 for fiscal 1999. Gross margin on software license revenues decreased to 93.1% for fiscal 2000 from 98.0% for fiscal 1999. This decrease in margin was primarily due to our March 1999 agreement with Cadence that required us to pay a 50% royalty for specified sales of OPNET Modeler to the portion of Cadence's customer base that uses an existing Cadence product.

Cost of Service Revenues. Cost of service revenues increased 130.2% to $2.9 million for fiscal 2000 from $1.2 million for fiscal 1999. Gross margin on service revenues decreased to 66.8% for fiscal 2000 from 76.4% for fiscal 1999. This decrease in margin was primarily due to an increase in the proportion of consulting revenues, and to a lesser extent training revenues, both of which require more personnel costs and provide lower gross margins than our maintenance services.

Operating Expenses

Research and Development. Research and development expenses increased 17.4% to $5.7 million for fiscal 2000 from $4.9 million for fiscal 1999. The increase was primarily related to increased research and development staffing levels for developing new products and sustaining and upgrading existing products. As a percentage of total revenues, research and development expenses decreased to 29.6% for fiscal 2000 from 40.4% for fiscal 1999. This decrease as a percentage of total revenues resulted from a proportionally smaller increase in research and development staffing levels relative to a higher level of revenues for fiscal 2000. The small dollar increase was the result of a leveling of research and development staff following a year of strong growth in headcount.

Sales and Marketing. Sales and marketing expenses increased 85.2% to $7.5 million for fiscal 2000 from $4.1 million for fiscal 1999. This increase was primarily due to a substantial increase in the size of our direct sales force, increased commissions associated with the growth in revenues, the amortization of payments made in connection with our March 1999 agreement with Cadence and a significant increase in the level of advertising, tradeshow and other marketing activities. As a percentage of total revenues, sales and marketing expenses increased to 39.1% for fiscal 2000 from 33.8% for fiscal 1999. The increase as a percentage of total revenues was due to our additional investment of resources associated with developing a market for our OPNET IT Guru and OPNET Netbiz products, which were introduced in August 1998.

General and Administrative. General and administrative expenses increased 5.5% to $2.1 million for fiscal 2000 from $2.0 million for fiscal 1999. The increased level of spending was primarily due to additional

personnel costs and other expenses associated with our expansion of supporting infrastructure. As a percentage of total revenues, general and administrative expenses decreased to 10.9% for fiscal 2000 from 16.5% in fiscal 1999.

Interest and Other Income

Interest and other income increased 10.1% to $414,000 for fiscal 2000 from $376,000 for fiscal 1999. Interest income increased 21.1% to $407,000 for fiscal 2000 from $336,000 for fiscal 1999 as a result of more cash being available for investments primarily from additional cash flow from operations in fiscal 2000. Other income decreased 82.5% to $7,000 for fiscal 2000 from $40,000 for fiscal 1999. Other income in fiscal 1999 was primarily related to proceeds from an insurance settlement. We had no debt outstanding in either period.

Provision for Income Taxes

The provision for income taxes for fiscal 2000 was $172,000. Our effective tax rate for fiscal 2000 was 23.0%. This rate was relatively low due to research and development tax credits available to us. The income tax benefit of $100,000 for fiscal 1999 resulted primarily from research and development tax credits for which we qualified during the year.

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through cash provided by operating activities. In September 1997, we raised $7.0 million in venture financing, of which we used $3.4 million to repurchase stock from our existing stockholders. 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 March 31, 2001, we had cash and cash equivalents totaling $62.6 million.

Cash provided by operating activities was $10.5 million, $4.1 million, and $312,000 for fiscal 2001, 2000 and 1999, respectively. Cash provided by operating activities is primarily derived from net income, as adjusted for depreciation and amortization and increases in deferred revenue and accrued liabilities. The significant increase in cash provided by operations was attributable to our additional revenue growth, which has resulted in higher accounts receivable, deferred revenue and accrued liability balances.

Cash used in investing activities was $11.1 million, $1.9 million, and $1.2 million for fiscal 2001, 2000 and 1999, respectively. The funds were used primarily to purchase property and equipment for our new corporate headquarters in Bethesda, Maryland and expenditures for purchased software. Cash used in investing activities also includes the cash portion of the purchase price of the NetMaker acquisition in March 2001. In fiscal 2000 and fiscal 1999, these funds were also used to purchase marketing support rights from Cadence.

Cash provided by financing activities was $54.4 million, $88,000 and $64,000 for fiscal 2001, 2000 and 1999, respectively. The cash provided by financing activities in fiscal 2001 reflected the proceeds from our initial public offering, net of underwriting discounts and offering expenses, exercise of stock options and the sale of common stock under our 2000 Employee Stock Purchase Plan. During fiscal 2000 and 1999, the cash provided by financing activities was primarily derived from the sale of common stock and from the exercise of stock options.

We have a $5.0 million revolving line of credit with a commercial bank, which expires in June 2001. Borrowings under this 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 this facility for a letter of credit that secures the lease for our new headquarters in Bethesda, Maryland. There was no balance outstanding on this line of credit as of March 31, 2001. We plan to renew the line of credit upon its expiration in June 2001.

We expect to experience growth in our working capital needs for the foreseeable future in order 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.

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 Annual 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;
- 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.

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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.

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 ServiceProvider Guru. Accordingly, the failure of our products to perform favorably in the service provider environment or to gain wider adoption by service providers could have a negative effect on our business and future operating results.

If our newest products, OPNET IT Guru, OPNET Netbiz and OPNET ServiceProvider Guru, 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 OPNET IT Guru and OPNET Netbiz, both of which were released in August 1998, and OPNET ServiceProvider Guru, which we expect to become generally commercially available by June 30, 2001. 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 OPNET IT Guru, OPNET Netbiz and OPNET ServiceProvider Guru. To date, we have not achieved widespread market acceptance of either OPNET IT Guru or OPNET Netbiz, and we have not yet begun shipping OPNET ServiceProvider Guru. In addition, if our OPNET Modeler product, which we have been selling since 1987, encounters declining sales, which could occur for a variety of reasons, including market saturation, and sales of our newer products do not grow at a rate sufficient to offset the shortfall, our revenues would decline.

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 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.

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:

- greater difficulty in accounts receivable collection and longer collection periods;
- political and economic instability;
- difficulty in attracting distributors that will market and support our products effectively;
- 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; and
- the effects of currency fluctuations.

Expanding our OPNET Netbiz consulting services business will be costly and may not result in any compensating increase in sales or profitability

We have recently begun to place additional emphasis on consulting services delivered in conjunction with sales of OPNET Netbiz. The significant additional expenditures and operational resources required to expand our OPNET Netbiz consulting services business will place additional strain on our management, financial, and operational resources and may make it more difficult for us to maintain profitability. If OPNET Netbiz does not achieve significant market acceptance, our customers will not engage our consulting services organization to assist with consulting, custom development, implementation support, and training for OPNET Netbiz. In addition, we may be unable to attract or retain a sufficient number of the highly qualified consulting services personnel that we expect the expansion of our consulting services business will require.

We face intense competition, which could cause us to lose sales, resulting in lower revenues and profitability

The intense and increasing competition in our market could cause us to lose sales, which could result in lower revenues and could cause us to become unprofitable. The market for predictive 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 predictive 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.

OPNET Modeler, OPNET IT Guru, and OPNET ServiceProvider Guru currently face or potentially will face competition from several sources, including:

- software vendors with predictive network management offerings and application performance diagnosis solutions, such as Compuware;
- consultants who offer predictive network management advisory services; and
- customers who develop their own predictive network management capabilities, either internally or through outsourcing.

OPNET Netbiz competes with solutions designed to facilitate and automate sales processes in general.

If the Internet infrastructure does not grow as currently anticipated, sales of our OPNET Netbiz product may not grow and our revenues may decline

Our OPNET Netbiz product addresses a new and emerging market for sales process automation, including over the Internet, by service providers and network equipment manufacturers. The failure of this market to develop, or a delay in the development of this market, would reduce demand for OPNET Netbiz and cause our revenues to decline. The success of OPNET Netbiz depends substantially upon the widespread adoption of the Internet as a primary medium for commerce and business applications. Moreover, critical issues concerning the commercial use of the Internet, such as security, reliability, cost, accessibility, and quality of service, remain unresolved and may negatively affect the growth of Internet use or the attractiveness of commerce and business communication over the Internet.

Potential errors in our products and our inability to correct those errors could harm our reputation and could cause our customers to demand refunds from us or assert claims for damages against us

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

- the loss of or delay in market acceptance and sales of our products;
- the delay in introduction of new products;
- 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 by decreasing demand for our products, 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 by decreasing demand for our products. 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 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 business because we would not be able to sell the affected product without redeveloping it or incurring significant additional expense.

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

ITEM 7a. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements together with the related notes and the report of Deloitte & Touche LLP, independent auditors, are set forth in the Index to Financial Statements at Item 14 and incorporated herein by this reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

None.

PART III

Certain information required by Part III is omitted from this Annual Report as we intend to file our definitive Proxy Statement for our Annual Meeting of Stockholders to be held on September 11, 2001, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Annual Report, and certain information included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Executive Officers and Directors--The information in the section entitled "Executive Officers, Directors and Key Employees of the Registrant" in Part I hereof is incorporated herein by reference.

(b) Directors--The information in the section entitled "Election of Directors" in the Proxy Statement is incorporated herein by reference.

The disclosure required by Item 405 of Regulations S-K is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information in the sections entitled "Compensation of Executive Officers", "Compensation of Directors" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in the section entitled "Certain Transactions" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON FORMS 8-K

(a) The following documents are filed as part of this Form 10-K:

1. Financial Statements. The following financial statements of OPNET Technologies, Inc. are filed as part of this Form 10-K on the pages indicated:

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

2. Schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

3. Exhibits. The exhibits listed in the Exhibits Index immediately preceding such exhibits are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

On March 23, 2001, the Registrant filed a Current Report on Form 8-K under Item 5 (Other Events) announcing that on March 20, 2001, the Registrant entered into a definitive Asset Purchase Agreement (the "Asset Purchase Agreement") by and among the Registrant, OPNET Development Corp., a wholly-owned subsidiary of the Registrant (the "Sub"), Make Systems, Inc. ("Make"), and, with respect to only certain specified provisions, Metromedia Company, whereby the Sub was to acquire substantially all of the assets and operations of the Cary, North Carolina-based NetMaker division of Make ("NetMaker").

On April 4, 2001, the Registrant filed a Current Report on Form 8-K under Item 2 (Acquisition or Disposition of Assets) announcing that on March 30, 2001 the Registrant completed its previously announced acquisition of substantially all of the assets and operations of NetMaker pursuant to the Asset Purchase Agreement.

On June 13, 2001, the Registrant filed an Amendment No. 1 to Current Report on Form 8-K/A to file under Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits) historical financial statements of NetMaker and pro forma financial information reflecting the acquisition of NetMaker.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on the 29th day of June, 2001.

Opnet Technologies, Inc.

/s/ Marc A. Cohen

By: ________________________________

Marc A. Cohen
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the 29th day of June, 2001.

Signature	Title
/s/ Marc A. Cohen	Chairman and Chief Executive Officer

Marc A. Cohen	(Principal Executive Officer)
/s/ Alain J. Cohen Alain J. Cohen	President, Chief Technology Officer and Director
/s/ Joseph F. Greeves Joseph F. Greeves	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Bruce R. Evans Bruce R. Evans	Director
/s/ Steven G. Finn Steven G. Finn, PhD	Director
/s/ William F. Stasior William F. Stasior	Director

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
OPNET Technologies, Inc.
Bethesda, Maryland

We have audited the accompanying consolidated balance sheets of OPNET Technologies, Inc. and its subsidiaries (the "Company"), as of March 31, 2001 and 2000, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

McLean, Virginia
April 27, 2001

OPNET TECHNOLOGIES, INC.

Consolidated Balance Sheets
(in thousands, except per share data)

	March 31, 2001	March 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$62,623	$ 8,765
Accounts receivable, net of $113 and $100 in allowance for doubtful accounts at March 31, 2001 and 2000, respectively	4,515	2,873
Unbilled accounts receivable	1,406	339
Refundable income taxes	332	476
Deferred offering costs	--	400
Deferred income taxes	546	101
Prepaid expenses and other current assets	2,486	398
Total current assets	71,908	13,352
Deferred income taxes	--	99
Property and equipment, net	6,891	2,272
Intangible assets, net of $1,000 and $542 in accumulated amortization at March 31, 2001 and 2000, respectively	2,950	458
Goodwill	9,754	--
Other assets:		
Deposits	75	62
Loan to officer	231	231
Purchased software, net of accumulated amortization of $744 and $223 at March 31, 2001 and 2000, respectively	464	354
Total assets	$92,273	$16,828
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 514	$ 170
Accrued liabilities	7,146	2,479
Accrued income taxes	93	--
Deferred revenue	7,681	3,591
Total current liabilities	15,434	6,240
Deferred rent	59	30
Deferred revenue	311	142
Deferred income taxes	15	--
Total liabilities	15,819	6,412

Commitments and contingencies (note 10)

Series A redeemable convertible preferred stock, par value $0.001--No shares issued and outstanding at March 31, 2001, 160 shares authorized, 145 issued and outstanding at March 31, 2000, liquidation preference--$48.40 per share..........	--	6,948
Stockholders' equity:		
Preferred stock--par value $0.001; 5,000 shares authorized; 160 shares designated as Series A (above), No shares issued and outstanding at March 31, 2001, 145 issued and outstanding at March 31, 2000..............................	--	--
Common stock--par value $0.001; 100,000 shares authorized; 24,901 and 17,079 shares issued at March 31, 2001 and 2000, respectively; 18,767 and 10,951 shares outstanding at March 31, 2001 and 2000, respectively............................	25	17
Additional paid-in capital.................................	70,708	623
Deferred compensation......................................	(180)	(287)
Retained earnings..	9,999	7,125
Accumulated other comprehensive income.....................	2	--
Treasury stock--6,134 and 6,128 shares at March 31, 2001 and 2000, respectively..	(4,100)	(4,010)
Total stockholders' equity...............................	76,454	3,468
Total liabilities and stockholders' equity.............	$92,273	$16,828

See notes to consolidated financial statements.

OPNET TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended March 31,		
	2001	2000	1999
Revenues:			
Software licenses..............................	$18,939	$10,577	$ 6,715
Services.......................................	14,005	8,658	5,288
Total revenues...............................	32,944	19,235	12,003
Cost of revenues:			
Software licenses..............................	395	728	133
Services.......................................	4,750	2,875	1,249
Total cost of revenues.......................	5,145	3,603	1,382
Gross profit.....................................	27,799	15,632	10,621
Operating expenses:			
Research and development.......................	8,263	5,696	4,850

Sales and marketing	13,745	7,510	4,056
General and administrative	3,362	2,093	1,984
Purchased in-process research and development	770	--	--
Total operating expenses	26,140	15,299	10,890
Income (loss) from operations	1,659	333	(269)
Interest and other income (expense), net	2,788	414	376
Income before provision (benefit) for income taxes	4,447	747	107
Provision (benefit) for income taxes	1,567	172	(100)
Net income	2,880	575	207
Accretion of transaction costs on redeemable convertible preferred stock	(6)	(14)	(14)
Net income applicable to common shares	$ 2,874	$ 561	$ 193
Basic net income applicable per common share	$ .18	$ .04	$ .02
Diluted net income per common share	$ .16	$ .04	$ .02

See notes to consolidated financial statements.

OPNET TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended March 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 2,880	$ 575	$ 207
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,396	1,229	568
Write-off of property and software	--	--	3
Deferred income taxes	(331)	(64)	(414)
Tax benefit from exercise of employee stock options	238	--	--
In-process research and development	770	--	--
Expense related to employee stock options	190	36	--
Changes in assets and liabilities:			
Accounts receivable	(2,409)	(39)	(939)
Loans to employees	--	(231)	--
Prepaid expenses and other current assets	(743)	(209)	46
Refundable income taxes	144	(59)	(38)
Deposits	(13)	(20)	--
Accounts payable	344	7	54
Accrued liabilities	3,883	1,496	434

Accrued income taxes	93	--	--
Deferred revenue	4,072	1,416	399
Deferred rent	29	(10)	(8)
Net cash provided by operating activities	10,543	4,127	312
Cash flows from investing activities:			
Maturities of securities available for sale	--	--	206
Purchase of intangibles	--	(500)	(500)
Acquisition	(4,905)	--	--
Purchase of software	(144)	(197)	(184)
Proceeds from sale of property and equipment	--	--	2
Purchase of property and equipment	(6,078)	(1,167)	(713)
Net cash used in investing activities	(11,127)	(1,864)	(1,189)
Cash flows from financing activities:			
Proceeds from sale of common stock	59,800	--	60
Costs incurred for initial public offering	(5,732)	(46)	--
Proceeds from exercise of common stock options	317	134	4
Purchase of treasury stock	(12)	--	--
Issuance of common stock under employee stock purchase plan	67	--	--
Net cash provided by financing activities	54,440	88	64
Effect of exchange rate changes on cash and cash equivalents	2	--	--
Net increase (decrease) in cash and cash equivalents	53,858	2,351	(813)
Cash and cash equivalents, beginning of year	8,765	6,414	7,227
Cash and cash equivalents, end of year	$ 62,623	$ 8,765	$ 6,414
Supplemental disclosure of cash flow information:			
Cash paid for income taxes during the year	$ 1,425	$ 566	$ 353
Cash paid for interest	$ 36	$ --	$ --
Supplemental disclosure of non cash activities:			
Conversion of preferred stock	$ 6,954	$ --	$ --
Issuance of common shares for acquisition	$ 8,288	$ --	$ --
Accrued tenant allowance	$ 1,058	$ --	$ --
Obligation assumed for acquired intangibles	$ --	$ --	$ 500
Accrued offering costs	$ --	$ 354	$ --

See notes to consolidated financial statements.

OPNET TECHNOLOGIES, INC.

Consolidated Statements of Changes in Stockholders' Equity
(in thousands)

	Common Stock			Additional	Treasury Stock				Acc
	Shares Issued	Shares Outstanding	Amount	Paid-In Capital	Shares	Amount	Deferred Compensation	Retained Earnings	Comp I
Balance, April 1, 1998........	16,759	10,631	$17	$ 102	6,128	$(4,010)	$ --	$6,371	
Net income......								207	
Share options exercised......	20	20		4					
Common shares issued.........	30	30		60					
Accretion of transaction costs on redeemable convertible preferred stock..........								(14)	