OPNET TECHNOLOGIES INC
Form 10-Q
February 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended December 31, 2008

OR

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

(Commission file number: 000-30931)

OPNET TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

7255 Woodmont Avenue

Bethesda, MD 20814

(Address of principal executive office)

(240) 497-3000

(Registrant s telephone number, including area code)

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

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

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

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

The number of shares of the registrant s Common Stock outstanding on February 2, 2009 was 20,630,845.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	December 31, 2008	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 88,798	$ 71,410
Marketable securities		7,451
Accounts receivable, net of $454 and $154 in allowance for doubtful accounts at December 31, and March 31, 2008, respectively	24,681	20,780
Unbilled accounts receivable	5,820	5,366
Inventory	163	319
Deferred income taxes, prepaid expenses and other current assets	3,227	3,627
Total current assets	122,689	108,953
Marketable securities		6,968
Property and equipment, net	13,905	10,884
Intangible assets, net	6,715	8,633
Goodwill	14,639	14,639
Deferred income taxes and other assets	4,827	3,461
Total assets	$ 162,775	$ 153,538
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 790	$ 489
Accrued liabilities	11,302	8,555
Other income taxes	279	658
Deferred rent	327	326
Deferred revenue	28,404	28,722
Total current liabilities	41,102	38,750
Accrued liabilities	59	59
Deferred rent	2,671	1,762
Deferred revenue	2,561	1,772
Other income taxes	484	550
Total liabilities	46,877	42,893

Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock-par value $0.001; 100,000,000 shares authorized; 27,785,897 and 27,576,355 shares issued at December 31, and March 31, 2008, respectively; 20,548,833 and 20,407,123 shares outstanding at December 31, and March 31, 2008, respectively	28	28
Additional paid-in capital	92,351	89,878
Retained earnings	39,641	34,838
Accumulated other comprehensive (loss) income	(978)	160
Treasury stock, at cost 7,237,064 and 7,169,232 shares at December 31, and March 31, 2008, respectively	(15,144)	(14,259)
Total stockholders equity	115,898	110,645
Total liabilities and stockholders equity	$ 162,775	$ 153,538

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	**2007**	**2008**	**2007**
Revenue:				
New software licenses	$ 13,578	$ 10,224	$ 40,525	$ 28,550
Software license updates, technical support and services	11,078	8,889	32,034	25,573
Professional services	6,859	6,904	21,408	20,217
Total revenue	31,515	26,017	93,967	74,340
Cost of revenue:				
New software licenses	1,208	370	2,384	733
Software license updates, technical support and services	1,223	1,066	3,496	3,305
Professional services	4,911	4,886	15,992	13,778
Amortization of acquired technology and customer relationships	543	604	1,700	933
Total cost of revenue	7,885	6,926	23,572	18,749
Gross profit	23,630	19,091	70,395	55,591
Operating expenses:				
Research and development	7,341	7,190	23,045	19,993
Sales and marketing	10,691	10,744	31,615	28,859
General and administrative	2,766	3,503	8,837	8,933
Total operating expenses	20,798	21,437	63,497	57,785
Income (loss) from operations	2,832	(2,346)	6,898	(2,194)
Interest and other income, net	265	902	1,060	2,953
Income (loss) before provision (benefit) for income taxes	3,097	(1,444)	7,958	759
Provision (benefit) for income taxes	1,135	(132)	3,155	123
Net income (loss)	$ 1,962	$ (1,312)	$ 4,803	$ 636
Basic net income (loss) per common share	$ 0.10	$ (0.06)	$ 0.24	$ 0.03
Diluted net income (loss) per common share	$ 0.10	$ (0.06)	$ 0.23	$ 0.03
Basic weighted average common shares outstanding	20,315	20,273	20,267	20,389
Diluted weighted average common shares outstanding	20,652	20,273	20,578	20,711

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Cash flows from operating activities:		
Net income	$ 4,803	$ 636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,154	2,650
Provision for losses on accounts receivable	387	26
Deferred income taxes	(1,159)	(458)
Non-cash stock-based compensation expense	1,152	1,125
Loss on disposition of fixed assets	24	
Changes in assets and liabilities:		
Accounts receivable	(4,742)	(283)
Inventory	808	(140)
Prepaid expenses and other current assets	(908)	326
Other assets	(491)	(134)
Accounts payable	301	195
Accrued liabilities	2,381	930
Accrued income taxes	1,283	(564)
Deferred revenue	471	3,240
Deferred rent	(184)	(79)
Excess tax benefit from exercise of stock options	(48)	(32)
Net cash provided by operating activities	8,232	7,438
Cash flows from investing activities:		
Acquisition of certain assets from Network Physics		(10,005)
Purchase of property and equipment	(4,454)	(3,548)
Purchase of investments		(93,557)
Proceeds from sale/maturity of investments	14,800	97,878
Net cash provided by (used in) investing activities	10,346	(9,232)
Cash flows from financing activities:		
Acquisition of treasury stock	(885)	(4,427)
Proceeds from exercise of common stock options	622	356
Excess tax benefit from exercise of stock options	48	32
Issuance of common stock under employee stock purchase plan	552	482
Net cash provided by (used in) financing activities	337	(3,557)
Effect of exchange rate changes on cash and cash equivalents	(1,527)	46
Net increase (decrease) in cash and cash equivalents	17,388	(5,305)
Cash and cash equivalents, beginning of period	71,410	34,766

Cash and cash equivalents, end of period	$ 88,798	$ 29,461

See accompanying notes to condensed consolidated financial statements.

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OPNET TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

1. Organization and Significant Accounting Policies

Organization. OPNET Technologies, Inc., (hereafter, the Company or OPNET), is a provider of software products and related services for managing networks and applications. The Company s software products address application performance management, network planning, engineering and operations, and network research and development. The Company sells products to corporate enterprises, government and defense agencies, network service providers, and network equipment manufacturers. The Company markets software products and related services in North America primarily through a direct sales force and, to a lesser extent, several resellers and original equipment manufacturers. Internationally, the Company conducts research and development through a wholly-controlled subsidiary in Ghent, Belgium and markets software products and related services through wholly-owned subsidiaries in Paris, France; Frankfurt, Germany; Slough, United Kingdom; Sydney, Australia; and Singapore; third-party distributors; and value-added resellers. The Company is headquartered in Bethesda, Maryland and has offices in Cary, North Carolina; Dallas, Texas; Santa Clara, California; and Nashua, New Hampshire.

The accompanying condensed consolidated financial statements include the Company s results and the results of the Company s wholly-owned and wholly-controlled subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto contained in the Company s Annual Report on Form 10-K for the year ended March 31, 2008 filed with the SEC. The March 31, 2008 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. In the opinion of management, these interim condensed consolidated financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company s results for the interim periods. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. In addition, the Company s operating results for the three and nine months ended December 31, 2008 may not be indicative of the operating results for the full fiscal year or any other future period.

Supplemental Cash Flow Information

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2008	2007	2008	2007
	(in thousands)			
Cash paid during the period:				
Income tax payments	$ 2,513	$ 392	$ 2,918	$ 1,295
Non-cash financing and investing activities:				
Change in unrealized gain on marketable securities	190		381	
Restricted stock issued	35	9	597	613
Accrued liability for the purchase of property and equipment	74	92	74	92
Tenant improvement allowance received from landlord			1,095	

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2. Significant Accounting Policies

The following discussion updates the Company s disclosures on significant accounting policies (as previously outlined in the Company s Annual Report on Form 10-K for the year ended March 31, 2008) to include an overview of the impact of accounting pronouncements adopted in the current fiscal year.

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or SFAS No. 157. This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 effective April 1, 2008.

SFAS No. 157 requires disclosures regarding the manner in which fair value is determined for assets and liabilities and establishes a three-tiered value hierarchy into which these assets and liabilities must be grouped, based upon significant levels of inputs as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable inputs.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The Company views auction rate securities, or ARS, as Level 3 assets and municipal securities and money market funds as Level 1 assets.

The following table summarizes the composition of the Company s marketable securities at March 31, 2008:

	March 31, 2008					
					Classification on Balance Sheet	
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value	Short-Term Investments	Long-Term Investments
	(in thousands)					
Auction rate securities	$ 8,800	$	$ (381)	$ 8,419	$ 1,451	$ 6,968
Municipal securities	6,000			6,000	6,000	
Total marketable securities	$ 14,800	$	$ (381)	$ 14,419	$ 7,451	$ 6,968

The Company held no marketable securities at December 31, 2008. The following table details the fair value measurements within the three levels of fair value hierarchy of the Company s financial assets, consisting of cash equivalents, at December 31, 2008:

	Total Fair Value at December 31, 2008	Fair Value Measurement at December 31, 2008 Using		
		Level 1	Level 2	Level 3
	(in thousands)			
Money market funds	$ 78,173	$ 78,173	$	$

Total	$ 78,173	$ 78,173	$	$

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At December 31, 2008, the Company grouped money market funds using a Level 1 valuation because market prices are readily available. The per-share net asset value of the Company s money market funds has remained at a constant amount of $1.00 per share. Also, as of December 31, 2008, there were no withdrawal limits on redemptions for any of the money market funds that the Company holds. The Company did not group any financials assets using a Level 2 or Level 3 valuation at December 31, 2008.

The following table summarizes the activity for the Company s ARS measured at fair value using Level 3 inputs:

		ARS (in thousands)
Balance as of March 31, 2008	$	8,419
Redemptions (at par) during nine months ended December 31, 2008		(8,800)
Total gains and losses:		
Included in earnings (realized)		
Change in unrealized gains included in accumulated other comprehensive income		381
Balance as of December 31, 2008	$	

All investments in ARS were considered Level 3 investments as of the date of adoption of SFAS No. 157.

On October 20, 2008, the Company elected to participate in a program offered by the investment advisor to repurchase all of its ARS for cash at par value plus accrued interest. As of December 31, 2008, all of the Company s ARS had been repurchased as part of the program and, as of December 31, 2008 it did not hold any ARS and had no ARS impairment charges recorded on its balance sheet.

3. Recently Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159. SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. SFAS No. 159 became effective for the Company as of April 1, 2008. The Company did not adopt the fair value measurement provisions of the statement.

In December 2007, FASB issued SFAS No. 141(R), Business Combinations, or SFAS No. 141R. SFAS No. 141R, which replaces SFAS No. 141, requires that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R also establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R also requires that acquisition-related costs be recognized separately from the business combination. SFAS No. 141R will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008.

In May 2008, FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Principles, or SFAS No. 162, which outlines the order of authority for the sources of accounting principles. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect SFAS No. 162 to have a material impact on its results of operations or financial condition.

4. Stock-Based Compensation

The Company s Amended and Restated 2000 Stock Incentive Plan, or 2000 Plan, provides for the granting of incentive and non-qualified stock options and restricted stock to purchase up to 5,539,742 shares of the Company s common stock. The number of shares available for issuance will automatically increase on the first trading day of each calendar year by an amount equal to the lesser of 3% of the shares of common stock outstanding on the last trading day of the preceding calendar year, or an amount determined by the Board of Directors, not to exceed an annual increase of 1,000,000 shares. The Board of Directors voted not to increase the number of shares for issuance on the first trading day of calendar year 2008 or calendar year 2009. Options are granted for terms up to ten years and generally vest over periods ranging from one to six years from the date of the grant. Restricted stock granted to employees under this plan generally vest over one to four years from the date the restricted stock grants are approved by the Board of Directors. Restricted stock granted to non-employees under this plan generally vests either over one year from the date of the grant, or vests for less than a year from the date of the grant. New option grants and restricted stock grants are granted from new shares of the Company s common stock.

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

In March 2000, the Board of Directors approved the adoption of the 2000 Director Stock Option Plan, which provides for the automatic annual granting of options to purchase stock to the Company s directors, who are not its employees, for up to a total of 225,000 shares of common stock of the Company. There are no shares available for issuance under the 2000 Director Stock Option Plan.

During fiscal year 2001, the Board of Directors approved the adoption of the 2000 Employee Stock Purchase Plan, or ESPP, which provides every employee, including members of the Board of Directors who are employees, to collectively purchase up to a total of 450,000 shares of common stock of the Company. On July 21, 2008, the stockholders voted to increase the number of shares authorized for issuance to 650,000 shares. An employee may authorize a payroll deduction up to a maximum of 10% of her or his compensation during the plan period. The purchase price for each share purchased is the lesser of 85% of the closing price of the common stock on the first or last day of the plan period and is considered compensatory under SFAS No. 123R, Share-Based Payments.

Excess tax benefits from the exercise of stock options are presented as a cash flow from financing activity. For the three months ended December 31, 2008 and 2007, excess tax benefits from the exercise of stock options were $1,000 and $9,000, respectively. For the nine months ended December 31, 2008 and 2007, excess tax benefits from the exercise of stock options were $48,000 and $32,000, respectively.

A summary of the total stock-based compensation expense for the three and nine months ended December 31, 2008 and 2007 is as follows:

	Three Months Ended		Nine Months Ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	(in thousands)			
Stock options	$ 4	$ 107	$ 169	$ 373
Restricted stock	247	168	673	424
ESPP	112	87	310	328
Total stock-based compensation	$ 363	$ 362	$ 1,152	$ 1,125

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A summary of the total nonvested stock-based deferred compensation at December 31, 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
	(in thousands)	
Restricted stock	$ 1,614	$ 1,468
Stock options	3	272
ESPP	34	28
Total nonvested stock-based compensation	$ 1,651	$ 1,768

The cost of the nonvested restricted stock, stock options and ESPP at December 31, 2008 are expected to be recognized over a weighted average period of 1.0 year, 1.5 months and 1 month, respectively.

Stock Options

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

A summary of the option transactions for the three and nine months ended December 31, 2008 and 2007 is as follows:

	Three Months Ended December 31, 2008				
	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
	(dollars in thousands, except per share amounts)				
Outstanding at beginning of period	2,583,419	$ 10.89		$ 1,654	$ 7.63
Granted		$		$	$
Exercised	(7,300)	$ 6.83		$ 35	$ 4.77
Forfeited or expired	(100)	$ 11.75		$	$ 8.15
Outstanding at end of period	2,576,019	$ 10.90	3.17	$ 1,637	$ 7.63
Exercisable at end of period	2,575,394	$ 10.90	3.16	$ 1,636	$ 7.63
Nonvested at end of period and nonvested option expected to be exercised	625	$ 7.63	6.16	$ 1	$ 4.18

	Three Months Ended December 31, 2007				
	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
	(dollars in thousands, except per share amounts)				
Outstanding at beginning of period	2,796,940	$ 10.78		$ 2,089	$ 7.55
Granted		$		$	$

Exercised	(27,150)	$ 6.86		$ 93	$ 4.71
Forfeited or expired	(35,900)	$ 12.86		$ 1	$ 8.89
Outstanding at end of period	2,733,890	$ 10.79	4.18	$ 2,019	$ 7.56
Exercisable at end of period	2,655,864	$ 10.84	4.11	$ 1,990	$ 7.61
Nonvested at end of period	78,026	$ 9.00	6.60	$ 29	$ 6.00

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	Nine Months Ended December 31, 2008				
	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
		(dollars in thousands, except per share amounts)			
Outstanding at beginning of period	2,720,121	$ 10.79		$ 1,854	$ 7.56
Granted		$		$	$
Exercised	(88,552)	$ 7.02		$ 444	$ 4.92
Forfeited or expired	(55,550)	$ 11.86		$ 4	$ 8.42
Outstanding at end of period	2,576,019	$ 10.90	3.17	$ 1,637	$ 7.63
Exercisable at end of period	2,575,394	$ 10.90	3.16	$ 1,636	$ 7.63
Nonvested at end of period	625	$ 7.63	6.16	$ 1	$ 4.18

	Nine Months Ended December 31, 2007				
	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value Per Option Share
		(dollars in thousands, except per share amounts)			
Outstanding at beginning of period	2,841,065	$ 10.73		$ 2,217	$ 7.51
Granted		$		$	$
Exercised	(58,475)	$ 6.09		$ 252	$ 4.24
Forfeited or expired	(48,700)	$ 12.79		$ 1	$ 8.91
Outstanding at end of period	2,733,890	$ 10.79	4.18	$ 2,019	$ 7.56
Exercisable at end of period	2,655,864	$ 10.84	4.11	$ 1,990	$ 7.61
Nonvested at end of period	78,026	$ 9.00	6.60	$ 29	$ 6.00

During the three months ended December 31, 2008, no stock options vested or were granted.

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

Compensation cost for option grants is recognized on a straight-line basis over the requisite service period for the entire award (from the date of grant through the period of the last separately vesting portion of the grant). Compensation cost is recognized within the statement of operations in the same expense line as the cash compensation paid to the respective employees. SFAS No. 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation. The Company has concluded that its historical forfeiture rate is the best measure to estimate future forfeitures of granted stock options. The impact on compensation cost due to changes in the expected forfeiture rate will be recognized in the period that they become known. Substantially all of the Company s stock options are fully vested, and it expects all remaining unvested options outstanding to vest. As a result, during the nine months ended December 31, 2008, the Company adjusted its expected forfeiture rate to reflect actual stock option forfeitures. The adjustment of the Company s forfeiture rate did not have a significant impact on the financial statements.

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During the three months ended December 31, 2008 and 2007, respectively, the Company received proceeds of approximately $50,000 and $186,000 and issued 7,300 and 27,150 shares of common stock, pursuant to employee and director exercises of stock options. During the nine months ended December 31, 2008 and 2007, respectively, the Company received proceeds of approximately $622,000 and $356,000 and issued 88,552 and 58,475 shares of common stock, pursuant to employee exercises of stock options.

Restricted Stock

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

A summary of the restricted stock grants for the three and nine months ended December 31, 2008 and 2007 is as follows:

	Three Months Ended December 31, 2008		Nine Months Ended December 31, 2008	
	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share
Nonvested at beginning of period	235,379	$ 11.05	213,177	$ 11.07
Granted	3,191	$ 11.41	55,605	$ 11.14
Vested	(9,633)	$ 13.45	(36,530)	$ 11.95
Forfeited		$	(3,315)	$ 10.85
Nonvested at end of period	228,937	$ 10.95	228,937	$ 10.95

	Three Months Ended December 31, 2007		Nine Months Ended December 31, 2007	
	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share	Restricted Stock Grants	Weighted Average Grant Fair Value Per Share
Nonvested at beginning of period	184,494	$ 11.73	127,213	$ 12.14
Granted	1,049	$ 9.53	58,845	$ 10.83
Vested	(4,861)			