

FORGENT NETWORKS INC  
Form 10-Q  
June 15, 2009  
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## UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended April 30, 2009

OR

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

For the transition period from      to

Commission file number: 0-20008

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## FORGENT NETWORKS, INC.

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State of other jurisdiction of  
incorporation or organization)

**74-2415696**  
(I.R.S. Employer  
Identification No.)

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**108 Wild Basin Road**  
**Austin, Texas**  
(Address of Principal Executive Offices)

**78746**  
(Zip Code)

**(512) 437-2700**

(Registrant's Telephone Number, including Area Code)

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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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

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

On June 12, 2009, the registrant had outstanding 31,114,915 shares of its Common Stock, \$0.01 par value.

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(Amounts in thousands, except per share data)

	APRIL 30, 2009 (UNAUDITED)	JULY 31, 2008
<b>ASSETS</b>		
Current Assets:		
<i>Cash and cash equivalents</i>	\$ 8,194	\$ 12,062
Short-term investments	2,915	2,627
Accounts receivable, net of allowance for doubtful accounts of \$30 and \$41 at April 30, 2009 and July 31, 2008, respectively	901	1,488
Inventory	3	74
Prepaid expenses and other current assets	444	421
<b>Total Current Assets</b>	<b>12,457</b>	<b>16,672</b>
Property and equipment, net	695	907
Intangible assets, net	4,144	4,729
	<b>\$ 17,296</b>	<b>\$ 22,308</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 3,562	\$ 3,778
Accrued compensation and benefits	184	203
Lease impairment and advance	335	373
Other accrued liabilities	465	384
Deferred revenue	1,807	1,844
<b>Total Current Liabilities</b>	<b>6,353</b>	<b>6,582</b>
Long-Term Liabilities:		
Deferred revenue	72	25
Lease impairment and advance	276	564
Other long-term obligations	183	217
<b>Total Long-Term Liabilities</b>	<b>531</b>	<b>806</b>
Stockholders Equity:		
Preferred stock, \$.01 par value; 10,000 shares authorized; none issued or outstanding		
Common stock, \$.01 par value; 40,000 shares authorized; 32,905 and 32,892 shares issued; 31,115 and 31,102 shares outstanding at April 30, 2009 and July 31, 2008, respectively	329	329
Treasury stock at cost, 1,790 shares at April 30, 2009 and July 31, 2008	(4,815)	(4,815)
Additional paid-in capital	270,725	270,657
Accumulated deficit	(255,678)	(251,214)
Accumulated other comprehensive income	(149)	(37)
<b>Total Stockholders Equity</b>	<b>10,412</b>	<b>14,920</b>
	<b>\$ 17,296</b>	<b>\$ 22,308</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents**FORGENT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

	FOR THE THREE MONTHS ENDED APRIL 30, 2009 (UNAUDITED)		2008		FOR THE NINE MONTHS ENDED APRIL 30, 2009 (UNAUDITED)		2008	
	Revenues	\$	2,402	\$	2,707	\$	7,615	\$
Cost of Sales		(494)		(639)		(1,526)		(1,598)
<b>Gross Margin</b>		<b>1,908</b>		<b>2,068</b>		<b>6,089</b>		<b>5,718</b>
<b>OPERATING EXPENSES:</b>								
Selling, general and administrative		2,614		2,951		8,844		8,353
Research and development		544		616		1,630		1,547
Amortization of intangible assets		149		149		448		340
Total Operating Expenses		<b>3,307</b>		<b>3,716</b>		<b>10,922</b>		<b>10,240</b>
<b>LOSS FROM OPERATIONS</b>		<b>(1,399)</b>		<b>(1,648)</b>		<b>(4,833)</b>		<b>(4,522)</b>
<b>OTHER INCOME AND (EXPENSES):</b>								
Interest income		20		109		109		641
Foreign currency translation		(6)		2		93		(9)
Gain on sale of assets		26				276		
Interest expense and other		(18)		(22)		(51)		(51)
Total Other Income		<b>22</b>		<b>89</b>		<b>427</b>		<b>581</b>
<b>LOSS FROM OPERATIONS, BEFORE INCOME TAXES</b>		<b>(1,377)</b>		<b>(1,559)</b>		<b>(4,406)</b>		<b>(3,941)</b>
Provision for income taxes		(10)		(14)		(58)		(34)
<b>NET LOSS</b>	\$	<b>(1,387)</b>	\$	<b>(1,573)</b>	\$	<b>(4,464)</b>	\$	<b>(3,975)</b>
<b>BASIC AND DILUTED LOSS PER SHARE:</b>								
Basic	\$	(0.04)	\$	(0.05)	\$	(0.14)	\$	(0.13)
Diluted	\$	(0.04)	\$	(0.05)	\$	(0.14)	\$	(0.13)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>								
Basic		31,113		30,995		31,109		29,667
Diluted		31,113		30,995		31,109		29,667

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**FORGENT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	<b>FOR THE NINE MONTHS ENDED APRIL 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(UNAUDITED)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (4,464)	\$ (3,975)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	957	808
Amortization of leasehold advance and lease impairment	(285)	(298)
Provision for doubtful accounts	32	15
Share-based compensation	66	72
Foreign currency translation (gain) loss	(90)	1
Loss on sale of assets	67	
Changes in operating assets and liabilities:		
Accounts receivable	487	386
Inventory	71	
Prepaid expenses and other current assets	(82)	(94)
Accounts payable	(233)	(8,207)
Accrued expenses and other long-term obligations	88	(454)
Deferred revenue	78	(180)
Net cash used in operating activities	<b>(3,308)</b>	<b>(11,926)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net purchases of short-term investments	(276)	(1,273)
Net purchases of property and equipment	(254)	(284)
Change in other assets		164
Acquisition of iSarla, Inc., net of cash acquired		(7,344)
Net cash used in investing activities	<b>(530)</b>	<b>(8,737)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of stock	2	14
Payments on capital leases	(25)	(1)
Net cash (used in) provided by financing activities	<b>(23)</b>	<b>13</b>
Effect of translation exchange rates	(7)	(62)
Net decrease in cash and cash equivalents	(3,868)	(20,712)
Cash and cash equivalents at beginning of period	12,062	33,524
Cash and cash equivalents at end of period	<b>\$ 8,194</b>	<b>\$ 12,812</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Issuance of stock for acquisition of iSarla, Inc.	\$	\$ 4,987

The accompanying notes are an integral part of these condensed consolidated financial statements.





Table of Contents**FORGENT NETWORKS, INC.****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands, except per share data unless otherwise noted)

**NOTE 1 - GENERAL AND BASIS OF FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accordingly, do not include all information and footnotes required under U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, these interim financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the financial position of Forgent Networks, Inc. ( Forgent or the Company ) as of April 30, 2009 and July 31, 2008, the results of operations for the three and nine months ended April 30, 2009 and April 30, 2008, and the cash flows for the nine months ended April 30, 2009 and April 30, 2008. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto filed with the Securities and Exchange Commission in the Company's annual report on Form 10-K/A for the fiscal year ended July 31, 2008. The results for the interim periods are not necessarily indicative of results for a full fiscal year. Certain reclassifications have been made to prior year's financial statement to conform to the current year presentation.

**NOTE 2 - INTANGIBLE ASSETS**

Forgent accounted for its historical acquisitions in accordance with Financial Accounting Standard Board ( FASB ) statement No. 141, *Business Combination*. The Company recorded intangible assets apart from goodwill if the assets had contractual or other legal rights or if the assets could be separated and sold, transferred, licensed, rented or exchanged. Forgent's intangible assets relate to its acquisition of iSarla Inc. and the iEmployee operations.

In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, Forgent reviews and evaluates its long-lived assets, including intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. The gross carrying amount and accumulated amortization of the Company's intangible assets as of April 30, 2009 and July 31, 2008 are as follows:

Intangible Asset	Amortization Period (in Years)	Gross	April 30, 2009 Accumulated Amortization	Net
Developed Technology	5	\$ 915	\$ (287)	\$ 628
Customer Relationships	8	2,470	(485)	1,985
Ceridian Contract	8	1,545	(303)	1,242
Trade Names	5	288	(90)	198
Covenant not-to-compete	4	150	(59)	91
		\$ 5,368	\$ (1,224)	\$ 4,144

<b>Intangible Asset</b>	<b>Amortization Period (in Years)</b>	<b>Gross</b>	<b>July 31, 2008 Accumulated Amortization</b>	<b>Net</b>
Developed Technology	5	\$ 915	\$ (150)	\$ 765
Customer Relationships	8	2,470	(253)	2,217
Ceridian Contract	8	1,545	(158)	1,387
Trade Names	5	288	(47)	241
Covenant not-to-compete	4	150	(31)	119
		\$ 5,368	\$ (639)	\$ 4,729

Table of Contents**FORGENT NETWORKS, INC.****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands, except per share data unless otherwise noted)

Amortization expense is recorded using the straight-line method over the estimated economic useful lives of the intangible assets, as noted above. Amortization expense for the three months ended April 30, 2009 and 2008 were \$195 and \$195, respectively. Amortization expense for the nine months ended April 30, 2009 and 2008 were \$585 and \$445, respectively. The following table summarizes the estimated amortization expense relating to the Company's intangible assets for the next five fiscal years and thereafter as of April 30, 2009:

<b>Fiscal Years</b>		
Remaining 2009	\$	195
2010		780
2011		780
2012		749
2013		546
Thereafter		1,094
	\$	<b>4,144</b>

**NOTE 3 FAIR VALUE MEASUREMENTS**

Effective August 1, 2008, Forgent adopted FASB Statement No. 157, *Fair Value Measurements*. Statement No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. The adoption of Statement No. 157 did not have a material impact to the Company's consolidated financial statements.

Statement No. 157 establishes a three-tier fair value hierarchy, which is based on the reliability of the inputs used in measuring fair values. These tiers include:

- Level 1: Quoted prices in active markets for *identical* assets or liabilities;
- Level 2: Quoted prices in active markets for *similar* assets or liabilities; quoted prices in markets that are not active for identical or similar assets or liabilities; and model-driven valuations whose significant inputs are observable; and
- 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.

The following table presents the fair value hierarchy for the Company's financial assets (cash equivalents and short-term investments) measured at fair value on a recurring basis as of April 30, 2009:

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Description	Fair Value Measure at April 30, 2009			
	Total Carrying Value at April 30, 2009	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 8,194	\$ 8,194	\$	\$
Short-term investments available for sale	2,915	2,915		
<b>Total</b>	<b>\$ 11,109</b>	<b>\$ 11,109</b>	<b>\$</b>	<b>\$</b>

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Statement No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in Statement No. 157, *Fair Value*.

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(Amounts in thousands, except per share data unless otherwise noted)

*Measurements*, and Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. Forgent adopted Statement No. 159, effective August 1, 2008, and elected not to measure any additional financial instruments at fair value. Therefore, the adoption of Statement No. 159 did not have a material impact to the Company's consolidated financial statements.

**NOTE 4 SALE OF ASSETS**

In February 2009, Forgent sold certain assets associated with its Visual Asset Manager ( VAM ) software product to E-Innovative Services Group, LLC ( EISG ), the Company's key partner in providing a complete asset management solution to its customers. EISG agreed to pay Forgent quarterly royalty payments equal to 20% of all net revenue generated by EISG's sales of the VAM products, or any products derived from any of the acquired assets, up to a total sum of \$1,000. EISG also agreed to assume all contractual obligations related to the Company's VAM maintenance and support agreements. By divesting its VAM software product and services, Forgent can focus its investment on NetSimplicity's scheduling software, Meeting Room Manager, which the Company believes has the greater potential for the Company's future growth and profitability. Forgent's iEmployee operations were not affected by this sale. As a result of the VAM sale, the Company recorded a gain of \$26 during the third fiscal quarter, which is included in other income on the Consolidated Statement of Operations.

**NOTE 5 - COMPREHENSIVE INCOME (LOSS)**

In accordance with the disclosure requirements of FASB Statement No. 130, *Reporting Comprehensive Income*, the Company's comprehensive income (loss) is comprised of net income (loss), foreign currency translation adjustments and unrealized gains and losses on short-term investments held as available-for-sale securities. The following table presents the Company's comprehensive loss and its components for the three and nine months ended April 30, 2009 and 2008:

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2009	2008	2009	2008
Net Loss	\$ (1,387)	\$ (1,573)	\$ (4,464)	\$ (3,975)
Foreign currency loss	(9)	(73)	(124)	(61)
Unrealized (loss) gain on short-term investments	(4)	(9)	12	4
<b>Comprehensive Loss</b>	<b>\$ (1,400)</b>	<b>\$ (1,655)</b>	<b>\$ (4,576)</b>	<b>\$ (4,032)</b>

**NOTE 6 - RECENT ACCOUNTING PRONOUNCEMENTS**

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets*. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. Forgent does not expect that the adoption of FSP 142-3 during fiscal year 2010 will have a material impact on the useful lives of its intangible assets, or on its financial position or results of operations.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations*. Statement No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired in the business combination. The statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. Statement No. 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company will adopt these provisions for any business combination after August 1, 2009. The adoption of Statement No. 141(R) may have an impact on Forgent's accounting for future business combinations once adopted.

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**FORGENT NETWORKS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands, except per share data unless otherwise noted)

**NOTE 7 SHARE BASED COMPENSATION**

Share based compensation for the Company's stock option, restricted stock and stock purchase plans for the three and nine months ended April 30, 2009 was \$13 and \$65, respectively. Share based compensation for the Company's stock option, restricted stock and stock purchase plans for the three and nine months ended April 30, 2008 was \$0 and \$72, respectively. The Company issued 4 and 13 shares of common stock related to its Stock Option, Restricted Stock, and Stock Purchase Plans for the three and nine months ended April 30, 2009, respectively. The Company issued 140 and 396 shares of common stock related to its Stock Option, Restricted Stock, and Stock Purchase Plans for the three and nine months ended April 30, 2008, respectively.

**NOTE 8 - CONTINGENCIES**

Forgent is the defendant or plaintiff in various actions that arose in the normal course of business. With the exception of the proceedings described below, none of the pending legal proceedings to which the Company is a party are material to the Company.

**Litigation with Jenkens & Gilchrist, P.C.**

On July 16, 2007, Jenkens & Gilchrist, P.C. (Jenkens), Forgent's former legal counsel, filed a complaint against Forgent and Compressions Labs, Inc., in the District Court of Dallas County, Texas. In its complaint, Jenkens alleges a breach of contract and is seeking a declaratory judgment. Forgent disputes Jenkens' claims and is seeking relief through the court system.

After Forgent terminated Jenkens, the Company entered into a Resolution Agreement with Jenkens in December 2004. Under the Resolution Agreement, the Company believes Jenkens is entitled to no more than \$1.4 million pursuant to the Resolution Agreement as a result of the amounts received by Forgent in the past litigation. Jenkens interprets the Resolution Agreement on broader terms and believes it is entitled to \$3.4 million, including attorneys' fees and interest.

On March 3, 2008, Forgent and Jenkens appeared before the Court regarding a hearing on a motion for summary judgment filed by Jenkens. On May 20, 2008, the Court granted Jenkens' motion and ordered Forgent to pay Jenkens \$2.8 million for past recoveries and other amounts including attorney's fees and interest. Forgent asked the Court to reconsider its order and, on September 3, 2008, the Court reconsidered its prior ruling and denied Jenkens' motion and held that language from the contract in dispute was ambiguous and the issue would be submitted to a jury.

On May 20, 2009, Jenkens submitted a second motion for summary judgment. Forgent responded to this motion on June 3, 2009 and both parties appeared before the Court regarding this motion on June 10, 2009. The Court has not ruled on Jenkens' second motion.

The trial date for this litigation has been rescheduled to commence on July 13, 2009. Management currently cannot predict how long it ultimately will take to resolve the Jenkens lawsuit. Until the Jenkens litigation is finalized, the related amounts charged by Jenkens pursuant to the Resolution Agreement may be adjusted in a future period and could have a material impact to the Company's consolidated financial statements.

#### **Litigation with Wild Basin**

On September 6, 2007, Forgent filed a petition against Wild Basin One & Two, Ltd. ( Wild Basin ) in the District Court of Travis County, Texas. The petition claimed Wild Basin was in breach of contract relating to Forgent's lease agreement by unreasonably withholding and delaying its consent to Forgent's lease assignment to a third party. Forgent sought to recover all damages as a result of the delay in closing its pending assignment and amounts not distributed in the past, among other damages.

The trial for this litigation commenced on September 22, 2008. Prior to the conclusion of the trial, Forgent and Wild Basin reached a settlement agreement, effective September 25, 2008. This settlement agreement requires,



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**FORGENT NETWORKS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in thousands, except per share data unless otherwise noted)

among other terms, that Wild Basin consent to Forgent's lease assignment. In return, Forgent paid Wild Basin \$75 thousand in November 2008. Both parties agreed to mutually release claims against each other.

After Forgent and Wild Basin participated in mediation on November 11, 2008 to finalize the terms of the settlement agreement, Wild Basin consented to Forgent's lease assignment and the documents were submitted to Wild Basin's lender for final approval. Although the lender granted its final approval on February 11, 2009, the third party is currently having difficulties obtaining the required financing due to the tightened capital markets. Forgent continues to negotiate with this third party and is working with other interested third parties. However, there is no assurance that Forgent will be successful in assigning its lease agreement.

**NOTE 9 SUBSEQUENT EVENT**

On June 1, 2009, the Company announced that its Board of Directors unanimously voted to cancel the Special Meeting of Stockholders scheduled for June 2, 2009. The meeting was originally called for the purpose of allowing the stockholders to vote on two separate proposals to amend the Company's Restated Certificate of Incorporation to effect a reverse/forward stock split (the Reverse/Forward Stock Split) of the Company's common stock, which was expected to allow Forgent to become a privately-held company. While there was substantial stockholder support for the Reverse/Forward Stock Split proposals, the Board of Directors determined that, based on the total number of stockholder proxies received prior to the announcement, the proposals would not receive sufficient votes to pass due to concerns about the loss of liquidity. Therefore, the Board of Directors decided to cancel the meeting in order to save the associated expenses. Since the stockholders prefer Forgent to remain as a publicly traded company, management is proceeding with its alternative long-term plan for the Company's future growth. Forgent will hold its annual stockholders meeting on July 30, 2009.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following review of Forgent's financial position as of April 30, 2009 and July 31, 2008, and for the three and nine months ended April 30, 2009 and 2008, should be read in conjunction with the Company's 2008 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission. Forgent's internet website address is <http://www.asuresoftware.com>. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of the Company's internet website free of charge as soon as reasonably practicable after they are electronically filed, or furnished to, the Securities and Exchange Commission. Forgent's internet website and the information contained therein or connected thereto are not intended to be incorporated into this Quarterly Report on Form 10-Q.

On February 4, 2008, Forgent received a Nasdaq deficiency letter indicating that, for 30 consecutive business days, the bid price per share of the Company's common stock closed below the minimum \$1.00 per share requirement. Since Forgent was unable to regain compliance through improving its operating results, the Company applied for a transfer listing on the Nasdaq Capital Market, which Nasdaq approved, effective September 19, 2008. The Company's trading symbol continued to be ASUR and the trading of the Company's stock was unaffected by this change.

Due to the continued unprecedented market conditions, on March 23, 2009, Nasdaq further suspended the enforcement of its rules requiring a minimum \$1.00 share bid price for all Nasdaq-listed companies until July 20, 2009. Consequently, Forgent's compliance deadline has further been extended until November 3, 2009. Forgent continues to strive for improved operations and will explore all opportunities to regain compliance. If the Company cannot achieve compliance with the minimum share price requirement by November 3, 2009, Nasdaq will provide written notification that the Company's securities will be de-listed from the Capital Market Exchange.

On June 1, 2009, the Company announced that its Board of Directors unanimously voted to cancel the Special Meeting of Stockholders scheduled for June 2, 2009. The meeting was originally called for the purpose of allowing the stockholders to vote on two separate proposals to amend the Company's Restated Certificate of Incorporation to effect a reverse/forward stock split (the Reverse/Forward Stock Split) of the Company's common stock, which was expected to allow Forgent to become a privately-held company. While there was substantial stockholder support for the Reverse/Forward Stock Split proposals, the Board of Directors determined that, based on the total number of stockholder proxies received prior to the announcement, the proposals would not receive sufficient votes to pass due to concerns about the loss of liquidity. Therefore, the Board of Directors decided to cancel the meeting in order to save the associated expenses. Since the stockholders prefer Forgent to remain as a publicly traded company, management is proceeding with its alternative long-term plan for the Company's future growth. Forgent will hold its annual stockholders meeting on July 30, 2009.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Report represent forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results of operations, levels of activity, economic performance, financial condition or achievements to be materially different from future results of operations, levels of activity, economic performance, financial condition or achievements as expressed or implied by such forward-looking statements.

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Forgent has attempted to identify these forward-looking statements with the words believes, estimates, plans, expects, anticipates, may, and other similar expressions. Although these forward-looking statements reflect management's current plans and expectations, which are believed to be reasonable as of the filing date of this report, they inherently are subject to certain risks and uncertainties. Additionally, Forgent is under no obligation to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results.

Table of Contents**RESULTS OF OPERATIONS**

The following table sets forth for the fiscal periods indicated the percentage of revenues represented by certain items in Forgent's Condensed Consolidated Statements of Operations:

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	APRIL 30,		APRIL 30,	
	2009	2008	2009	2008
Revenues	100%	100%	100%	100%
Gross margin	79	76	80	78
Selling, general and administrative	109	109	116	114
Research and development	23	23	21	21
Amortization of intangible assets	6	5	6	5
Total operating expenses	138	137	143	140
Other income, net	1	3	6	8
Net loss	58%	58%	59%	54%

**THREE AND NINE MONTHS ENDED APRIL 30, 2009 and 2008****Revenues**

Revenues for the three months ended April 30, 2009 were \$2.4 million, a decrease of \$0.3 million, or 11%, from the \$2.7 million reported for the three months ended April 30, 2008. Revenues for the nine months ended April 30, 2009 were \$7.6 million, an increase of \$0.3 million, or 4%, from the \$7.3 million reported for the nine months ended April 30, 2008. Consolidated revenues represent the combined revenues of the Company and its subsidiaries, including sales of the Company's scheduling software, asset management software, human resource and time and attendance software, complementary hardware devices to enhance its software products, software maintenance and support services, installation and training services and other professional services.

During the three months ended April 30, 2009, revenues decreased \$0.3 million, approximately 84% of which was due to the decrease in software license revenues. As a result of the protracted economic recession, Forgent continued to experience customers and prospects reducing or freezing their capital budgets and deferring their projects. These reductions and deferrals largely led to the decrease in the Company's software license revenues during the third fiscal quarter.

During the nine months ended April 30, 2009, revenues increased \$0.3 million due primarily to an increase in software subscription revenues, which more than offset the decrease in software license revenues, and an increase in maintenance revenues. Software subscription revenues increased by \$0.9 million during the nine months ended April 30, 2009 due primarily to the Company generating revenues from the iEmployee operations for the entire nine month period in fiscal 2009. Since Forgent acquired the iEmployee operations in October 2007, the Company did not generate a full nine months' worth of revenues from the iEmployee operations during the nine months ended April 30, 2008. The \$0.9

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million increase in software subscription revenues was offset by a \$0.8 million decrease in software license revenues caused by the economic recession during the nine months ended April 30, 2009. Despite the decrease in software license sales in fiscal 2009, Forgent does continue to sell additional licenses and its cumulative license base continues to grow. As a result, the Company's related maintenance base also continues to grow, leading to a \$0.3 million increase in maintenance revenues during the nine months ended April 30, 2009.

In addition to continuing to develop its workforce management solutions and releasing new software updates and enhancements, Forgent is conducting several sales and marketing campaigns with the goal of increasing sales during the fourth fiscal quarter. Forgent will also continue targeting small and medium businesses and divisions of enterprises and employing targeted vertical marketing programs, as appropriate. Although the macroeconomic environment continues to present challenges for the Company to grow its revenues, management believes that Forgent is operating in a growth market and that sales will grow in the future as the economy starts to recover.

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### **Gross Margin**

Gross margin for the three months ended April 30, 2009 was \$1.9 million, a decrease of \$0.2 million, or 8%, from the \$2.1 million reported for the three months ended April 30, 2008. Gross margin for the nine months ended April 30, 2009 was \$6.1 million, an increase of \$0.4 million, or 6%, from the \$5.7 million reported for the nine months ended April 30, 2008. Gross margin as a percentage of revenues were 79% and 76% for the three months ended April 30, 2009 and 2008, respectively. Gross margin as a percentage of total revenues were 80% and 78% for the nine months ended April 30, 2009 and 2008, respectively.

Forgent's cost of sales relates primarily to compensation expenses, hardware expenses and the amortization of the Company's purchased software. These expenses represented approximately 67% and 68% of the total cost of sales for the three months ended April 30, 2009 and 2008, respectively. Since Forgent's total cost of sales is relatively fixed, any decrease in revenues will directly impact the Company's gross margin negatively. Thus, the \$0.2 million decrease in gross margin during the three months ended April 30, 2009, is due primarily to the decrease in revenues. In terms of gross margin as a percentage of revenue, the change in product mix during the third fiscal quarter of 2009 led gross margin to increase from 76% during the three months ended April 30, 2008 to 79% during the three months ended April 30, 2009.

As decreases in revenues negatively impact gross margin, increases in revenues positively impact gross margin. Thus, the \$0.4 million increase in gross margin during the nine months ended April 30, 2009 is due primarily to the \$0.3 million increase in revenues. The \$0.1 million decrease in cost of sales during the nine months ended April 30, 2009 also contributed to the increase in gross margin. This decrease in cost of sales resulted from a change in product mix and led gross margin as a percentage of revenue to increase from 78% during the nine months ended April 30, 2008 to 80% during the nine months ended April 30, 2009. For future periods, Forgent expects gross margins will remain relatively consistent with the gross margins for the nine months ended April 30, 2009, in terms of percentage of revenues.

### **Selling, General and Administrative**

Selling, general and administrative (SG&A) expenses for the three months ended April 30, 2009 were \$2.6 million, a decrease of \$0.3 million, or 11%, from the \$2.9 million reported for the three months ended April 30, 2008. SG&A expenses for the nine months ended April 30, 2009 were \$8.8 million, an increase of \$0.5 million, or 6%, from the \$8.3 million reported for the nine months ended April 30, 2008. SG&A expenses as a percentage of revenues were 109% and 109% for the three months ended April 30, 2009 and 2008, respectively. SG&A expenses as a percentage of revenues were 116% and 114% for the nine months ended April 30, 2009 and 2008, respectively.

During the three months ended April 30, 2009, SG&A expenses decreased \$0.3 million, approximately 83% of which is due to decreases in compensation and marketing expenses. Effective March 1, 2009, Forgent implemented a mandatory 10% pay reduction for its personnel between March 2009 and July 2009. This pay reduction decreased compensation expenses by approximately \$0.2 million during the third fiscal quarter. Additionally, in efforts to further trim overhead costs, Forgent's marketing program budget was cut, decreasing marketing expenses by \$0.1 million during the three months ended April 30, 2009.

During the nine months ended April 30, 2009, SG&A expenses increased \$0.5 million, approximately 71% of which is due to an increase in legal expenses. In fiscal 2009, Forgent incurred significant legal expenses preparing for trial and litigating against Wild Basin One & Two, Ltd. (Wild Basin), thus increasing legal expenses by \$0.4 million during the nine months ended April 30, 2009. Although a tentative settlement

agreement was reached on September 25, 2008 prior to the conclusion of the trial and although Wild Basin's lender granted its final approval on February 11, 2009, the third party is currently having difficulties obtaining the required financing due to the tightened capital markets. Forgent continues to negotiate with this third party and is working with other interested third parties. However, there is no assurance that Forgent will be successful in assigning its lease agreement. Additionally, Forgent incurred \$0.1 million in legal expenses related to its efforts to privatize the Company. No such expenses were incurred during the nine months ended April 30, 2008. As stated previously in this Quarterly Report, Forgent cancelled its special stockholders meeting scheduled for June 2, 2009 and the Company will remain as a publicly traded company.

In accordance with the lease agreement, Wild Basin pays Forgent certain net profit interest payments. During the third fiscal quarter, Wild Basin submitted financial data to Forgent which indicated Wild Basin's

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intention not to make such payment. Consequently, the Company recorded a 50% reserve against its receivable from Wild Basin. The related \$0.2 million expense was offset by reductions in other various SG&A expenses resulting from management's concentrated efforts to further reduce overhead expenses. If not for the reserve against the Wild Basin receivable, Forgent's operating results for the three and nine months ended April 30, 2009 would have been improved by \$0.2 million, or almost \$0.01 per share. As of April 30, 2009, Forgent's net receivable from Wild Basin was \$0.2 million. Forgent will continue to work with Wild Basin in efforts to collect its receivable in full.

Despite budget cuts from its marketing programs, Forgent is conducting campaigns emphasizing the benefits that can be gained through use of the Company's products, including increased worker productivity and operational savings which are particularly important benefits during difficult economic times. Also, as the Company prepares for its trial with Jenkens & Gilchrist, P.C., which is currently scheduled for July 13, 2009, Forgent expects that it will continue to incur potentially significant legal expenses. Throughout its operations, Forgent continues to evaluate any unnecessary SG&A expenses and expects to further reduce expenses.

**Research and Development**

Research and development ( R&D ) expenses for the three months ended April 30, 2009 were \$0.5 million, a decrease of \$0.1 million, or 12%, from the \$0.6 million reported for the three months ended April 30, 2008. R&D expenses for the nine months ended April 30, 2009 were \$1.6 million, an increase of \$0.1 million, or 5%, from the \$1.5 million reported for the nine months ended April 30, 2008. R&D expenses as a percentage of revenues were 23% and 23% for the three months ended April 30, 2009 and 2008, respectively. R&D expenses as a percentage of revenues were 21% and 21% for the nine months ended April 30, 2009 and 2008, respectively.

During the three months ended April 30, 2009, R&D expenses decreased \$0.1 million. Approximately 83% of this decrease is due to a decrease in compensation expenses. In addition to the mandatory 10% pay reduction for its personnel, effective March 1, 2009, Forgent released all non-vital personnel in May 2008 after the Company fully integrated the iEmployee R&D workforce into the existing R&D team in fiscal 2008. The combination of these events led to the decrease in compensation expenses during the three months ended April 30, 2009. During the nine months ended April 30, 2009, R&D expenses increased \$0.1 million. Approximately 110% of this increase resulted from an increase in R&D expenses related to the iEmployee operations. Since the iEmployee operations were acquired in October 2007, Forgent did not incur a full nine months of R&D expenses related to the iEmployee product line during the nine months ended April 30, 2008.

During the third fiscal quarter of 2009, Forgent continued concentrating its R&D efforts on enhancing its Time & Attendance and MRM products. The Company implemented a new line of clocks to integrate with its Time & Attendance product. This new line of clocks includes several forms of data collection including magnetic stripe, barcode, proximity and biometric readers, thereby expanding Time & Attendance's capabilities to meet various customers' requirements. Forgent also added functionality to its Time & Attendance software by developing a new flexible pay schedule that allows customers to specify start and end dates, as well as start and end times, for multiple different pay periods. In response to growing interest in Arabic countries, Forgent developed a low-cost prototype of its MRM software, which is currently being tested for market demand in these countries. In order to support its customers who use SunGard Higher Education Banner®, a widely used collegiate course scheduling solution, Forgent developed enhancements to its MRM software to dramatically reduce data import time, thus significantly saving administrative time.

Forgent continues to solicit and receive feedback regarding its products and services from its existing and potential customers. As the Company designs and further improves its workforce management solutions through new releases and new feature developments, management will attempt to maintain R&D expenses at reasonable levels in terms of percentage of revenue.



**Amortization of intangible assets**

Amortization expenses for the three months ended April 30, 2009 were \$0.1 million, which was the same amount as the \$0.1 million reported for the three months ended April 30, 2008. Amortization expenses for the nine months ended April 30, 2009 were \$0.4 million, an increase of \$0.1 million, or 32%, from the \$0.3 million reported for the nine months ended April 30, 2008. Amortization expenses as a percentage of revenues were 6% and 5% for the three months ended April 30, 2009 and 2008, respectively. Amortization expenses as a percentage of revenues

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were 6% and 5% for the nine months ended April 30, 2009 and 2008, respectively. Upon acquiring the iEmployee business in October 2007, Forgent recorded several intangible assets, which are being amortized over their appropriate useful lives. The amortization expenses during the three and nine months ended April 30, 2009 and 2008 relate entirely to these acquired intangible assets.

**Other Income and Expenses**

Other income and expenses for the three months ended April 30, 2009 were \$22.1 thousand, a decrease of \$66.5 thousand, or 75%, from the \$88.6 thousand reported for the three months ended April 30, 2008. Other income and expenses for the nine months ended April 30, 2009 were \$0.4 million, a decrease of \$0.2 million, or 27%, from the \$0.6 million reported for the nine months ended April 30, 2008. Other income and expenses as a percentage of revenues were 1% and 3% for the three months ended April 30, 2009 and 2008, respectively. Other income and expenses as a percentage of revenues were 6% and 8% for the nine months ended April 30, 2009 and 2008, respectively.

As a result of the sale of assets to Tandberg Telecom AS ( Tandberg ) in November 2006, \$0.3 million was held in escrow for two years for indemnity claims. No such claims were made by Tandberg during the two years to reduce the escrow amount. In November 2008, Forgent received the funds from the escrow account in full. These funds were recorded as gain on sale of assets on the Company's Consolidated Statement of Operations for the nine months ended April 30, 2009.

**Net Loss**

Forgent incurred a net loss of \$1.4 million, or \$0.04 per share, during the three months ended April 30, 2009, compared to a net loss of \$1.6 million, or \$0.05 per share, during the three months ended April 30, 2008. Forgent incurred a net loss of \$4.5 million, or \$0.14 per share, during the nine months ended April 30, 2009 compared to a net loss of \$4.0 million, or \$0.14 per share, during the nine months ended April 30, 2008. Net loss as a percentage of revenues were 58% and 58% for the three months ended April 30, 2009 and 2008, respectively. Net loss as a percentage of revenues were 59% and 54% for the nine months ended April 30, 2009 and 2008, respectively.

Forgent's primary goal is to achieve profitability as soon as possible. During the 2009 fiscal year, the Company's management and board of directors unanimously proposed privatization as a possible means to advancing toward this goal. Although there was substantial stockholder support for the Company's proposal, Forgent cancelled the special stockholder meeting schedule for June 2, 2009 to vote on the privatization due primarily to stockholders' concerns over the loss of liquidity. As a result, management and the board of directors are proceeding with Forgent's alternative long-term plan for the Company's future growth. Uncertainties and challenges remain, especially during this macroeconomic environment downturn, and there can be no assurance that the Company can successfully grow its revenues or achieve profitability during the remainder of fiscal year 2009.

**LIQUIDITY AND CAPITAL RESOURCES**

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**FOR THE NINE  
MONTHS ENDED  
APRIL 30,**  
**2009**                      **2008**  
(in thousands)

Working capital	\$	6,104	\$	11,449
Cash, cash equivalents and short-term investments		11,109		16,122
Cash used in operating activities		(3,308)		(11,926)
Cash used in investing activities		(530)		(8,737)
Cash (used in) provided by financing activities		(23)		13

Cash used in operating activities was \$3.3 million for the nine months ended April 30, 2009 due primarily to a \$4.5 million net loss, which was offset by \$0.7 million in total non-cash depreciation and amortization expenses and a \$0.5 million decrease in accounts receivable. Cash used in operating activities was \$11.9 million for the nine

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months ended April 30, 2008 due primarily to a \$4.0 million net loss and a \$8.2 million decrease in accounts payable. During the three months ended April 30, 2009, Forgent's average days sales outstanding was 33 days, a decrease from 39 days for the three months ended April 30, 2008. Due to some customers delaying payment as a result of the current economic environment, Forgent diligently focused on its collection efforts during the third fiscal quarter, which accounted for the decrease in its average days sales outstanding. Management will continue to closely monitor all of its cash sources and uses as it manages its operations through the current recession.

Cash used in investing activities was \$0.5 million for the nine months ended April 30, 2009 due to \$0.3 million in net purchases of short-term investments and \$0.3 million in net purchases of property and equipment. Cash used in investing activities was \$8.7 million for the nine months ended April 30, 2008 due primarily to \$7.3 million paid in cash related to the iEmployee acquisition and \$1.3 million in net purchases of short-term investments. Forgent manages its investments portfolio in order to fulfill corporate liquidity requirements and maximize investment returns while preserving the quality of the portfolio. Approximately 43% of Forgent's purchased fixed assets during the nine months ended April 30, 2009 related to leasehold improvements for the Company's subtenants. The other purchases were spread across the Company's four facilities. Forgent's current operations are not capital intensive and management does not anticipate any significant capital expenditures during the remainder of fiscal 2009.

The Company leases office space and equipment under non-cancelable operating leases that expire at various dates through 2013. Certain leases obligate Forgent to pay property taxes, maintenance and insurance and include escalation clauses. The total amount of base rentals over the term of the Company's leases is charged to expense on a straight-line basis, with the amount of the rental expense in excess of the lease payments recorded as a deferred rent liability. Despite the additional lease obligations acquired with the iEmployee operations, approximately \$13.7 million, or 96% of the Company's total operating lease obligations, relate to its corporate office facility at Wild Basin in Austin, Texas. As of April 30, 2009, Forgent had \$5.0 million in future minimum lease payments receivable under non-cancelable sublease arrangements. Additionally, Forgent had a \$0.2 million liability related to impairment charges for the economic value of the lost sublease rental income related to its Austin property. Forgent may periodically make other commitments and thus become subject to other contractual obligations.

Cash used in financing activities was \$23.0 thousand for the nine months ended April 30, 2009. Cash provided by financing activities was \$13.0 thousand for the nine months ended April 30, 2008. Management believes it currently has sufficient cash and short-term investments on hand to fund its operations during the next twelve months and beyond without needing to obtain long-term financing. Therefore, the Company does not anticipate that it will be affected by any credit shortage in the current economic business environment. Forgent's stock repurchase program allows the Company to purchase up to three million shares of the Company's common stock. No shares were repurchased during the nine months ended April 30, 2009 and 2008. As of April 30, 2009, Forgent had repurchased 1,790,401 shares for approximately \$4.8 million and had the authority to repurchase approximately 1.2 million additional shares. Management will periodically assess repurchasing additional shares in fiscal year 2009, depending on the Company's cash position, market conditions and other factors.

As of April 30, 2009, Forgent's principal source of liquidity consisted of \$11.1 million in cash, cash equivalents and short-term investments. Management is focused on growing its software operations and thus plans to utilize its cash balances to fund its operations and may possibly repurchase outstanding shares. Although Forgent is currently not actively exploring prospects in acquiring a public or privately held technology business or product line, the Company will consider a potential opportunity if the right opportunity presents itself.

There is no assurance that the Company will be able to limit its cash consumption and preserve its cash balances, and it is possible that the Company's future business demands may lead to cash utilization at levels greater than recently experienced. Management believes that the

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Company has sufficient capital and liquidity to fund and cultivate the growth of its current and future operations for the next 12 months and thereafter. However, due to uncertainties related to the timing and costs of these efforts, Forgent may need to raise additional capital in the future. Yet, there is no assurance that the Company will be able to raise additional capital if and when it is needed. Additionally, Forgent currently does not meet Nasdaq's minimum \$1.00 share bid price requirement. The Company continues to strive for improved operations and will explore all opportunities to regain compliance. However, if Forgent is unable to comply with this requirement by November 3, 2009, the Company's common stock will be de-listed from the Nasdaq Capital Market Exchange. If the Company's securities are de-listed, Forgent's ability to raise additional capital will be significantly limited.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

The Company's condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of Forgent's wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. Preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at fiscal quarter end and the reported amounts of revenues and expenses during the fiscal quarter. The more significant estimates made by management include the valuation allowance for the gross deferred tax asset, contingency legal reserves, lease impairment, useful lives of fixed assets, the determination of the fair value of its long-lived assets, and the fair value of assets acquired and liabilities assumed during the iEmployee acquisition. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the given circumstances. These estimates could be materially different under different conditions and assumptions. Additionally, the actual amounts could differ from the estimates made. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

Management believes the following represent Forgent's critical accounting policies:

**Revenue Recognition**

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. The Company recognizes software license revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4, *Deferral of the Effective Date of a Provision of SOP 97-2*, and SOP 98-9, *Modification of SOP 97-2 With Respect to Certain Transactions*, Securities and Exchange Commission Staff Accounting Bulletin 104, *Revenue Recognition* and Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company recognizes software subscription revenue in accordance with EITF Issue No. 00-3, *Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware* and EITF Issue No. 00-21.

Revenue consists of software license, software subscription and service fees. Revenue from the software element is earned through the licensing or right to use the Company's software and from the sale of specific software products. Service fee income is earned through the sale of maintenance and technical support, training and installation. Revenue from the sale of hardware devices is recognized upon shipment of the hardware. Forgent sells multiple elements within a single sale. For software license arrangements, the Company allocates the total fee to the various elements based on the relative fair values of the elements specific to the Company. For software subscription arrangements, the Company recognizes the total contract value ratably over the contract term, beginning when the customer is able to utilize the software.

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The Company determines the fair value of each element in the arrangement based on vendor-specific objective evidence ( VSOE ) of fair value. VSOE of fair value for the software, maintenance, and training and installation services are based on the prices charged for the software, maintenance and services when sold separately. Revenue allocated to maintenance and technical support is recognized ratably over the maintenance term (typically one year). Revenue allocated to installation and training is recognized upon completion of these services. The Company's training and installation services are not essential to the functionality of the Company's products as such services can be provided by a third party or the customers themselves.

For instances in which VSOE cannot be determined for undelivered elements, and these undelivered elements do not provide significant customization or modification of its software product, Forgent recognizes the entire contract amount ratably over the period during which the services are expected to be performed.

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The Company does not recognize revenue for agreements with rights of return, refundable fees, cancellation rights or acceptance clauses until such rights of return, refund or cancellation have expired or acceptance has occurred. The Company's arrangements with resellers do not allow for any rights of return.

Deferred revenue includes amounts received from customers in excess of revenue recognized, and is comprised of deferred maintenance, service and other revenue. Deferred revenues are recognized in the Condensed Consolidated Statements of Operations when the service is completed and over the terms of the arrangements, primarily ranging from one to three years.

**Impairment of Goodwill, Intangible Assets and Long-Lived Assets**

Goodwill and other intangible assets with indefinite lives are not required to be amortized under Financial Accounting Standard Board ( FASB ) Statement No. 142, *Goodwill and Other Intangible Assets*, and accordingly, the Company reviews its goodwill for possible impairment on an annual basis, or whenever specific events warrant. Events that may create an impairment review include, but are not limited to: significant and sustained decline in the Company's stock price or market capitalization, significant underperformance of operating units and significant changes in market conditions and trends. Forgent uses a two-step process and a discounted cash flow model to evaluate its assets for impairment. If the carrying amount of the goodwill or asset exceeds its implied fair value, an impairment loss is recognized in an amount equal to the excess during that fiscal period. Intangible assets that are not deemed to have indefinite lives are amortized over their useful lives and are tested for impairment in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In accordance with Statement No. 144, Forgent reviews and evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, including those noted above, the Company compares the assets' carrying amounts against the estimated undiscounted cash flows to be generated by those assets over their estimated useful lives. If the carrying amounts are greater than the undiscounted cash flows, the fair values of those assets are estimated by discounting the projected cash flows. Any excess of the carrying amounts over the fair values are recorded as impairments in that fiscal period.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is a smaller reporting company as defined by Rule 12b-2 under the Exchange Act and is not required to provide the information required under this item.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports it files under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Such controls include those designed to ensure that information



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for disclosure is communicated to management, including the Chairman of the Board and the Chief Executive Officer ( CEO ), as appropriate to allow timely decisions regarding required disclosure.

The CEO and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of the Company's disclosure controls and procedures as of April 30, 2009. Based on their evaluation, they have concluded, to the best of their knowledge and belief, that the disclosure controls and procedures are effective. No changes were made in the Company's internal controls over financial reporting during the quarter ended April 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Forgent is the defendant or plaintiff in various actions that arose in the normal course of business. With the exception of the proceedings described below, none of the pending legal proceedings to which the Company is a party are material to the Company.

**Litigation with Jenkens & Gilchrist, P.C.**

On July 16, 2007, Jenkens & Gilchrist, P.C. ( Jenkens ), Forgent s former legal counsel, filed a complaint against Forgent and Compressions Labs, Inc., in the District Court of Dallas County, Texas. In its complaint, Jenkens alleges a breach of contract and is seeking a declaratory judgment. Forgent disputes Jenkens claims and is seeking relief through the court system.

After Forgent terminated Jenkens, the Company entered into a Resolution Agreement with Jenkens in December 2004. Under the Resolution Agreement, the Company believes Jenkens is entitled to no more than \$1.4 million pursuant to the Resolution Agreement as a result of the amounts received by Forgent in the past litigation. Jenkens interprets the Resolution Agreement on broader terms and believes it is entitled to \$3.4 million, including attorneys fees and interest.

On March 3, 2008, Forgent and Jenkens appeared before the Court regarding a hearing on a motion for summary judgment filed by Jenkens. On May 20, 2008, the Court granted Jenkens motion and ordered Forgent to pay Jenkens \$2.8 million for past recoveries and other amounts including attorneys fees and interest. Forgent asked the Court to reconsider its order and, on September 3, 2008, the Court reconsidered its prior ruling and denied Jenkens motion and held that language from the contract in dispute was ambiguous and the issue would be submitted to a jury.

On May 20, 2009, Jenkens submitted a second motion for summary judgment. Forgent responded to this motion on June 3, 2009 and both parties appeared before the Court regarding this motion on June 10, 2009. The Court has not ruled on Jenkens second motion.

The trial date for this litigation has been rescheduled to commence on July 13, 2009. Management currently cannot predict how long it ultimately will take to resolve the Jenkens lawsuit. Until the Jenkens litigation is finalized, the related amounts charged by Jenkens pursuant to the Resolution Agreement may be adjusted in a future period and could have a material impact to the Company s consolidated financial statements.

**Litigation with Wild Basin**

On September 6, 2007, Forgent filed a petition against Wild Basin One & Two, Ltd. ( Wild Basin ) in the District Court of Travis County, Texas. The petition claimed Wild Basin was in breach of contract relating to Forgent s lease agreement by unreasonably withholding and delaying its consent to Forgent s lease assignment to a third party. Forgent sought to recover all damages as a result of the delay in closing its pending assignment and amounts not distributed in the past, among other damages.

The trial for this litigation commenced on September 22, 2008. Prior to the conclusion of the trial, Forgent and Wild Basin reached a settlement agreement, effective September 25, 2008. This settlement agreement requires, among other terms, that Wild Basin consent to Forgent s lease assignment. In return, Forgent paid Wild Basin \$75 thousand in November 2008. Both parties agreed to mutually release claims against each other.

After Forgent and Wild Basin participated in mediation on November 11, 2008 to finalize the terms of the settlement agreement, Wild Basin consented to Forgent s lease assignment and the documents were submitted to Wild Basin s lender for final approval. Although the lender granted its final approval on February 11, 2009, the third party is currently having difficulties obtaining the required financing due to the tightened capital markets. Forgent continues to negotiate with this third party and is working with other interested third parties. However, there is no assurance that Forgent will be successful in assigning its lease agreement.

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**ITEM 1A. RISK FACTORS**

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

On June 1, 2009, the Company announced that its Board of Directors unanimously voted to cancel the Special Meeting of Stockholders scheduled for June 2, 2009. The meeting was originally called for the purpose of allowing the stockholders to vote on two separate proposals to amend the Company's Restated Certificate of Incorporation to affect a reverse/forward stock split (the Reverse/Forward Stock Split) of the Company's common stock, which would allow Forgent to become a privately-held company. While there was substantial stockholder support for the Reverse/Forward Stock Split proposals, the Board of Directors determined that, based on the total number of stockholder proxies received prior to the announcement, the proposals would not receive sufficient votes to pass due to concerns about the loss of liquidity. Therefore, the Board of Directors decided to cancel the meeting in order to save the associated expenses. Since the stockholders prefer Forgent to remain as a publicly traded company, management is proceeding with its alternative long-term plan for the Company's future growth. Forgent will hold its annual stockholders meeting on July 30, 2009

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

Exhibits:

- 2.2 Agreement and Plan of Merger, dated as of September 11, 2007 by and among Forgent Networks, Inc., Cheetah Acquisition Company, Inc. and iSarla Inc. (incorporated by reference to Exhibit 2.2 to the Company's quarterly report on Form 10-Q for the three months ended October 31, 2007).
- 3.1 Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the three months ended October 31, 2004).
- 3.2 Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the three months ended October 31, 2004).
- 4.1 Specimen Certificate for the Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 4.2 Rights Agreement, dated as of December 19, 2005, between Forgent Networks, Inc. and American Stock Transfer & Trust Company, which includes the form of Series A Preferred Stock, \$0.01 par value, the form of Rights Certificate, and the Summary of Rights (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 19, 2005).
- 31.1\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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32.1\* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith

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**SIGNATURES**

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

FORGENT NETWORKS, INC.

Date: June 15, 2009

By: /s/ RICHARD N. SNYDER  
Richard N. Snyder  
Chief Executive Officer

Date: June 15, 2009

By: /s/ JAY C. PETERSON  
Jay C. Peterson  
Chief Financial Officer

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**INDEX TO EXHIBITS**

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