

FORGENT NETWORKS INC  
Form 10-Q  
December 15, 2008  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

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

**For the quarterly period ended October 31, 2008**

**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**

---

# 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.)

**108 Wild Basin Road**

**Austin, Texas**

(Address of Principal Executive Offices)

**78746**

(Zip Code)

**(512) 437-2700**

(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  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

At December 11, 2008, the registrant had outstanding 31,108,839 shares of its Common Stock, \$0.01 par value.

---

Table of Contents

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page Number</b>
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1 - Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Balance Sheets as of October 31, 2008 (unaudited) and July 31, 2008</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended October 31, 2008 and 2007</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended October 31, 2008 and 2007</u>	5
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	18
<u>Item 4 - Controls and Procedures</u>	18
<b>PART II - OTHER INFORMATION</b>	
<u>Item 1 - Legal Proceedings</u>	18
<u>Item 1A - Risk Factors</u>	19
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>Item 3 - Defaults upon Senior Securities</u>	19
<u>Item 4 - Submission of Matters to a Vote of Security Holders</u>	19
<u>Item 5 - Other Information</u>	19
<u>Item 6 - Exhibits</u>	20
<b>Signatures</b>	21
<b>Index to Exhibits</b>	22

Table of Contents**FORGENT NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except per share data)

	<b>OCTOBER 31, 2008 (UNAUDITED)</b>	<b>JULY 31, 2008</b>
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 10,554	\$ 12,062
Short-term investments	3,289	2,627
Accounts receivable, net of allowance for doubtful accounts of \$47 and \$41 at October 31, 2008 and July 31, 2008, respectively	1,333	1,718
Inventory	58	74
Prepaid expenses and other current assets	217	191
<b>Total Current Assets</b>	<b>15,451</b>	<b>16,672</b>
Property and equipment, net	775	907
Intangible assets, net	4,534	4,729
	<b>\$ 20,760</b>	<b>\$ 22,308</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 4,054	\$ 3,778
Accrued compensation and benefits	192	203
Lease impairment and advance	355	373
Other accrued liabilities	335	384
Deferred revenue	1,874	1,844
<b>Total Current Liabilities</b>	<b>6,810</b>	<b>6,582</b>
Long-Term Liabilities:		
Deferred revenue	27	25
Lease impairment and advance	455	564
Other long-term obligations	207	217
<b>Total Long-Term Liabilities</b>	<b>689</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; 32,899 and 32,892 shares issued; 31,109 and 31,102 shares outstanding at October 31, 2008 and July 31, 2008, respectively	329	329
Treasury stock at cost, 1,790 shares at October 31, 2008 and July 31, 2008	(4,815)	(4,815)
Additional paid-in capital	270,695	270,657
Accumulated deficit	(252,753)	(251,214)
Accumulated other comprehensive income	(195)	(37)
<b>Total Stockholders Equity</b>	<b>13,261</b>	<b>14,920</b>
	<b>\$ 20,760</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)

	<b>FOR THE THREE MONTHS ENDED OCTOBER 31, (UNAUDITED)</b>	
	<b>2008</b>	<b>2007</b>
Revenues	\$ 2,792	\$ 1,875
Cost of Sales	(564)	(330)
<b>Gross Margin</b>	<b>2,228</b>	<b>1,545</b>
<b>OPERATING EXPENSES:</b>		
Selling, general and administrative	3,197	2,440
Research and development	561	291
Amortization of intangible assets	149	36
Total Operating Expenses	<b>3,907</b>	<b>2,767</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,679)</b>	<b>(1,222)</b>
<b>OTHER INCOME AND (EXPENSES):</b>		
Interest income	55	338
Foreign currency translation	120	(7)
Interest expense and other	(10)	(13)
Total Other Income	<b>165</b>	<b>318</b>
<b>LOSS FROM OPERATIONS, BEFORE INCOME TAXES</b>	<b>(1,514)</b>	<b>(904)</b>
Provision for income taxes	(25)	(14)
<b>NET LOSS</b>	<b>\$ (1,539)</b>	<b>\$ (918)</b>
<b>BASIC AND DILUTED LOSS PER SHARE:</b>		
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.03)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>		
Basic	31,104	27,094
Diluted	31,104	27,094

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 THREE MONTHS ENDED OCTOBER 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(UNAUDITED)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss from operations	\$ (1,539)	\$ (918)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	327	141
Amortization of leasehold advance and lease impairment	(96)	(97)
Provision for doubtful accounts	8	(2)
Share-based compensation	36	5
Foreign currency translation (gain) loss	(120)	7
Gain on sale of assets	(5)	
Changes in operating assets and liabilities:		
Accounts receivable	335	137
Inventory	16	
Prepaid expenses and other current assets	(25)	22
Accounts payable	243	(8,041)
Accrued expenses and other long-term obligations	(62)	(248)
Deferred revenue	74	(70)
Net cash used in operating activities	<b>(808)</b>	<b>(9,064)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net purchases of short-term investments	(658)	(1,483)
Net purchases of property and equipment	(25)	(18)
Change in other assets		164
Acquisition of iSarla, Inc., net of cash acquired		(7,213)
Net cash used in by investing activities	<b>(683)</b>	<b>(8,550)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of stock	2	2
Payments on capital leases	(7)	(1)
Net cash (used in) provided by financing activities	<b>(5)</b>	<b>1</b>
Effect of translation exchange rates	(12)	14
Net decrease in cash and equivalents	(1,508)	(17,599)
Cash and equivalents at beginning of period	12,062	33,524
Cash and equivalents at end of period	<b>\$ 10,554</b>	<b>\$ 15,925</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 October 31, 2008 and July 31, 2008, and the results of operations and cash flows for the three months ended October 31, 2008 and 2007. 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 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.

**NOTE 2 - ACQUISITION**

On October 5, 2007, Forgent acquired all of the outstanding capital stock of iSarla Inc., a Delaware corporation and application service provider that offers on-demand software solutions that help simplify the human resource process and improve employee productivity by managing and communicating human resources, employee benefits and payroll information. iSarla Inc. conducted its business under the trade name iEmployee and provided hosted application services, including Time & Attendance, Timesheets, Human Resource Benefits, Expenses and other solutions. iEmployee was a profitable business with a high percentage of recurring revenues and delivered its software as a service under the SaaS model. The acquisition expanded Forgent's current target markets, significantly augmented the Company's product and service offerings to customers, and increased revenues from its operations considerably. Due to these factors, the Company purchased the iEmployee business at a premium (i.e. goodwill) over the fair value of the net assets acquired.

In consideration for the acquisition, Forgent paid approximately \$12,661, including \$6,602 in cash, 5,095 shares of its Common Stock, valued at approximately \$4,987 and transaction cost of approximately \$1,072. The shares of Common Stock issued were valued based upon the price of \$0.98 when the number of shares to be issued became fixed. Upon closing, \$990 in cash and 764 shares totaling \$748 of the purchase price were held in escrow for 12 and 18 months for representations and warranties. The purchase agreement did not include provisions for any other contingent payments, options or commitments. As a result of the acquisition, iEmployee's results of operations since October 5, 2007 have been included in the Company's Consolidated Statement of Operations.

The business combination was accounted for under Financial Accounting Standard Board ( FASB ) Statement No. 141, *Business Combinations*. The application of purchase accounting under Statement No. 141 requires the total purchase price to

be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding fair value being recorded as goodwill. The following table summarizes the final adjusted fair values of the iEmployee assets acquired and liabilities assumed:

	<b>Final Allocation</b>
<b>Assets Acquired</b>	
Cash	\$ 460
Short-term investments	526
Accounts receivable, net	452
Prepaid assets	90
Fixed assets	340
Goodwill	7,391
Intangible assets	5,368
Other assets	11
<b>Total assets acquired</b>	<b>14,638</b>
<b>Liabilities assumed</b>	
Accounts payable	(1,279)
Accrued compensation and benefits	(134)
Accrued other liabilities	(189)
Deferred revenue	(375)
<b>Total liabilities assumed</b>	<b>(1,977)</b>
<b>Net assets acquired</b>	<b>\$ 12,661</b>

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

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

Due to its continued depressed stock price and the current market conditions during the fourth fiscal quarter of 2008, Forgent determined that the decline in its market capitalization may not be temporary. Due to the decline in its market capitalization, the Company was required to perform an impairment analysis on its goodwill. As a result of the impairment analysis, Forgent recorded a non-cash \$7,391 goodwill impairment related to its acquisition of iEmployee to its Consolidated Statement of Operations during the fourth quarter of fiscal 2008. This impairment had no impact to the Company's tangible net book value or liquidity.

The following summary presents unaudited pro forma consolidated financial information for the three months ended October 31, 2007, as if the iEmployee acquisition had occurred as of August 1, 2007. The pro forma information does not purport to be indicative of the actual results which would have occurred had the acquisition been completed as of August 1, 2007, nor is it necessarily indicative of the results of operations which may occur in the future.

	<b>OCTOBER 31, 2007</b>	
	<b>AS REPORTED</b>	<b>PRO FORMA</b>
Revenues	\$ 1,875	\$ 2,888
Net (loss) income	(918)	(773)
Net (loss) income per common share:		
Basic	\$ (0.03)	\$ (0.03)
Diluted	(0.03)	(0.03)
Weighted average shares outstanding:		
Basic	27,094	30,749
Diluted	27,094	30,749

**3. INTANGIBLE ASSETS**

Forgent accounts for its acquisitions in accordance with FASB Statement No. 141, *Business Combinations*. The Company records intangible assets apart from goodwill if the assets have contractual or other legal rights or if the assets can 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

Edgar Filing: FORGENT NETWORKS INC - Form 10-Q

as of October 31, 2008 and July 31, 2008 are as follows:

7

---

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

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

<b>Intangible Asset</b>	<b>Amortization Period (in Years)</b>	<b>Gross</b>	<b>October 31, 2008 Accumulated Amortization</b>		<b>Net</b>
Developed Technology	5	\$ 915	\$ (196)	\$	719
Customer Relationships	8	2,470	(330)		2,140
Ceridian Contract	8	1,545	(206)		1,339
Trade Names	5	288	(62)		226
Covenant not-to-compete	4	150	(40)		110
		\$ 5,368	\$ (834)	\$	4,534

<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

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 October 31, 2008 and 2007 was \$149 and \$36, 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 October 31, 2008:

<b>Fiscal Years</b>	
Remaining 2009	\$ 586
2010	780
2011	780
2012	749
2013	545
Thereafter	1,094
	\$ 4,534

**NOTE 4 FAIR VALUE MEASUREMENTS**

## Edgar Filing: FORGENT NETWORKS INC - Form 10-Q

Effective August 1, 2008, Forgent adopted 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 are 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;

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

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

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 October 31, 2008:

Description	Fair Value Measure at October 31, 2008			
	Total Carrying Value at October 31, 2008	Quoted Prices in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	\$ 10,554	\$ 10,554	\$	\$
Short-term investments available for sale	3,289	3,289		
<b>Total</b>	<b>\$ 13,843</b>	<b>\$ 13,843</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 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 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 months ended October 31, 2008 and 2007:

	For the Three Months Ended October 31,		
	2008		2007
Net Loss	\$	(1,539)	\$ (918)
Foreign currency (loss) gain		(162)	22
Unrealized gain		4	3
<b>Comprehensive Loss</b>	<b>\$</b>	<b>(1,697)</b>	<b>\$ (893)</b>



Table of Contents

**FORGENT NETWORKS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 6 - RECENT ACCOUNTING PRONOUNCEMENTS**

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.

**NOTE 7 - SHARE BASED COMPENSATION**

Share based compensation for the Company's stock option, restricted stock and stock purchase plans for the three months ended October 31, 2008 and 2007 was \$36 and \$5, respectively. The Company issued 7 and 4 shares of common stock related to exercises of stock options granted from its Stock Option, Restricted Stock, and Stock Purchase Plans for the three months ended October 31, 2008 and 2007, respectively.

**NOTE 8 - INCOME TAXES**

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*.

Forgent adopted FIN 48 as of August 1, 2007. FIN 48 applies to all tax positions accounted for under SFAS No. 109. FIN 48 refers to tax positions as positions taken in a previously filed tax return or positions expected to be taken in a future tax return which are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. FIN 48 further clarifies a tax position to include, but not be limited to, the following:

- An allocation or a shift of income between taxing jurisdictions;
- The characterization of income or a decision to exclude reporting taxable income in a tax return;

## Edgar Filing: FORGENT NETWORKS INC - Form 10-Q

- A decision to classify a transaction, entity, or other position in a tax return as tax exempt.

FIN 48 provides that a tax benefit may be reflected in the financial statements only if it is more likely than not that a company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it should be measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. This approach is a change from previous practice under which a tax benefit could be recognized only if it was probable a tax position could be sustained.

FIN 48 requires the Company to make qualitative and quantitative disclosures, including a discussion of reasonably possible changes that might occur in unrecognized tax benefits over the next twelve months, a description of open tax years by major jurisdictions and a roll-forward of all unrecognized tax benefits, presented as a reconciliation of the beginning and ending balances of the unrecognized tax benefits on an aggregated basis.

Forgent and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and certain foreign jurisdictions. Generally, the Company is no longer subject to examinations for U.S. federal income taxes for years prior to 2003 and for state income taxes for years prior to 2002. Examinations for foreign income taxes for previous years remain open, but tax considerations in those jurisdictions are not material to the Company.

The adoption of FIN 48 did not have a material impact on the Company's financial statements or disclosures. As of October 31, 2008 and 2007, Forgent did not recognize any assets or liabilities for unrecognized tax benefits relative to uncertain tax positions. Management does not anticipate that a significant increase or

Table of Contents

**FORGENT NETWORKS, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

decrease to gross unrecognized tax benefits will be recorded during the next twelve months. Any interest or penalties resulting from examinations will be recognized as a component of the income tax provision. However, since there are no unrecognized tax benefits as a result of tax positions taken, Forgent has no accrued interest and penalties.

**NOTE 9 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 \$1,400 for contingency fees and expenses related to the settlements from the litigation regarding the Company's DVR patents. Jenkens interprets the Resolution Agreement on broader terms and now believes it is entitled to \$3,400, including attorneys' fees and interest.

On March 3, 2008, Forgent and Jenkens appeared before the Court regarding a hearing on the motion for summary judgment filed by Jenkens. On May 20, 2008, the Court granted Jenkens' motion and ordered Forgent to pay Jenkens \$2,800 for recoveries related to the 746 patent and other amounts including attorney's fees and interest. Forgent appealed this Court order and, on September 3, 2008, the Court granted Forgent's Motion to Reconsider Order. The trial date for this litigation is currently scheduled for April 27, 2009.

Management currently cannot predict how long it ultimately will take to resolve the Jenkens lawsuit. Until the Jenkens litigation is finalized, the related contingency fees and expenses 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. On October 19, 2007, Forgent amended its petition to include claims of fraud and breach of fiduciary duty against Wild Basin.

On June 2, 2008, Wild Basin filed a counterclaim seeking a declaratory judgment that it had complied with its obligations under the lease and was seeking the recovery of attorney's fees. On June 5, 2008, Forgent amended its petition to request the Court make declaratory judgments on several issues in the case and to include as a breach of contract claim its claim for withholding amounts that should have been distributed by Wild Basin in the past pursuant to the lease. 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 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. As required by the settlement agreement, Forgent expects to finalize the lease assignment by December 31, 2008. However, there is no assurance that Forgent will finalize the lease assignment, or if finalized, that it will occur by the December 31, 2008 deadline.

Table of Contents

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

The following review of Forgent's financial position as of October 31, 2008 and July 31, 2008 and for the three months ended October 31, 2008 and 2007 should be read in conjunction with the Company's 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Forgent's internet website address is <http://www.asuresoftware.com>. The Company's annual reports 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.

In September 2007, the Company announced a change in the name under which it does business by re-branding its corporate name to Asure Software to reflect the Company's focus on its software and services segment for its future growth. Effective September 13, 2007, the Company began trading in the Nasdaq Global Market System under the symbol ASUR. 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. Therefore, the Company's common stock was subject to potential delisting from the Nasdaq Global Market Exchange pursuant to Nasdaq Marketplace Rule 4450(a)(5). The Company was provided 180 calendar days, or until August 4, 2008, to regain compliance by maintaining a share bid price in excess of \$1.00 for ten consecutive business days. Forgent worked to regain compliance through improving its operating results, but it was unable to regain compliance with the minimum bid requirement. Consequently, Forgent applied for a transfer listing on the Nasdaq Capital Market. Nasdaq approved the application and transferred the Company's securities to the Nasdaq Capital Market, effective September 19, 2008. As a result of this transfer, Forgent was provided an additional 180 calendar days, beginning from the original August 4, 2008 deadline, or until February 2, 2009, to regain compliance with the minimum \$1.00 share bid price requirement. The Company's trading symbol continues to be ASUR and the trading of the Company's stock is unaffected by this change.

Due to current unprecedented market conditions, on October 16, 2008, Nasdaq suspended the enforcement of its rules requiring a minimum \$1.00 share bid price for all Nasdaq-listed companies. The rules will be reinstated on January 19, 2009. Consequently, on October 22, 2008, Forgent received a Nasdaq letter extending the revised compliance deadline from February 2, 2009 to May 5, 2009. If the Company cannot achieve compliance with the minimum share price requirement by May 5, 2009, Nasdaq will provide written notification that the Company's securities will be de-listed from the Capital Market Exchange.

**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.

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

## Edgar Filing: FORGENT NETWORKS INC - Form 10-Q

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 total revenues represented by certain items in Forgent's Consolidated Statements of Operations:

	<b>FOR THE THREE MONTHS ENDED OCTOBER 31,</b>	
	<b>2008</b>	<b>2007</b>
Software and services revenues	100.0%	100.0%
Gross margin	79.8	82.4
Selling, general and administrative	114.5	130.2
Research and development	20.1	15.5
Amortization of intangible assets	5.3	1.9
Total operating expenses	139.9	147.6
Other income, net	5.9	17.0
Net loss	(55.1)%	(49.0)%

**THREE MONTHS ENDED OCTOBER 31, 2008 AND 2007****Revenues**

Revenues for the three months ended October 31, 2008 were \$2.8 million, an increase of \$0.9 million, or 48.9%, from the \$1.9 million reported for the three months ended October 31, 2007. 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 first fiscal quarter of 2009, an increase in software subscription revenues accounted for approximately 97.4% of the \$0.9 million increase in revenues. In October 2007, the Company acquired iEmployee's human resource and time and attendance software along with its operations. This software, as well as the Company's Meeting Room Manager (MRM) On Demand software, are delivered to customers under the SaaS model, which is software as a service. The SaaS model, which is a subscription-based offering, allows customers to use Forgent's software without installing or maintaining the software on their own servers. Since the iEmployee acquisition occurred in October 2007, the Company did not benefit from having a full quarter's worth of revenues from the iEmployee operations during the three months ended October 31, 2007. The increase in software subscription revenues during the three months ended October 31, 2008 is due primarily to the Company generating revenues from the iEmployee operations the entire quarter.

The Company continues to develop its iEmployee sales force and web-based marketing model to increase sales performance and will release new software updates and enhancements for certain of its software products during the next twelve months. Forgent will continue to target small

and medium businesses and divisions of enterprises and will employ targeted vertical marketing programs, as appropriate. Although the Company's sales, particularly of MRM, have been concentrated in certain verticals, including corporate, education, governmental, healthcare, legal and non-profit entities, the Company's customers are widely spread across industries as well as geographies. Forgent has recently experienced some softness in the market due to the current depressed macroeconomic environment. However, the Company has not experienced a significant reduction in sales from any particular industry or geographic location that would indicate that Forgent is currently at risk of a material decrease in revenues resulting from a concentrated customer base.

### **Gross Margin**

Gross margins for the three months ended October 31, 2008 were \$2.2 million, an increase of \$0.7 million, or 44.2%, from the \$1.5 million reported for the three months ended October 31, 2007. Gross margins as a percentage of revenues were 79.8% and 82.4% for the three months ended October 31, 2008 and 2007, respectively.

The \$0.7 million increase in gross margin is driven by the increase in revenues resulting from the Company generating a full quarter's worth of revenues related to the iEmployee operations during the three months ended October 31, 2008. Additionally, cost of sales increased by \$0.2 million during the first fiscal quarter of 2009, 81.8% of which is due to the Company incurring cost of sales related to the iEmployee operations for the entire quarter, as compared to the 26 days during the first fiscal quarter of 2008. Forgent's cost of sales relates primarily to



Table of Contents

compensation expenses, hardware expenses and the amortization of the Company's purchased software costs. These expenses represented approximately 60.7% and 63.4% of the total cost of sales for the three months ended October 31, 2008 and 2007, respectively. Changes in the product mix during the first fiscal quarter of 2009 explain the decrease in the gross margin percentage from 82.4% for the three months ended October 31, 2007 to 79.8% for the three months ended October 31, 2008. Forgent expects gross margins to remain relatively consistent with the gross margins for the three months ended October 31, 2008, in terms of percentage of revenues for future periods.

**Selling, General and Administrative**

Selling, general and administrative expenses for the three months ended October 31, 2008 were \$3.2 million, an increase of \$0.8 million or 31.0%, from the \$2.4 million reported for the three months ended October 31, 2007. Selling, general and administrative ( SG&A ) expenses as a percentage of revenues were 114.5% and 130.2% for the three months ended October 31, 2008 and 2007, respectively.

Approximately 80.9% of the \$0.8 million increase in SG&A expenses during the three months ended October 31, 2008 is due to increases in iEmployee SG&A expenses and legal expenses. During the first fiscal quarter of 2009, the Company incurred SG&A expenses related to the iEmployee operations for the entire quarter, as compared to the 26 days during the first fiscal quarter of 2008, thus increasing total SG&A expenses by \$0.4 million. Additionally, Forgent's corporate legal expenses increased by \$0.3 million due primarily to the litigation with Wild Basin One & Two, Ltd. ( Wild Basin ) during the three months ended October 31, 2008. Prior to the conclusion of the trial with Wild Basin, Forgent and Wild Basin reached a settlement agreement, effective September 25, 2008. This agreement was finalized during mediation on November 11, 2008. With the conclusion of the Wild Basin litigation, management anticipates significant savings in rent expense after the Wild Basin lease is assigned, which assignment should be finalized by December 31, 2008. However, there is no assurance that Forgent will finalize the lease assignment, or if finalized, that it will occur by the December 31, 2008 deadline. Although the Wild Basin litigation is completed, management does not expect corporate legal fees to decrease significantly due to the escalating activity related to the lawsuit with Jenkens & Gilchrist, P.C. ( Jenkens ). The trial date for the Jenkens litigation is currently scheduled for April 27, 2009.

Forgent will continue to make modest investments in its sales team, as necessary, in order to grow its operations and increase sales. Forgent will also continue to evaluate and reduce any unnecessary SG&A expenses.

**Research and Development**

Research and development expenses for the three months ended October 31, 2008 were \$0.6 million, an increase of \$0.3 million, or 92.6%, from the \$0.3 million reported for the three months ended October 31, 2007. Research and development ( R&D ) expenses as a percentage of revenues were 20.1% and 15.5% for the three months ended October 31, 2008 and 2007, respectively.

Approximately 75.8% of the \$0.3 million increase in R&D expenses during the three months ended October 31, 2008 resulted from the Company incurring R&D expenses related to the iEmployee operations for the entire quarter, as compared to the 26 days during the three

## Edgar Filing: FORGENT NETWORKS INC - Form 10-Q

months ended October 31, 2007. During the first fiscal quarter of 2009, Forgent concentrated its R&D efforts on improving its Time & Attendance and MRM products. The Time & Attendance s enhancements ease the implementation and enforcement of Paid Time-Off ( PTO ) policies by providing users more control over administering their PTO programs. These enhancements include an automated calculation of the time off accruals, greater visibility to PTO details through new reporting, and improved calendaring options for managers to easily track their employees time off requests in their Microsoft Outlook® calendars. Forgent continued developing MRM and released MRM 7.9 in November 2008. MRM 7.9 includes an enhanced MRM Outlook interface that allows assigned delegates the ability to schedule meetings on behalf of others, privacy features that hide meeting details as needed and more sophisticated conflict resolution options for scheduling recurring meetings via Microsoft Outlook®.

Forgent continues to solicit and receive feedback regarding its products and services from its existing and potential customers. During the remainder of fiscal year 2009, the Company plans to continue investing modestly in its R&D efforts as necessary, in order to enhance the functionality of its software products through new releases and new feature developments and to evaluate opportunities for developing new software. As the Company designs and further improves its workforce management solutions, management will attempt to maintain R&D expenses at reasonable levels in terms of percentage of revenue.

Table of Contents**Amortization of intangible assets**

Amortization expenses for the three months ended October 31, 2008 were \$0.1 million, an increase of \$0.1 million, or 315.5%, from the \$36 thousand reported for the three months ended October 31, 2007. Amortization expenses as a percentage of revenues were 5.3% and 1.9% for the three months ended October 31, 2008 and 2007, 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 months ended October 31, 2008 and 2007 relate entirely to these acquired intangible assets.

**Net Loss**

Forgent generated a net loss of \$1.5 million, or \$0.05 per share, during the three months ended October 31, 2008, compared to a net loss of \$0.9 million, or \$0.03 per share, during the three months ended October 31, 2007. Net loss as a percentage of total revenues were 55.1% and 49.0% for the three months ended October 31, 2008 and 2007, respectively. The \$0.6 million increase in the Company's net loss during the three months ended October 31, 2008 is primarily attributable to the \$1.1 million increase in operating expenses, offset by the \$0.7 million increase in gross margin. Forgent will continue to implement its corporate strategy for growing its software and services business by modestly investing in areas that directly generate revenue and positive cash flows for the Company. However, 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**

	<b>FOR THE THREE MONTHS ENDED OCTOBER 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>(in thousands)</b>			
Working capital	\$	8,641	\$	14,423
Cash, cash equivalents and short-term investments		13,844		19,476
Cash used in operating activities		(808)		(9,064)
Cash used in investing activities		(683)		(8,550)
Cash provided by (used in) financing activities		(5)		1

Cash used in operating activities was \$0.8 million for the three months ended October 31, 2008 due primarily to \$1.5 million in net loss, offset by a \$0.3 million decrease in accounts receivable and a \$0.2 million increase in accounts payable. Cash used in operating activities was \$9.1 million for the three months ended October 31, 2007 due primarily to an \$8.0 million decrease in accounts payable and \$0.9 million in net loss. Management continues to closely monitor all of its cash sources and uses from its operations. During the three months ended October 31, 2008, Forgent increased its collection efforts related to its trade receivables. As a result, Forgent's average days sales outstanding was 35 days for the first fiscal quarter of 2009, down from 49 days for the first fiscal quarter of 2008. As management continues to evaluate and reduce any

## Edgar Filing: FORGENT NETWORKS INC - Form 10-Q

unnecessary expenditure, including specifically Forgent's efforts to reduce its rent expense by assigning its Wild Basin lease, management anticipates significant cash savings which will decrease the cash used in the Company's operating activities in future periods.

Cash used in investing activities was \$0.7 million for the three months ended October 31, 2008 due primarily to \$0.7 million in net purchases of short-term investments. Cash used in investing activities was \$8.6 million for the three months ended October 31, 2007 due primarily to \$7.2 million paid in cash related to the iEmployee acquisition and \$1.5 million in 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. Although the interest rates have been decreasing, the Company continues to purchase investments with slightly longer maturities in order to maximize its interest income. Forgent does not invest in any mortgage-backed securities or other high-risk investments. Forgent's current operations are not capital intensive and management does not anticipate any significant capital expenditures during the remainder of fiscal year 2009.

Table of Contents

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 \$14.9 million, or 97.1% of the Company's total operating lease obligations, relate to its corporate office facility at Wild Basin in Austin, Texas. As of October 31, 2008, Forgent had \$5.1 million in future minimum lease payments receivable under non-cancelable sublease arrangements. Additionally, Forgent had a \$0.4 million liability related to impairment charges for the economic value of the lost sublease rental income at its Austin property. Once Forgent successfully assigns its Wild Basin lease, the Company's operating lease obligations will significantly decrease. However, there is no assurance that Forgent will finalize the lease assignment, or if finalized, that it will occur by the December 31, 2008 deadline. Forgent may periodically make other commitments and thus become subject to other contractual obligations.

Cash used in financing activities was \$5 thousand for the three months ended October 31, 2008. Cash provided by financing activities was \$1 thousand for the three months ended October 31, 2007. 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 three months ended October 31, 2008 or 2007. As of October 31, 2008, 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 during fiscal year 2009, depending on the Company's cash position, market conditions and other factors.

As of October 31, 2008, Forgent's principal sources of liquidity consisted of \$13.8 million of cash, cash equivalents and short-term investments. Management is focused on growing its existing software operations and thus plans to utilize its cash balances to expand its operations by making additional prudent investments as necessary and may 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 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.

**CRITICAL ACCOUNTING POLICY**

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.

Table of Contents

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.

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.

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 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*.



Table of Contents

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 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 October 31, 2008. 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 October 31, 2008, 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.

**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 \$1.4 million for contingency fees and expenses related to the settlements from the litigation regarding the Company s DVR patents. Jenkens interprets the Resolution Agreement on broader terms and now 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 the 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 recoveries related to the 746 patent and other amounts including attorney s fees and interest. Forgent appealed this Court order, and on September 3, 2008, the Court granted Forgent s Motion to Reconsider Order. The trial date for this litigation is currently scheduled for April 27, 2009.

Table of Contents

Management currently cannot predict how long it ultimately will take to resolve the Jenkins lawsuit. Until the Jenkins litigation is finalized, the related contingency fees and expenses 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. On October 19, 2007, Forgent amended its petition to include claims of fraud and breach of fiduciary duty against Wild Basin.

On June 2, 2008, Wild Basin filed a counterclaim seeking a declaratory judgment that it had complied with its obligations under the lease and was seeking the recovery of attorney's fees. On June 5, 2008, Forgent amended its petition to request the Court make declaratory judgments on several issues in the case and to include as a breach of contract claim its claim for withholding amounts that should have been distributed by Wild Basin in the past pursuant to the lease. 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. As required by the settlement agreement, Forgent expects to finalize the lease assignment by December 31, 2008. However, there is no assurance that Forgent will finalize the lease assignment, or if finalized, that it will occur by the December 31, 2008 deadline.

**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**

None

**ITEM 5. OTHER INFORMATION**

None

Table of Contents

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

---

\* Filed herewith

Table of Contents

**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.

December 15, 2008

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

December 15, 2008

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

Table of Contents

**INDEX TO EXHIBITS**

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
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, \$.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.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.