

**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 **October 31, 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.)

**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

At December 11, 2009, the registrant had outstanding 31,615,890 shares of its Common Stock, \$0.01 par value.

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**FORGENT NETWORKS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands, except per share data)

|  | OCTOBER 31,<br>2009<br>(UNAUDITED) | JULY 31,<br>2009 |
|--|------------------------------------|------------------|
| <b>ASSETS</b>  |                                    |                  |
| Current Assets:  |                                    |                  |
| Cash and equivalents   | \$ 1,651                           | \$ 4,375         |
| Short-term investments   | 1,303                              | 5,339            |
| Accounts receivable, net of allowance for doubtful accounts of \$17 and \$20 at<br>October 31, 2009 and July 31, 2009, respectively  | 1,576                              | 1,207            |
| Inventory  | 31                                 | 3                |
| Prepaid expenses and other current assets  | 274                                | 143              |
| <b>Total Current Assets</b>  | <b>4,835</b>                       | <b>11,067</b>    |
| Property and equipment, net  | 625                                | 672              |
| Intangible assets, net   | 3,753                              | 3,949            |
| <b>Total Assets</b>  | <b>\$ 9,213</b>                    | <b>\$ 15,688</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                    |                  |
| Current Liabilities:   |                                    |                  |
| Accounts payable   | \$ 1,601                           | \$ 6,294         |
| Accrued compensation and benefits  | 188                                | 278              |
| Lease impairment and advance   | 709                                | 899              |
| Other accrued liabilities  | 439                                | 541              |
| Deferred revenue   | 1,826                              | 1,897            |
| <b>Total Current Liabilities</b>   | <b>4,763</b>                       | <b>9,909</b>     |
| Long-Term Liabilities:   |                                    |                  |
| Deferred revenue   | 120                                | 119              |
| Lease impairment and advance   | 210                                | 250              |
| Other long-term obligations  | 219                                | 206              |
| <b>Total Long-Term Liabilities</b>   | <b>549</b>                         | <b>575</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; 33,406 and 32,906 shares<br>issued; 31,616 and 31,116 shares outstanding at October 31, 2009 and July 31,<br>2009, respectively | 334                                | 329              |
| Treasury stock at cost, 1,790 shares at October 31, 2009 and July 31, 2009   | (4,815)                            | (4,815)          |
| Additional paid-in capital   | 270,915                            | 270,738          |
| Accumulated deficit  | (262,453)                          | (260,947)        |
| Accumulated other comprehensive income   | (80)                               | (101)            |
| <b>Total Stockholders' Equity</b>  | <b>3,901</b>                       | <b>5,204</b>     |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 9,213</b>                    | <b>\$ 15,688</b> |

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

**FORGENT NETWORKS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in thousands, except per share data)

**FOR THE THREE  
MONTHS ENDED  
OCTOBER 31,  
2009                      2008  
(UNAUDITED)**

|  |           |                |           |                |
|--|-----------|----------------|-----------|----------------|
| Revenues   | \$        | 2,321          | \$        | 2,792          |
| Cost of Sales                                    |           | (479)          |           | (564)          |
| <b>Gross Margin</b>                              |           | <b>1,842</b>   |           | <b>2,228</b>   |
| <b>OPERATING EXPENSE:</b>                        |           |                |           |                |
| Selling, general and administrative              |           | 2,741          |           | 3,197          |
| Research and development                         |           | 411            |           | 561            |
| Amortization of intangible assets                |           | 149            |           | 149            |
| <b>Total Operating Expense</b>                   |           | <b>3,301</b>   |           | <b>3,907</b>   |
| <b>LOSS FROM OPERATIONS</b>                      |           | <b>(1,459)</b> |           | <b>(1,679)</b> |
| <b>OTHER INCOME AND (EXPENSE):</b>               |           |                |           |                |
| Interest income                                  |           | 7              |           | 55             |
| Foreign currency translation                     |           | (31)           |           | 120            |
| Interest expense and other                       |           | (11)           |           | (10)           |
| <b>Total Other Income and (Expense)</b>          |           | <b>(35)</b>    |           | <b>165</b>     |
| <b>LOSS FROM OPERATIONS, BEFORE INCOME TAXES</b> |           | <b>(1,494)</b> |           | <b>(1,514)</b> |
| Provision for income taxes                       |           | (12)           |           | (25)           |
| <b>NET LOSS</b>                                  | <b>\$</b> | <b>(1,506)</b> | <b>\$</b> | <b>(1,539)</b> |
| <b>BASIC AND DILUTED LOSS PER SHARE:</b>         |           |                |           |                |
| Net loss per share - basic and diluted           | \$        | (0.05)         | \$        | (0.05)         |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>      |           |                |           |                |
| Basic  |           | 31,317         |           | 31,104         |
| Diluted  |           | 31,317         |           | 31,104         |

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

**FORGENT NETWORKS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in thousands)

**FOR THE THREE  
MONTHS ENDED  
OCTOBER 31,**

|                    |             |
|--------------------|-------------|
| <b>2009</b>        | <b>2008</b> |
| <b>(UNAUDITED)</b> |             |

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|   |    |                |    |              |
|---|----|----------------|----|--------------|
| Loss from operations  | \$ | (1,506)        | \$ | (1,539)      |
| Adjustments to reconcile net loss to net cash used in operations: |    |                |    |              |
| Depreciation and amortization                                     |    | 278            |    | 327          |
| Amortization of leasehold advance and lease impairment            |    | (212)          |    | (96)         |
| Provision for doubtful accounts                                   |    | (16)           |    | 8            |
| Share-based compensation  |    | 7              |    | 36           |
| Foreign currency translation (gain) loss                          |    | 31             |    | (120)        |
| Gain on sale of assets  |    | —              |    | (5)          |
| Changes in operating assets and liabilities:                      |    |                |    |              |
| Accounts receivable   |    | (429)          |    | 335          |
| Inventory   |    | (28)           |    | 16           |
| Prepaid expenses and other current assets                         |    | (130)          |    | (25)         |
| Accounts payable  |    | (4,703)        |    | 243          |
| Accrued expenses and other long-term obligations                  |    | (165)          |    | (62)         |
| Deferred revenue  |    | —              |    | 74           |
| Net cash used in operating activities                             |    | <b>(6,873)</b> |    | <b>(808)</b> |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|   |  |              |  |              |
|---|--|--------------|--|--------------|
| Net sales (purchases) of short-term investments     |  | 4,034        |  | (658)        |
| Net purchases of property and equipment             |  | (33)         |  | (25)         |
| Net cash provided by (used in) investing activities |  | <b>4,001</b> |  | <b>(683)</b> |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

|   |  |                 |  |                  |
|---|--|-----------------|--|------------------|
| Net proceeds from issuance of stock                 |  | 175             |  | 2                |
| Payments on capital leases                          |  | (16)            |  | (7)              |
| Net cash provided by (used in) financing activities |  | <b>159</b>      |  | <b>(5)</b>       |
| Effect of translation exchange rates                |  | (11)            |  | (12)             |
| Net decrease in cash and equivalents                |  | (2,724)         |  | (1,508)          |
| Cash and equivalents at beginning of period         |  | 4,375           |  | 12,062           |
| Cash and equivalents at end of period               |  | <b>\$ 1,651</b> |  | <b>\$ 10,554</b> |

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

**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, 2009 and July 31, 2009, and the results of operations and cash flows for the three months ended October 31, 2009 and 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 for the fiscal year ended July 31, 2009. The results for the interim periods are not necessarily indicative of results for a full fiscal year.

As of October 31, 2009, Forgent's principal sources of liquidity consisted of \$3.0 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.

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.

**2. INTANGIBLE ASSETS**

Forgent accounted for its historical acquisitions in accordance with FASB ASC 805, *Business Combinations* (FASB ASC 805). The Company recorded the amount exceeding the fair value of net assets acquired at the date of acquisition as goodwill. 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 goodwill and intangible assets relate to its acquisition of iSarla Inc. and the iEmployee operations.

In accordance with FASB ASC 350, *Intangibles-Goodwill and Other* (FASB ASC 350), 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. Based on Forgent's impairment test, no impairment was identified for the Company's intangible assets for the years ended July 31, 2009 or 2008.

The gross carrying amount and accumulated amortization of the Company's intangible assets as of October 31, 2009 and July 31, 2009 are as follows:

**FORGENT NETWORKS, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data unless otherwise noted)

| <u>Intangible Asset</u> | <u>Amortization<br/>Period (in Years)</u> | <u>October 31, 2009</u> |                                     |                 |
|-------------------------|---|-------------------------|-------------------------------------|-----------------|
|                         |   | <u>Gross</u>            | <u>Accumulated<br/>Amortization</u> | <u>Net</u>      |
| Developed Technology    | 5   | \$ 915                  | \$ (379)                            | \$ 536          |
| Customer Relationships  | 8   | 2,470                   | (639)                               | 1,831           |
| Ceridian Contract       | 8   | 1,545                   | (400)                               | 1,145           |
| Trade Names             | 5   | 288                     | (119)                               | 169             |
| Covenant not-to-compete | 4   | 150                     | (78)                                | 72              |
|                         |   | <u>\$ 5,368</u>         | <u>\$ (1,615)</u>                   | <u>\$ 3,753</u> |

| <u>Intangible Asset</u> | <u>Amortization<br/>Period (in Years)</u> | <u>July 31, 2009</u> |                                     |                 |
|-------------------------|---|----------------------|-------------------------------------|-----------------|
|                         |   | <u>Gross</u>         | <u>Accumulated<br/>Amortization</u> | <u>Net</u>      |
| Developed Technology    | 5   | \$ 915               | \$ (333)                            | \$ 582          |
| Customer Relationships  | 8   | 2,470                | (562)                               | 1,908           |
| Ceridian Contract       | 8   | 1,545                | (351)                               | 1,194           |
| Trade Names             | 5   | 288                  | (105)                               | 183             |
| Covenant not-to-compete | 4   | 150                  | (68)                                | 82              |
|                         |   | <u>\$ 5,368</u>      | <u>\$ (1,419)</u>                   | <u>\$ 3,949</u> |

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, 2009 and 2008 was \$149 and \$149, 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, 2009:

| <u>Fiscal Years</u> |                 |
|---------------------|-----------------|
| Remaining 2010      | \$ 585          |
| 2011                | 780             |
| 2012                | 749             |
| 2013                | 545             |
| 2014                | 502             |
| Thereafter          | 592             |
|                     | <u>\$ 3,753</u> |

**NOTE 3 – FAIR VALUE MEASUREMENTS**

Effective August 1, 2008, Forgent adopted ASC 820, *Fair Value Measurements and Disclosures* (FASB ASC 820). FASB ASC 820 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 FASB ASC 820 did not have a material impact to the Company's consolidated financial statements.

FASB ASC 820 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;

**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, 2009:

| Description                               | Total Carrying Value at October 31, 2009 | Fair Value Measure at October 31, 2009   |   |   |
|---|--|--|---|---|
|   |  | Quoted Prices in Active Market (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash Equivalents                          | \$ 1,651                                 | \$ 1,651                                 | \$ —  | \$ —                                      |
| Short-term investments available for sale | 1,303                                    | 1,303                                    | —   | —   |
| <b>Total</b>                              | <b>\$ 2,954</b>                          | <b>\$ 2,954</b>                          | <b>\$ —</b>                                   | <b>\$ —</b>                               |

Short-term investments consists of U.S. Government Agency securities with various maturity dates less than 180 days from October 31, 2009.

FASB ASC 825, *Financial Instruments* (FASB ASC 825) 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 FASB ASC 820. Forgent adopted FASB ASC 825, effective August 1, 2008, and elected not to measure any additional financial instruments at fair value. Therefore, the adoption of FASB ASC 825 did not have a material impact to the Company's consolidated financial statements.

**NOTE 4 - COMPREHENSIVE INCOME (LOSS)**

In accordance with the disclosure requirements of FASB ASC 220, *Comprehensive Income* (FASB ASC 220), 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, 2009 and 2008:

|                              | For the Three Months Ended October 31, |                   |
|------------------------------|--|-------------------|
|                              | 2009                                   | 2008              |
| Net Loss                     | \$ (1,506)                             | \$ (1,539)        |
| Foreign currency (loss) gain | 23                                     | (162)             |
| Unrealized gain              | (2)                                    | 4                 |
| <b>Comprehensive Loss</b>    | <b>\$ (1,485)</b>                      | <b>\$ (1,697)</b> |



**FORGENT NETWORKS, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data unless otherwise noted)

**NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS**

In October 2009, the FASB updated FASB ASC 605, *Revenue Recognition* (FASB ASC 605) to address how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. This guidance eliminates the residual method and replaces it with the “relative selling price” method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The updated FASB ASC 605 is effective for the Company’s revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of adoption on its consolidated results of operations and financial position.

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 ASC 350, *Intangibles-Goodwill and Other* (FASB ASC 350). 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.

**NOTE 6 – 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, 2009 and 2008 was \$8 and \$36, respectively. The Company issued 0 and 7 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, 2009 and 2008, respectively.

On September 21, 2009, the Board adopted the Company’s 2009 Equity Plan (the “2009 Equity Plan”) and has submitted the plan for approval by the Company’s stockholders at the December 17, 2009 Annual Meeting of Stockholders. The purpose of the 2009 Equity Plan is to enhance the long-term stockholder value of the Company by offering opportunities to directors, officers, employees and eligible consultants of the Company to acquire and maintain stock ownership in the Company in order to give these persons the opportunity to participate in the Company’s growth and success, and to encourage them to remain in the service of the Company. A total of 2,000,000 shares of the Company’s Common Stock would be available for issuance under the 2009 Equity Plan and provides for the granting of (i) incentive stock options, (ii) non statutory stock options and (iii) stock purchase rights. A total of 912,500 options have been granted pursuant to the plan and subject to stockholder approval.

**NOTE 7 - CONTINGENCIES**

Forgent was 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 alleged a breach of contract and sought a declaratory judgment. Forgent disputed Jenkens’ claims and also sought relief through the court system.

**FORGENT NETWORKS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except per share data or otherwise noted)**

After Forgent terminated Jenkens, the Company entered into a Resolution Agreement with Jenkens in December 2004. Under the Resolution Agreement, the Company believed Jenkens was entitled to \$1,400 for all fees and expenses related to certain settlements received from licensing the Company's intellectual property. Jenkens interpreted the Resolution Agreement on broader terms and initially believed it was entitled to \$2,800. As of July 31, 2007, Forgent accrued \$2,100 for Jenkens' contingency fees related to these settlements. The Company recorded the contingency fees as part of cost of sales on its Consolidated Statement of Operations for the year ended July 31, 2007 in order to properly match the expenses to the related licensing revenues. The \$2,100 accrual remained as part of Forgent's current liabilities through fiscal year 2009.

On July 20, 2009, the trial with Jenkens commenced. As the result of the jury verdict in July 2009 to award Jenkens approximately \$4,600 in damages, attorney's fees and interest, Forgent entered into a settlement agreement with Jenkens, effective August 20, 2009. Under the settlement agreement, Forgent agreed to pay Jenkens \$4,300 and the parties agreed to release all claims against each other. Based on the settlement amount, the Company accrued an additional \$2,200 as of July 31, 2009. Since the Company was no longer licensing its intellectual property and had no related licensing revenues in fiscal year 2009, this additional \$2,200 expense was recorded as part of operating expenses on the Consolidated Statement of Operations for the year ended July 31, 2009. Forgent paid Jenkens \$4,300 on August 25, 2009 and the Company considers this litigation to be concluded.

**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 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 consents 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.

While Forgent was significantly delayed in obtaining Wild Basin's consent to its lease assignment, the identified third party encountered difficulties obtaining the required financing due to the tightened capital markets. Additionally, Forgent continues to work with Wild Basin regarding its breach of contract claim that Wild Basin withheld amounts that should have been distributed to Forgent. Forgent will renew its litigation against Wild Basin regarding this matter, only if necessary.

**NOTE 8 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for recognition and disclosure through December 15, 2009, the date these financial statements on this Form 10-Q were filed with the Securities and Exchange Commission. Through that date, there were no events requiring adjustment to or disclosure in these financial statements.

## 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, 2009 and July 31, 2009 and for the three months ended October 31, 2009 and 2008 should be read in conjunction with the Company's 2009 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 its name change to "Asure Software" to reflect the Company's focus on its software business for its future growth. As a software and services provider, in October 2007, Forgent purchased iSarla Inc., a Delaware corporation and application service provider that offers on-demand software solutions. As a result of the iEmployee acquisition, the Company currently offers two main product lines in its software and services business: NetSimplicity and iEmployee. Forgent's NetSimplicity product line provides simple and affordable solutions to common office administration problems. NetSimplicity's flagship product, Meeting Room Manager ("MRM"), automates the entire facility scheduling process: reserving rooms, requesting equipment, ordering food, sending invitations, reporting on the meeting environment and more. Forgent's iEmployee product line helps simplify the HR process and improves employee productivity by managing and communicating human resources, employee benefits and payroll information. iEmployee's web-based solutions include Time & Attendance, Timesheets, Human Resource Benefits, Expenses and others. Additional business information is contained elsewhere in this Report, including under Item 7 of Part II (*Management's Discussion and Analysis of Financial Condition and Results of Operations*).

Effective September 19, 2008, the Company transferred the listing of its common stock from the Nasdaq Global Market Exchange to the Nasdaq Capital Market Exchange. The Company's trading symbol continued to be "ASUR" and the trading of the Company's stock was unaffected by this change. As a result of this transfer, Forgent was provided an additional 180 calendar days, or until February 2, 2009, to regain compliance with the minimum \$1.00 share bid price requirement pursuant to Nasdaq Marketplace Rule 4450(a)(5).

Due to the continued unprecedented market conditions, Nasdaq, on several occasions, further suspended the enforcement of its rules requiring a minimum \$1.00 share bid price for all Nasdaq-listed companies. Consequently, Forgent's compliance deadline was extended until November 17, 2009. On November 18, 2009, the Company was notified by Nasdaq that due to its failure to satisfying the minimum \$1.00 bid price per share requirement, its stock would be delisted from Nasdaq's Capital Markets on November 30, 2009 unless an appeal was requested. On November 18, 2009 Forgent requested and was granted a hearing request to appeal the Nasdaq staff's decision. On December 10, 2009, Nasdaq held a telephonic panel hearing regarding the Company's notice of delisting due to its deficiency in its minimum bid price requirement. Nasdaq informed the Company that its decision will be issued in several weeks. Forgent believes that by then it will know whether shareholders have approved a 10-for-1 reverse stock split. Based on current and preliminary results which could change, the Company believes that there is a reasonable likelihood that the reverse split may be approved and that, if so, Nasdaq may either grant the Company sufficient time to satisfy the minimum bid price requirement or the bid price requirement may be satisfied in advance of receipt of Nasdaq's letter.

On December 17, 2009, the Company's shareholders will be asked to vote on a proposal to effect a 10-for-1 reverse stock split. If approved, Forgent believes that the stock split will allow the Company to satisfy the minimum bid price per share requirement. Asure intends to present this information to Nasdaq's Hearings Panel in December in an effort to pursue continued listing on Nasdaq's Capital Markets.

On January 29, 2009, Forgent's Board announced its plan to take the Company private. Due to concerns including the loss of liquidity and reduced requirements for regular financial reporting and disclosure, a group of shareholders led by Red Oak Fund, LP ("Red Oak") opposed the Go-Private effort. As shareholder vote counts indicated a majority of shareholders also opposed the Go-Private effort, the Board canceled the special meeting and withdrew its proposal to go private. Subsequently, Red Oak nominated a slate of board directors, who were elected to replace Forgent's prior Board during the Company's annual shareholders meeting on August 28, 2009. In addition to a new board of directors, the Company is currently managed by a new Chief Executive Officer, Pat Goepel, who the new board of directors believes will be able to implement its strategy for growing the software business and achieving profitability and positive cash flows. However, uncertainties and challenges remain and there can be no assurances that Forgent's current strategy will be successful.

### **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,” “could” 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.

## **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<br/>MONTHS ENDED<br/>OCTOBER 31,</b> |             |
|-------------------------------------|---|-------------|
|                                     | <b>2009</b>   | <b>2008</b> |
| Software and services revenues      | 100.0%  | 100.0%      |
| Gross margin                        | 79.4  | 79.8        |
| Selling, general and administrative | 118.0   | 114.5       |
| Research and development            | 17.7  | 20.1        |
| Amortization of intangible assets   | 6.4   | 5.3         |
| Total operating expenses            | 142.2   | 139.9       |
| Other income, net                   | (1.6)   | 5.9         |
| Net loss                            | (64.9)%   | (55.1)%     |

### **THREE MONTHS ENDED OCTOBER 31, 2009 AND 2008**

#### **Revenues**

Revenues for the three months ended October 31, 2009 were \$2.3 million, a decrease of \$0.5 million, or 16.9%, from the \$2.8 million reported for the three months ended October 31, 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 October 31, 2009, a decrease in software license revenue and related service revenue accounted for approximately 92% of the \$0.5 million decrease in revenue. The decrease in software license revenue was primarily due to the protracted economic recession resulting in customers and prospects reducing or freezing their capital budgets and deferring their projects and the Company’s sale of its Visual Asset Manager (“VAM”) software product to E-Innovative Services Group (“EISG”), LLC in the fiscal quarter ending April 30, 2009 in order to focus its NetSimplicity investment on MRM. The Company believes MRM has greater potential for future growth and profitability.

Forgent will continue to target small and medium businesses and divisions of enterprises. In addition to continuing to develop its workforce management solutions and release new software updates and enhancements, the Company is actively exploring other opportunities to acquire additional products or technologies to complement its current software and services. Forgent also is implementing marketing initiatives, including tailoring its solutions to provide increased value and a simplified purchasing model to targeted customers. As the overall workforce management solutions market continues to experience significant growth related to SaaS products, Forgent will continue to focus on sales of its MRM On Demand and iEmployee SaaS products. Management believes that as the economy starts to recover, Forgent will grow its revenues in calendar year 2010.

#### **Gross Margin**

Gross margins for the three months ended October 31, 2009 were \$1.8 million, a decrease of \$0.4 million, or 17.3%, from the \$2.2 million reported for the three months ended October 31, 2008. Gross margins as a percentage of revenues were 79.4% and 79.8% for the three months ended October 31, 2009 and 2008, respectively. The 17.3% decrease in gross margin was mainly attributable to the 16.9% decrease in revenues over the same period.

Forgent's cost of sales relates primarily to compensation expenses, hardware expenses and the amortization of the Company's purchased software costs. These expenses represented approximately 78.4% and 60.7% of the total cost of sales for the three months ended October 31, 2009 and 2008, respectively. Forgent expects gross margins to remain relatively consistent with the gross margins for the three months ended October 31, 2009, 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, 2009 were \$2.7 million, a decrease of \$0.5 million or 14.3%, from the \$3.2 million reported for the three months ended October 31, 2008. Selling, general and administrative ("SG&A") expenses as a percentage of revenues were 118.0% and 114.5% for the three months ended October 31, 2009 and 2008, respectively.

During the three months ended October 31, 2009, SG&A expenses decreased \$0.5 million, primarily due to decreases in compensation and marketing expenses. Effective March 1, 2009, Forgent implemented a mandatory 10% pay reduction for its personnel and also terminated headcount at the beginning of the fiscal quarter ended October 31, 2009, which led to decreased compensation expenses by approximately \$0.3 million during the current fiscal quarter. Additionally, in efforts to further trim overhead costs, Forgent's reduced its marketing budget, decreasing marketing expenses by \$0.3 million during the three months ended October 31, 2009. Finally, across the board cost reduction efforts resulted in a total reduction of expenses of \$0.4 million in the quarter ended October 31, 2009. These cost reductions of \$1.0 million were partially offset by an increase of \$0.5 million in one time legal expenses during the three months ended October 31, 2009.

Throughout its operations, Forgent continues to evaluate any unnecessary SG&A expenses and plans to further reduce expenses as appropriate.

### **Research and Development**

Research and development expenses for the three months ended October 31, 2009 were \$0.4 million, a decrease of \$0.2 million, or 26.7%, from the \$0.6 million reported for the three months ended October 31, 2008. Research and development ("R&D") expenses as a percentage of revenues were 17.7% and 20.1% for the three months ended October 31, 2009 and 2008, respectively.

During the three months ended October 31, 2009, R&D expenses decreased \$0.2 million, primarily due to decreases in compensation.

Forgent continues to improve and enhance its workforce management solutions – particularly its Time & Attendance software from the iEmployee product line and its Meeting Room Manager ("MRM") software from its NetSimplicity product line. Time & Attendance included an additional application programming interface for time collection, which expands the software's interoperability with various time clocks in addition to Forgent's Easy Touch Time Clock. Additionally, the Company implemented a new line of clocks that contains several forms of data collection including magnetic stripe, barcode, proximity and biometric readers. The expanded interoperability and new line of clocks expanded Time & Attendance's capabilities to meet various customers' requirements by increasing the customers' choices when selecting hardware devices. Forgent also added functionality to its Time & Attendance software by developing an automated calculation of the time off accruals and a new flexible pay schedule that allows customers to specify start and end dates and times for multiple different pay periods.

Forgent has continued to develop MRM and enhanced the Microsoft Outlook Plug-in, Web and Interactive LCD interfaces, allowed assigned delegates the ability to schedule meetings on behalf of others, and provided more sophisticated conflict resolution options for scheduling recurring meetings via Microsoft Outlook®. Forgent's R&D efforts related to its NetSimplicity product line culminated in August 2009 when the Company released MRM, Version 8.0. Under this next generation of the Company's room and resource scheduling solution, customers have the benefit of a bi-directional Outlook Plug-in. Meetings and resources scheduled through Microsoft Outlook are synchronized to the Web client, thus allowing users to create, manage and update information from the Web client, given the appropriate privileges. Customers can now delegate scheduling responsibilities to individuals without requiring access to Microsoft Outlook.

Forgent's development efforts for future releases and enhancements are driven by feedback received from its existing and potential customers and by gauging marketing trends. Management believes it has the appropriate development team to design and further improve its workforce management solutions.

### **Amortization of intangible assets**

Amortization expenses for the three months ended October 31, 2009 were \$0.1 million, which is the same amount reported for the three months ended October 31, 2008. Amortization expenses as a percentage of revenues were 6.4% and 5.3% for the three months ended October 31, 2009 and 2008, respectively. Upon acquiring the iEmployee business in October 2007, Forgent recorded several intangible assets, which are being amortized over their estimated useful lives. The amortization expenses during the three months ended October 31, 2009 and 2008 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, 2009, which is the same amount reported for the three months ended October 31, 2008. Net loss as a percentage of total revenues were 64.9% and 55.1% for the three months ended October 31, 2009 and 2008, respectively. 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 2010.

## LIQUIDITY AND CAPITAL RESOURCES

|   | <b>FOR THE THREE<br/>MONTHS ENDED<br/>OCTOBER 31,</b> |             |
|---|---|-------------|
|   | <b>2009</b>   | <b>2008</b> |
|   | <b>(in thousands)</b>                                 |             |
| Working capital                                   | \$ 72   | \$ 8,641    |
| Cash, cash equivalents and short-term investments | 2,954   | 13,844      |
| Cash used in operating activities                 | (6,873)   | (808)       |
| Cash used in investing activities                 | 4,001   | (683)       |
| Cash provided by (used in) financing activities   | 159   | (5)         |

Cash used in operating activities was \$6.9 million for the three months ended October 31, 2009 due primarily to \$1.5 million in net loss and a \$4.7 million reduction in accounts payable primarily due to the one time payment of the Jenkins litigation settlement of \$4.3 during the first fiscal quarter. 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. Management continues to evaluate and reduce any unnecessary expenditure, while continuing to closely monitor all of its cash sources and uses as it manages its operations through the current recession

Cash provided by investing activities was \$4.0 million for the three months ended October 31, 2009 due net sales of short-term investments. Cash used in investing activities was \$0.7 million for the three months ended October 31, 2008 due to 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. 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 2010.

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. Approximately \$11.9 million, or 96.5% of the Company's total operating lease obligations, relate to its corporate office facility at Wild Basin in Austin, Texas. As of October 31, 2009, Forgent had \$4.1 million in future minimum lease payments receivable under non-cancelable sublease arrangements.

Cash provided by financing activities was \$0.2 million for the three months ended October 31, 2009 related to the Stock Purchase Agreement between Forgent and its CEO. Cash used in financing activities was \$5 thousand for the three months ended October 31, 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 three months ended October 31, 2009 or 2008. As of October 31, 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, depending on the Company's cash position, market conditions and other factors.

As of October 31, 2009, Forgent's principal sources of liquidity consisted of \$3.0 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 may 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 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 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 year end and the reported amounts of revenues and expenses during the fiscal year. 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 collectability is probable. The Company recognizes software revenue in accordance with FASB ASC 985-605, Revenue Recognition – Multiple Element Arrangements (FASB ASC 985-605). The Company's revenues 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 also sells multiple elements within a single sale.

When the Company sells software licenses in a multiple element arrangement and vendor-specific objective evidence ("VSOE") of fair value is available for the undelivered element, sales revenue is generally recognized on the date the product is shipped, using the residual method, with a portion of revenue recorded as deferred (unearned) due to the applicable undelivered elements. VSOE of fair value for the maintenance, training and installation services are based on the prices charged for the maintenance and services when sold separately. Undelivered elements for our multiple element arrangements with a customer are generally restricted to post contract support, training and install. The amount of revenue allocated to these undelivered elements is based on the VSOE of fair value for those undelivered elements. Deferred revenue due to undelivered elements is recognized ratably on a straight-line basis over the service period (typically one year) or when the service is completed. When VSOE of fair value is not available for the undelivered element of a multiple element arrangement, sales revenue is generally recognized ratably, on a straight-line basis over the service period of the undelivered element. 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 software subscription arrangements, the Company recognizes the total contract value ratably as a single unit of accounting over the contract term, beginning when the customer is able to utilize the software.

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 FASB ASC 350, *Intangibles-Goodwill and Other* (FASB ASC 350) 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 ASC 350.

In accordance with FASB ASC 350, 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 Controller, with the participation of management, have evaluated the effectiveness of the Company's disclosure controls and procedures as of October 31, 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 October 31, 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.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Forgent was 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. ("Jenkins"), 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, Jenkins alleged a breach of contract and sought a declaratory judgment. Forgent disputed Jenkins' claims and also sought relief through the court system.



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After Forgent terminated Jenkens, the Company entered into a Resolution Agreement with Jenkens in December 2004. Under the Resolution Agreement, the Company believed Jenkens was entitled to \$1,400 for all fees and expenses related to certain settlements received from licensing the Company's intellectual property. Jenkens interpreted the Resolution Agreement on broader terms and initially believed it was entitled to \$2,800. As of July 31, 2007, Forgent accrued \$2,100 for Jenkens' contingency fees related to these settlements. The Company recorded the contingency fees as part of cost of sales on its Consolidated Statement of Operations for the year ended July 31, 2007 in order to properly match the expenses to the related licensing revenues. The \$2,100 accrual remained as part of Forgent's current liabilities through fiscal year 2009.

On July 20, 2009, the trial with Jenkens commenced. As the result of the jury verdict in July 2009 to award Jenkens approximately \$4,600 in damages, attorney's fees and interest, Forgent entered into a settlement agreement with Jenkens, effective August 20, 2009. Under the settlement agreement, Forgent agreed to pay Jenkens \$4,300 and the parties agreed to release all claims against each other. Based on the settlement amount, the Company accrued an additional \$2,200 as of July 31, 2009. Since the Company was no longer licensing its intellectual property and had no related licensing revenues in fiscal year 2009, this additional \$2,200 expense was recorded as part of operating expenses on the Consolidated Statement of Operations for the year ended July 31, 2009. Forgent paid Jenkens \$4,300 on August 25, 2009 and the Company considers this litigation to be concluded.

#### **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 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 consents 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.

While Forgent was significantly delayed in obtaining Wild Basin's consent to its lease assignment, the identified third party encountered difficulties obtaining the required financing due to the tightened capital markets. Additionally, Forgent continues to work with Wild Basin regarding its breach of contract claim that Wild Basin withheld amounts that should have been distributed to Forgent. Forgent will renew its litigation against Wild Basin regarding this matter, only if necessary.

#### **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. 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.   |

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\* Filed herewith

**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, 2009

By:           /s/ PATRICK GOEPEL            
Patrick Goepel  
Chief Executive Officer

December 15, 2009

By:           /s/ PAUL D. TESLUK            
Paul D. Tesluk  
Controller

## INDEX TO EXHIBITS

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| 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.   |

**CERTIFICATION OF PERIODIC REPORT  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, the undersigned, Patrick Goepel, Chief Executive Officer, of Forgent Networks, Inc. (the "Company"), certify, that:

1. I have reviewed this quarterly report on Form 10-Q of the Company (the "Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in the Report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which the Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
  - (d) Disclosed in the Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the quarter ended October 31, 2009) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the Audit Committee of the Board of Directors:
  - (a) All significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ PATRICK GOEPEL  
Patrick Goepel  
Chief Executive Officer  
December 15, 2009

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**CERTIFICATION OF PERIODIC REPORT  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, the undersigned Paul D. Tesluk, Controller, of Forgent Networks, Inc. (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company (the "Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in the Report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which the Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
  - (d) Disclosed in the Report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the quarter ended October 31, 2009) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the Audit Committee of the Board of Directors:
  - (a) All significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

//s/ PAUL D. TESLUK  
Paul D. Tesluk  
Controller  
December 15, 2009

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**CERTIFICATION OF PERIODIC REPORT  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, the undersigned, Patrick Goepel, Chief Executive Officer of Forgent Networks, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The quarterly report on Form 10-Q of the Company for the period ended October 31, 2009 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PATRICK GOEPEL

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Patrick Goepel  
Chief Executive Officer  
December 15, 2009

A signed original of this written statement required by Section 906 has been provided to Forgent Networks, Inc. and will be retained by Forgent Networks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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**CERTIFICATION OF PERIODIC REPORT  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, the undersigned, Paul D. Tesluk, Controller ,of Forgent Networks, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The quarterly report on Form 10-Q of the Company for the period ended October 31, 2009 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PAUL D. TESLUK

Paul D. Tesluk

Controller

December 15, 2009

A signed original of this written statement required by Section 906 has been provided to Forgent Networks, Inc. and will be retained by Forgent Networks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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