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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 JANUARY 31, 2005

Commission file number 0-20008

FORGENT NETWORKS, INC.

A DELAWARE CORPORATION **IRS EMPLOYER ID NO. 74-2415696**

108 WILD BASIN ROAD
AUSTIN, TEXAS 78746
(512) 437-2700

The registrant 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 has been subject to such filing requirements for the past 90 days.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At March 11, 2005, the registrant had outstanding 24,894,115 shares of its Common Stock, $0.01 par value.

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

	JANUARY 31, 2005 (UNAUDITED)	JULY 31, 2004
ASSETS		
Current Assets:		
Cash and equivalents, including restricted cash of $650 at January 31, 2005 and July 31, 2004	$ 21,969	$ 19,051
Short-term investments	1,352	2,490
Accounts receivable, net of allowance for doubtful accounts of $0 and $26 at January 31, 2005 and July 31, 2004, respectively	888	398
Prepaid expenses and other current assets	298	386
Total Current Assets	**24,507**	**22,325**
Property and equipment, net	3,188	3,165
Intangible assets, net	158	258
Other assets	169	267
	$ 28,022	**$ 26,015**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,768	$ 1,509
Accrued compensation and benefits	277	290
Other accrued liabilities	1,526	1,060
Notes payable, current position	335	348
Deferred revenue	421	525
Total Current Liabilities	**5,327**	**3,732**
Long-Term Liabilities:		
Deferred revenue	6	14
Other long-term obligations	2,503	2,769
Total Long-Term Liabilities	**2,509**	**2,783**
Stockholders' Equity:		
Preferred stock, $.01 par value; 10,000 authorized; none issued or outstanding	—	—
Common stock, $.01 par value; 40,000 authorized; 26,677 and 26,625 shares issued; 24,923 and 24,871 shares outstanding at January 31, 2005 and July 31, 2004, respectively	266	266
Treasury stock, 1,754 and 1,754 issued at January 31, 2005 and July 31, 2004, respectively	(4,726)	(4,726)
Additional paid-in capital	264,641	264,582
Accumulated deficit	(240,013)	(240,631)
Accumulated other comprehensive income	18	9
Total Stockholders' Equity	**20,186**	**19,500**
	$ 28,022	**$ 26,015**

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

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

	FOR THE THREE MONTHS ENDED JANUARY 31,		FOR THE SIX MONTHS ENDED JANUARY 31,	
	2005	2004	2005	2004
	(UNAUDITED)		(UNAUDITED)	
REVENUES:				
Intellectual property licensing	$ 871	$ 5,820	$ 6,727	$ 8,670
Software and services	712	793	1,311	1,792
Other	—	—	—	22
Total revenues	**1,583**	**6,613**	**8,038**	**10,484**
COST OF SALES:				
Intellectual property licensing	1,553	2,910	4,481	4,335
Software and services	210	5,600	415	6,450
Other	—	—	—	24
Total cost of sales	**1,763**	**8,510**	**4,896**	**10,809**
GROSS MARGIN	**(180)**	**(1,897)**	**3,142**	**(325)**
OPERATING EXPENSES:				
Selling, general and administrative	3,674	3,384	6,273	6,417
Research and development	320	1,149	684	2,233
Amortization of intangible assets	12	12	25	17
Impairment of assets	—	6,989	—	6,989
Total operating expenses	**4,006**	**11,534**	**6,982**	**15,656**
LOSS FROM OPERATIONS	**(4,186)**	**(13,431)**	**(3,840)**	**(15,981)**
OTHER INCOME AND (EXPENSES):				
Interest income	102	54	170	115
Foreign currency translation	(5)	(633)	(7)	(633)
Gain on sale of assets	3,305	—	3,305	—
Interest expense and other	(7)	(56)	(18)	(100)
Total other income and (expenses)	**3,395**	**(635)**	**3,450**	**(618)**
LOSS FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES	**(791)**	**(14,066)**	**(390)**	**(16,599)**
Provision for income taxes	9	—	(5)	—
LOSS FROM CONTINUING OPERATIONS	**(782)**	**(14,066)**	**(395)**	**(16,599)**
INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	**1,013**	**563**	**1,013**	**573**
NET INCOME (LOSS)	**$ 231**	**$ (13,503)**	**$ 618**	**$ (16,026)**
BASIC AND DILUTED INCOME (LOSS) PER SHARE:				
Income (loss) from continuing operations	$ (0.03)	$ (0.57)	$ (0.02)	$ (0.67)
Income from discontinued operations	$ 0.04	$ 0.02	$ 0.04	$ 0.02
Net income (loss)	$ 0.01	$ (0.55)	$ 0.02	$ (0.65)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	24,912	24,639	24,902	24,619
Diluted	24,912	24,639	24,902	24,619

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

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

	FOR THE SIX MONTHS ENDED JANUARY 31,	
	2005	2004
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from continuing operations	$ (395)	$ (16,599)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	751	1,619
Amortization of leasehold advance and lease impairment	(289)	(508)
Provision for doubtful accounts	(16)	125
Impairment of assets	—	11,827
Amortization of unearned compensation	—	33
Foreign currency translation loss	7	629
Loss on disposal of fixed assets	18	24
Sale of accounts receivable	—	1,746
Changes in operating assets and liabilities:		
Accounts receivable	(494)	6,153
Prepaid expenses and other current assets	88	(134)
Accounts payable	671	(1,236)
Accrued expenses and other long-term obligations	468	(740)
Deferred revenues	(82)	159
Net cash provided by operating activities	**727**	**3,098**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of short-term investments	1,135	(2,558)
Net purchases of property and equipment	(14)	(643)
Net (issuance) collection of notes receivable	(2)	130
Increase in capitalized software	—	(889)
Increase in other assets	—	(200)
Purchase of Network Simplicity Software Inc.	—	(1,965)
Net cash provided by (used in) investing activities	**1,119**	**(6,125)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of stock	59	366
Purchase of treasury stock	—	(454)
Proceeds from notes payable	214	172
Payments on notes payable and capital leases	(219)	(341)
Net cash provided by (used in) financing activities	**54**	**(257)**
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by discontinued operations	1,013	573
Effect of exchange rate changes on cash and equivalents	5	7
Net change in cash and equivalents	2,918	(2,704)
Cash and equivalents at beginning of period	19,051	21,201
Cash and equivalents at end of period	**$ 21,969**	**$ 18,497**

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

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

NOTE 1 – GENERAL AND BASIS OF FINANCIAL STATEMENTS

The accompanying unaudited interim 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 accounting principles generally accepted in the United States 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 January 31, 2005 and July 31, 2004, the results of operations for the three and six months ended January 31, 2005 and January 31, 2004, and the cash flows for the six months ended January 31, 2005 and January 31, 2004. These financial statements should be read in conjunction with the Company's 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 year ended July 31, 2004, as amended. The results for the interim periods are not necessarily indicative of results for a full fiscal year. Certain reclassifications have been made to prior year's financial statement to conform with current year presentation.

NOTE 2 – SALE OF ASSETS

During fiscal year 2004, Forgent experienced declining revenues related to its ALLIANCE software products and services and therefore decided to cease actively marketing and selling the ALLIANCE software products as of January 31, 2004. On November 24, 2004, Forgent entered into an Asset Purchase Agreement and sold certain patents and other intellectual property and documentation related to the management and scheduling, planning and execution of audio, video and web conferencing to Tandberg Telecom AS ("Tandberg"), a wholly owned subsidiary of Tandberg ASA. Included in this sale is Forgent's ALLIANCE software suite. Additionally, the Company licensed certain patents to Tandberg and released Tandberg from and agreed not to assert claims related to Forgent's retained patents and intellectual property. The ALLIANCE assets were fully impaired and charged to the software segment's operations during the second fiscal quarter of 2004. Forgent received $3,750 in cash upon closing in November 2004. The sale was recorded as $364 in revenues from intellectual property licensing and $3,305 in gain, net of expenses, on the Company's Consolidated Statement of Operations for the three and six months ended January 31, 2005, based on the estimated fair values of the items sold and licensed patents. This transaction allowed the Company to simplify its business, focus on its core operations and generate additional cash. Forgent remains committed to its existing ALLIANCE customers and will complete its underlying maintenance agreements as well as assist its customers, upon request, through the transition to the TANDBERG Management Suite, Tandberg's video-management software.

NOTE 3 – DISCONTINUED OPERATIONS

In July 2003, Forgent sold substantially all of the assets of its videoconferencing hardware services business, based in King of Prussia, Pennsylvania, to an affiliate of Gores Technology Group ("Gores"), a privately held international acquisition and management firm. As a result of the sale, the Company has presented this business as discontinued operations on the Company's Consolidated Financial Statements. The $1,013 in income recorded from discontinued operations during the three and six months ended January 31, 2005, represents the final cash payment received from Gores in January 2005 for indemnity claims held in escrow. No indemnity claims were paid pursuant to the sales agreement with Gores. Details of this escrowed fund and other important information are set forth in the Company's proxy statement for fiscal year 2002. The $563 and $573 in income recorded from discontinued operations during the three and six months ended January 31, 2004, represent $575 in cash received from Gores in January 2004 for purchase price adjustments related to the sale and related residual disposal activity. The Company did not conduct any business from this business line during the six months ended January 31, 2005, or during the six months ended January 31, 2004.

NOTE 4 – INTELLECTUAL PROPERTY LEGAL CONTRACTS

At the end of the first fiscal quarter of 2005, Forgent terminated its previous legal counsel participating in the Company's Patent Licensing Program. As a result of discussions following the termination, on December 21, 2004, Forgent entered into a Resolution Agreement with its former counsel and a letter agreement with three law firms who previously served as local counsel in the litigation of the Company's U.S. Patent No. 4,698,672 (the "'672 Litigation"). Under the Resolution Agreement, the Company agreed to pay its former counsel an initial amount of $1,000, 50% of the first $6,000 in gross recoveries received on or after October 27, 2004 and 10% of all gross recoveries received thereafter. Under the letter agreement, the Company agreed to pay the three local counsel law firms an initial amount of $37.5, 7.5% of the first $6,000 in settlements or judgments received from certain defendants and 1.5% of all settlements or judgments received from such defendants thereafter. Forgent paid the $1,037.5 as required by these two agreements in December 2004.

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

On January 11, 2005, Forgent entered into an agreement with Godwin Gruber, LLP ("Godwin"), a large trial and appellate law firm, to represent the Company as lead counsel in its Patent Licensing Program. Under this agreement, Forgent agreed to pay Godwin a contingency fee of 16% of all license proceeds, net of expenses, and 21% of all litigation proceeds, net of expenses, once total proceeds from licensing and litigation exceed $6,000. Additionally, Forgent agreed to pay Godwin 50% of the firm's standard hourly rate for time incurred.

On January 19, 2005, Forgent entered into an agreement with The Roth Law Firm, P.C. ("Roth") to represent the Company as local counsel in Marshall, Texas. Under this agreement, Forgent agreed to pay Roth 10% of all litigation proceeds resulting from the '672 Litigation in the United States District Court for the Eastern District of Texas, Marshall Division, once the program's total gross proceeds received on or after January 1, 2005 exceed $10,000. Additionally, Forgent agreed to pay Roth its standard hourly rate for time incurred, not to exceed $500 in the aggregate.

NOTE 5 – ACQUISITIONS

During the first fiscal quarter of 2004, Forgent acquired substantially all of the assets and operations of Network Simplicity Software Inc., a privately held provider of web-based scheduling solutions. The acquired software products, targeted for small to medium sized businesses and departments or divisions of large enterprises, are sold under the Company's NetSimplicity software product line. This strategic acquisition allowed the Company to expand its market opportunities into the small to medium sized business market.

Forgent purchased Network Simplicity Software Inc. for approximately $3,315, consisting of $2,115 in cash and assumed liabilities, and approximately $1,200 in potential future cash considerations. The $2,115 was the amount recorded as the purchase price of the acquisition, which was accounted for as a purchase of assets. Accordingly, the purchase price was allocated to the tangible and identifiable intangible assets acquired based on their estimated fair values at the date of acquisition. The intangible assets are being amortized over their estimated lives of two to three years. The following table shows the amounts assigned to each major asset and liability class as of the date of acquisition:

Cash	$ 55
Accounts receivable, net	137
Prepaid expenses	3
Fixed assets	37
Intangible assets	425
Acquired software	1,570
Total Assets	**$2,227**
Accounts payable	$ 15
Accrued liabilities	64
Deferred revenue	33
Total Liabilities	**$ 112**

During April 2004, $358 of the potential future cash considerations was earned by the seller of Network Simplicity Software Inc. ("Seller"), recorded as an adjustment to the purchase price and allocated to acquired software. During October 2004, $678 of the potential future cash considerations was earned, recorded as an adjustment to the purchase price and allocated to the acquired software. As of October 31, 2004, only $100 of the $678 contingency amount had been paid to the Seller. Forgent is currently negotiating a Settlement Agreement and License Agreement with the Seller related to the contingency payments. As a result, the purchase price and allocation to the acquired software may be adjusted.

As a result of the acquisition, Forgent's workforce grew by ten employees and the acquired workforce remained based in Richmond, British Columbia, Canada. Additionally, NetSimplicity's results of operations since October 6, 2003 have been included in the Company's Consolidated Statement of Operations for the three and six months ended January 31, 2004.

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

NOTE 6 – ASSET IMPAIRMENT

During the three months ended January 31, 2004, Forgent recorded impairment losses on its Consolidated Statement of Operations as follows:

	Intellectual Property Segment	Software Segment	Total Impairment
Prepaid assets	$ —	$ 90	$ 90
Capitalized software development costs	—	4,748	4,748
Impairment in cost of sales	**—**	**4,838**	**4,838**
Prepaid assets	—	10	10
Equipment	—	211	211
Goodwill	—	5,042	5,042
Leasehold improvements	161	22	183
Leases	1,123	420	1,543
Impairment in operating expenses	**1,284**	**5,705**	**6,989**
Total impairment	**$ 1,284**	**$10,543**	**$ 11,827**

During the second fiscal quarter of 2004, Forgent faced declining revenues related to its ALLIANCE software products and services, while experiencing increasing revenues related to its NetSimplicity software products and services. Additionally, management learned that while indicators of demand existed for ALLIANCE, issues regarding price sensitivity, lengthy sales cycle and integration with enterprise infrastructures were preventing ALLIANCE from achieving the revenues that management originally anticipated. Starting in January 2004, management reviewed its software segment, the related cash flows from its ALLIANCE and NetSimplicity product lines and re-evaluated its strategy regarding growing revenues from this segment. As a result, Forgent decided to cease actively marketing and selling its ALLIANCE software products and impaired the ALLIANCE assets.

Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 86, *"Accounting for the Costs of Software to be Sold, Leased, or Otherwise Marketed,"* and SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* Forgent evaluated the recoverability of its long-lived assets, including the equipment and capitalized software development costs, related to the ALLIANCE efforts. Based on the projected negative cash flows related to ALLIANCE, Forgent fully impaired the $4,748 in net capitalized software development costs and $211 in equipment related to ALLIANCE. Additionally, Forgent impaired $100 of certain prepaid assets that specifically supported ALLIANCE. Due to the decrease in software and services revenues and Forgent's shift in its strategy for its software segment, the Company was also required to perform an impairment analysis in accordance with SFAS No. 142, *"Goodwill and Other Intangible Assets."* As part of the impairment analysis, Forgent determined the implied fair value of goodwill based on a discounted cash flow model. As a result of this valuation, Forgent recorded a $5,042 impairment of its goodwill related to its acquisitions of Vosaic, LLC and Global Scheduling Solutions, Inc. The technology obtained from these acquisitions supported the development efforts on ALLIANCE and its predecessor, Forgent's Video Network Platform. The $10,101 impairment charge related to ALLIANCE was recorded to the Company's Consolidated Statement of Operations, with $4,838 in cost of sales and $5,263 in operating expenses.

Due to the change in focus of its software segment, Forgent also evaluated the recoverability of its intangible assets and long-lived assets related to its NetSimplicity product line in accordance with SFAS No. 142 and SFAS No. 144. These assets included fixed assets and intangible assets. Based on the projected positive cash flow related to NetSimplicity, Forgent did not record any impairment charge related to its NetSimplicity assets for the six months ended January 31, 2004.

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

In January 2004, the Company closed its sales office in Melville, New York. Management was unable to sublease the vacated space and upon review of the future discounted cash flows related to this lease, management recorded an impairment charge of $78. Additionally, management analyzed the discounted cash flows related to its Wild Basin property lease and subleases over the remainder of the lease term. Although Forgent was able to sublease the vacated space more quickly than originally anticipated, the rates on the subleases were less than originally anticipated due to depressed current market rates. Therefore, management calculated the economic value of the lost sublease rental income and recorded an additional charge of $1,465. During the second fiscal quarter of 2004, Forgent also analyzed its recorded leasehold improvements at its Wild Basin property. This analysis indicated that certain leasehold improvements were no longer of value. Therefore, management recorded an impairment charge of $183 related to these leasehold improvements. The $1,726 impairment related to the Wild Basin and New York leases and the leasehold improvements were recorded as part of operating expenses in the Company's Consolidated Statement of Operations for the six months ended January 31, 2004.

NOTE 7 – SALE OF ACCOUNTS RECEIVABLE

During the first fiscal quarter of 2004, the Company sold $1,746 of its outstanding accounts receivable, without recourse, to Silicon Valley Bank in order to maintain cash balances at levels considered appropriate by management. Silicon Valley Bank purchased the assets at face value, less fees of approximately 1.2% of the face value of the accounts receivable sold and a one-time annual set-up fee of $10. The Company received proceeds from Silicon Valley Bank of $1,713. No accounts receivable were sold during the six months ended January 31, 2005.

Under the provisions of SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,"* a transfer of receivables may be accounted for as a sale if the following three conditions are met: (1) the transferred assets are isolated from the transferor, (2) the transferee has the right to pledge or sell the transferred assets, and (3) the transferor does not maintain control over the transferred assets. Accordingly, the Company recorded the transfer of the accounts receivable as a sale of assets, excluded the related receivables from the Company's Consolidated Balance Sheet and recorded related expenses of $27 for the six months ended January 31, 2004.

NOTE 8 – COMPREHENSIVE INCOME (LOSS)

In accordance with the disclosure requirements of SFAS 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. Comprehensive income for the three and six months ended January 31, 2005 was $230 and $627, respectively. Comprehensive loss for the three and six months ended January 31, 2004 was $12,869 and $15,390, respectively.

NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standard Board issued SFAS No. 123R "*Share-Based Payment,"* which supersedes Accounting Principle Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and SFAS No. 123, *"Accounting for Stock-Based Compensation."* This pronouncement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25 and requires share-based compensation to employees, including employee stock options and similar awards, to be measured at their fair value on the awards' grant date using either the Black-Scholes or a binomial option-pricing model. The value of the awards is recognized as compensation expense on the statement of operations over the vesting period of the awards. Forgent currently does not expense its share-based compensation, but discloses the effect of these items as required by SFAS No. 123. See Note 10 -*"Stock Based Compensation."* SFAS No. 123R is effective for interim and annual periods beginning after June 15, 2005. Based on current stock options granted, management anticipates it will incur compensation expense of approximately $100—$200 per quarter upon adoption of this standard during the first fiscal quarter of 2006.

NOTE 10 – STOCK BASED COMPENSATION

The Company follows APB Opinion 25, *"Accounting for Stock Issued to Employees"* and related interpretations in accounting for stock option grants. As required by SFAS No. 123, *"Accounting for Stock-Based Compensation"* and SFAS No. 148, *"Accounting for Stock-Based Compensation-Transition and Disclosure,"* Forgent has determined pro forma net income and net income per common share as if compensation costs had been

FORGENT NETWORKS, INC.
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(Amounts in thousands, except per share and employee data unless otherwise noted)

determined based on the fair value of the options granted to employees and then recognized ratably over the vesting period. The fair value of stock option grants has been estimated at the date of grant using the Black-Scholes option pricing model. Had the compensation costs been recognized as prescribed by SFAS No. 123, net income and basic and diluted earnings per share would have changed to the pro forma amounts shown below:

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2005	2004	2005	2004
Net earnings (loss)				
Net earnings (loss), as reported	$ 231	$ (13,503)	$ 618	$(16,026)
Add: Stock-based employee compensation expense included in reported net earnings (loss), net of related tax effects	—	18	—	33
Deduct: Stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(158)	(416)	(340)	(594)
Net earnings (loss), pro forma	**$ 73**	**$ (13,901)**	**$ 278**	**$(16,587)**
Basic earnings (loss) per common share:				
As reported	$ 0.01	$ (0.55)	$ 0.02	$ (0.65)
Pro forma	$ 0.00	$ (0.56)	$ 0.01	$ (0.67)
Diluted earnings (loss) per common share:				
As reported	$ 0.01	$ (0.55)	$ 0.02	$ (0.65)
Pro forma	$ 0.00	$ (0.56)	$ 0.01	$ (0.67)

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience.

NOTE 11 – SEGMENT INFORMATION

Currently, the Company operates in two distinct segments: intellectual property licensing and software and services. Forgent's intellectual property licensing business is currently focused on generating licensing revenues relating to the Company's data compression technology embodied in U.S. Patent No. 4,698,672 and its foreign counterparts and is currently conducted through the Company's wholly-owned subsidiary, Compression Labs, Inc. Forgent's software and services business currently provides customers with scheduling and asset management software as well as software maintenance and support, installation and training services.

The Company evaluates the performance as well as the financial results of its segments. Included in the segment operating income (loss) is an allocation of certain corporate operating expenses. The Company does not identify assets or capital expenditures by reportable segments, and the Company's Chief Executive Officer and Chief Financial Officer do not evaluate the segments based on these criteria.

The table below presents segment information about revenue from unaffiliated customers, gross margins,

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

and operating (loss) income for the three and six months ended January 31, 2005 and 2004:

	Intellectual Property Licensing & Other	Software & Services	Total
For the Three Month Period Ending January 31, 2005			
Revenues from unaffiliated customers	$ 871	$ 712	$ 1,583
Gross margin	(682)	502	(180)
Operating income (loss)	(2,706)	(1,480)	(4,186)
For the Three Month Period Ending January 31, 2004			
Revenues from unaffiliated customers	$ 5,820	$ 793	$ 6,613
Gross margin	2,910	(4,807)	(1,897)
Operating income (loss)	778	(14,209)	(13,431)
For the Six Month Period Ending January 31, 2005			
Revenues from unaffiliated customers	$ 6,727	$ 1,311	$ 8,038
Gross margin	2,246	896	3,142
Operating income (loss)	(758)	(3,082)	(3,840)
For the Six Month Period Ending January 31, 2004			
Revenues from unaffiliated customers	$ 8,692	$ 1,792	$ 10,484
Gross margin	4,333	(4,658)	(325)
Operating income (loss)	1,386	(17,367)	(15,981)

NOTE 12 – CONTINGENCY

In February 2003, the Company received a letter from legal counsel for the independent executrix of the Estate of Gordon Matthews, asserting that the Company was obligated to pay the independent executrix of the Estate of Gordon Matthews for the asserted value of services claimed to have been rendered by Mr. Matthews in connection with his alleged involvement in the Company's Patent Licensing Program. In February 2003, the Company initiated an action in the 261st District Court in Travis County, Texas, styled Forgent Networks, Inc. v. Monika Matthews, et al., for the purposes of declaring that the Company has no obligation to the defendant. In that action, the defendant has filed a counter claim asserting that the independent executrix of the Estate of Gordon Matthews is entitled to recover in quantum meruit for the reasonable value of the work and services claimed to have been provided by Gordon Matthews, a former member of the board of directors and consultant to the Company, which the defendant asserts is at least $5.0 million. Management believes that should a claim be ultimately paid to the defendant, Forgent's insurance policies may not cover such claims. However, the Company does not believe the counter claim has merit and intends to continue to vigorously pursue declaratory relief from the court that no liability is due to the independent executrix of the Estate of Gordon Matthews. The matter is currently scheduled to be tried before a jury in April 2005. Although management believes an unfavorable outcome is possible, it is the opinion of management and its legal counsel that an unfavorable outcome is not probable. Additionally, the amount or a range of the potential loss cannot be reasonably estimated at this time. Therefore, no accrual for this loss contingency was recorded as of January 31, 2005.

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

The following review of Forgent's financial position as of January 31, 2005 and July 31, 2004, and for the three and six months ended January 31, 2005 and 2004, should be read in conjunction with the Company's 2004 Annual Report on Form 10-K and Form 10-K/A filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

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

	FOR THE THREE MONTHS ENDED JANUARY 31,		FOR THE SIX MONTHS ENDED JANUARY 31,	
	2005	2004	2005	2004
Intellectual property licensing revenues	55%	88%	84%	83%
Software and services revenues	45	12	16	17
Gross margin	(11)	(29)	39	(3)
Selling, general and administrative	232	51	78	61
Research and development	20	18	9	22
Impairment of assets	—	105	—	66
Total operating expenses	253	174	87	149
Other income, net	214	(10)	43	(6)
Income (loss) from continuing operations	(49)	(213)	(5)	(158)
Income (loss) from discontinued operations	64	9	13	5
Net income (loss)	15%	(204)%	8%	(153)%

THREE AND SIX MONTHS ENDED JANUARY 31, 2005 AND 2004

Revenues

Revenues for the three months ended January 31, 2005 were $1.6 million, a decrease of $5.0 million, or 76%, from the $6.6 million reported for the three months ended January 31, 2004. Revenues for the six months ended January 31, 2005 were $8.0 million, a decrease of $2.4 million, or 23%, from the $10.4 million reported for the six months ended January 31, 2004. Consolidated revenues represent the combined revenues including sales of Forgent's software products, installation and training, and software maintenance services, as well as royalties received from licensing the Company's intellectual property.

Intellectual property licensing revenues decreased by $4.9 million, or 85%, to $0.9 million for the three months ended January 31, 2005 from $5.8 million for the three months ended January 31, 2004. Intellectual property licensing revenues decreased by $1.9 million, or 22%, to $6.7 million for the six months ended January 31, 2005 from $8.6 million for the six months ended January 31, 2004. Intellectual property licensing revenues as a percentage of total revenues were 55% and 88% for the three months ended January 31, 2005 and 2004, respectively. Intellectual property licensing revenues as a percentage of total revenues were 84% and 83% for the six months ended January 31, 2005 and 2004, respectively. As of January 31, 2005, the Company's Patent Licensing Program has generated $101.3 million in aggregate licensing revenues from 37 companies. These licensing revenues relate to one-time intellectual property license agreements for Forgent's data compression technology embodied in U.S. Patent No. 4,698,672 (the "'672 patent") and its foreign counterparts, which cover several types of products including many digital cameras, personal computers, camera cell phones, scanners, printing devices, video cameras, rendering devices and other technologies. Licensing of the '672 patent is currently conducted through the Company's wholly owned subsidiary, Compression Labs, Inc. ("CLI"). The Company does not anticipate any additional intellectual property licensing revenue from its current licensees, but Forgent will continue to actively seek new licenses from its '672 patent as well as licensing opportunities from other patents in its intellectual property portfolio.

The timing of signing license agreements as well as the variable amount of each license fee continues to pose forecasting challenges. Additionally, the inherent variability of the licensing program causes peaks and valleys in the program's financial performance. The $4.9 million decrease and the $1.9 million decrease in intellectual property licensing revenues during the three and six months ended January 31, 2005, as compared to the three and six months ended January 31, 2004, are due to the change in the number of agreements signed as well as the amount of each license fee received during these periods, respectively. Since April 2004, CLI has initiated litigation against multiple companies for infringement of its '672 patent (the "'672 Litigation"). See Part II, Item 1 "Legal Proceedings." Additionally, Forgent changed its legal counsel in the '672 Litigation at the end of October 2004. As of January 31, 2005, the transition in legal services related to the on-going licensing and litigation of the '672 patent was completed. Under the leadership of Forgent's new legal counsel, the Company's Patent Licensing

Program has two separate licensing and litigation teams, each team focusing on its respective tasks and goals. The licensing team has segmented potential licensees into three tiers based on company size and will be sending several hundred new notices to targeted companies in the upcoming quarters. In February 2005, the Judicial Panel on Multidistrict Litigation ordered the eight actions related to the '672 Litigation to be consolidated and transferred to the United States District Court for the Northern District of California. The litigation team will continue its efforts as the litigation venue changes from the United States District Court for the Eastern District of Texas, Marshall Division, to the United States District Court for the Northern District of California.

Although there continue to be uncertainties and risks related to the Company's Patent Licensing Program, management anticipates its licensing program will generate additional intellectual property licensing revenues during the remainder of fiscal year 2005. However, Forgent's Patent Licensing Program involves risks inherent in intellectual property licensing, including risks of protracted delays, legal challenges that would lead to the disruption or curtailment of the licensing program, increasing expenditures associated with pursuit of the program and other risks that could adversely affect the Company. Additionally, the U.S. '672 patent expires in October 2006 and its foreign counterparts expire in September 2007. There can be no assurance that the Company will be able to continue to effectively license its technology to other companies. Additionally, there are no guarantees that the Company can protect its intellectual property rights in its current litigation or prevent the unauthorized use of its technology in the future. However, Forgent will continue to seek to enforce and will pursue its rights through legal action when necessary.

Software and services revenues decreased by $0.1 million, or 10%, to $0.7 million for the three months ended January 31, 2005 from $0.8 million for the three months ended January 31, 2004. Software and professional services revenues decreased by $0.5 million, or 27%, to $1.3 million for the six months ended January 31, 2005 from $1.8 million for the six months ended January 31, 2004. Software and services revenues as a percentage of total revenues were 45% and 12% for the three months ended January 31, 2005 and 2004, respectively. Software and services revenues as a percentage of total revenues were 16% and 17% for the six months ended January 31, 2005 and 2004, respectively. Revenues from this line of business include sales of Forgent's NetSimplicity scheduling and asset management software products as well as the Company's ALLIANCE enterprise meeting automation software products. Also included are software maintenance and support, royalties and services including installation, training and professional services related to ALLIANCE, such as add-on customization and network consulting services.

The $0.1 million decrease in software and services revenues during the three months ended January 31, 2005, as compared to the three months ended January 31, 2004, is due to a $0.4 million decrease in revenues from the ALLIANCE product line, which is offset by a $0.3 million increase in revenues from the NetSimplicity product line. Similarly, the $0.5 million decrease in software and services revenues during the six months ended January 31, 2005, as compared to the six months ended January 31, 2004, is due to a $1.1 million decrease in revenues from the ALLIANCE product line, which is offset by a $0.6 million increase in revenues from the NetSimplicity product line. During fiscal year 2004, Forgent experienced declining revenues related to ALLIANCE due to price sensitivity, lengthy sales cycles and integration with enterprise infrastructures. The Company decided to cease actively marketing and selling its ALLIANCE software products in the second fiscal quarter of 2004, which explains the $0.4 million and $1.1 million decreases in ALLIANCE revenues during the three and six months ended January 31, 2005, as compared to the three and six months ended January 31, 2004. In November 2004, Forgent sold its ALLIANCE software suite to Tandberg Telecom AS. See Part I, Item 1, Note 2—"Sale of Assets." After the sale, Forgent continued to provide maintenance and support to its existing ALLIANCE customers. However, Forgent is not actively marketing maintenance and support for the ALLIANCE software products. Management anticipates the ALLIANCE revenues will continue to decrease as these maintenance and support contracts expire.

Since acquiring its Meeting Room Manager and Visual Asset Manager software products in October 2003, Forgent has continued to develop these products, has introduced new related products and increased revenues from its NetSimplicity product line each quarter. As a result, revenues from the NetSimplicity product line have increased by $0.3 million and $0.6 million during the three and six months ended January 31, 2005, as compared to the three and six months ended January 31, 2004. During the quarter ended January 31, 2005, NetSimplicity revenues increased by more than 9% over the quarter ended October 31, 2004 and increased by more than 126% over the three months ended January 31, 2004. Forgent will continue to target North American and international companies in the healthcare, education, legal, and financial industries, which generated approximately 57% of its second fiscal quarter's sales. Management believes its software business has the potential for future growth and will continue actively pursuing sales to increase revenues.

Gross Margin

Gross margin for the three months ended January 31, 2005 was ($0.2) million, an increase of $1.7 million, or 91%, from the ($1.9) million reported for the three months ended January 31, 2004. Gross margin for the six months ended January 31, 2005 was $3.1 million, an increase of $3.4 million, or 1,067%, from the ($0.3) million reported for the six months ended January 31, 2004. Gross margin as a percentage of total revenues were (11%) and (29%) for the three months ended January 31, 2005 and 2004, respectively. Gross margin as a percentage of total revenues were 39% and (3%) for the six months ended January 31, 2005 and 2004, respectively.

When Forgent decided to cease actively marketing and selling its ALLIANCE software products in the second fiscal quarter of 2004, the Company recorded a $4.8 million non-cash impairment charge related to the capitalization of its ALLIANCE software development costs and certain prepaid royalties, which was recorded as part of costs of sales. Without the effects of the impairment charge, gross margins decreased by $3.1 million, or 106%, and $1.4 million, or 30%, for the three and six months ended January 31, 2005, as compared to the three and six months ended January 31, 2004, respectively.

The $3.1 million and the $1.4 million decreases in the Company’s total gross margin during the three and six months ended January 31, 2005, as compared to the three and six months ended January 31, 2004, are due primarily to the $3.6 million and $2.1 million decreases in gross margin resulting from the patent license agreements obtained during those periods, respectively. The cost of sales from the intellectual property licensing business relates to the legal fees incurred on successfully achieving licensing revenues as well as legal expenses incurred from legal counsel’s time in connection with the Company’s Patent Licensing Program. At the end of the first fiscal quarter of 2005, Forgent terminated its previous legal counsel participating in the Company’s Patent Licensing Program. Prior to this termination, cost of sales from the intellectual property licensing business only included contingent legal fees, which were based on 50% of the licensing revenues received on signed agreements. As a result of discussions following the termination, on December 21, 2004, Forgent entered into a Resolution Agreement with its former counsel and a letter agreement with three law firms who previously served as local counsel in the ‘672 Litigation. Under the Resolution Agreement, the Company agreed to pay its former counsel an initial amount of $1.0 million, 50% of the first $6.0 million in gross recoveries received on or after October 27, 2004 and 10% of all gross recoveries received thereafter. Under the letter agreement, the Company agreed to pay the three local counsel law firms an initial amount of $37.5 thousand, 7.5% of the first $6.0 million in settlements or judgments received from certain defendants and 1.5% of all settlements or judgments received from such defendants thereafter.

On January 11, 2005, Forgent entered into an agreement with Godwin Gruber, LLP (“Godwin”), a large trial and appellate law firm, to represent the Company as lead counsel in its Patent Licensing Program. Under this agreement, Forgent agreed to pay Godwin a contingency fee of 16% of all license proceeds, net of expenses, and 21% of all litigation proceeds, net of expenses, once total proceeds from licensing and litigation exceed $6.0 million. Additionally, Forgent agreed to pay Godwin 50% of the firm’s standard hourly rate for time incurred. On January 19, 2005, Forgent entered into an agreement with The Roth Law Firm, P.C. (“Roth”) to represent the Company as local counsel in Marshall, Texas. Under this agreement, Forgent agreed to pay Roth 10% of all litigation proceeds resulting from the ‘672 Litigation in the United States District Court for the Eastern District of Texas, Marshall Division, once the program’s total gross proceeds received on or after January 1, 2005 exceed $10.0 million. Additionally, Forgent agreed to pay Roth its standard hourly rate for time incurred, not to exceed $0.5 million in the aggregate. As a result of all the agreements disclosed above, Forgent’s cost of sales from its intellectual property licensing business for the three and six months ended January 31, 2005 exceeded 50% of its intellectual property licensing revenues. However, as the Company generates additional licensing revenues and surpasses the first $6.0 million in which it pays its former counsel 50% in contingency fees, management anticipates the new legal fee structure will result in higher gross margins for the Company. The October 2006 expiration of the U.S. ‘672 patent and the September 2007 expiration of the patent’s foreign counterparts, as well as the inherent risks in licensing intellectual property, may cause licensing revenues to decline. If licensing revenues decline, total gross margins will be adversely affected in the future.

Without the effect of the impairment, gross margins as a percentage of revenues for the software segment increased to 71% for the three months ended January 31, 2005, as compared to 4% for the three months ended January 31, 2004. Similarly, gross margins as a percentage of revenues for the software segment increased to 68% for the six months ended January 31, 2005, as compared to 10% for the six months ended January 31, 2004. The cost of sales associated with the software and services business is relatively fixed and currently results primarily

from the amortization of the Company's purchased software development costs and intangible assets. During the three and six months ended January 31, 2005, the cost of sales related to the software segment decreased by $0.6 million and $1.2 million, respectively. During the second fiscal quarter of 2004, Forgent fully impaired its capitalized software development costs and terminated certain employees related to its ALLIANCE software suite. Thus, approximately $0.6 million and $1.3 million of the decreases in the software segment's total cost of sales resulted from decreases in the amortization of capitalized software development costs and compensation costs during the three and six months ended January 31, 2005, respectively. Since revenues generated from the software and services business directly affect gross margins and since management anticipates growing revenues for this segment, management expects gross margins from the software and services business to improve.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the three months ended January 31, 2005 were $3.7 million, an increase of $0.3 million, or 9%, from the $3.4 million reported for the three months ended January 31, 2004. SG&A expenses for the six months ended January 31, 2005 were $6.3 million, a decrease of $0.1 million, or 2%, from the $6.4 million reported for the six months ended January 31, 2004. SG&A expenses as a percentage of total revenues were 232% and 51% for the three months ended January 31, 2005 and 2004, respectively. SG&A expenses as a percentage of total revenues were 78% and 61% for the six months ended January 31, 2005 and 2004, respectively.

The $0.3 million and $0.1 million decreases in SG&A expenses are due primarily to decreases in compensation expenses, which are offset by increases in legal fees. During fiscal year 2004, Forgent restructured its software operations and terminated 33 employees in sales and marketing and seven employees in the general and administrative functions. These employment terminations, which relate primarily to the ALLIANCE sales force, led to decreased compensation expenses of approximately $1.1 million and $2.2 million during the three and six months ended January 31, 2005, respectively. During the three months ended January 31, 2005, Forgent significantly redesigned its NetSimplicity website to support its newest product versions and increase the attractiveness of its offerings to key customer segments while maintaining a streamlined sales process.

The decreases in compensation expenses during the three and six months ended January 31, 2005 were offset by increases in professional fees of approximately $1.4 million and $1.7 million, respectively. In addition to increased audit and consulting fees resulting from the implementation of certain Sarbanes-Oxley Act requirements, the increases in professional fees during the three and six months ended January 31, 2005 are primarily due to a payment of approximately $1.0 million to the Company's former legal counsel in December 2004 that relates to the Resolution Agreement signed as a result of their termination. Additionally, Forgent incurred approximately $0.2 million in legal fees related to the termination of its former counsel. This $1.2 million in expenses are considered to be one-time and are not expected to be incurred going forward. Due to the '672 Litigation and the Company's more assertive approach to licensing the '672 patent, management anticipates legal fees to increase but believes the Company has the necessary financial resources to support all licensing and litigation efforts. Additionally, management continues to evaluate and reduce any unnecessary SG&A expenses that do not directly support the generation of revenues for the Company.

Research and Development

Research and development ("R&D") expenses for the three months ended January 31, 2005 were $0.3 million, a decrease of $0.8 million, or 72%, from the $1.1 million reported for the three months ended January 31, 2004. R&D expenses for the six months ended January 31, 2005 were $0.7 million, a decrease of $1.5 million, or 69%, from the $2.2 million reported for the six months ended January 31, 2004. R&D expenses as a percentage of total revenues were 20% and 18% for the three months ended January 31, 2005 and 2004, respectively. R&D expenses as a percentage of total revenues were 9% and 22% for the six months ended January 31, 2005 and 2004, respectively.

During the three months ended January 31, 2005, Forgent released version 6.0 of its flagship software product, Meeting Room Manager ("MRM"). This release, with a new web-based interface and numerous feature enhancements requested by customers, extends MRM's capabilities in ease of use, performance and scalability and is supported by significant architectural improvements that include Microsoft .NET, Crystal Reports and native SQL server database technologies. The Company is currently developing its next versions of Meeting Room Manager and Visual Asset Manager.

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The R&D expenses during the three and six months ended January 31, 2004 are net of $0.4 million and $0.9 million, respectively, in costs that were capitalized. Software development costs are capitalized after a product is determined to be technologically feasible and is in the process of being developed for market. At the time the product is released for sale, the capitalized software is amortized over the estimated economic life of the related project, generally three years. As part of the Company's efforts to restructure its software operations in fiscal year 2004, Forgent fully impaired its ALLIANCE capitalized software development costs as of January 31, 2004. As a result, no ALLIANCE R&D costs were capitalized during the three and six months ended January 31, 2005. Additionally, no R&D costs related to the NetSimplicity software products have been capitalized, and management currently does not anticipate any to be capitalized for the foreseeable future.

The $0.8 million and $1.5 million decreases in R&D expenses during the three and six months ended January 31, 2005, as compared to the three and six months ended January 31, 2004, are primarily due to $0.8 million and $1.7 million decreases in compensation expenses, respectively. During fiscal year 2004, Forgent restructured its software operations and terminated 22 employees in research and development. Additionally, nine employees terminated their employment voluntarily. These employment terminations caused the decreases in compensation expenses during fiscal year 2005. The $0.4 million and $0.9 million decreases in capitalized software development costs as stated above were offset by decreases in other R&D expenses, primarily consulting expenses incurred during fiscal year 2004. Management will attempt to maintain R&D expenses at reasonable levels in terms of percentage of revenue and anticipates R&D expenses to remain relatively flat during the next fiscal quarter.

Impairment of Assets

During the three months ended January 31, 2004, Forgent recorded impairment losses on its Consolidated Statement of Operations as follows:

	Intellectual Property Segment	Software Segment	Total Impairment
		(in thousands)	
Prepaid assets	$ —	$ 90	$ 90
Capitalized software development costs	—	4,748	4,748
Impairment in cost of sales	**—**	**4,838**	**4,838**
Prepaid assets	—	10	10
Equipment	—	211	211
Goodwill	—	5,042	5,042
Leasehold improvements	161	22	183
Leases	1,123	420	1,543
Impairment in operating expenses	**1,284**	**5,705**	**6,989**
Total impairment	**$ 1,284**	**$10,543**	**$ 11,827**

During the second fiscal quarter of 2004, Forgent faced declining revenues related to its ALLIANCE software products and services, while experiencing increasing revenues related to its NetSimplicity software products and services. Additionally, management learned that while indicators of demand existed for ALLIANCE, issues regarding price sensitivity, lengthy sales cycle and integration with enterprise infrastructures were preventing ALLIANCE from achieving the revenues that management originally anticipated. Starting in January 2004, management reviewed its software segment, the related cash flows from its ALLIANCE and NetSimplicity product lines and re-evaluated its strategy regarding growing revenues from this segment. As a result, Forgent decided to cease actively marketing and selling its ALLIANCE software products and impaired the ALLIANCE assets.

Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 86, *"Accounting for the Costs of Software to be Sold, Leased, or Otherwise Marketed,"* and SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* Forgent evaluated the recoverability of its long-lived assets, including the equipment and capitalized software development costs, related to the ALLIANCE efforts. Based on the projected

negative cash flows related to ALLIANCE, Forgent fully impaired the $4.7 million in net capitalized software development costs and $.02 million in equipment related to ALLIANCE. Additionally, Forgent impaired $0.1 million of certain prepaid assets that specifically supported ALLIANCE. Due to the decrease in software and services revenues and Forgent's shift in its strategy for its software segment, the Company was also required to perform an impairment analysis in accordance with SFAS No. 142, *"Goodwill and Other Intangible Assets."* As part of the impairment analysis, Forgent determined the implied fair value of goodwill based on a discounted cash flow model. As a result of this valuation, Forgent recorded a $5.0 million impairment of its goodwill related to its acquisitions of Vosaic, LLC and Global Scheduling Solutions, Inc. The technology obtained from these acquisitions supported the development efforts on ALLIANCE and its predecessor, Forgent's Video Network Platform. The $10.1 million impairment charge related to ALLIANCE was recorded to the Company's Consolidated Statement of Operations, with $4.8 million in cost of sales and $5.3 million in operating expenses.

Due to the change in focus of its software segment, Forgent also evaluated the recoverability of its intangible assets and long-lived assets related to its NetSimplicity product line in accordance with SFAS No. 142 and SFAS No. 144. These assets included fixed assets and intangible assets. Based on the projected positive cash flow related to NetSimplicity, Forgent did not record any impairment charge related to its NetSimplicity assets for the six months ended January 31, 2004.

In January 2004, the Company closed its sales office in Melville, New York. Management was unable to sublease the vacated space and upon review of the future discounted cash flows related to this lease, management recorded an impairment charge of $0.1 million. Additionally, management analyzed the discounted cash flows related to its Wild Basin property lease and subleases over the remainder of the lease term. Although Forgent was able to sublease the vacated space more quickly than originally anticipated, the rates on the subleases were less than originally anticipated due to depressed current market rates. Therefore, management calculated the economic value of the lost sublease rental income and recorded an additional charge of $1.5 million. During the second fiscal quarter of 2004, Forgent also analyzed its recorded leasehold improvements at its Wild Basin property. This analysis indicated that certain leasehold improvements were no longer of value. Therefore, management recorded an impairment charge of $0.2 million related to these leasehold improvements. The $1.7 million impairment related to the Wild Basin and New York leases and the leasehold improvements were recorded as part of operating expenses in the Company's Consolidated Statement of Operations for the six months ended January 31, 2004.

Other Income and (Expenses)

Other income for the three months ended January 31, 2005 was $3.4 million, an increase of $4.0 million, or 635%, from the $0.6 million in other expenses reported for the three months ended January 31, 2004. Other income for the six months ended January 31, 2005 was $3.5 million, an increase of $4.1 million, or 658%, from the $0.6 million in other expenses reported for the six months ended January 31, 2004. Other income (expenses) as a percentage of total revenues were 214% and (10%) for the three months ended January 31, 2005 and 2004, respectively. Other income (expenses) as a percentage of total revenues were 43% and (6%) for the six months ended January 31, 2005 and 2004, respectively.

The $4.0 million and $4.1 million increases in other income (expenses) for the three and six months ended January 31, 2005 as compared to the three and six months ended January 31, 2004 are due to two events. During the second fiscal quarter of 2005, Forgent sold certain patents and other intellectual property and documentation to Tandberg. As a result of this sale, Forgent recorded a $3.3 million gain, net of expenses, for the three and six months ended January 31, 2005. During the second fiscal quarter of 2004, Forgent recorded $0.6 million in foreign currency losses associated with ceasing the operations of certain international entities.

Income from Discontinued Operations

Income from discontinued operations for the three months ended January 31, 2005 was $1.0 million, an increase of $0.4 million, or 80%, from the $0.6 million reported for the three months ended January 31, 2004. Income from discontinued operations for the six months ended January 31, 2005 was $1.0 million, an increase of $0.4 million, or 77%, from the $0.6 million reported for the six months ended January 31, 2004. Income from discontinued operations as a percentage of total revenues were 64% and 9% for the three months ended January 31, 2005 and 2004, respectively. Income from discontinued operations as a percentage of total revenues were 13% and 5% for the six months ended January 31, 2005 and 2004, respectively.

In July 2003, Forgent sold substantially all of the assets of its videoconferencing hardware services business, based in King of Prussia, Pennsylvania, to an affiliate of Gores Technology Group ("Gores"), a privately held international acquisition and management firm. As a result of the sale, the Company has presented this business as discontinued operations on the Company's Consolidated Financial Statements. The $1.0 million in income recorded from discontinued operations during the three and six months ended January 31, 2005, represents the final cash payment received from Gores in January 2005 for indemnity claims held in escrow. No indemnity claims were paid pursuant to the sales agreement with Gores. Details of this escrowed fund and other important information are set forth in the Company's proxy statement for fiscal year 2002. The $0.6 million in income recorded from discontinued operations during the three and six months ended January 31, 2004, represents cash received from Gores in January 2004 for purchase price adjustments related to the sale and related residual disposal activity. The Company did not conduct any business from this business line during the six months ended January 31, 2005, or during the six months ended January 31, 2004.

Net Income (Loss)

Forgent realized net income of $0.2 million, or $0.01 per share, during the three months ended January 31, 2005 compared to a net loss of $13.5 million, or $0.55 per share, during the three months ended January 31, 2004. Forgent realized net income of $0.6 million, or $0.02 per share, during the six months ended January 31, 2005 compared to a net loss of $16.0 million, or $0.65 per share, during the six months ended January 31, 2004. Net income (loss) as a percentage of total revenues were 15% and (204%) for the three months ended January 31, 2005 and 2004, respectively. Net income (loss) as a percentage of total revenues were 8% and (153%) for the six months ended January 31, 2005 and 2004, respectively. The $13.7 million and $16.6 million increases in the Company's net income during the three and six months ended January 31, 2005 as compared to the three and six months ended January 31, 2004 is primarily attributable to the $11.8 million in impairment charges recorded during the second fiscal quarter of 2004.

During the three months ended January 31, 2005, Forgent completed the transition of its lead legal counsel representing the Company in its Patent Licensing Program, while continuing to generate additional licensing revenues. Additionally, Forgent increased revenues from its NetSimplicity product line by more than 9% over the three months ended October 31, 2004 and by more than 126% over the three months ended January 31, 2004. Despite these positive indicators, uncertainties and challenges remain, and there can be no assurance that the Company can successfully grow its revenues or maintain profitability.

LIQUIDITY AND CAPITAL RESOURCES

On January 31, 2005, Forgent had working capital of $19.2 million, including $23.3 million in cash, cash equivalents and short-term investments. Cash provided by operating activities was $0.7 million for the six months ended January 31, 2005 due primarily to a $0.7 million increase in accounts payable. Cash provided by operating activities was $3.1 million for the six months ended January 31, 2004 due primarily to a $6.2 million decrease in accounts receivable and the sale of $1.7 million in accounts receivable, which were offset by a loss of approximately $4.8 million, excluding the non-cash impairment charges. During the six months ended January 31, 2005, Forgent collected $3.8 million related to its sale of assets to Tandberg. Management plans to utilize these cash receipts to invest more resources in its licensing program, especially due to anticipated increased expenditures related to the '672 Litigation, and manage its software operations towards profitability. During the six months ended January 31, 2004, the Company sold $1.7 million of its outstanding accounts receivable, without recourse, to Silicon Valley Bank and received proceeds of $1.7 million. No accounts receivable were sold during the six months ended January 31, 2005. Although the Company's days sales outstanding increased to 51 days during the three months ended January 31, 2005 from the five days for the three months ended October 31, 2004, Forgent continues to conscientiously collect all of its outstanding receivables. As of January 31, 2005, approximately 3% of Forgent's trade accounts receivables had aged out past 60 days. The Company believes its aged trade accounts receivables will be collected in the third quarter and thus did not record an allowance for doubtful accounts at the end of the second fiscal quarter.

Cash provided by investing activities was $1.1 million for the six months ended January 31, 2005 due primarily to $1.1 million in net sales of short-term investments. Cash used in investing activities was $6.1 million for the six months ended January 31, 2004 due largely to $2.6 million in net purchases of short-term investments and $2.0 million paid related to the purchase of Network Simplicity Software Inc. Forgent manages its investments

portfolio in order to fulfill corporate liquidity requirements and maximize investment returns while preserving the quality of the portfolio. The Company's current operations are not capital intensive and management does not anticipate any significant purchases of fixed assets during the remaining fiscal quarters of 2005.

As of January 31, 2005, the Company leased office space and equipment under non-cancelable operating leases that expire at various dates through 2013. Certain leases obligate the Company to pay property taxes, maintenance and insurance. Additionally, the Company used the proceeds from its notes payable to purchase computers and various equipment. Amounts payable under these leases and notes payable are as follows:

	Payments Due By Period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$28,006	$ 4,060	$6,984	$6,681	$10,281
Notes payable obligations	694	365	329	—	—
Total	**$28,700**	**$ 4,425**	**$7,313**	**$6,681**	**$10,281**

Forgent may periodically make other commitments and thus become subject to other contractual obligations.

Cash provided by financing activities was $0.1 million for the six months ended January 31, 2005 due primarily to $0.1 million in proceeds received from the issuance of stock. Cash used in financing activities was $0.3 million for the six months ended January 31, 2004 due primarily to $0.5 million in purchases of treasury stock, which was offset by $0.4 million in proceeds received from the issuance of stock. Forgent's stock repurchase program allows the Company to purchase up to three million shares of the Company's common stock. During the six months ended January 31, 2004, the Company repurchased 137,085 shares for $0.5 million. No additional shares were repurchased during the six months ended January 31, 2005. As of January 31, 2005, Forgent had repurchased 1,754,201 shares and had the approval to repurchase approximately 1.2 million additional shares. Management will continue to evaluate repurchasing additional shares in fiscal year 2005, depending on the Company's cash position, market conditions and other factors.

As of January 31, 2005, Forgent's principal source of liquidity consisted of cash, cash equivalents and short-term investments balance of $23.3 million, an increase of $1.6 million, or 7%, over the previous quarter ended October 31, 2004. Management currently plans to utilize its cash balances to fund operations, consider opportunities to repurchase additional Company stock, consider opportunities to pay cash dividends and/or acquire a growing and profitable public or privately held technology business or product line. Forgent's ability to generate cash from its intellectual property licensing business is subject to certain risks as discussed under "Risk Factors – Licensing Program" below. Additionally, Forgent's expenditures related to the '672 Litigation could continue to increase as discussed under "Risk Factors – Litigation" below. As previously stated above, there remain risks and uncertainties as to the timing of the receipts of license fees due, in part, to the inherent nature of a patent licensing program. Therefore, there is no assurance that the Company will be able to continue to limit its cash consumption and preserve its cash balances, and it is possible that the Company's business demands may lead to cash utilization at levels greater than recently experienced due to the '672 Litigation, increased expense levels, potential acquisitions and other factors.

CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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. The more significant estimates made by management include the valuation allowance for the gross deferred tax asset, contingency reserves, useful lives of fixed assets, the

determination of the fair value of its long-lived assets, including its intangible assets and the loss from its impairments. These estimates could be materially different under different conditions and assumptions. Additionally, the actual amounts could differ from the estimates made. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

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

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. The Company recognizes software 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,"* and Securities and Exchange Commission Staff Accounting Bulletin 104, *"Revenue Recognition."*

Intellectual property licensing revenue is derived from the Company's Patent Licensing Program, which is currently focused on generating licensing revenues relating to the Company's data compression technology embodied in U.S. Patent No. 4,698,672, and its foreign counterparts and is currently conducted through the Company's wholly-owned subsidiary, Compression Labs, Inc. Gross intellectual property licensing revenue is recognized at the time a license agreement has been executed and related costs are recorded as cost of sales. The cost of sales on the intellectual property licensing business relates to contingent legal fees incurred on successfully achieving signed agreements, as well as legal fees incurred for legal counsel's time.

Software and service revenue consists of license and service fees. License fee revenue 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. The Company allocates the total fee to the various elements based on the relative fair values of the elements specific to the Company. The Company determines the fair value of each element in the arrangement based on vendor-specific objective evidence ("VSOE") of fair value. When VSOE of fair value for the license element is not available, license revenue is recognized using the residual method. Under the residual method, the contract value is first allocated to the undelivered elements (maintenance and service elements) based upon their VSOE of fair value; the remaining contract value, including any discount, is allocated to the delivered element. For maintenance, VSOE of fair value is based upon the renewal rate specified in each contract. For training and installation services, VSOE of fair value is based upon the rates charged for these 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 due to their short-term nature. The Company's training and installation services are not essential to the functionality of its 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 Statement of Operations over the terms of the arrangements, primarily ranging from one to three years.

Impairment of Goodwill, Intangible Assets and Long-Lived Assets

Since goodwill and other intangible assets with indefinite lives are no longer required to be amortized under SFAS No. 142, *"Goodwill and Other Intangible Assets,"* the Company reviews its goodwill and these intangible assets 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 will continue to be amortized over their useful lives and are tested for impairment in accordance with SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."*

In accordance with SFAS 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 fair value of those assets, the excess is recorded as an impairment in that fiscal period.

RISK FACTORS

There are many factors that affect the Company's business, prospects, liquidity and the results of its operations, some of which are beyond the control of the Company. The following is a discussion of some, but not all, of these and other important risk factors that may cause the actual results of the Company's operations in future periods to differ materially from those currently expected or desired. Additional risks not presently known to management or risks that are currently believed to be immaterial, but which may become more material, may also affect the Company's business prospects and results of operations.

Licensing Program

The Company's Patent Licensing Program involves risks inherent in licensing intellectual property, including risks of protracted delays, legal challenges that would lead to disruption or curtailment of the program, increasing expenditures associated with the pursuit of the program and other risks that could adversely affect the Company. Thus, there can be no assurance that the Company will be able to continue to license its technology to others. See Part II, Item 1 "Legal Proceedings" for information regarding the commencement by the Federal Trade Commission of a non-public investigation associated with the Company's Patent Licensing Program. If the Company fails to meet the expectations of securities analysts or investors, the market price of Forgent's common stock may decrease significantly. Quarterly operating results may fail to meet these expectations for a number of reasons, including the unwillingness or inability of licensees to pay for the license and other fees, a decline in the demand for the Company's patented technology, higher than expected operating expenses and license delays due to legal and other factors. Additionally, there are no guarantees that the Company can protect its intellectual property rights in its current litigation or prevent the unauthorized use of its technology in the future. However, Forgent will continue to seek to enforce and will pursue its rights through the legal system when necessary.

Litigation

The Company has initiated the '672 Litigation against multiple companies for infringement of its '672 patent. As with any litigation, the outcome is uncertain, and although the Company intends to vigorously pursue its claims, there can be no assurance or certainty that the Company will prevail. Additionally, unintended consequences of the Company's initiating the '672 Litigation may adversely affect the Company's business, including, without limitation, that the Company may have to devote significant time and financial resources to pursuing the '672 Litigation, that the Company may become subject to counterclaims or lawsuits and that the expenses of pursuing the '672 Litigation could increase based upon new developments occurring. These, and other factors not currently known to or deemed material by management, could have a material and adverse impact on the Company's business, prospects, liquidity and results of operations.

Licensing Cycle

Forgent's licensing cycle for its Patent Licensing Program is lengthy and costly, including expenditures related to various consultant fees, travel costs and certain legal costs. Due to multiple negotiations and legal due diligence required, the licensing process cannot necessarily be expedited. As a result, the Company's intellectual property licensing revenues may fluctuate from quarter to quarter, making it difficult for Forgent to predict its

revenues, which could cause the Company to miss analysts' expectations. Additionally, these fluctuations and missed expectations may lead to reduced prices for the Company's common stock.

Counsel for Patent Licensing Program

The Patent Licensing Program is dependent on intensive legal due diligence and negotiations. On October 27, 2004, Forgent formally terminated its former counsel and has engaged new legal counsel to advise it in connection with the Company's Patent Licensing Program. As of March 15, 2005, the transition in the provision of legal services to Forgent was completed. However, risks that this termination may cause delays in Forgent's ability to proceed with its Patent Licensing Program, which could have a material and adverse impact on the Company's business, liquidity and results of operations, still remain.

Patents and Trademarks

The Company's success and ability to compete are substantially dependent on its proprietary technology and trademarks. The Company seeks to protect these assets through a combination of patent and trademark laws, as well as confidentiality procedures and contractual provisions. These legal protections afford only limited protection and enforcement of these rights may be time consuming and expensive. Furthermore, despite best efforts, the Company may be unable to prevent third parties from infringing upon or misappropriating its intellectual property. Also, competitors may independently develop similar, but not infringing, technology, duplicate products or design around the Company's patents or other intellectual property.

Additionally, the Company's patent applications or trademark registrations may not be approved. Moreover, even if approved, the resulting patents or trademarks may not provide Forgent with any competitive advantage or may be challenged by third parties. If challenged, patents might not be upheld or claims could be narrowed. Any litigation surrounding the Company's rights would force Forgent to divert important financial and other resources away from business operations.

General Economic and Industry Conditions

Any adverse change in general economic, business or industry conditions could have a material effect on the Company's business, prospects and financial performance if those conditions cause customers or potential customers to reduce or delay their purchases of scheduling software and related services. Given competing priorities within limited budgets, businesses may choose to curtail their capital spending. If so, a general reduction in information technology spending could have an adverse effect on the demand for the Company's software products and services and could result in declining revenues and earnings for the Company.

Software Marketing and Sales

The future success of the Company's software segment will be dependent in significant part on its ability to generate demand for its software products and services. To this end, Forgent's sales operations must increase market awareness of its products to generate increased revenue. All sales new hires will require training and may take time to achieve full productivity. Forgent cannot be certain that its new hires will become as productive as necessary or that it will be able to hire enough qualified individuals or retain existing employees in the future. The Company cannot be certain that it will be successful in its efforts to market and sell its products, and if it is not successful in building greater market awareness and generating increased sales, future results of operations will be adversely affected.

Increased Business from Current and New Customers

Forgent's business model depends on the expanded use of its software within its current and new customers' organizations. Therefore, Forgent must execute on its growth objectives, including growth from its acquired companies or assets. If the Company fails to grow its customer base or generate repeat and expanded business from its current customers, Forgent's business and operating results could be adversely affected. Since the Company's maintenance and other service fees depend largely on the size and number of licenses that are sold, any downturn in Forgent's software license revenue would negatively impact the Company's deployment services revenue and future maintenance revenue. Additionally, if customers elect not to renew their maintenance agreements, Forgent's maintenance revenue could be adversely affected.

Software Development

Forgent expects that its future financial performance will depend, in part, on revenue generated from its existing and future software products and the related products that the Company plans to develop or acquire. There are significant risks inherent in any new product introduction, such as with Forgent's NetSimplicity software products. To be successful, Forgent must be cost-effective and timely in enhancing its existing software applications, developing new software technology and solutions that address the increasingly sophisticated and varied needs of its existing and prospective clients, and anticipating technological advances and evolving industry standards and practices. Forgent may need to invest further in research and development in order to keep its software applications and solutions viable in the rapidly changing marketplace. This research and development effort may require significant resources and could ultimately be unsuccessful. Such significant investment could adversely affect the Company's operating results as well as its liquidity.

Additionally, Forgent cannot be certain that its existing or future software product offerings will meet customer performance needs or expectations when shipped or that they will be free of significant software defects or bugs. If the Company's products do not meet customer needs or expectations, for whatever reason, the Company's sales would be adversely affected and furthermore, upgrading or enhancing the Company's products could be costly and time consuming. Such upgrades or enhancements could have an adverse effect on the Company's results of operations and liquidity.

Quarterly Revenues and Operating Results

In the past, Forgent's revenues and operating results have varied significantly from quarter to quarter. Additionally, management expects that revenues and operating results will continue to fluctuate significantly from quarter to quarter. These fluctuations may lead to reduced prices for the Company's common stock. Several factors may cause the quarterly results to fluctuate, including:

- timing of intellectual property license agreements and related recording of licensing revenues;
- timing and costs related to the '672 Litigation;
- market demand for the Company's software products and services;
- timing of customers' budget cycles;
- timing of customer orders and deployment of Forgent's software products;
- the mix of software license and services revenue;
- seasonal fluctuations in capital spending;
- changes in the rapidly evolving market for web-based applications;
- management's ability to manage operating costs, a large portion of which are relatively fixed in advance of any particular quarter;

- timing and costs related to possible acquisitions of technology or businesses;
- costs of attracting, retaining and training skilled personnel;
- management's ability to manage future growth; and
- general economic climate.

Some of these factors are within management's control while others are not. Accordingly, management believes that quarter-to-quarter comparisons of the Company's revenues and operating results are not necessarily meaningful. Therefore, investors should not rely on the results of any particular quarter as an indication of future performance.

Acquisition Integration

The Company has made, and will continue to evaluate and may make, strategic acquisitions in public and privately held technology companies. Some of these acquisitions may be in markets or businesses that the Company had not previously participated in and thus may require additional employees and/or skill sets that the Company does not currently possess. In addition, some of these acquisitions may be in regulated or other specialized industries. Some of these companies may also be early-stage ventures with unproven business models, have products that are not yet fully developed, or have products that have not yet achieved market acceptance. Any acquisitions of this type are inherently risky. Additionally, the Company may encounter a number of other risks associated with acquisitions, including (1) diversion of management's attention; (2) failure to retain and motivate key acquired personnel; (3) failure to integrate acquired operations, products and technologies; (4) risks associated with unanticipated events, circumstances or legal liabilities; (5) client satisfaction or performance problems within the acquired business; and (6) amortization of acquired intangible assets. These difficulties could disrupt Forgent's ongoing business, distract existing management and employees, require increased capital expenditures or increase the Company's expenses and/or materially and adversely affect results of operations and liquidity. Accordingly, there can be no assurances that any of the Company's investments or acquisitions will be successful, that the Company will be able to recover the amounts invested or that any acquisition would be profitable.

Key Personnel and Senior Management

Forgent's success depends upon its ability to attract, hire and retain highly trained and experienced software developers and engineers to design and develop software applications in order to keep pace with client demand for rapidly evolving technologies and varying client needs. The Company's operations are also dependent on the continued efforts of its executive officers and senior management. Additionally, Forgent will likely depend on the senior management of any business it may acquire in the future. If any of the Company's key personnel or senior management are unable or unwilling to continue in his or her present role, or if Forgent is unable to retain or hire, train and integrate new personnel effectively, Forgent's business could be adversely affected.

Technological Changes and Product Transitions

The technology industry is characterized by continuing improvements in technology, which results in the frequent introduction of new products, short product life cycles and continual improvement in product performance characteristics. If the Company fails to anticipate and respond effectively to these improvements and new product introductions, these improvements could render the Company's products noncompetitive. While Forgent believes that its experience over the past few years as a provider of software and services and its prior experience in the videoconferencing industry affords it a competitive advantage over some of its competitors, rapid changes in technology present challenges and risks for the Company.

Competition and New Entrants

The Company may encounter new entrants or competition from competitors in some or all aspects of its business, including any business that Forgent may acquire. The Company currently competes on the basis of price, technology, availability, performance, quality, reliability, service and support. The Company believes that its experience and business model creates a competitive advantage over its competitors. However, there can be no assurance that the Company will be able to maintain this advantage. Many of the Company's current and possibly

future competitors have greater resources than the Company and, therefore, may be able to compete more effectively on price and other terms.

Limited Operating History

Although founded in 1985, Forgent has a limited operating history in its current lines of business due to the Company’s transition to a licensor of intellectual property and a provider of scheduling and asset management software and services. As a result of this limited operating history, Forgent cannot forecast revenues and operating expenses based on historical results. Additionally, the Company’s ability to forecast quarterly revenue accurately is limited because of the relative unpredictability of its intellectual property licensing revenues. The Company’s business, operating results and financial condition will be materially adversely affected if revenues do not meet projections and if results in a given quarter do not meet expectations.

Divestiture Transactions

As a result of Forgent’s transition to a licensor of intellectual property and a provider of scheduling and asset management software and services, the Company has divested certain non-core operations, including a videoconferencing endpoint manufacturing business, an integration business and a videoconferencing hardware services business. There can be no assurance that, having divested such non-core operations, Forgent will be able to achieve greater or any profitability, strengthen its core operations or compete more effectively in existing or new markets. In addition, the Company continues to evaluate the profitability realized or that is likely to be realized by its existing businesses and operations. Forgent reviews from a strategic standpoint, which, if any, of its businesses or operations should be divested. Entering into, evaluating or consummating divestiture transactions may entail risks and uncertainties in addition to those which may result from the divestiture-related change in the Company’s business operations, including but not limited to extraordinary transaction costs, unknown indemnification liabilities and unforeseen administrative complications, any of which could result in reduced revenues, increased charges or post-transaction administrative costs, or could otherwise have a material adverse effect on Forgent’s business, financial condition or results of operations.

Recently Proposed and Enacted Laws and Regulations

As a result of assessing, implementing and complying with recently proposed and enacted changes in the laws and regulations affecting public companies, including but not limited to, the Sarbanes-Oxley Act of 2002, management anticipates increased accounting, audit and legal fees, as well as increased costs for certain types of insurance. Additionally, the new and proposed rules could also make it more difficult for Forgent to retain qualified individuals to serve on its Board of Directors. Although management continually monitors and evaluates developments with respect to these new and proposed laws and regulations, management cannot estimate the amount of the additional costs the Company may incur or the timing of such costs at this time. However, such increased costs could materially affect Forgent’s results of operations.

Due to the risk factors noted above and elsewhere in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Forgent’s past earnings and stock price have been, and future earnings and stock price potentially may be, subject to significant volatility, particularly on a quarterly basis. Past financial performance should not be considered a reliable indicator of future performance and investors are cautioned in using historical trends to anticipate results or trends in future periods. Any shortfall in revenue or earnings from the levels anticipated by securities analysts could have an immediate and significant effect on the trading price of the Company’s common stock in any given period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Report on Form 10-Q represent forward-looking statements under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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.

Whenever possible, Forgent 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. Such risks and uncertainties include, but are not limited to, those described under "Risk Factors" and other risks indicated in Forgent's filings with the Securities and Exchange Commission from time to time. These risks and uncertainties are beyond the Company's control, and in many cases, management cannot predict all of the risks and uncertainties that could cause actual results to differ materially from those contemplated, projected, anticipated, planned or budgeted in any such forward-looking statements. Additionally, Forgent does not assume responsibility for the accuracy and completeness of such statements and 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure relates to interest rate risk. Forgent's interest income is sensitive to changes in U.S. interest rates. However, due to the short-term nature of the Company's investments, Forgent does not consider these risks to be significant. For additional Quantitative and Qualitative Disclosures about Market Risk, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in the Company's Annual Report on Form 10-K for the year ended July 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934) as of a date within 90 days prior to the filing date of this Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the date of the evaluation, the Company's disclosure controls and procedures are effective in timely alerting them to the material information relating to the Company required to be included in its periodic filings with the Securities and Exchange Commission. No changes were made in the Company's internal controls over financial reporting during the quarter ended January 31, 2005, that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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. In the opinion of management, the ultimate disposition of these matters, including those discussed below, may have a material adverse effect on the Company's financial condition or results of operations. With the exception of the proceedings described below, none of the pending legal proceedings to which the Company is a party involves claims for damages in excess of 10% of the Company's current assets for the period covered by this Report on Form 10-Q.

Litigation of United States Patent No. 4,698,672

Between April 2004 and November 2004, Forgent's wholly-owned subsidiary, Compression Labs, Inc. ("CLI"), initiated litigation ("'672 Litigation") against 44 companies for infringement of United States Patent No.

4,698,672 ("'672 patent") in the United States District Court for the Eastern District of Texas, Marshall Division, seeking injunctive relief against sales of infringing products and monetary damages, among other relief sought. The defendants are Adobe Systems Incorporated; Agfa Corporation; Apple Computer, Incorporated; Axis Communications, Incorporated; Cannon USA; Concord Camera Corporation; Creative Labs, Incorporated; Dell Incorporated; Eastman Kodak Company; Fuji Photo Film Co. U.S.A.; Fujitsu Computer Products of America; Gateway, Inc.; Hewlett-Packard Company; International Business Machines Corp.; JASC Software; JVC Americas Corporation; Kyocera Wireless Corporation; Macromedia, Inc.; Matsushita Electric Corporation of America; Oce' North America, Incorporated; Onkyo Corporation; PalmOne, Inc.; Panasonic Communications Corporation of America; Panasonic Mobile Communications Development Corporation of USA; Ricoh Corporation; Riverdeep, Incorporated (d.b.a. Broderbund); Savin Corporation; Thomson S.A.; Toshiba Corporation; Xerox Corporation; Acer America Corporation; AudioVox Corporation; BancTec, Inc.; BenQ America Corporation; Color Dreams, Inc. (d/b/a StarDot Technologies); Google Inc.; ScanSoft, Inc.; Sun Microsystems Inc.; TiVo Inc.; Veo Inc.; Yahoo! Inc.; Creo, Inc. and Creo Americas, Inc. Forgent has since settled with defendants Adobe Systems, Inc., Macromedia, Inc. and AudioVox Corporation.

In three separate lawsuits filed in July, August and September of 2004, 25 of the defendants sued CLI and Forgent in the United States District Court for Delaware, seeking declaratory relief that the '672 patent is not infringed, is unenforceable, and is invalid, among other claims for relief. Additionally, in July and September 2004, two other defendants filed suit against CLI and Forgent in the San Jose and Oakland Divisions of the United States District Court for Northern California, seeking similar declaratory relief. Forgent and CLI moved to stay, dismiss or transfer the Delaware actions, asserting that all such issues should be heard in the U.S. District for the Eastern District, Marshall Division, rather than in Delaware.

On September 27, 2004, two defendants filed a motion with the Judicial Panel on Multidistrict Litigation ("MDL Panel") requesting the court to transfer the '672 Litigation to either the Delaware or California courts, where the actions filed by the defendants are pending. In October 2004, the Company filed its response opposing transfer of the '672 Litigation to Delaware or California and the remaining defendants filed a response joining in the motion to transfer the '672 Litigation to Delaware or California. In February 2005, the MDL Panel ordered the eight actions related to the '672 Litigation to be consolidated and transferred to the United States District Court for the Northern District of California. Although Forgent is currently unaware of any other suits against CLI and itself regarding the '672 patent, it is possible that other defendants, and/or other accused infringers, could file similar suits for declaratory relief.

Federal Trade Commission Inquiry

In December 2003, the Company received notification from the Federal Trade Commission (the "FTC") that it is conducting a non-public investigation to determine whether the Company may have engaged in violation of the Federal Trade Commission Act by reason of the alleged involvement of CLI in the JPEG standard-setting process during the 1980's and very early 1990's and its subsequent licensing of the '672 patent, which the Company believes is infringed by the implementation of that standard. If the FTC proceeds with an investigation and thereafter determines that the Company acted improperly, further proceedings before the FTC could ensue, which could result in a challenge to the Company's '672 patent licensing program. The Company believes that CLI has not acted improperly and advised the FTC as such. In April 2004, Forgent received a Subpoena Duces Tecum ("Subpoena") and a Civil Investigative Demand ("CID") in this FTC proceeding. The Company responded in May 2004 by filing a petition to quash and/or limit the Subpoena and CID. In November 2004, the FTC issued a ruling denying Forgent's Petition to Quash, but modifying the Subpoena and CID. The Company is complying with the modified Subpoena and CID requirements.

Estate of Gordon Matthews

In February 2003, the Company received a letter from legal counsel for the independent executrix of the Estate of Gordon Matthews, asserting that the Company was obligated to pay the independent executrix of the Estate of Gordon Matthews for the asserted value of services claimed to have been rendered by Mr. Matthews in connection with his alleged involvement in the Company's Patent Licensing Program. In February 2003, the Company initiated an action in the 261st District Court in Travis County, Texas, styled Forgent Networks, Inc. v. Monika Matthews, et al., for the purposes of declaring that the Company has no obligation to the defendant. In that action, the defendant has filed a counter claim asserting that the independent executrix of the Estate of Gordon Matthews is entitled to recover in quantum meruit for the reasonable value of the work and services claimed to have

been provided by Gordon Matthews, a former member of the board of directors and consultant to the Company, which the defendant asserts is at least $5.0 million. The Company does not believe the counter claim has merit and intends to continue to vigorously pursue declaratory relief from the court that no liability is due to the independent executrix of the Estate of Gordon Matthews. The matter is currently scheduled to be tried before a jury in April 2005.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER REPURCHASES OF EQUITY SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

(a) On December 6, 2004, Forgent entered into a Parachute Agreement with Nancy L. Harris, who was designated as an executive officer of the Company, effective December 31, 2004. Ms. Harris serves as Vice President, Software, and is responsible for the daily operations of Forgent's software business. Ms. Harris has not engaged in any transactions with Forgent and does not have a family relationship with any other officer or director of Forgent. Additionally, Ms. Harris does not have an employment agreement with Forgent. The Parachute Agreement is also filed as Exhibit 10.25(a) to this report.

(b) On December 21, 2004, Forgent and its wholly owned subsidiary, Compression Labs, Inc. ("CLI"), entered into a Resolution Agreement with Jenkens & Gilchrist, a Professional Corporation ("Jenkens") following discussions related to Jenkens' termination as the Company's lead legal counsel in connection with Forgent's Patent Licensing Program. Under the Resolution Agreement, Forgent and CLI agreed to pay Jenkens an initial amount of $1 million, 50% of the first $6 million in gross recoveries received on or after October 27, 2004 and 10% of all gross recoveries received thereafter. The Resolution Agreement is also filed as Exhibit 10.26 to this report.

(c) On January 13, 2005, Forgent and CLI entered into an agreement with the law firm of Godwin Gruber, LLP ("Godwin") to represent the Company as lead counsel in connection with its Patent Licensing Program. Under the terms of the Godwin agreement, Forgent and CLI agreed to pay Godwin 16% of all license proceeds, net of expenses, and 21% of all litigation proceeds, net of expenses, once total such proceeds from licensing and litigation exceed $6 million. In addition, Forgent and CLI agreed to pay Godwin 50% of the firm's standard hourly rate for time incurred. This agreement is also filed as Exhibit 10.27 to this report.

(d) On January 19, 2005, Forgent and CLI entered into an agreement with The Roth Law Firm, P.C. ("Roth") to represent the Company as local counsel in the litigation related to its '672 Patent. Under the terms of the Roth agreement, Forgent and CLI, agreed to pay Roth 10% of all litigation proceeds once total proceeds received on or after January 1, 2005 from licensing and litigation exceed $10 million. In addition, Forgent and CLI agreed to pay Roth its standard hourly rate for time incurred. This agreement is also filed as Exhibit 10.28 to this report.

ITEM 6. EXHIBITS

(a) Exhibits:

2.1 Agreement and Plan of Merger and Reorganization dated as of January 6, 1997 by and among VTEL, VTEL-Sub, Inc. and CLI (incorporated by reference to Exhibit 99.1 of the Company's report on Form 8-K dated January 6, 1997).

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 July 10, 1996 between VTEL Corporation and First National Bank of Boston, which includes the form of Certificate of Designations for Designating Series A Preferred Stock, $.01 par value, the form of Rights Certificate, and the Summary of Rights to Purchase Series A Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's report on Form 8-K dated July 10, 1996).
10.25	Change-in Control Agreements with members of senior management of the Company
10.25(a)	Nancy L. Harris
10.26	Resolution Agreement dated December 21, 2004, by and between Forgent Networks, Inc., Compression Labs, Inc. and Jenkens & Gilchrist, a Professional Corporation.
10.27	Agreement dated January 11, 2005 but entered into and executed January 13, 2005 by and between Forgent Networks, Inc., Compression Labs, Inc. and Godwin Gruber, LLP.
10.28	Agreement dated January 19, 2005, by and between Forgent Networks, Inc., Compression Labs, Inc. and The Roth Law Firm, P.C.
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

SIGNATURES

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

FORGENT NETWORKS, INC.

Date: March 15, 2005

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

Date: March 15, 2005

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

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INDEX TO EXHIBITS

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* Management contract

EXHIBIT 10.25(a)

PARACHUTE AGREEMENT

December 6, 2004

Nancy Harris

Dear Nancy:

Forgent Networks Inc. (the "Company") considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. In this connection, should the Company receive a proposal from a third party, whether solicited by the Company or unsolicited, concerning a possible sale of the Company's NetSimplicity Software Business (as hereinafter defined), the Board of Directors of the Company (the "Board") has determined that it is imperative that the Company be able to rely upon your continued services without concern that you might be distracted by the personal uncertainties and risks that such a proposal might otherwise entail.

Accordingly, the Board has determined that appropriate steps should be taken to reinforce and encourage your continued attention and dedication to your assigned duties without distraction in the event of such a Potential Sale (as defined in Section 2 hereof).

In order to induce you to remain in the employ of the Company and its subsidiaries and in consideration of your agreement set forth in Section 2(ii) hereof, the Company agrees that you shall receive the benefits set forth in this letter agreement ("Agreement") in the event of a Sale (as defined in Section 2 hereof) and in the event your employment is terminated subsequent to such Sale.

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2005; provided, however, that commencing on January 1, 2006 and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than September 30 of the preceding year, the Company shall have given notice that it does not wish to extend this Agreement; provided, further, that, notwithstanding any such notice by the Company not to extend, if a sale shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of eighteen (18) months beyond the expiration of the term in effect immediately before such sale.

2. Sale.

(i) No benefits shall be payable or realized hereunder unless there shall have been a Sale of the Company of the NetSimplicity business unit, as set forth herein. For purposes of this Agreement, a "Sale" shall mean the transfer of ownership by Company to an unrelated person or entity ("Purchaser") of all or substantially all of the assets primarily dedicated to, and used in the production, sale and/or support of, the NetSimplicity software product line, including the trademarks, trade names and goodwill associated therewith.

(ii) For purposes of this Agreement, a potential sale of the Net Simplicity business unit ("Potential Sale") shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in a Sale; (B) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Sale; or (C) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Sale has occurred. You agree that, subject to the terms and conditions of this Agreement, in the event of a Potential Sale occurring after the date hereof, you will not voluntarily terminate your employment with the Company for a period of six (6) months from the occurrence of such Potential Sale. If more than one Potential Sale occurs during the term of this Agreement, the provision of the preceding sentence shall be applicable to each Potential Sale occurring prior to the occurrence of a Sale.

3. Acceleration of Vesting and Exercise Upon Sale. Upon the occurrence of a Sale, (i) all stock options and/or stock appreciation rights held by you that are unvested and/or unexercised shall immediately and automatically become fully vested and exercisable as of the effective date of the Sale, and (ii) all restrictions, terms and conditions applicable to any restricted shares and/or restricted stock units held by you shall immediately and automatically be deemed lapsed and satisfied as of the effective date of the Sale.

4. Benefits Following Sale. If any of the events described in Section 2(i) hereof constituting a Sale shall have occurred, you shall be entitled to the benefits provided in Section 5 hereof upon the occurrence of one of the following:

a. You are not offered employment by the Purchaser on or before the thirtieth day after consummation of the Sale;

b. You are offered employment by the Purchaser, but you refuse such offer for Good Reason (as hereinafter defined); or

c. You accept employment with Purchaser, but such employment is terminated during the term of this Agreement, unless such termination is (A) because of your death or Retirement, (B) by the Purchaser for Disability or Cause or (C) by you other than for Good Reason.

(i) Disability. For purposes of this Agreement, "Disability" shall mean a finding of permanent and total disability by the Social Security Administration.

(ii) Cause. For purposes of this Agreement, "Cause" shall mean your willful breach of duty in the course of your employment, or your habitual neglect of your employment duties or your continued incapacity to perform them. For purposes of this Section 4(ii), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company and its subsidiaries.

(iii) Good Reason. You shall be entitled to terminate your employment with Purchaser, or to refuse an offer of employment from Purchaser, for Good Reason. For the purpose of this Agreement, "Good Reason" shall mean the occurrence, during the term of this Agreement, without your express written consent, of any of the following circumstances:

(A) the assignment to you by Purchaser of any duties inconsistent with your status as Vice President and General Manager of the Company's NetSimplicity business unit, or a substantial diminution in the nature or status of your responsibilities from those in effect immediately prior to the Sale;

(B) a reduction by Purchaser in your annual base salary as in effect on the date hereof (or as the same may be increased from time to time) in an amount greater than 10%;

(C) the relocation by Purchaser of the executive office in which you are located prior to the Sale to a location more than fifty miles therefrom.

Your continued employment with Purchaser shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder. A Sale shall not, by itself, constitute Good Reason.

5. Compensation Upon Termination. Following a Sale as defined by Section 2(i), and upon the occurrence of one of the events set forth in Section 4, you shall be entitled to the following benefits;

(A) The Company (or the Purchaser, if applicable) shall pay you your full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given, no later than the fifth day following the Date of Termination, plus all other amounts to which you are entitled under any compensation plan of the Company applicable to you, at the time such payments are due; and

(B) The Company shall pay to you, no later than the 30th day following the Date of Termination, a severance payment (the "Severance Payment") equal to your annual base salary at your last rate of pay by Company immediately prior to the Sale.

(i) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of you and the Company in applying the terms of Section 5(iv), the aggregate "parachute payments" paid to or for your benefit are in an amount that would result in any portion of such "parachute payments" being subject to the excise tax under Section 4999 of the Code, then the Company shall promptly pay to you as an additional severance payment such amount as is necessary to secure for you, after the payment of such excise tax, the full amount of the Severance Payment provided for in Section 5(iv)(B) above.

(ii) You shall not be required to mitigate the amount of any payment provided for in this Section 5 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 5 be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise except as specifically provided in this Section 5.

6. Successors; Binding Agreement. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

7. Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer with a copy to the Chief Financial Officer, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

8. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and the Chief Executive Officer, or the Chief Financial Officer, or any other person designated by either of them. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

9. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

FORGENT NETWORKS INC.

By: /s/ Richard N. Snyder
Name: Richard Snyder
Title: CEO / Chairman
12/31/04

Agreed to this 6th day of December 2004.

/s/ Nancy L. Harris

Signature

EXHIBIT 10.26

RESOLUTION AGREEMENT

Parties

The parties to this agreement (the "Agreement"), dated this 21st day of December, 2004, are Jenkens & Gilchrist, a Professional Corporation, a Texas professional corporation ("Jenkens"), Forgent Networks, Inc. ("Forgent"), a Delaware corporation, and Compression Labs, Inc. ("CLI"), a Delaware corporation, who are, hereinafter, collectively called the "Parties" or, individually, a "Party" as the context requires.

Agreements

NOW, THEREFORE, for and in consideration of the mutual promises set forth herein and the performance of same, the Parties agree as follows:

1. The Parties agree that the Fee Agreement between Forgent and CLI, on the one hand, and Jenkens, on the other, dated April 23, 2001 (the "Fee Agreement") and the disputed Supplement thereto dated August 31, 2001 (the "Supplement") and all other engagements of Jenkens by Forgent or CLI (whether or not related to the matters which are the subject of the Fee Agreement), whether written or oral, are terminated in their entirety upon the execution hereof by all the Parties. Jenkens represents to Forgent and CLI that there are no other supplements or amendments to the Fee Agreement other than the Supplement.

2. On December 21, 2004, for and in consideration of the agreements contained herein, Forgent shall pay Jenkens the sum of one million dollars ($1,000,000), in Dallas County, Texas, by wiring same to Jenkens pursuant to wiring instructions previously provided by Jenkens to Forgent.

3. In addition to the amount set forth in paragraph 2 above, Forgent and CLI, jointly and severally, promise to pay Jenkens 50% of the first six million dollars ($6,000,000) of Gross Recoveries, received by Forgent and/or CLI on or after October 27, 2004 until the amount paid to Jenkens under the terms of this paragraph totals three million dollars ($3,000,000). No litigation or other expenses are to be deducted from Gross Recoveries. In calculating the amount due Jenkens, no litigation or other expenses are to be deducted before applying the percentage to a Gross Recoveries item. "Gross Recoveries," as used in this Agreement, means:

> (i) all royalties, license fees and other payments made or accruing under all license agreements and similar agreements entered into in connection with the Patents for the right to use or practice any claimed inventions described therein, and (ii) all amounts recovered in enforcement actions, whether by way of judgment or compromise and settlement, relating to the Patents.

"Patents", as used in this Agreement, means any one or more of U.S. Patent No. 4,698,672; any foreign counterpart of U.S. Patent No. 4,698,672; U.S. Patent No. 6,181,784 and U.S. Patent No. 6,285,746 (which a continuation of U.S. Patent No. 6,181,784).

4. In addition to any amounts paid under paragraphs 2 and 3 of the Agreement, and after payments of all amounts due under paragraphs 2 and 3 of this Agreement, for and in consideration of the agreements contained herein, Forgent and CLI, jointly and severally, promise to pay Jenkens 10% of all Gross Recoveries, received by Forgent and/or CLI on or after October 27, 2004 which are over and above the first six million dollars ($6,000,000) in Gross Recoveries. No litigation or other expenses are to be deducted from Gross Recoveries. In calculating the amount due Jenkens, no litigation or other expenses are to be deducted before applying the percentage to a Gross Recovery item. For example, if there are $20,000,000 of Gross Recoveries after October 27, 2004, Jenkens would receive $4,400,000 as follows: 50% of $6,000,000, constituting $3,000,000, under paragraph 3 plus 10% of Gross Recoveries exceeding $6,000,000 ($20,000,000—$6,000,000), constituting $1,400,000, under this paragraph 4.

5. The payments contemplated by paragraph 3 and 4 of this Agreement shall be made by Forgent and/or CLI within ten (10) days of receipt of an item of Gross Recoveries by wiring such payment to Jenkens, in Dallas County,

Texas pursuant to wiring instructions provided by Jenkens. Beginning with Forgent's fiscal quarter ending January 31, 2005, and continuing as to each fiscal quarter ending April 30, July 31, October 30, and January 31 of each fiscal year through the life of the last of the Patents to expire plus six (6) years, Forgent and CLI shall provide, within 30 days following the end of the applicable quarter, to Jenkens, a certification from Forgent's chief financial officer stating:

a. The date and amount of each receipt of an item of Gross Recoveries during the applicable prior quarter and the party from whom each Gross Receipt was obtained; and

b. The date and amount of the disbursement to Jenkens related to such receipt.

Each such certification shall be accompanied by a copy of each license or settlement agreement not previously provided to Jenkens. Annually, Forgent's public accounting firm shall confirm in writing to Jenkens the accuracy of such certifications. The public accounting firm's confirmation shall be mailed to Jenkens by not later than the later to occur of (i) 90 days after the close of Forgent's fiscal year ending July 31 (or such other fiscal year as may be adopted), or (ii) 30 days after issuance of the public accounting firm's opinion regarding Forgent's annual financial statements, as follows:

Jenkens & Gilchrist, P.C. c/o Chairman
1445 Ross Avenue, Suite 3200
Dallas, Texas 75202-2799

6. This Agreement is performable in Dallas County, Texas and shall be governed by the laws of the State of Texas. Further, this Agreement cannot be amended except by an agreement in writing signed by all the Parties hereto or the Party to be charged. This Agreement is binding upon, and inures to the benefit of the Parties hereto, their heirs, successors, assigns and representatives and is binding upon any party with, or who acquires, an interest in any of the Patents and Forgent shall require any acquirer (but excluding therefrom any entity that is solely a licensee of any of the Patents) to assume the obligations herein to Jenkens. This Agreement may be executed in several counterparts by one or more of the Parties, and all such counterparts when so executed shall together be deemed to constitute one final Agreement as if one document had been signed by all Parties hereto; and each such counterpart, upon execution and delivery, shall be deemed a complete original, binding upon the Party or Parties executing this Agreement.

7. Each Party acknowledges that this Agreement has been negotiated and reviewed by counsel for each of them, and each of them understand its terms, and enter this Agreement voluntarily and willingly and of their own free will. Each of the Parties acknowledges that it is fully and completely informed of the facts relating to the subject matter of this Agreement, and of the respective rights and liabilities it imposes on all Parties. This Agreement was drafted by input from counsel for all Parties and, therefore, should not be construed against any Party hereto.

8. Each signatory hereto represents and warrants they have the authority to execute this Agreement for and on behalf of the Parties and other entities for whom they purport to sign this Agreement.

DATED this 21st day of December, 2004.

Jenkens & Gilchrist, a Professional Corporation

By: /s/ Thomas H. Cantrill

Its: President

Forgent Networks, Inc.

By: /s/ Richard N. Snyder

Its: Chief Executive Officer and Chairman

Compression Labs, Inc.

By: /s/ Richard N. Snyder

Its: President

EXHIBIT 10.27

AGREEMENT

This sets forth the agreement made this 11th day of January, 2005, by and among Forgent Networks, Inc. and its wholly owned subsidiary Compression Labs, Inc. ("Forgent" or the "Client"), and Godwin Gruber, LLP ("Godwin Gruber" or the "Law Firm"). The Law Firm and the Client are sometimes collectively hereinafter referred to as the "Parties." Any one of the Parties may be sometimes hereinafter referred to as a "Party."

This Agreement concerns litigation and licensing activities with respect to U.S. Patent No. 4,698,672 (the " '672 Patent"), together with any continuations, continuations-in-part, divisions and/or foreign counterparts of the '672 Patent. The Client is executing this Agreement for the purpose of retaining the Law Firm to represent it in connection with investigating and asserting claims, including the filing and prosecution of lawsuits, against any other person who may be infringing the '672 Patent, including the enforcement of the '672 Patent in the civil actions identified in Exhibit A. Any such claim as to which litigation is filed is referred to herein as a "Lawsuit." The Client is also executing this Agreement for the purpose of retaining the Law Firm to represent it in connection with negotiating with infringers who are not parties to any lawsuit relating to the enforcement of the '672 Patent to obtain and secure licensing or sublicensing agreements between the Client and infringers. Any such licensing or sublicensing agreements negotiated by the Law Firm will be referred to herein as a "License Agreement," and any negotiations for such License Agreements will be referred to herein as the "License Negotiations." The Client is not engaging the Law Firm to market or commercialize its technologies to non-infringers. The Client understands and acknowledges that patent infringement litigation often presents novel and difficult questions of both law and fact, and the acceptance of the engagement by the Law Firm in this matter may preclude engagements by the Law Firm on other matters.

SPECIAL DISCLOSURE. THE CLIENT ACKNOWLEDGES THAT IT WAS ADVISED TO RETAIN INDEPENDENT LEGAL COUNSEL TO REPRESENT THE CLIENT IN CONNECTION WITH THE NEGOTIATION AND EXECUTION OF THIS AGREEMENT. THE CLIENT FURTHER ACKNOWLEDGES THAT IT WAS ADVISED THAT THE LAW FIRM HAS A CONFLICT OF INTEREST THAT PREVENTS IT FROM REPRESENTING THE CLIENT IN ANY WAY WITH RESPECT TO THE NEGOTIATION AND EXECUTION OF THIS AGREEMENT AND THAT THE LAW FIRM HAS NOT DONE SO.

NOW, THEREFORE, for and in consideration of the mutual agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed by each Party, the Parties agree as follows:

1. Patents and Information Provided by Client. The Client agrees to use commercially reasonable efforts to provide the Law Firm with all information and documents in the possession of the Client or any entities affiliated with the Client reasonably required in connection with performing its duties and obligations hereunder.

2. Client's Patent Rights. The Client represents and warrants that, to the best of its knowledge after reasonable investigation, it owns the exclusive right to enforce all rights with respect to the '672 Patent, including, without limitation, the exclusive right to bring actions against others for infringement of the '672 Patent, to license and sublicense the '672 Patent, and to collect all royalties, license fees, profits or other revenue or valuable consideration to be paid or exchanged by anyone else for the right to use the '672 Patent. The Client agrees to timely pay all maintenance fees due on the '672 Patent.

3. Contingent Fee Compensation to Law Firm.

3(a) For services rendered pursuant hereto, the Client hereby agrees to pay the Law Firm a contingent fee based on: (1) any revenues, including but not limited to, royalties or license fees, money or other valuable consideration received by the Client through, under or as a result of any License Agreement and/or any License Negotiations (such amount is hereinafter referred to as the "License Proceeds"), and (2) any recovery realized out of or collected from or in connection with any Lawsuit, either through settlement, compromise or judgment, including, but not limited to, compensatory damages, exemplary damages, attorneys' fees, prejudgment interest, and post judgment interest (whether through trial or settlement of any Lawsuit) (such amount of recovery is hereinafter referred to as the

"Litigation Proceeds") after the effective date of this Agreement in an amount as follows:

3(a)1.A Sixteen percent (16%) of all "License Proceeds." The Parties agree that the term License Proceeds includes the value of any amount of money that is to be paid to the Client over any period of time as a proximate result of any License Agreement and/or License Negotiations. The Law Firm will receive its percentage interest in those amounts as they are paid to the Client or, at the election of the Client, based upon the present value of the amount of money that is to be paid to the Client over time. If the Client chooses to waive any such future payments, it will pay the Law Firm an amount equal to the Law Firm's interest in those payments as they otherwise would have been made to the Client. The Parties agree that the License Proceeds shall include the full fair market value of any non-monetary proceeds. License Proceeds shall not be reduced by any cross-license, cross-action, setoff or other payment by Client, which shall be the sole responsibility of Client.

3(a)1.B Twenty-one percent (21%) of all "Litigation Proceeds." The Parties agree that the term Litigation Proceeds includes any amount of money that is to be paid out to the Client over any period of time as a proximate result of any Lawsuit. The Law Firm will receive its percentage interest in those amounts as they are paid to the Client or, at the election of the Client, based upon the present value of the amount of money that is to be paid to the Client over time. If the Client chooses to waive any such future payments, it will pay the Law Firm an amount equal to the Law Firm's interest in those payments as they otherwise would have been made to the Client. The Parties agree that the Lawsuit Proceeds shall include the full fair market value of any non-monetary relief obtained or received directly by the Client or any related entity as a proximate result of any Lawsuit, such as injunctive relief.

The Law Firm's contingent fees based on License Proceeds and Litigation Proceeds shall collectively be referred to herein as the "Contingent Attorneys' Fees."

3(b) The Client shall pay the Contingent Attorneys' Fees to the Law Firm quarterly, on or before the 10th day of each succeeding calendar quarter. With each such lump sum payment, the Client shall provide the Law Firm with a (i) detailed accounting of all License Proceeds and Litigation Proceeds received by the Client during the immediately preceding calendar quarter, and (ii) a calculation of the quarterly lump sum amount being tendered to the Law Firm. The Law Firm shall have 30 days following its receipt of each quarterly payment and the accompanying detail within which to verify and/or object to the Client's calculation of the quarterly payment amount. If the Law Firm fails to object to any quarterly calculation within such 30 day period, the calculation and the payment received shall, absent fraud by the Client, be deemed to have been accepted by the Law Firm and shall be final.

3(c) Anything herein to the contrary notwithstanding, the Law Firm shall not be entitled to receive, and the Client shall not be required to pay the Law Firm, any Contingent Attorneys' Fees under paragraph 3(a) above or otherwise out of or with respect to the first $6 million of "Gross Recoveries" received by the Client on or after October 27, 2004, in recognition of Client's existing obligations under that certain Resolution Agreement, dated December 22, 2004 (the date on which the Law Firm first becomes entitled to receive any Contingent Attorneys' Fees in accordance with this paragraph 3(c), whether or not the Law Firm actually receives any Contingent Attorneys' Fees on such date, shall hereinafter be referred to as the "Contingent Fee Start Date").

4 Additional Hourly Rate Compensation the Law Firm. In addition to the Contingent Attorneys' Fees, the Client shall also compensate the Law Firm for services rendered hereunder by paying the Law Firm fifty-percent (50%) of the firm's reasonable attorneys' fees based upon its standard hourly rates applicable at the time incurred. The Law Firm will provide the Client with a statement for such reasonable attorneys' fees each month reflecting the time spent by the Law Firm pursuant hereto. The Client shall pay the Law Firm's statement for such reasonable attorneys' fees within 30 days of receipt of the statement.

5 Client Payment of Enforcement Expenses. For purposes hereof, "Enforcement Expenses" shall mean those third-party expenses reasonably incurred by Law Firm on the Client's behalf hereunder, including but not limited to, travel expenses, long distance calls, investigation fees, consultant fees, expert and witness fees, charts, photographs, deposition fees and costs, court costs, photocopying and other document reproduction costs, postage charges, fax charges, on-line computer research.

So long as the Law Firm is not entitled to receive any Contingent Attorneys' Fees under Paragraph 3(c) above, the Client shall pay when due all Enforcement Expenses. Once the Law Firm becomes entitled to receive Contingent

Attorneys' Fees in accordance with Paragraph 3(c) above, Enforcement Expenses shall be reimbursed to the Client out of any License Proceeds or Litigation Proceeds up to, but not to exceed, 20% of any such License Proceeds or Litigation Proceeds recovered from any person(s) at any one time. For example, if License Proceeds or Litigation Proceeds are recovered from a Licensing Negotiation or any Lawsuit from any person, then up to 20% of such total proceeds will be paid to the Client as reimbursement for Enforcement Expenses incurred, and the remainder of the License Proceeds or Litigation Proceeds will be distributed to the Law Firm and the Client in accordance with the provisions of Paragraph 3(a) above. In the event that the total amount of License Proceeds or Litigation Proceeds recovered with respect to a particular Licensing Negotiation or Lawsuit are insufficient to reimburse the Client fully for Reimbursable Enforcement Expenses, the Client agrees that the Client shall bear the unreimbursed portion of the Enforcement Expenses and that the Law Firm shall not be liable for any Enforcement Expenses not reimbursed.

6 Monthly Budget. On or before the 5th day of each calendar month during the term hereof, the Law Firm shall prepare and provide to the Client a written budget for that month for the Law Firm's legal fees under Paragraph 4 and Enforcement Expenses under Paragraph 5.

7 Court Award of Attorneys Fees or Costs. Where reasonably appropriate under the circumstances in any Lawsuit, the Law Firm shall apply to the Court for such amount of compensation, costs, and litigation expenses, if any, as may reasonably be allowed to the Client by law ("Attorneys Fees and Costs"). Any Attorneys Fees and Costs recovered under this paragraph shall be treated as Litigation Proceeds under this Agreement.

8 Defense of Counterclaims and Declaratory Judgment Actions. The Law Firm shall defend any action or counterclaim relating to the `672 patent filed against the Client by a defendant in a Lawsuit or by any person with whom the Client has been engaged in License Negotiations, including but not limited to, any action or counterclaim for declaratory judgment of patent invalidity, unenforceability or non-infringement relating to the '672 Patent, or for violation of the state or federal antitrust laws relating to the '672 Patent (including the Client's current proceeding before the FTC), or for any other claim that is substantively related to the '672 Patent or Client's rights therein, on the basis specified in Paragraphs 3 and 4 above. To the extent that a any action, claim or counterclaim is asserted against the Client that is unrelated to the subject matter of the `672 Patent, and the Client desires the Law Firm to defend the Client against such cause of action, the Law Firm and the Client may agree to such representation on such terms as are mutually acceptable.

9 Law Firm Association of other Lawyers or Assignment. The Law Firm agrees to perform faithfully the duties imposed upon the Law Firm as attorneys for the Client in accordance herewith. The Law Firm may, at the discretion and expense of the Law Firm, associate any other attorney, law firm or other entity, as allowed by law, in pursuing its duties and obligations hereunder, and may assign all or any part of its interest in the Licensing Proceeds or Litigation Proceeds to any other such entity, as allowed by law, provided that such assignment shall not relieve the Law Firm from its responsibility as legal counsel for the Client without Client's prior written consent, nor shall such assignment increase the cost to the Client of any Lawsuit or reduce the interest of the Client in the Licensing Proceeds or Litigation Proceeds.

10 Assignment of '672 Patent or Any Rights Therein. The Law Firm and the Client acknowledge and agree that the Client's agreement to pay the Law Firm the Contingent Attorneys' Fees hereunder is in no way a conveyance or assignment of any interest or rights to the '672 Patent. The Client retains the right to use the technology in the '672 Patent and to make, have made, import, use, sell or offer for sale any equipment, device or apparatus and to practice any method covered by any claim of any of the '672 Patent, for the customers of the Client.

11 Termination of Engagement.

11(a) By the Law Firm. The Law Firm may at any time, at its option (and with Court approval in the case of any Lawsuit), with or without cause, terminate its representation of the Client hereunder by providing not less than 90 days' prior written notice to the Client.

11(b) By the Client. The Client may at any time, with or without cause, terminate the Law Firm's representation of the Client hereunder by providing not less than 90 days' prior written notice to the Law Firm.

11(c) Effect of Termination. Upon the termination of the Law Firm's representation of the Client hereunder by either Party, this Agreement shall be terminated and shall no longer be of any force or effect, and neither Party shall

thereafter be liable to the other hereunder except as expressly provided herein. Notwithstanding the termination hereof, the Client shall compensate the Law Firm hereunder as follows:

11(c)1.A Client shall pay the Law Firm all hourly rate compensation due under Paragraph 4 and all Enforcement Expenses due under Paragraph 5 through the effective date of termination (the "Termination Date"). Such amounts shall be paid in full within 30 days of Client's receipt of final invoice.

11(c)1.B With respect to any Contingent Attorneys' Fees due as of or subsequent to the Termination Date with respect to Lawsuits or License Negotiations completed prior to the Termination Date, the Client shall continue to pay the Law Firm such fees in accordance with the payment procedures prescribed in Paragraph 3(b) above.

11(c)1.C With respect to any Lawsuit or License Negotiation hereunder that is not completed prior to the Termination Date, but that is thereafter completed by the Client with or without the assistance of replacement legal counsel, upon receipt of any License Proceeds or Litigation Proceeds with respect thereto, the Client shall pay the Law Firm its pro rata share of such proceeds. For purposes hereof, the Law Firm's "pro rata share" shall be (A) the total amount of the proceeds that otherwise would have been due and payable to the Law Firm hereunder relative to such Lawsuit or License Negotiation if this Agreement had remained in effect through the date of Client's receipt of the License Proceeds or Litigation Proceeds, multiplied by (B) a fraction, the numerator of which is equal to the Law Firm's total billings (exclusive of Enforcement Expenses) for legal services rendered (at its standard hourly rates applicable at the time) relative to such Lawsuit or License Negotiation during the period beginning on the Contingent Fee Start Date (as defined in paragraph 3(c) above) and ending on the Termination Date, and the denominator of which is equal to the total billings (exclusive of Enforcement Expenses) by all law firms (including the billings by the Law Firm) for legal services rendered relative to such Lawsuit or License Negotiation during the period beginning on October 27, 2004 (or such later date as legal services relative to such Lawsuit or License Negotiation were commenced) and ending on the date such Law Suit or Licensing Negotiation is completed.

12 Audit. As long as the Law Firm is entitled to receive payments resulting from any License Proceeds or Litigation Proceeds, the Law Firm shall have the right to audit all financial records of the Client related to the receipt of any such proceeds.

13 Law Firm Authority to Act for Client. The Client authorizes the Law Firm to try, negotiate, compromise, settle and receive for and in Client's name, all compensation, damages or property to which Client may become entitled by reason of any License Agreement or Lawsuit. Client agrees not to enter into any License Agreement or settle any Lawsuit without consultation with the Law Firm, and the Law Firm agrees not to enter into any License Agreement or settle any Lawsuit without the written consent of the Client.

14 No Representation or Warranty by Law Firm. Each Party specifically recognizes that the other Party has made no representation or warranty whatsoever regarding the probable outcome of any Lawsuit and has in no way guaranteed the result or outcome of nor any recovery from the settlement or trail of any Lawsuit.

15 Other Documents. The Parties agree to execute such other documents as might be reasonably necessary or appropriate to consummate and implement the terms of this Agreement.

16 Client Option for Hourly Fees. The Client acknowledges that prior to signing this Agreement, the Client was given the option of retaining the Law Firm to prosecute any Lawsuit on exclusively a normal hourly rate (plus costs and expenses incurred) basis but elected instead to retain the Law Firm to prosecute any Lawsuit pursuant to the terms and conditions of this Agreement.

17 Remedies for Breach. In the event that any Party hereto shall breach any of the obligations imposed by this Agreement, then a non-breaching Party shall be entitled to pursue a claim for monetary damages as a result of such breach. No Party, however, shall be entitled to recover special, indirect, or consequential damages, including lost profits, from any other Party. For purposes of this paragraph, if the Client breaches the Agreement, the compensation to which the Law Firm may be entitled under Paragraph 3 herein is not "special, indirect, or consequential damages, including lost profits."

18 Successors and Assigns. This Agreement is and shall be binding and inure to the benefit of the Parties, legal representatives, successors and assigns.

19 Governing Law. It is expressly understood and agreed that this Agreement shall be governed by, construed, interpreted, and enforced in accordance with the laws of the State of Texas.

20 Legal Construction. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions thereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

21 Waiver and Integration Clause. This Agreement constitutes the entire agreement among the Parties and supersedes any prior understandings or written or oral agreement between the Parties respecting the subject matter of this Agreement, including specifically that certain engagement letter between Forgent and Godwin Gruber dated 9-30-04, which engagement letter is terminated as of the date hereof. This Agreement may not be modified or amended except by a subsequent agreement in writing signed by the Parties. The Parties may waive any of the conditions contained herein or any of the obligations of any other party. Any such waiver shall be effective only if in writing and signed by the Party waiving such condition or obligation.

22 Counterparts. This Agreement may be executed in multiple counterparts, each one of which will be considered to be an original.

23 State Bar Notice. The Texas State Bar Act requires that Texas attorneys give notice to their clients that the State Bar of Texas investigates and prosecutes professional misconduct committed by Texas attorneys. Although not every complaint against or dispute with a lawyer involves professional misconduct, the State Bar's Office of the General Counsel will provide information about how to file a complaint by calling 1-800-932-1900 toll free.

Godwin Gruber, LLP

By: /s/ G. Michael Gruber

Its: Vice-President and Chief Executive Officer

Forgent Networks, Inc.

By: /s/ Richard N. Snyder

Its: Chief Executive Officer

Compression Labs, Inc.

By: /s/ Richard N. Snyder

Its: Chief Executive Officer

EXHIBIT 10.28

AGREEMENT

This sets forth the agreement made this 19th day of January, 2005, by and among Forgent Networks, Inc. and its wholly owned subsidiary Compression Labs, Inc. ("Forgent" or the "Client"), and The Roth Law Firm, P.C. (the "Law Firm"). The Law Firm and the Client are sometimes collectively hereinafter referred to as the "Parties." Any one of the Parties may be sometimes hereinafter referred to as a "Party."

This Agreement concerns the Client's retention of the Law Firm, as local counsel, to assist Godwin & Gruber, LLP, as lead counsel, in connection with the prosecution of the civil actions identified in Exhibit A (the "Pending Lawsuits")(to the extent the Law Firm is not disqualified by client conflicts), each of which pertains to the Client's enforcement of its rights in and to U.S. Patent No. 4,698,672 (the " '672 Patent"), together with any continuations, continuations-in-part, divisions and/or foreign counterparts of the '672 Patent, against the defendants named in the Pending Lawsuits. The Client is not engaging the Law Firm to market or commercialize its technologies to non-infringers. The Client understands and acknowledges that patent infringement litigation often presents novel and difficult questions of both law and fact, and the acceptance of the engagement by the Law Firm in this matter may preclude engagements by the Law Firm on other matters.

SPECIAL DISCLOSURE. THE CLIENT ACKNOWLEDGES THAT IT WAS ADVISED TO RETAIN INDEPENDENT LEGAL COUNSEL TO REPRESENT THE CLIENT IN CONNECTION WITH THE NEGOTIATION AND EXECUTION OF THIS AGREEMENT. THE CLIENT FURTHER ACKNOWLEDGES THAT IT WAS ADVISED THAT THE LAW FIRM HAS A CONFLICT OF INTEREST THAT PREVENTS IT FROM REPRESENTING THE CLIENT IN ANY WAY WITH RESPECT TO THE NEGOTIATION AND EXECUTION OF THIS AGREEMENT AND THAT THE LAW FIRM HAS NOT DONE SO.

NOW, THEREFORE, for and in consideration of the mutual agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed by each Party, the Parties agree as follows:

1 Patents and Information Provided by Client. The Client agrees to use commercially reasonable efforts to provide the Law Firm with all information and documents in the possession of the Client or any entities affiliated with the Client reasonably required in connection with performing its duties and obligations hereunder.

2 Client's Patent Rights. The Client represents and warrants that, to the best of its knowledge after reasonable investigation, it owns the exclusive right to enforce all rights with respect to the '672 Patent, including, without limitation, the exclusive right to bring actions against others for infringement of the '672 Patent, to license and sublicense the '672 Patent, and to collect all royalties, license fees, profits or other revenue or valuable consideration to be paid or exchanged by anyone else for the right to use the '672 Patent. The Client agrees to timely pay all maintenance fees due on the '672 Patent.

3 Contingent Fee Compensation to Law Firm.

3(a) For services rendered pursuant hereto, the Client hereby agrees to pay the Law Firm a contingent fee based on any recovery realized out of or collected from or in connection with any Pending Lawsuit, either through settlement, compromise or judgment, including, but not limited to, compensatory damages, exemplary damages, attorneys' fees, prejudgment interest, and post judgment interest (whether through trial or settlement of any Pending Lawsuit) (such amount of recovery is hereinafter referred to as the "Litigation Proceeds") after the effective date of this Agreement in an amount equal to ten percent (10%) of all "Litigation Proceeds." The Parties agree that the term Litigation Proceeds includes any amount of money that is to be paid out to the Client over any period of time as a proximate result of any Pending Lawsuit. The Law Firm will receive its percentage interest in those amounts as they are paid to the Client or, at the election of the Client, based upon the present value of the amount of money that is to be paid to the Client over time. If the Client chooses to waive any such future payments, it will pay the Law Firm an amount equal to the Law Firm's interest in those payments as they otherwise would have been made to the Client. The Parties agree that the Litigation Proceeds shall include the full fair market value of any non-monetary relief obtained or received directly by the Client or any related entity as a proximate result of any Pending Lawsuit, such

as injunctive relief. The Law Firm's contingent fees based on the Litigation Proceeds from each of the Pending Lawsuits shall collectively be referred to herein as the "Contingent Attorneys' Fees."

3(b) The Client shall pay the Contingent Attorneys' Fees to the Law Firm quarterly, on or before the 10th day of each succeeding calendar quarter. With each such lump sum payment, the Client shall provide the Law Firm with a (i) detailed accounting of all Litigation Proceeds received by the Client during the immediately preceding calendar quarter, and (ii) a calculation of the quarterly lump sum amount being tendered to the Law Firm. The Law Firm shall have 30 days following its receipt of each quarterly payment and the accompanying detail within which to verify and/or object to the Client's calculation of the quarterly payment amount. If the Law Firm fails to object to any quarterly calculation within such 30 day period, the calculation and the payment received shall, absent fraud by the Client, be deemed to have been accepted by the Law Firm and shall be final.

3(c) Anything herein to the contrary notwithstanding, the Law Firm shall not be entitled to receive, and the Client shall not be required to pay the Law Firm, any Contingent Attorneys' Fees under paragraph 3(a) above or otherwise out of or with respect to the first $10 million of gross proceeds (including, but not limited to royalties, license fees, settlement payments, compensatory damage payments, and pre-judgment and post-judgment interest) received by the Client from, through or out of its '672 Patent Licensing and infringement prosecution program on or after January 1, 2005 (the date on which the Law Firm first becomes entitled to receive any Contingent Attorneys' Fees in accordance with this paragraph 3(c), whether or not the Law Firm actually receives any Contingent Attorneys' Fees on such date, shall hereinafter be referred to as the "Contingent Fee Start Date").

4 Additional Hourly Rate Compensation the Law Firm.

4(a) In addition to the Contingent Attorneys' Fees, the Client shall also compensate the Law Firm for services rendered hereunder by paying the Law Firm its reasonable attorneys' fees based upon the Law Firm's standard hourly rates, being $500 per hour for attorneys and $85 per hour for legal assistants. There will be a minimum charge of 100 attorney hours per month during the pendency of the Pending Lawsuits, and in no event shall the amounts payable under this paragraph 4(a) exceed $500,000 in the aggregate without the written consent of the Client.

4(b) In keeping with paragraph 4(a) above, no later than thirty (30) days following the execution hereof, the Client shall pay the Law Firm $20,000 for services rendered by the Law Firm at its standard hourly rates prior to the date hereof. Upon request, the Client shall also reimburse the Law Firm for all Enforcement Expenses (as defined in paragraph 5 below) incurred by the Law Firm prior to the date hereof.

5 Client Payment of Enforcement Expenses. In addition to amounts payable under paragraphs 3 and 4, Client will reimburse Law Firm for Enforcement Expenses reasonably incurred by Law Firm on the Client's behalf. "Enforcement Expenses" shall include but not limited to, travel expenses, long distance calls, investigation fees, consultant fees, expert and witness fees, charts, photographs, deposition fees and costs, court costs, photocopying and other document reproduction costs, postage charges, fax charges, on-line computer research. Law Firm shall periodically provide an itemized bill of Enforcement Expenses, which shall be payable on receipt.

6 Defense of Counterclaims and Declaratory Judgment Actions. The Law Firm shall defend any action or counterclaim relating to the `672 Patent filed against the Client in the Eastern District of Texas by a defendant in any Pending Lawsuit on the basis specified in paragraphs 3 and 4(a) above. To the extent that a any action, claim or counterclaim is asserted against the Client that is unrelated to the subject matter of the `672 Patent, and the Client desires the Law Firm to defend the Client against such cause of action, the Law Firm and the Client may agree to such representation on such terms as are mutually acceptable.

7 Assignment of '672 Patent or Any Rights Therein. The Law Firm and the Client acknowledge and agree that the Client's agreement to pay the Law Firm the Contingent Attorneys' Fees hereunder is in no way a conveyance or assignment of any interest or rights to the '672 Patent. The Client retains the right to use the technology in the '672 Patent and to make, have made, import, use, sell or offer for sale any equipment, device or apparatus and to practice any method covered by any claim of any of the '672 Patent, for the customers of the Client.

8 Termination of Engagement.

8(a) By the Law Firm. The Law Firm may at any time, at its option (and with Court approval in the case of any Pending Lawsuit), with or without cause, terminate its representation of the Client hereunder by providing not less than 90 days' prior written notice to the Client.

8(b) By the Client. The Client may at any time, with or without cause, terminate the Law Firm's representation of the Client hereunder by providing not less than 90 days' prior written notice to the Law Firm.

8(c) Effect of Termination. Upon the termination of the Law Firm's representation of the Client hereunder by either Party, this Agreement shall be terminated and shall no longer be of any force or effect, and neither Party shall thereafter be liable to the other hereunder except as expressly provided herein. Notwithstanding the termination hereof, the Client shall compensate the Law Firm hereunder as follows:

8(c)1.A Client shall pay the Law Firm all hourly rate compensation due under Paragraph 4 and all Enforcement Expenses due under paragraph 5 through the effective date of termination (the "Termination Date"). Such amounts shall be paid in full within 30 days of Client's receipt of a final invoice.

8(c)1.B With respect to any Contingent Attorneys' Fees due as of or subsequent to the Termination Date with respect to any of the Pending Lawsuits that are completed prior to the Termination Date, the Client shall continue to pay the Law Firm such fees in accordance with the payment procedures prescribed in paragraph 3(b) above.

8(d) With respect to any Pending Lawsuit that is not completed prior to the Termination Date, but that is thereafter completed by the Client with or without the assistance of replacement local counsel, upon receipt of any Litigation Proceeds with respect thereto, the Client shall compensate the Law Firm hereunder as follows:

(i) in the event the Law Firm exercises its option to voluntarily terminate this representation, the Client will have no further obligation for the payment of fees.

(ii) In the event the Law Firm is involuntarily terminated by Client, the Client will be obligated to pay the fees to which the Law Firm would have been entitled to under Paragraph 3(a) on the Litigation Proceeds obtained after termination had it not been terminated, multiplied by a fraction, the numerator of which is equal to the number of months beginning May 1, 2004 until the date of the termination, and the denominator of which is equal to the number of months from May 1, 2004 to the date of the conclusion of the Pending Lawsuit.

9 Audit. As long as the Law Firm is entitled to receive payments resulting from any Litigation Proceeds, the Law Firm shall have the right to audit all financial records of the Client related to the receipt of any such Litigation Proceeds.

10 No Representation or Warranty by Law Firm. Each Party specifically recognizes that the other Party has made no representation or warranty whatsoever regarding the probable outcome of any Pending Lawsuit and has in no way guaranteed the result or outcome of nor any recovery from the settlement or trail of any Pending Lawsuit.

11 Other Documents. The Parties agree to execute such other documents as might be reasonably necessary or appropriate to consummate and implement the terms of this Agreement.

12 Client Option for Hourly Fees. The Client acknowledges that prior to signing this Agreement, the Client was given the option of retaining the Law Firm to prosecute any Pending Lawsuit on exclusively a normal hourly rate (plus costs and expenses incurred) basis but elected instead to retain the Law Firm to prosecute the Pending Lawsuits pursuant to the terms and conditions of this Agreement.

13 Remedies for Breach. In the event that any Party hereto shall breach any of the obligations imposed by this Agreement, then a non-breaching Party shall be entitled to pursue a claim for monetary damages as a result of such breach. No Party, however, shall be entitled to recover special, indirect, or consequential damages, including lost profits, from any other Party. For purposes of this paragraph, if the Client breaches the Agreement, the compensation to which the Law Firm may be entitled under Paragraph 3 herein is not "special, indirect, or consequential damages, including lost profits."

14 Successors and Assigns. This Agreement is and shall be binding and inure to the benefit of the Parties, legal representatives, successors and assigns.

15 Governing Law. It is expressly understood and agreed that this Agreement shall be governed by, construed, interpreted, and enforced in accordance with the laws of the State of Texas.

16 Legal Construction. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions thereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

17 Waiver and Integration Clause. This Agreement constitutes the entire agreement among the Parties and supersedes any prior understandings or written or oral agreement between the Parties respecting the subject matter of this Agreement. This Agreement may not be modified or amended except by a subsequent agreement in writing signed by the Parties. The Parties may waive any of the conditions contained herein or any of the obligations of any other party. Any such waiver shall be effective only if in writing and signed by the Party waiving such condition or obligation.

18 Counterparts. This Agreement may be executed in multiple counterparts, each one of which will be considered to be an original.

19 State Bar Notice. The Texas State Bar Act requires that Texas attorneys give notice to their clients that the State Bar of Texas investigates and prosecutes professional misconduct committed by Texas attorneys. Although not every complaint against or dispute with a lawyer involves professional misconduct, the State Bar's Office of the General Counsel will provide information about how to file a complaint by calling 1-800-932-1900 toll free.

Forgent Networks, Inc.

By: /s/ Richard N. Snyder

Its: Chief Executive Officer

Compression Labs, Inc.

By: /s/ Richard N. Snyder

Its: Chief Executive Officer

THE ROTH LAW FIRM, P.C.

By: /s/ Carl Roth

Its: President

EXHIBIT 31.1

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

I, the undersigned Richard N. Snyder, 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 the 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)) 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) 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 (c) 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 January 31, 2005) 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 controls 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 controls 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 controls over financial reporting.

/s/ RICHARD N. SNYDER
Richard N. Snyder
Chief Executive Officer
March 15, 2005

EXHIBIT 31.2

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

I, the undersigned, Jay C. Peterson, Chief Financial 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 the 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)) 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) 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 (c) 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 January 31, 2005) 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 controls 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 controls 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 controls over financial reporting.

/s/ JAY C. PETERSON
Jay C. Peterson
Chief Financial Officer
March 15, 2005

EXHIBIT 32.1

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

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

1. The quarterly report on Form 10-Q of the Company for the period ended January 31, 2005 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended (15 U.S.C. 78m or 78o(d)), 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/ RICHARD N. SNYDER
Richard N. Snyder
Chief Executive Officer
March 15, 2005

EXHIBIT 32.2

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

I, the undersigned, Jay C. Peterson, Chief Financial Officer, of Forgent Networks, Inc. (the "Company"), do hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The quarterly report on Form 10-Q of the Company for the period ended January 31, 2005 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended (15 U.S.C. 78m or 78o(d)), 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/ JAY C. PETERSON
Jay C. Peterson
Chief Financial Officer
March 15, 2005