

FORGENT NETWORKS INC
Form DEF 14A
July 14, 2005

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

Forgent Networks, Inc.

(Name of Registrant as Specified in its Charter)

Not Applicable

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(Name of Person(s) Filing Proxy Statement if other than Registrant)

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2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

FORGENT NETWORKS, INC.

108 Wild Basin Road

Austin, TX 78746

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held Friday July 27, 2005

Dear Stockholder:

You are cordially invited to attend the 2005 annual meeting of stockholders of Forgent Networks, Inc., to be held at 108 Wild Basin Road, Austin, Texas, on Wednesday, July 27, 2005 at 10:00 a.m. local time.

At the annual meeting, you will be asked to act on the following matters:

1. To elect six directors to the board of directors to hold office until the next annual meeting of stockholders or until their respective successors are duly elected and qualified;
2. To ratify the Audit Committee's appointment of Ernst & Young LLP, independent accountants, as our independent auditors for the year ending July 31, 2005; and
3. To consider and act upon a proposal to approve an amendment to our 1992 Director Stock Option Plan to increase the number of shares of our common stock issuable under the 1992 Director Stock Option Plan upon the exercise of stock options granted pursuant to the 1992 Director Stock Option Plan from 250,000 to 500,000; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED AND RECOMMENDS THAT AN AFFIRMATIVE VOTE BE CAST IN FAVOR OF EACH OF THE PROPOSALS LISTED IN THE PROXY CARD.

Only holders of record of common stock at the close of business on June 21, 2005 will be entitled to notice of and to vote at the annual meeting or any adjournment thereof.

Stockholders are urged to review carefully the information contained in the proxy statement attached hereto prior to deciding how to vote their shares at the annual meeting. Your participation in the annual meeting, in person or by proxy, is important. We hope you will be able to attend the annual meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD PROMPTLY.** If you attend the annual meeting, you may revoke your proxy and vote in person if

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you wish, even if you have previously returned your proxy card. Simply attending the annual meeting, however, will not revoke your proxy; you must vote at the annual meeting. If you do not attend the annual meeting, you may still revoke your proxy at any time prior to the annual meeting by providing a later dated proxy or by providing written notice of your revocation to the Secretary of our company. Your prompt cooperation will be greatly appreciated.

Sincerely,

RICHARD N. SNYDER
Chief Executive Officer

This proxy statement is dated June 21, 2005 and is first being mailed to stockholders on or about July 14, 2005.

FORGENT NETWORKS, INC.

108 Wild Basin Road

Austin, TX 78746

PROXY STATEMENT

FOR 2004 ANNUAL MEETING OF STOCKHOLDERS

July 27, 2005

The enclosed form of proxy is solicited by the board of directors to be used at the 2004 annual meeting of stockholders to be held at 108 Wild Basin Road, Austin, Texas, on July 27, 2005 at 10:00 local time.

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional information furnished to you. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of our common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

Some banks, brokers and other record holders have begun the practice of "householding" proxy statements and annual reports. "Householding" is the term used to describe the practice of delivering a single set of proxy statements and annual reports to any household at which two or more stockholders reside if a company reasonably believes the stockholders are members of the same family. This procedure would reduce the volume of duplicate information stockholders receive and would also reduce a company's printing and mailing costs. We will promptly deliver an additional copy of either document to any stockholder who writes or calls us at the following address or phone number: Investor Relations, Forgent Networks, Inc., 108 Wild Basin Road, Austin, Texas 78746, (512) 437-2678.

VOTING SECURITIES OUTSTANDING; QUORUM

The record date for the determination of stockholders entitled to notice of and vote at the annual meeting was the close of business on June 21, 2005. At the close of business on June 21, 2005, there were 25,171,869 shares of our common stock, \$.01 par value, issued and outstanding, each entitled to one vote on all matters properly brought before the annual meeting. There are no cumulative voting rights.

The presence in person or by proxy of the holders of a majority of the issued and outstanding shares of common stock entitled to vote as of the record date is necessary to constitute a quorum at the annual meeting. Abstentions and broker non-votes are treated as present at the meeting and are therefore counted to determine a quorum. If a quorum is not present, the stockholders entitled to vote who are present in person or represented by proxy at the annual meeting have the power to adjourn the meeting from time to time, without notice other than an adjournment at the meeting, until a quorum is present or represented. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the annual meeting as originally notified.

Directors are elected by a plurality of the votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote on the election of directors. Abstentions may be specified on all proposals except the election of directors. Abstentions, with respect to any proposal other than the election of directors, will have the same effect as a vote against such proposal. Broker non-votes will have no effect on the outcome of the election of directors or the ratification of independent auditors as they will not be deemed to count for or against such proposals. With regard to the election of directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will be excluded entirely from the vote and will have no effect.

THE ANNUAL MEETING OF STOCKHOLDERS

This proxy statement is provided in connection with the annual meeting of stockholders of Forgent Networks, Inc., and any adjournment or postponement of the meeting. The accompanying proxy is solicited by the board of directors. This proxy statement and the accompanying form of proxy are first being sent or given to stockholders beginning on or about July 14, 2005.

Time and Place

The annual meeting of stockholders of Forgent will be held at 108 Wild Basin Road, Austin, Texas, on July 27, 2005 at 10:00 a.m. local time.

Purposes

At the annual meeting, you will be asked:

To elect six directors to the board of directors to hold office until the next annual meeting of stockholders or until their respective successors are duly elected and qualified;

To ratify the Audit Committee's appointment of Ernst & Young LLP, independent accountants, as our independent auditors for the year ending July 31, 2005; and

To consider and act upon a proposal to approve an amendment to our 1992 Director Stock Option Plan to increase the number of shares of our common stock issuable under the 1992 Director Stock Option Plan upon the exercise of stock options granted pursuant to the 1992 Director Stock Option Plan from 250,000 to 500,000; and

To transact such other business as may properly come before the meeting or any adjournment thereof.

The board of directors knows of no other matters to be presented for action at the annual meeting. If any other matters properly come before the annual meeting, however, the persons named in the proxy will vote on such other matters in accordance with their best judgment.

Record Date; Stockholders Entitled to Vote

Holders of record of our shares of common stock at the close of business on June 21, 2005 will be entitled to vote on all matters at the annual meeting. Each share of common stock will be entitled to one vote. On June 21, 2005 a total of 25,171,869 shares of common stock were outstanding.

Quorum

A majority of the voting power of the outstanding shares of common stock entitled to vote, represented in person or by proxy, will be required to constitute a quorum for the annual meeting.

Vote Required

Directors are elected by a plurality of the votes of the shares present in person or represented by proxy at the annual meeting and entitled to vote on the election of directors. The ratification of the appointment of independent auditors and approval of the amendment to the 1992 Direct Stock Option Plan must be approved by holders of a majority of the shares of common stock present in person or represented by proxy at the annual meeting and entitled to vote thereon.

Board Recommendation

The board of directors recommends that an affirmative vote be cast in favor of each of the proposals listed in the proxy card.

Voting Your Shares

The board of directors is soliciting proxies from our stockholders. By completing and returning the accompanying proxy or by completing the telephone or internet procedures, you will be authorizing Jay C. Peterson and Richard N. Snyder to vote your shares. If your proxy is properly signed and dated, it will be voted as you direct. If you attend the annual meeting in person, you may vote your shares by completing a ballot at the meeting.

Changing Your Vote by Revoking Your Proxy

Your proxy may be revoked at any time before it is voted at the annual meeting by giving notice of revocation to us, in writing, by execution of a later dated proxy or by attending and voting at the annual meeting. Simply attending the annual meeting, however, will not revoke your proxy; you must vote at the annual meeting.

How Proxies are Counted

If you return a signed and dated proxy card but do not indicate how your shares are to be voted, those shares will be voted FOR each of the listed proposals. Votes cast by proxy or in person at the annual meeting will be tabulated by the election inspectors appointed for the annual meeting.

Shares voted as abstentions on any matter will be counted for purposes of determining the presence of a quorum at the annual meeting and treated as unvoted, although present and entitled to vote, for purposes of determining the approval of each matter as to which a stockholder has abstained. As a result, abstentions with respect to any proposal other than the election of directors, will have the same effect as a vote against such proposal. If a broker submits a proxy that indicates the broker does not have discretionary authority as to certain shares to vote on one or more matters, those shares will be counted for purposes of determining the presence of a quorum at the annual meeting, but will not be considered as present and entitled to vote with respect to such matters.

Cost of Solicitation

We will pay all expenses in connection with this solicitation. Our officers, directors and other regular employees, who will receive no extra compensation for their services, may solicit proxies by telephone, telegram or personal solicitation.

ELECTION OF DIRECTORS

(ITEM 1)

Directors are elected annually and serve a one-year term. There are six nominees for election this year. Director nominees are recommended for selection to the board of directors by a majority of directors who meet the independence standards of the Nasdaq Stock Market. The full board of directors then selects and recommends candidates for nomination as directors for stockholders to consider and vote upon at the annual

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stockholders meeting. The board of directors reviews and considers any candidates submitted by a stockholder or stockholder group in the same manner as all other candidates. Each nominee has consented to serve until the next annual meeting if elected, and until his or her successor is elected and qualified. You will find detailed information on each nominee below. If any director is unable to stand for re-election after distribution of this proxy statement, the board may reduce its size or designate a substitute. If the board designates a substitute, proxies voting on the original director candidate will be cast for the substituted candidate. Proxies cannot be voted for a greater number of persons than the number of nominees named on the enclosed form of proxy. A plurality of the votes cast in person or by proxy by the holders of common stock represented at the annual meeting is required to elect a director.

<u>Nominee</u>	<u>Age</u>	<u>Present Office(s) Held In Our Company</u>	<u>Director Since</u>
Richard N. Snyder	60	Chairman of the Board, President and Chief Executive Officer	1997
Kathleen A. Cote	56	None	1999
James H. Wells	58	None	1999
Lou Mazzucchelli	49	None	2002
Richard J. Agnich	62	None	2003
Ray R. Miles	52	None	2003

The following information regarding the principal occupations and other employment of the nominees during the past five years and their directorships in certain companies is as reported by the respective nominees:

Richard N. Snyder, age 60, has served as a director of our company since December 1997 and was elected chairman of the board in March 2000. In June 2001, Mr. Snyder was elected as president and chief executive officer of our company. From September 1997 until assuming the positions of president and chief executive officer of our company, Mr. Snyder served as founder and chief executive officer of Corum Cove Consulting, LLC, a consulting firm specializing in providing strategic guidance to high technology businesses. From 1996 until 1997, Mr. Snyder was the senior vice president of World Wide Sales, Marketing, Service and Support of Compaq Computer Corp., a worldwide computer company. From 1995 until 1996, Mr. Snyder was the senior vice president and general manager of Dell Americas, a computer manufacturer and marketer. Prior to 1995, Mr. Snyder served as group general manager of the Deskjet Products Group of Hewlett Packard. He also serves as a director of Symmetricom, Inc., based in San Jose, California.

Kathleen A. Cote, age 56, has served as a director of our company since December 1999. From May 2001 through June 2003, she was chief executive officer of Worldport Communications, Inc., a provider of internet managed services to the European market. In January 1998, Ms. Cote founded Seagrass Partners, a provider of expertise in business planning and strategic development, and served as its president until May 2001. From November 1996 to January 1998, Ms. Cote served as chief executive officer of Computervision Corporation, an international provider of software for data management and product development software and services. From November 1986 to November 1996, she held various senior management positions with Computervision Corporation. In January 1998, Computervision Corporation was acquired by Parametric Technology Corporation. Ms. Cote is also a director of Radview Corporation and Western Digital Corporation.

James H. Wells, age 58, has served as a director of our company since December 1999. He currently consults with early stage internet start-up companies. Mr. Wells was the senior vice president of marketing and business development of Dazel, a Hewlett Packard enterprise software company, from January 1999 through February 2000. From April 1995 to March 1998, Mr. Wells served as vice president of sales and was a founding officer in the internet streaming company, RealNetworks, Inc.

Lou Mazzucchelli, age 49, has served as a director of our company since February 2002. He is currently a venture partner at Ridgewood Capital, a venture capital firm focusing its investments in the information technology industry. Prior to joining Ridgewood Capital in 2001, Mr. Mazzucchelli was an investment banker at Gerard Klauer Mattison in New York, which he joined in 1996 as their PC and digital media technology analyst. Previously, Mr. Mazzucchelli spent 13 years leading Cadre Technologies, a pioneering computer-aided software engineering tools company that he founded in 1982 and grew to become one of the top 50 U.S. independent software vendors before its sale in 1986.

Richard J. Agnich, age 62, has served as a director of our company since March 2003. He is currently an advisor to technology start-ups, is a trustee of Austin College and chair of the Entrepreneurs Foundation of North Texas. Mr. Agnich is also currently serving as a director of ST Assembly Test Services, Ltd. (STTS, NASDAQ), a leading semiconductor test and assembly service provider headquartered in Singapore. Prior to his retirement in 2000, Mr. Agnich served as Senior Vice President, General Counsel and Secretary and various other positions at Texas Instruments Incorporated since 1973.

Ray R. Miles, age 52, has served as a director of our company since March 2003. He is currently working with Rajko Associates, a company that provides consulting services on corporate strategy. From 2001 to 2002, Mr. Miles served as the President of Communications Services, a service line of the Operations Solutions business of EDS, Inc. Prior to joining Communications Services, Mr. Miles was a business manager and manager of software strategy at Texas Instruments from 1999 to 2001. From 1996 to 1999, Mr. Miles served as a branch manager and then Chief Operating Officer of Deutsche Telekom Alliance, a strategic alliance between Texas Instruments Incorporated and Deutsche Telekom.

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None of the nominees is related to any other nominee or to any executive officer or director of our company by blood, marriage or adoption (except relationships, if any, more remote than first cousin).

THE BOARD OF DIRECTORS RECOMMENDS VOTING FOR EACH OF THE SIX NOMINEES.

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a Code of Business Conduct and Ethics that applies to all our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer (Officers). These individuals are required to abide by the Code of Business Conduct and Ethics to insure that our business is conducted in a consistently legal and ethical manner. Our Code of Business Conduct and Ethics covers all areas of professional conduct, including employment policies, conflicts of interest, intellectual property and the protection of confidential information, as well as strict adherence to all laws and regulations applicable to the conduct of our business. Any waivers of the Code of Business Conduct and Ethics for directors or executive officers must be approved by the board of directors.

The full text of our Code of Business Conduct and Ethics is published on our web site, at www.forgent.com, under the Company-Corporate Governance captions. We intend to disclose future amendments to, or waivers from, provisions of our Code of Business Conduct and Ethics on our web site within four business days following the date of such amendment or waiver.

EQUITY COMPENSATION PLANS

Equity Compensation Plan Information

The following table provides information as of July 31, 2004 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	A	B	C
	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Stockholders ⁽¹⁾	2,274,133	\$ 2.71	3,170,679
Equity Compensation Plans Not Approved by Stockholders ⁽²⁾	-0-	N/A	-0-
Total	2,274,133	\$ 2.71	3,170,679

⁽¹⁾ Consists of the 1989 Stock Option Plan, the 1992 Director Stock Option Plan, the 1996 Stock Option Plan, the Restricted Stock Plan and the Employee Stock Purchase Plan.

⁽²⁾ All of our equity compensation plans have been previously approved by our stockholders.

BOARD OF DIRECTORS AND COMMITTEES

The board of directors held eight regularly scheduled meetings and five special meetings during the fiscal year ended July 31, 2004. In addition, the board of directors acted one time by unanimous consent during the fiscal year ended July 31, 2004.

The board of directors uses working committees with functional responsibility in the more complex recurring areas where disinterested oversight is required. Working committees of the board of directors include the Audit Committee and the Compensation Committee, each of which operates under a charter that has been approved by the board of directors. Current copies of each of these charters are posted on our website, www.forgent.com. Our committees will continue to monitor and review legislative, regulatory and NASDAQ Stock Market actions in connection with corporate governance, and our committees will adopt policies and procedures in response to such actions.

The board of directors consists of a majority of independent directors as such term is defined under the rules of the NASDAQ Stock Market. The board of directors has determined that Ms. Cote and Messrs. Wells, Mazzucchelli, Agnich and Miles are independent. The board of directors has determined that all of the members of both of the board's standing committees are independent as defined under the rules of the NASDAQ Stock Market, including, in the case of all members of the Audit Committee, the independence requirements contemplated by Rules 10A-3 under the Securities Exchange Act of 1934.

Audit Committee

The Audit Committee is the communication link between the board of directors and our independent auditors. In addition to recommending the appointment of the independent auditors to the board of directors, the Audit Committee reviews the scope of the audit, the accounting policies and reporting practices, internal auditing and internal control, compliance with our policies regarding business conduct and other matters as deemed appropriate. The Audit Committee held four meetings in fiscal 2004 with the independent auditors and our management. The members of the Audit Committee during the fiscal year ended July 31, 2004 were Ms. Cote (Chairperson), Mr. Wells, and Mr. Miles.

Policy On Audit Committee Pre-Approval Of Audit And Permissible Non-Audit Services Of Independent Auditor

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year's audit, management will submit an aggregate of services expected to be rendered during that year for each of four categories of services to the Audit Committee for approval.

1. **Audit Services.** Audit services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards.

2. **Audit-Related.** Audit-related services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. **Tax Services.** Tax services include all services performed by the independent auditor's tax personnel, except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. **Other Fees.** Other fees are those associated with services not captured in the other categories. We generally do not request such services from the independent auditor.

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Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Compensation Committee

The Compensation Committee is responsible for approving the compensation arrangements of senior management and recommending approval by the board of directors of amendments to our benefit plans. At two regularly scheduled meetings during the fiscal year ended July 31, 2004 the Compensation Committee approved compensation, bonus and option levels for the executive officers of our company. The Compensation Committee did not act by unanimous consent during the fiscal year ended July 31, 2004. The Compensation Committee was composed of Mr. Mazzucchelli (Chairperson) and Mr. Wells during the fiscal year ended July 31, 2004.

Meeting Attendance by Directors

No director attended fewer than 75% of the aggregate of (i) the total number of meetings of the board of directors and (ii) the total number of meetings held by all committees of the board of directors on which such director served. The board of directors requires that directors make a reasonable effort to attend the company's annual meeting of stockholders. No board members attended the 2004 annual meeting of stockholders.

Communication with the Board of Directors

A stockholder who wishes to communicate with the board of directors, or specific individual directors, may do so by directing a written request addressed to such directors or director in care of Jay C. Peterson, secretary, at the address appearing on the first page of this proxy statement. Communication(s) directed to members of the board of directors will be relayed to the intended board member(s).

Director Nominations

The company does not have an official nominating committee and does not have a nominating committee charter. The board of directors has determined that that it is not necessary to have a nominating committee and that it would have no direct benefit at this time, because of: the small size of our company; the size of the current board of directors; and the low turnover of the members of the board of directors. The company believes that obtaining input from all independent directors in connection with nominations to the board of directors enhances the nomination process. Board candidates are considered based upon various criteria, such as their business and professional skills and experiences, concern for the long-term interests of the stockholders, and personal integrity and judgment.

Securityholders have the right under our bylaws to nominate director candidates. The board of directors will consider nominees properly recommended by securityholders in the same manner as all other candidates. In order to make a nomination, our bylaws generally require that advance notice of such nomination be provided to our company at least 60 days and not more than 90 days prior to the first anniversary of the preceding year's annual stockholders' meeting, together with additional information regarding the nominee and the stockholder making such nominations as called for by our bylaws.

Director nominees are recommended for selection to the board of directors by a majority of directors who meet the independence standards of the NASDAQ Stock Market. The full board of directors then selects and recommends candidates for nomination as directors for stockholders to consider and vote upon at the annual stockholders' meeting. The board of directors reviews and considers any candidates submitted by a stockholder or stockholder group in the same manner as all other candidates.

Director Compensation

During fiscal 2004, each non-employee director was paid a retainer of \$3,000 for each quarter. Additionally, each non-employee director was paid \$1,000 for the regularly scheduled and special meetings of the board of directors he or she attended and \$250 for participation in each telephonic meeting not considered an official board of directors' meeting. Total director fees earned in fiscal 2004 were \$97,750.

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All non-employee directors participate in our 1992 Director Stock Option Plan. Non-employee directors receive, upon their initial election or appointment to the board of directors, stock options to purchase 25,000 shares of our common stock, having an exercise price equal to the market price of our common stock on the date of grant. Thereafter, each non-employee director will receive options to purchase 10,000 shares of our common stock on the anniversary date of his or her election or appointment to the board of directors. All of these options vest in equal amounts monthly over a three-year period but cease vesting at the time the director ceases to be a director.

The compensation of our employee directors is discussed at [Executive Compensation](#) below.

Report of the Audit Committee

The Audit Committee is composed of three outside directors and operates under a charter adopted by the board of directors according to the rules and regulations of the SEC and the Nasdaq Stock Market. The Audit Committee members during the fiscal year ended July 31, 2004 were Ms. Cote (Chairperson), Mr. Wells, and Mr. Miles. The board of directors believes that all of these directors are independent as defined under the rules of the Nasdaq Stock Market.

Ms. Kathleen A. Cote is the Chairperson of our Audit Committee. The board of directors has determined that Ms. Cote has the qualifications and experience necessary to serve as an audit committee financial expert, as defined by the SEC.

The following is the report of the Audit Committee with respect to our audited financial statements for the fiscal year ended 2004 which include our consolidated balance sheets as of July 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended July 31, 2004 and the notes thereto. The information contained in this report shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference in such filing.

Review With Management

The Audit Committee has reviewed and discussed our audited financial statements with management.

Review and Discussions With Independent Accountants

The Audit Committee has discussed with Ernst & Young LLP, our independent accountants, the matters required to be discussed by SAS 61 (Codification of Statements on Accounting Standards) that includes, among other items, matters related to the conduct of the audit of our financial statements.

The Audit Committee has received the letter from Ernst & Young LLP required by Independent Standards Board Standard No. 1, that relates to the accountant's independence from our company and its related entities, and has discussed with Ernst & Young LLP their independence from our company.

Based on the review and discussions referred to above, the Audit Committee recommended to the board of directors that our audited financial statements be included in our annual report on Form 10-K for the fiscal year ended July 31, 2004.

Submitted by the Audit Committee of the Board of Directors

Kathleen A. Cote

James H. Wells

Ray R. Miles

Fees

Audit Fees

The company paid fees in the amount of \$185,150 and \$339,500 for professional audit services rendered by Ernst & Young LLP for the audit of the company's annual financial statements and the reviews of the financial statements included in the company's 10-Qs, for the fiscal years ended July 31, 2004 and 2003 respectively. The services included work generally only the independent auditor can reasonably be expected to provide, such as those in connection with statutory and regulatory filings.

Audit Related Fees

The company paid fees in the amount of \$44,450 and \$25,500 for professional audit services rendered by Ernst & Young LLP related principally to the audits of employee benefit plans, Sarbanes-Oxley compliance and merger and acquisition due diligence, for the fiscal years ended July 31, 2004 and 2003, respectively.

Tax Fees

The company paid \$67,455 and \$69,350 for professional tax services rendered by Ernst & Young LLP during the fiscal year ended July 31, 2004 and 2003, respectively.

Other Fees

All fees paid to Ernst & Young LLP by the company are reported under the fee categories listed above. There were no other fees paid during the fiscal year ended July 31, 2004 and 2003, respectively.

The Audit Committee has determined that the provision of services covered by the two preceding paragraphs is compatible with maintaining the independent auditors' independence from the company.

Report From the Compensation Committee Regarding Executive Compensation

As members of the Compensation Committee, it is our duty to administer the executive compensation program for our company. The Compensation Committee is responsible for establishing appropriate compensation goals for the executive officers of our company and evaluating the performance of our executive officers in meeting these goals. The elements of the executive compensation program described below are implemented and periodically reviewed and adjusted by the Compensation Committee.

The goals of the Compensation Committee in establishing our executive compensation program are as follows:

To fairly compensate our executive officers for their contributions to our company's short-term and long-term performance. The elements of our executive compensation program are:

annual base salaries;

quarterly performance bonuses; and

equity incentives.

To allow our company to attract, motivate and retain the management personnel necessary to our company's success by providing an executive compensation program comparable to that offered by companies with which we compete for such management personnel.

To provide an executive compensation program with incentives linked to the financial performance of our company, and thereby enhance stockholder value. Under this program, incentive compensation for executive officers is linked to the financial performance of our company as measured by earnings per share and revenue.

Base Salaries. Historically, the annual base salaries of our executive officers have been determined based on individual performance, experience, duties, levels of responsibility and a comparison with salary ranges of a representative group of public companies within the technology sector of a similar size and similar annual range of revenues, derived from a review of recent publicly filed proxy statements by ten public companies. A comparison is also made with published surveys of executive compensation paid in similar industries with comparable revenues. Historically, we have used the Radford Executive Compensation Survey, published by Radford Associates, a provider of national compensation surveys. The comparison groups used in these surveys are not the same group as used by us as our peer group for comparative

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total returns purposes. The comparison groups used in these surveys are chosen on a narrower basis using revenue size as well as industry focus, while the peer group is solely industry focused. The Compensation Committee believes that a narrower focus, using revenue size as well as industry focus, provides more appropriate comparison information on which to base salary decisions than one that does not take into account the size of the comparison group members. The financial performance of comparative group members relative to our financial performance is only one of the factors used by the Compensation Committee in assessing compensation. The Compensation Committee does not use empirical formulas based on financial performance or other factors in setting compensation for the company's executive officers, but instead considers comparative companies' income, market capitalization and total assets in conjunction with individual performance and experience of the company's officers in determining the appropriate level of compensation. Based on the Compensation Committee's analysis, it was determined that executive officer compensation was not competitive and thus increases were approved for all executive officers except the CEO in October 2003. See Summary Compensation Table .

Quarterly Bonus. The quarterly bonuses available to our executive officers are based upon the achievement of certain earnings per share, revenue and operating expense goals, development milestones and other personal objectives for our company set by the Compensation Committee prior to the beginning of such measurement period.

No quarterly bonus was paid to executive officers for the second, third and fourth quarters of fiscal year 2004. Two of our executive officers received bonuses for the first quarter of fiscal year 2004, totaling \$45,613, which was 31% of the target bonus of \$148,145 for

the executive officer group. The potential bonus that may be earned by each of our executive officers, other than our chief executive officer, in the aggregate is 50% of their base salary. Our chief executive officer may earn a bonus of up to 100% of his base salary. The potential bonus is allocated among the performance objectives which are based upon company-wide objectives, departmental objectives and individual performance objectives, each of which is weighted based upon relative priority. The percentage which is attained of each objective by the applicable executive officer determines the bonus amount, but generally no bonuses are awarded unless the company-wide objectives are attained. During fiscal 2004, assuming all targets were achieved by our executive officers, the officers could have received \$581,875, however, \$45,613, or 8%, of the target bonuses was actually paid out.

Equity Incentives. Equity incentives, including grants of stock options and restricted stock, are determined based on the Compensation Committee's assessment of the ability of such officers to positively impact our company's future performance and enhance stockholder value as determined by their individual performances, as opposed to our overall corporate performance. The Compensation Committee assesses the nature and scope of the officer's responsibilities; the officer's contribution to the company's financial results; and the officer's effectiveness in leading our initiatives to increase stockholder value. The Compensation Committee also considers the compensation levels of the top four highest paid executives with a comparison group of companies provided by Watson Wyatt & Company, a global consulting firm focused on human capital and financial management. Restricted stock awards are granted periodically by the Compensation Committee, principally to the company's executive officers, and generally vest over one to two year period.

In fiscal 2004, options covering a total of 110,000 shares of common stock at a weighted average exercise price of \$2.95 were granted to executives. See Executive Compensation Stock Option Grants During Fiscal 2004.

Equity and cash incentives are not limited to executive officers. Grants of stock options are made to all employees upon joining our company in amounts determined by the Compensation Committee and are also made to selected employees as performance related awards and as awards for certain job promotions. The amounts of such grants are determined based on the individual employee's position with our company and his or her potential ability to beneficially impact the performance of our company. Stock option grants and other equity incentives are not awarded annually, but rather as warranted by individual performance and experience. Option awards generally vest over a 48-month period. The amount and vesting of stock options generally are not contingent on achievement of any performance targets. By giving all employees a stake in the financial performance of our company, the Compensation Committee's goal is to provide incentives to all employees of our company to enhance the financial performance of our company and, thus, stockholder value.

Fiscal 2004 Compensation of the CEO. Historically, the chief executive officer's salary has been primarily based on a comparison with the compensation levels of chief executive officers from a comparison group of companies provided by Watson Wyatt & Company. Additionally, the Compensation Committee assesses the nature and scope of the chief executive officer's responsibilities and the chief executive officer's contribution to the company's financial results. Mr. Snyder's responsibilities also include the day-to-day management of the company, including the management and direction provided to members of the company's senior management team, development, articulation and supervision of the implementation of the company's business realignment and implementation of the company's long-term business strategy and product development plans, selection and management of the disposition of underperforming business units and the launch of the company's two new businesses, scheduling software and intellectual property-licensing. During fiscal 2004, Mr. Snyder received \$300,000 in base salary, the same as in the prior year.

Mr. Snyder's potential annual bonus is 100% of his base salary. Mr. Snyder received a bonus in the first quarter of fiscal year 2004 of \$33,375. Mr. Snyder's bonus was based on a set of quarterly objectives that had to be met in order for any bonus to be awarded. The quarterly objectives were determined by the Compensation Committee. Some of these objectives were met in the first fiscal quarter of 2004, resulting in the bonus. These objectives were not achieved in the second, third and fourth fiscal quarters of 2004, thus no bonus was awarded for those periods.

Omnibus Budget Reconciliation Act of 1993. The Omnibus Budget Reconciliation Act of 1993 added Section 162(m) to the Internal Revenue Code. With certain exceptions, beginning with the taxable year commencing January 1, 1994, Section 162(m) will prevent publicly held corporations, including our company, from taking a tax deduction for compensation in excess of one million dollars paid to our chief executive

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officer and the other persons named in the Summary Compensation Table in this proxy statement. Section 162(m) will not apply to limit the deductibility of performance-based compensation exceeding one million dollars if:

it is paid solely upon attainment of one or more performance goals;

it is paid pursuant to a performance-based compensation plan adopted by the Compensation Committee; and

the terms of the plan are approved by the stockholders before payment of the compensation.

The Compensation Committee has reviewed our compensation plans with regard to the deduction limitation contained in Section 162(m). The Compensation Committee believes that option grants under our equity plans meet the requirements for deductible compensation. The Compensation Committee has decided for the present not to alter our other compensation plans to meet the deductibility requirements of the regulations promulgated under the Internal Revenue Code. The Compensation Committee will continue to review the issue and its determination under the regulations under Section 162(m) and monitor whether our compensation plans should be amended in the future to meet the deductibility requirements. The Compensation Committee does not anticipate that Section 162(m) will limit the deductibility of any compensation paid in fiscal year 2004. None of our executive officers were affected by Section 162(m) in fiscal year 2004.

Compensation Committee

James H. Wells

Lou Mazzucchelli

EXECUTIVE COMPENSATION

The following table summarizes certain information regarding compensation paid or accrued during each of our company's last three fiscal years to our chief executive officer and each of our other four most highly compensated executive officers, also referred to as our named executive officers:

Summary Compensation Table

Name and Principal Position	Period Ended	Annual Compensation			Long-Term Compensation Awards		All Other Compensation (\$ (ii))
		July 31	Salary(\$)	Bonus and Commissions (\$)	Other Annual Compensation (\$ (i))	Restricted Stock Awards (\$)	
Richard N. Snyder Chief Executive Officer and President	2004	300,000	36,094 iii	-0-	-0-	-0-	2,670
	2003	300,000	83,420 iii	-0-	-0-	186,335	3,808
	2002	300,833	176,552	-0-	-0-	250,000	3,316
Jay C. Peterson Chief Financial Officer and Vice	2004	196,250	2,639 iii	-0-	-0-	30,000	1,840
	2003	185,000	22,735 iii	-0-	-0-	114,906	1,285
	2002	179,860	51,956	-0-	19,500	125,599	1,054

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President, Finance

Kenneth Kalinoski	2004	227,500	19,476 iii	-0-	-0-	35,000	2,188
	2003	220,000	23,159 iii	-0-	-0-	68,323	1,302
Chief Technology	2002	213,333	62,867	-0-	19,500	95,000	1,105

Officer and Vice

President, Development ^(v)

Harry R. Caccamisi	2004	140,000	2,719 iii	95,000 vii	-0-	45,000	1,474
	2003	161,250iv	19,035 iii	-0-	-0-	311,802	1,332
Senior Vice President,	2002	N/A	N/A	N/A	N/A	N/A	N/A

Sales ^(vi)

⁽ⁱ⁾ Includes perquisites and other personal benefits if value is greater than the lesser of \$50,000 or 10% of reported salary and bonus.

- (ii) Represents the dollar value of any insurance premiums paid by our company during the covered fiscal year with respect to term life insurance and long term disability insurance for the benefit of the chief executive officer or our named executive officers.
- (iii) Includes tax preparation allowances ranging between \$2,800 and \$3,600 per executive.
- (iv) Represents a partial year of compensation.
- (v) Mr. Kalinoski's employment with the company was terminated on May 1, 2005.
- (vi) Mr. Caccamisi's employment with the company was terminated on April 30, 2004.
- (vii) Represents severance paid to Mr. Caccamisi pursuant to his termination of employment with the company

Stock Option Grants During Fiscal 2004

The following table sets forth information with respect to grants of stock options to purchase common stock pursuant to our equity plans to our chief executive officer and the named executive officers reflected in the Summary Compensation Table above. No stock appreciation rights (SARs) were granted during fiscal 2004 and none were outstanding as of July 31, 2004.

Option/SAR Grants in Last Fiscal Year

Name	Individual Grants				Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽¹⁾		
	Number of Securities Underlying Options/SARs Granted(#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price(\$/Sh)	Expiration Date	0%(\$)	5%(\$)	10%(\$)
Richard N. Snyder	-0-						