MCKESSON CORP
Form 424B5
February 25, 2011

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-157176

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Maximum Aggregate Offering Price	Amount of Registration Fee(1)
Debt Securities	$1,700,000,000	$197,370

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

PROSPECTUS SUPPLEMENT
(To Prospectus dated February 9, 2009)

$1,700,000,000

McKesson Corporation
$600,000,000 3.25% Notes due 2016
$600,000,000 4.75% Notes due 2021
$500,000,000 6.00% Notes due 2041

The 3.25% notes due 2016, which we refer to as the 2016 notes, will mature on March 1, 2016, the 4.75% notes due 2021, which we refer to as the 2021 notes, will mature on March 1, 2021, and the 6.00% notes due 2041, which we refer to as the 2041 notes, will mature on March 1, 2041. We refer to the 2016 notes, the 2021 notes and the 2041 notes collectively as the notes. We will pay interest on the notes on March 1 and September 1 of each year, beginning September 1, 2011. We may redeem any series of notes in whole or in part at any time at the redemption prices set forth under Description of Notes Optional Redemption. If a change of control triggering event occurs, unless we have previously exercised our optional redemption right, we will be required to offer to repurchase the notes from the holders for cash. See Description of Notes Change of Control.

The notes will be unsecured obligations of ours and rank equally with our existing and future unsecured senior indebtedness. The notes will be issued only in registered book-entry form and in denominations of $2,000 and integral multiples of $1,000 thereafter.

Investing in the notes involves risk. See the section entitled Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

	Per 2016 Note	Total	Per 2021 Note	Total	Per 2041 Note	Total
Public offering price(1)	99.661%	$ 597,966,000	99.693%	$ 598,158,000	98.536%	$ 492,680,000
Underwriting discount	0.600%	$ 3,600,000	0.650%	$ 3,900,000	0.875%	$ 4,375,000
Proceeds, before expenses, to McKesson(1)	99.061%	$ 594,366,000	99.043%	$ 594,258,000	97.661%	$ 488,305,000

(1) Plus accrued interest from February 28, 2011, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form on or about February 28, 2011, only through the facilities of The Depository Trust Company for the accounts of its participants, which may include Clearstream Banking, *société anonyme*, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, against payment in New York, New York.

Joint Book-Running Managers

BofA Merrill Lynch **J.P. Morgan**

Co-Managers

Mitsubishi UFJ Securities **Rabo Securities USA, Inc.** **Scotia Capital** **Wells Fargo Securities**

Fifth Third Securities, Inc. **PNC Capital Markets LLC**

February 23, 2011

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this offering, the notes and matters relating to us and our financial performance and condition. The second part, the accompanying prospectus, provides a more general description of the terms and conditions of the various securities we may offer under our registration statement, some of which does not apply to this offering. If the description of this offering and the notes varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

In various places in this prospectus supplement and the accompanying prospectus, we refer you to sections of other documents for additional information by indicating the caption heading of the other sections. All cross-references in this prospectus supplement are to captions contained in this prospectus supplement and not in the accompanying prospectus, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the documents incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Some of these statements can be identified by the use of forward-looking words such as believes, expects, anticipates, may, will, should, seeks, approx intends, plans or estimates, or the negative of these words, or other comparable terminology. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed under Risk Factors in our Annual Report on Form 10-K and in other information contained in our publicly available SEC filings and press releases. You should not consider this list to be a complete statement of all potential risks and uncertainties. You are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date such statements were first made. Except to the extent required by federal securities laws, we undertake no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

You should carefully read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in their entirety. They contain information that you should consider when making your investment decision.

We have not, and the underwriters have not, authorized any other person, including any dealer, salesperson or other individual, to provide you with any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Our business, financial condition, results of operations and prospects may have changed since those dates.

This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which they relate or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein or therein is correct as of any time subsequent to the date hereof.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that you should consider before making an investment decision. We urge you to read carefully the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including the historical financial statements and notes to those financial statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus. Please read Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2010 for more information about important risks that you should consider before investing in the notes. Except as otherwise indicated, all references in this prospectus supplement to McKesson, the company, we, our and us refer to McKesson Corporation and its consolidated subsidiaries.

McKesson Corporation

McKesson Corporation (NYSE: MCK) is a healthcare services and information technology company providing supply, information and care management products and services designed to reduce costs and improve quality across the healthcare industry.

We conduct our business through two segments. The McKesson Distribution Solutions segment distributes ethical and proprietary drugs, medical-surgical supplies and equipment, and health and beauty care products throughout North America. This segment also provides specialty pharmaceutical solutions for biotech and pharmaceutical manufacturers, sells financial, operational and clinical solutions for pharmacies (retail, hospital, long-term care) and provides consulting, outsourcing and other services. This segment includes a 49% interest in Nadro, S.A. de C.V., one of the leading pharmaceutical distributors in Mexico, and a 39% interest in Parata Systems, LLC, which sells automated pharmacy and supply management systems and services to retail and institutional outpatient pharmacies. The McKesson Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain, strategic management software solutions, pharmacy automation for hospitals, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations. This segment also includes our Payor group of businesses, which includes our InterQual® claims payment solutions, medical management software businesses and our care management programs. The segment s customers include hospitals, physicians, homecare providers, retail pharmacies and payors from North America, the United Kingdom, Ireland, other European countries, Asia Pacific and Israel.

Our principal executive offices are located at McKesson Plaza, One Post Street, San Francisco, California 94104. Our telephone number is (415) 983-8300.

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The Offering

Issuer	McKesson Corporation
Securities Offered	$1,700,000,000 aggregate principal amount of notes, consisting of: $600,000,000 aggregate principal amount of 3.25% notes due 2016. $600,000,000 aggregate principal amount of 4.75% notes due 2021. $500,000,000 aggregate principal amount of 6.00% notes due 2041.
Maturity Date	2016 notes March 1, 2016. 2021 notes March 1, 2021. 2041 notes March 1, 2041.
Interest Rate	2016 notes 3.25% per year. 2021 notes 4.75% per year. 2041 notes 6.00% per year.
Interest Payment Dates	Interest will be paid on March 1 and September 1 of each year, beginning on September 1, 2011. Interest on the notes will accrue from February 28, 2011.
Use of Proceeds	We estimate that we will receive approximately $1,673 million from the sale of the notes, after deducting underwriting discounts and estimated offering expenses. We will use the net proceeds from this offering for general corporate purposes, including the repayment of borrowings under the Senior Bridge Term Loan Agreement (the Bridge Loan) among us, Bank of America, N.A., as administrative agent, and the lenders party thereto. See Use of Proceeds.
Conflicts of Interest	Certain of the underwriters or their affiliates are agents and/or lenders under the Bridge Loan. As described in Use of Proceeds, a portion of the net proceeds from this offering may be used to repay outstanding borrowings under the Bridge Loan. As affiliates of J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated may each receive more than 5% of the proceeds of this offering, not including underwriting compensation, J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated each may have a conflict of interest as defined in Rule 5121 adopted by the Financial Industry Regulatory Authority, Inc., or FINRA. Consequently, this offering will be conducted in accordance with Rule 5121. No underwriter having a conflict of interest will confirm sales to accounts over which discretionary authority is exercised without the prior written consent of the

accountholder. In accordance with Rule 5121, a qualified independent underwriter is not required because the notes offered are investment grade rated, as that term is defined in Rule 5121. See Use of Proceeds and Underwriting Conflicts of Interest.

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Optional Redemption	We may redeem the notes of each series for cash in whole, at any time, or in part, from time to time, prior to maturity, at redemption prices that include accrued and unpaid interest and a make-whole premium. However, no make-whole premium will be paid for redemptions of the 2021 notes from December 1, 2020 through their maturity, or for redemptions of the 2041 notes from September 1, 2040 through their maturity. See Description of Notes Optional Redemption.
Change of Control	Upon the occurrence of both (1) a change of control of us and (2) a downgrade of a series of notes below an investment grade rating by each of Fitch Inc., Moody s Investors Service, Inc. and Standard & Poor s Ratings Services within a specified period, unless we have previously exercised our optional redemption right with respect to that series of notes in whole, we will be required to offer to repurchase the notes of that series at a price equal to 101% of the then outstanding principal amount of such series, plus accrued and unpaid interest to, but not including, the date of repurchase. See Description of Notes Change of Control.
Other Covenants	We will issue the notes under an indenture with Wells Fargo Bank, National Association. The indenture includes certain covenants, including limitations on our ability to: create liens on our assets; enter into sale and lease-backs with respect to our properties; and merge or consolidate with another entity. These covenants are subject to a number of important exceptions, limitations and qualifications that are described under Description of Notes Certain Covenants and in our indenture.
Ranking	The notes will be our unsecured senior obligations and will rank equally with all our existing and future unsecured and unsubordinated indebtedness from time to time outstanding. The indenture does not limit the amount of debt we may incur.
Additional Issues	We may create and issue additional notes with the same terms (except for the issue date, the public offering price and, under certain circumstances, the first interest payment date) as one or more series of the notes so that such additional notes shall be consolidated and form a single series with the notes of the corresponding series.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $1,673 million, after deducting underwriting discounts and estimated offering expenses. We plan to use the net proceeds from the sale of the notes for general corporate purposes, including the repayment of borrowings outstanding under the Bridge Loan. We recently acquired U.S. Oncology Holdings, Inc. (U.S. Oncology). On January 31, 2011, we borrowed $1.0 billion under the Bridge Loan to fund the redemption of certain indebtedness of U.S. Oncology and its wholly-owned subsidiary U.S. Oncology, Inc. Borrowings under the Bridge Loan must be repaid in full no later than December 30, 2011, or, in full or in part, upon certain events occurring prior to such time, including specified debt issuances such as this offering. The Bridge Loan bears interest based on the London Interbank Offered Rate plus a margin based on our credit ratings and the amount of time any borrowings under the Bridge Loan remain outstanding. As of February 22, 2011, our borrowing under the Bridge Loan accrued interest at the rate of 1.76% per year.

Certain affiliates of the underwriters are lenders and/or agents under the Bridge Loan. Therefore, affiliates of the underwriters will receive a portion of the net proceeds from this offering used to repay borrowings under the Bridge Loan. See Underwriting Conflicts of Interest for more information.

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CAPITALIZATION

The following table sets forth our cash position and capitalization as of December 31, 2010:

on an actual basis;

on an adjusted basis to give effect to the incurrence of indebtedness under the Bridge Loan and the redemption of certain U.S. Oncology and U.S. Oncology, Inc. debt acquired in connection with the U.S. Oncology acquisition; and

on an adjusted basis to give effect to the incurrence of indebtedness under our Bridge Loan, the redemption of certain U.S. Oncology and U.S. Oncology, Inc. debt acquired in connection with the U.S. Oncology acquisition, this offering and the application of the net proceeds from the sale of the notes. See Use of Proceeds.

You should read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical financial statements and notes to those financial statements that are incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of December 31, 2010		
	Actual	Adjusted for Bridge Loan and U.S. Oncology Debt Redemption	Adjusted for Bridge Loan, U.S. Oncology Debt Redemption and this Offering
		(Unaudited) (In millions)	
Cash and cash equivalents	$ 3,213	$ 2,473	$ 3,146
Long-term debt (including current portion):			
7.75% Notes due February 2012	$ 400	$ 400	$ 400
5.25% Notes due March 2013	499	499	499
6.50% Notes due February 2014	350	350	350
5.70% Notes due March 2017	499	499	499
7.50% Notes due February 2019	349	349	349
7.65% Debentures due March 2027	175	175	175
U.S. Oncology debt(1)	1,740		
Bridge Loan		1,000	
Other debt	50	50	50
3.25% Notes due March 2016			598
4.75% Notes due March 2021			598
6.00% Notes due March 2041			493

Total long-term debt (including current portion)	$	4,062	$	3,322	$	4,011
Stockholders equity:						
Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding	$		$		$	
Common stock $0.01 par value, 800 shares authorized; 365 shares issued		4		4		4
Additional paid-in capital		5,153		5,153		5,153
Retained earnings		7,876		7,876		7,876
Accumulated other comprehensive income		51		51		51
Other		2		2		2
Treasury shares, at cost 111 shares		(6,006)		(6,006)		(6,006)
Total stockholders equity	$	7,080	$	7,080	$	7,080
Total capitalization	$	11,142	$	10,402	$	11,091

(1) Represents the aggregate fair value of the principal amount and associated redemption premiums, as applicable, of Senior Unsecured Floating Rate Toggle Notes due 2012 of U.S. Oncology, 9.125% Senior Secured Notes due 2017 of U.S. Oncology, Inc., and 10.75% Senior Subordinated Notes due 2014 of U.S. Oncology, Inc.

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RATIO OF EARNINGS TO FIXED CHARGES

The table below reflects our ratio of earnings to fixed charges for the following periods: (1) the nine months ended December 31, 2010, and (2) each of the five years in the period ended March 31, 2010.

	For the Nine Months Ended December 31,	For the Year Ended March 31,				
	2010	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges(1)						
Actual	7.1	8.8	6.5	8.3	10.1	9.7

(1) The ratio of earnings to fixed charges is computed by dividing fixed charges (interest cost, both expensed and capitalized, including amortization of debt discounts and deferred loan costs, and the interest component of rental expense) into earnings available for fixed charges (income from continuing operations before income taxes plus fixed charges, minus equity in net income of and dividends from equity investees and interest capitalized).

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DESCRIPTION OF NOTES

This description of the notes being offered hereby supplements and, to the extent it is inconsistent, replaces, the description of the general provisions of the notes and the indenture in the accompanying prospectus. The notes will be Senior Debt Securities, as that term is used in the accompanying prospectus.

General

The 2016 notes, the 2021 notes and the 2041 notes will each be issued as a separate series of debt securities under the indenture dated as of March 5, 2007 (the Base Indenture). Certain terms of the notes are contained in a supplemental indenture (the Supplemental Indenture, and together with the Base Indenture, the indenture between us and Wells Fargo Bank, National Association, as trustee). You may request a copy of the indenture and the form of note from the trustee.

We will issue the notes in fully registered book-entry form without coupons and in denominations of $2,000 and integral multiples of $1,000 thereafter. We do not intend to apply for the listing of the notes on a national securities exchange or for quotation of the notes on any automated dealer quotation system.

The following statements relating to the notes and the indenture are summaries of certain provisions thereof and are subject to the detailed provisions of the indenture, to which reference is hereby made for a complete statement of such provisions. Certain provisions of the indenture are summarized in the accompanying prospectus. We encourage you to read the summaries of the notes and the indenture in both this prospectus supplement and the accompanying prospectus, as well as the form of notes and the indenture.

The notes will be our senior unsecured obligations. The cover page of this prospectus supplement sets forth the respective maturity dates, aggregate principal amounts and interest rates of the notes of each series. The notes will bear interest from the date of issuance, payable semi-annually on each March 1 and September 1, beginning September 1, 2011, to the persons in whose names the notes are registered at the close of business on the February 15 immediately preceding each March 1 and the August 15 immediately preceding each September 1. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months. Payments of principal, premium if any, and interest to owners of book-entry interests (as described below) are expected to be made in accordance with the procedures of The Depository Trust Company (DTC) and its participants in effect from time to time.

We may, without the consent of the holders of the notes, create and issue additional notes with the same terms (except for the issue date, the public offering price and, under certain circumstances, the first interest payment date) as one or more series of the notes. The additional notes will form a single series with the outstanding notes of the corresponding series. No additional notes may be issued if an event of default has occurred and is continuing with respect to such series of notes.

Optional Redemption

We may redeem:

(a) the 2016 notes,

(b) the 2021 notes prior to December 1, 2020, or

(c) the 2041 notes prior to September 1, 2040

in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the notes to be redeemed; or

(2) an amount determined by the Quotation Agent equal to the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as

defined below), plus 20 basis points with respect to the 2016 notes, 20 basis points with respect to the 2021 notes and 25 basis points with respect to the 2041 notes,

plus, in each case, accrued and unpaid interest thereon to, but not including, the date of redemption.

On or after December 1, 2020 for the 2021 notes, or September 1, 2040 for the 2041 notes, we may redeem the 2021 notes or the 2041 notes in whole, at any time, or in part, from time to time, at our option, for cash, at a redemption price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to, but not including, the redemption date.

The principal amount of any note remaining outstanding after a redemption in part shall be $2,000 or a higher integral multiple of $1,000. Notwithstanding the foregoing, installments of interest on notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the notes of the applicable series to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such series of notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Quotation Agent means the Reference Treasury Dealer appointed by us.

Reference Treasury Dealer means (1) J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a Primary Treasury Dealer), we will substitute therefor another Primary Treasury Dealer, and (2) any other Primary Treasury Dealers selected by us.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price on such redemption date.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each registered holder of the notes to be redeemed. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption. If less than all of the notes of a series are to be redeemed, the notes of such series to be redeemed will be selected by the trustee by a method the trustee deems to be fair and appropriate.

Change of Control

If a Change of Control Triggering Event (as defined below) occurs, unless we have previously exercised our right to redeem the notes of a series in whole as described above, holders of notes of that series will have the right to require us to repurchase all or any part (in integral multiples of $1,000 original principal amount) of their notes of that series pursuant to the offer described below (the Change of Control Offer) on the terms set forth in such notes; provided that the principal amount of any note remaining outstanding after a repurchase in part shall be $2,000 or a higher integral multiple of $1,000. In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the then outstanding aggregate principal amount of notes of that series repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to, but not including, the date of repurchase (the Change of Control Payment). Within 30 days following any Change of Control Triggering Event, we will be required to mail a notice to holders of notes of the series subject to the Change of Control Triggering Event describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the notes of that series on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the Change of Control Payment Date), pursuant to the procedures required by such notes and described in such notice. We must comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the notes, we will be required to comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control provisions of the notes by virtue of such conflicts.

On the Change of Control Payment Date, we will be required, to the extent lawful, to:

accept for payment all notes or portions thereof properly tendered pursuant to the Change of Control Offer;

deposit with the paying agent, no later than 11:00 a.m., New York City time, an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being repurchased.

The paying agent will promptly mail to each holder of notes properly tendered the repurchase price for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new note equal in principal amount to any unrepurchased portion of any notes surrendered; provided, that each new note will be in a principal amount of $2,000 or an integral multiple of $1,000 thereafter.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of ours and our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of ours and our subsidiaries taken as a whole to another Person (as defined in the indenture) or group may be uncertain.

We will not be required to make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for a Change of Control Offer made by us and the third party repurchases all notes properly tendered and not withdrawn under its offer. In addition, we will not repurchase any notes if there has occurred and is continuing on the Change of Control Payment Date an event of default under the indenture, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

The change of control feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of us and, thus, the removal of incumbent management. We could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the notes, but that could increase the amount of our indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings on the notes.

For purposes of the foregoing discussion of a repurchase at the option of holders, the following definitions are applicable:

Below Investment Grade Rating Event means with respect to each series of notes, the notes of that series are rated below an Investment Grade Rating by each of the Rating Agencies (as defined below) on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of the Change of Control

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20,978

7,316

31,119

COST OF SALES

Software & Services	
	639
	196
	1,598
	698
Intellectual Property Licensing	
	10,592
	14,135
Total Cost of Sales	
	639
	10,788
	1,598

	14,833
GROSS MARGIN	
	2,068
	10,190
	5,718
	16,286

OPERATING EXPENSES:	
Selling, general and administrative	2,951
	3,971
	8,353
	9,009
Research and development	616

	180
	1,547
	429
Amortization of intangible assets	
	149
	340
	4
Total operating expenses	
	3,716
	4,151
	10,240
	9,442

LOSS FROM OPERATIONS

(1,648

)

6,039

(4,522

)

6,844

OTHER INCOME AND (EXPENSES):

Interest income	
	109
	202
	641
	592
Gain on sale of assets	

2,896

Interest expense and other

(20

)

(25

)

(60

)

(68

)

Total other income and (expenses)

89

177

581

3,420

(LOSS) INCOME FROM OPERATIONS, BEFORE INCOME TAXES

(1,559

)

6,216

(3,941

)

10,264

Provision for income taxes

(14

)

(170

)

(34

)

(170

)

NET (LOSS) INCOME

$

(1,573

)

$

6,046

$

(3,975

)

$

10,094

BASIC AND DILUTED INCOME (LOSS) PER SHARE:

Basic

$

(0.05

)

$

0.24

$

(0.13

)

$

0.40

Diluted

$

(0.05

)

$

0.23

$

(0.13

)

$

0.39

WEIGHTED AVERAGE SHARES OUTSTANDING:

Basic

30,995

25,596

	29,667
	25,488
Diluted	
	30,995
	26,202
	29,667
	26,022

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

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FORGENT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	FOR THE NINE MONTHS ENDED APRIL 30, 2008 (UNAUDITED)	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income from continuing operations	$ (3,975)	$ 10,094
Adjustments to reconcile net (loss) income to net cash (used in) provided by operations:		
Depreciation and amortization	808	423
Amortization of leasehold advance and lease impairment	(298)	(319)
Provision for doubtful accounts	15	19
Share-based compensation	72	144
Foreign currency translation loss	1	13
Changes in operating assets and liabilities:		
Accounts receivable	249	(10,104)
Prepaid expenses and other current assets	43	90
Accounts payable	(8,207)	9,091
Accrued expenses and other long-term obligations	(454)	1,183
Deferred revenues	(180)	220
Net cash (used in) provided by operating activities	**(11,926)**	**10,854**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales of short-term investments	(1,273)	(1,533)
Net purchases of property and equipment	(284)	(445)
Change in other assets	164	
Acquisition of iSarla, Inc., net of cash acquired	(7,344)	
Net cash used in investing activities	**(8,737)**	**(1,978)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of stock	14	86
Payments on notes payable and capital leases	(1)	(543)
Net cash provided by (used in) financing activities	**13**	**(457)**
Effect of exchange rate changes on cash and cash equivalents	(62)	(11)
Net change in cash and cash equivalents	(20,712)	8,408
Cash and cash equivalents at beginning of period	33,524	16,206
Cash and cash equivalents at end of period	**$ 12,812**	**$ 24,614**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Issuance of stock for acquisition of iSarla, Inc.	$ 4,987	$

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

FORGENT NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - GENERAL AND BASIS OF FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accordingly, do not include all information and footnotes required under U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, these interim financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the financial position of Forgent Networks, Inc. (Forgent or the Company) as of April 30, 2008 and July 31, 2007, the results of operations for the three and nine months ended April 30, 2008 and January 31, 2007, and the cash flows for the nine months ended April 30, 2008 and January 31, 2007. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto filed with the Securities and Exchange Commission in the Company s annual report on Form 10-K/A for the fiscal year ended July 31, 2007. The results for the interim periods are not necessarily indicative of results for a full fiscal year.

NOTE 2 - ACQUISITION

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

In consideration for the acquisition, Forgent paid approximately $12,661, including $6,602 in cash, 5,095 shares of its Common Stock, valued at approximately $4,987 and transaction cost of approximately $1,072. The shares of Common Stock issued were valued based upon the price of $0.98 when the number of shares to be issued became fixed. Upon closing, $990 in cash and 764 shares totaling $748 of the purchase price were held in escrow for representations and warranties. The purchase agreement did not include provisions for any other contingent payments, options or commitments. As a result of the acquisition, iEmployee s results of operations since October 5, 2007 have been included in the Company s Consolidated Statement of Operations for the three and nine months ended April 30, 2008.

The business combination was accounted for under Financial Accounting Standard Board (FASB) Statement No. 141, *Business Combinations.* The application of purchase accounting under Statement No. 141 requires the total purchase price to be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding fair value being recorded as goodwill. The Company continues to assess and finalize the fair value of the assets acquired and the liabilities assumed. The following table summarizes the estimated preliminary and adjusted fair values of the iEmployee assets acquired and liabilities assumed:

FORGENT NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Initial Allocation	Adjustments	Updated Allocation
Assets Acquired			
Cash	$ 460		$ 460
Short-term investments	526		526
Accounts receivable, net	577	(19)	558
Prepaid assets	96		96
Fixed assets	416	(77)	339
Goodwill	6,993	145	7,138
Intangible assets	5,209		5,209
Other assets	22	(38)	(16)
Total assets acquired	**14,299**	**11**	**14,310**
Liabilities assumed			
Accounts payable	(1,099)	(11)	(1,110)
Accrued compensation and benefits	(110)		(110)
Accrued other liabilities	(33)		(33)
Deferred revenue	(396)		(396)
Total liabilities assumed	**(1,638)**	**(11)**	**(1,649)**
Net assets acquired	**$ 12,661**	**$**	**$ 12,661**

The following summary presents unaudited pro forma consolidated financial information for the three months ended April 30, 2007 and the nine months ended April 30, 2008 and 2007, as if the iEmployee acquisition had occurred as of August 1, 2006. The pro forma consolidated financial information for the third fiscal quarter of 2008 is not presented since the iEmployee acquisition occurred prior to the start of this fiscal quarter and the combined financial results are reported on the Company s condensed consolidated statement of operations for the three months ended April 30, 2008. The pro forma information does not purport to be indicative of the actual results which would have occurred had the acquisition been completed as of August 1, 2006, nor is it necessarily indicative of the results of operations which may occur in the future.

	For the Three Months Ended April 30, 2007		For the Nine Months Ended April 30, 2008		For the Nine Months Ended April 30, 2007	
	As Reported	**Pro Forma**	**As Reported**	**Pro Forma**	**As Reported**	**Pro Forma**
Revenues	$ 20,978	$ 22,288	$ 7,316	$ 8,329	$ 31,119	$ 35,236
Net (loss) income	6,046	6,223	(3,975)	(3,830)	10,094	10,676
Net (loss) income per common share:						
Basic	$ 0.24	$ 0.20	$ (0.13)	$ (0.12)	$ 0.40	$ 0.35
Diluted	0.23	0.20	(0.13)	(0.12)	0.39	0.34
Weighted average shares outstanding:						
Basic	25,596	30,691	29,667	32,776	25,488	30,582
Diluted	26,202	31,297	29,667	32,776	26,022	31,117

NOTE 3 SALE OF ASSETS

In November 2006, Forgent sold certain patents and applications associated with videoconferencing and related fields and technology, together with related goodwill, rights and documentation, to Tandberg Telecom AS for $3,150. Upon closing, Forgent received $2,900 of the purchase price, all of which was recorded as a gain on sale of assets. The remaining balance of $250 will be held in escrow for two years for indemnity claims.

FORGENT NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - COMPREHENSIVE INCOME (LOSS)

In accordance with the disclosure requirements of Statement of Financial Accounting Standard 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 loss for the three and nine months ended April 30, 2008 was $1,655 and $4,032, respectively. Comprehensive income for the three and nine months ended April 30, 2007 was $6,060 and $10,096, respectively.

NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standard Board (FASB) issued Statement No. 157, *Fair Value Measurements.* Statement No. 157 defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. Statement No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Forgent is currently evaluating the effect that the adoption of Statement No. 157 will have on its financial position and results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* Statement No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company s choice to use fair value on its earnings. It also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. This new statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in Statement No. 157, *Fair Value Measurements,* and Statement No. 107, *Disclosures about Fair Value of Financial Instruments.* Statement No. 159 is effective as of the beginning of fiscal years beginning after November 15, 2007. Forgent is currently evaluating the effect that the adoption of Statement No. 159 will have on its financial position and results of operations.

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

NOTE 6 SHARE BASED COMPENSATION

Share based compensation for the Company s stock option, restricted stock and stock purchase plans for the three and nine months ended April 30, 2008 was $0 and $72, respectively. Share based compensation for the Company s stock option, restricted stock and stock purchase plans for the three and nine months ended April 30, 2007 was $14 and $144, respectively. The Company issued 140 and 396 shares of common stock related to its Stock Option, Restricted Stock, and Stock Purchase Plans for the three and nine months ended April 30, 2008, respectively. The Company issued 2 and 224 shares of common stock related to its Stock Option, Restricted Stock, and Stock Purchase Plans for the three and nine months ended April 30, 2007, respectively.

NOTE 7 INCOME TAXES

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

FORGENT NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

- An allocation or a shift of income between taxing jurisdictions;
- The characterization of income or a decision to exclude reporting taxable income in a tax return;
- A decision to classify a transaction, entity, or other position in a tax return as tax exempt.

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

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

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

The adoption of FIN 48 did not have a material impact on the Company s financial statements or disclosures. As of August 1, 2007 and April 30, 2008, Forgent did not recognize any assets or liabilities for unrecognized tax benefits relative to uncertain tax positions. Management does not anticipate that a significant increase or decrease to gross unrecognized tax benefits will be recorded during the next twelve months. Any interest or penalties resulting from examinations will be recognized as a component of the income tax provision. However, since there are no unrecognized tax benefits as a result of tax positions taken, Forgent has no accrued interest and penalties.

NOTE 8 RELATED PARTY TRANSACTIONS

As a result of the iEmployee acquisition, the Company leases approximately 9,000 square feet of office space in Mumbai, India for sales, marketing, development and support efforts. The property is leased from a foreign company that is controlled by stockholders of the Company. Under the lease agreement, the Company pays monthly rent of approximately $13 until December 2007 and approximately $10 thereafter. During the three and nine months ended April 30, 2008, the Company incurred $30 and $79 in rent expenses related to this lease, respectively.

NOTE 9 - SEGMENT INFORMATION

Currently, the Company operates in two distinct segments: software and services and intellectual property licensing. Forgent s software and services business provides customers with scheduling software, asset management software, workforce management software as well as software maintenance and support, installation and training services and hardware devices. Under Forgent s intellectual property licensing segment, the Company settled with the remaining defendants in the litigations related to its technologies embodied in U.S. Patent No. 4,698,672 and its foreign counterparts, as well as in U.S. Patent No. 6,285,746 during fiscal year 2007. Going forward, Forgent does not anticipate generating additional licensing revenues related to these patents. In order to evaluate the software and

FORGENT NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

services segment and the intellectual property licensing segment as stand-alone businesses, the Company records all unallocated corporate operating expenses in the Corporate segment.

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 and operating income (loss) for the three and nine months ended April 30, 2008 and 2007:

	Software & Services	Intellectual Property Licensing	Corporate	Total
For the Three Month Period Ending April 30, 2008				
Revenues from unaffiliated customers	$ 2,707	$	$	$ 2,707
Gross margin	2,068			2,068
Operating income (loss)	(512)	(61)	(1,075)	(1,648)
For the Three Month Period Ending April 30, 2007				
Revenues from unaffiliated customers	$ 978	$ 20,000	$	$ 20,978
Gross margin	782	9,408		10,190
Operating income (loss)	(500)	7,229	(690)	6,039
For the Nine Month Period Ending April 30, 2008				
Revenues from unaffiliated customers	$ 7,316	$	$	$ 7,316
Gross margin	5,718			5,718
Operating income (loss)	(1,014)	(200)	(3,308)	(4,522)
For the Nine Month Period Ending April 30, 2007				
Revenues from unaffiliated customers	$ 2,957	$ 28,162	$	$ 31,119
Gross margin	2,259	14,027		16,286
Operating income (loss)	(941)	10,118	(2,333)	6,844

NOTE 10 - CONTINGENCIES

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

Litigation with Jenkens & Gilchrist, P.C.

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

After Forgent terminated Jenkens, the Company entered into a Resolution Agreement with Jenkens in December 2004. Under the Resolution Agreement, the Company believes Jenkens is entitled to $1,400 for contingency fees and expenses related to the settlements from the litigation regarding the Company s DVR patents. Jenkens interprets the Resolution Agreement on broader terms and believes it is entitled to $3,400, including attorneys fees and interest.

FORGENT NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

On March 3, 2008, Forgent and Jenkens appeared before the Court regarding a hearing on the motion for summary judgment filed by Jenkens. On May 20, 2008, the Court granted Jenkens motion and ordered Forgent to pay Jenkens $2,800 for recoveries related to the 746 patent and other amounts including attorney s fees and interest. Forgent disagrees with the Court s ruling and is currently pursuing efforts to appeal this Court order.

The trial date for this litigation is currently scheduled for October 6, 2008. However, management currently cannot predict how long it ultimately will take to resolve the Jenkens lawsuit. Until the Jenkens litigation is finalized, the related contingency fees and expenses may be adjusted in a future period and could have a material impact to the Company s consolidated financial statements.

Litigation with Wild Basin

On September 6, 2007, Forgent filed a petition against Wild Basin One & Two, Ltd. (Wild Basin) in the District Court of Travis County, Texas. The petition claims Wild Basin is in breach of contract relating to Forgent s lease agreement by unreasonably withholding and delaying its consent to a pending lease assignment. On October 19, 2007, Forgent amended its petition to include claims of fraud and breach of fiduciary duty against Wild Basin. On June 2, 2008, Wild Basin filed a counterclaim seeking a declaratory judgment that it had complied with its obligations under the lease and was seeking the recovery of attorney s fees. On June 5, 2008, Forgent amended its petition to request the Court make declaratory judgments on several issues in the case and to include as a breach of contract claim its claim for withholding amounts that should have been distributed by Wild Basin in the past pursuant to the lease. Forgent is seeking to recover all damages as a result of the delay in closing its pending assignment and amounts not distributed in the past, among other damages. The Company anticipates participating in mediation with Wild Basin in July 2008. The trial date for this litigation has been re-scheduled for July 21, 2008.

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

The following review of Forgent s financial position as of April 30, 2008 and July 31, 2007, and for the three and nine months ended April 30, 2008 and 2007, should be read in conjunction with the Company s 2007 Annual Report on Form 10-K/A filed with the Securities and Exchange Commission. Forgent s internet website address is http://www.asuresoftware.com. The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of the Company s internet website free of charge as soon as reasonably practicable after they are electronically filed, or furnished to, the Securities and Exchange Commission. Forgent s internet website and the information contained therein or connected thereto are not intended to be incorporated into this Quarterly Report on Form 10-Q.

In September 2007, the Company announced a change in the name under which it does business by adopting the dba Asure Software to reflect the Company s focus on its software and services segment for its future growth. Effective September 13, 2007, the Company now trades in the NASDAQ Global Market System under the symbol ASUR .

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Forgent has attempted to identify these forward-looking statements with the words believes, estimates, plans, expects, anticipates, may, and other similar expressions. Although these forward-looking statements reflect management s current plans and expectations, which are 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 in this Report and other risks indicated in Forgent s filings with the Securities and Exchange Commission from time to time. Additionally, Forgent is under no obligation to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results.

RESULTS OF OPERATIONS

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

	FOR THE THREE MONTHS ENDED APRIL 30,		FOR THE NINE MONTHS ENDED APRIL 30,	
	2008	2007	2008	2007

Software & services revenues	100%	5%	100%	10%
Intellectual property licensing revenues		95		90
Gross margin	76	49	78	52
Selling, general and administrative	109	19	114	29
Research and development	23	1	21	1
Amortization of intangible assets	6		5	
Total operating expenses	137	20	140	30
Other income, net	3	1	8	11
Net income (loss)	(58)%	29%	(54)%	32%

THREE AND NINE MONTHS ENDED APRIL 30, 2008 AND 2007

Revenues

Revenues for the three months ended April 30, 2008 were $2.7 million, a decrease of $18.3 million, or 87%, from the $21.0 million reported for the three months ended April 30, 2007. Revenues for the nine months ended April 30, 2008 were $7.3 million, a decrease of $23.8 million, or 76%, from the $31.1 million reported for the nine months ended April 30, 2007. Consolidated revenues represent the combined revenues of the Company and its subsidiaries, including sales of the Company s scheduling software, asset management software, workforce management software, software maintenance and support services, professional services, installation and training services and hardware devices, as well as royalties and settlements received from licensing the Company s intellectual property.

Forgent did not generate any intellectual property licensing revenues for the three and nine months ended April 30, 2008, which led to a decrease of $20.0 million for the three months ended April 30, 2008 and $28.2 million for the nine months ended April 30, 2008. In prior fiscal years, the Company s intellectual property licensing revenues were derived from licensing U.S. Patent No. 4,698,672 (the 672 patent) and U.S. Patent No 6,285,746 (the 746 patent). However, the 672 patent has expired and the 746 patent will be expiring in May 2011. Additionally, the litigations related to these two patents were concluded in fiscal year 2007. Therefore, management does not anticipate any additional licensing revenues from these patents.

Software and Services Business

Revenues for the three months ended April 30, 2008 were $2.7 million, an increase of $1.7 million, or 177%, from the $1.0 million reported for the three months ended April 30, 2007. Revenues for the nine months ended April 30, 2008 were $7.3 million, an increase of $4.3 million, or 147%, from the $3.0 million reported for the nine months ended April 30, 2007. Software and services revenues as a percentage of total revenues were 100% and 5% for the three months ended April 30, 2008 and 2007, respectively. Software and services revenues as a percentage of total revenues were 100% and 10% for the nine months ended April 30, 2008 and 2007, respectively. Revenues from this line of business include sales of Forgent s NetSimplicity scheduling and asset management software, including Meeting Room Manager (MRM) and Visual Asset Manager (VAM), and sales of the Company s iEmployee workforce management software, including Time & Attendance, HR & Benefits and Pay Stubs. Also included in this segment s revenues are software maintenance and support services, professional services, such as add-on software customization, installation and training, and hardware devices.

During the three and nine months ended April 30, 2008, increases in software subscription revenues, software license revenues and maintenance revenues accounted for approximately 88% and 87%, of the $1.7 million and $4.3 million increases in revenues, respectively. In October 2007, the Company acquired the iEmployee workforce management software. The workforce management software, as well as the Company s MRM On Demand software, are delivered to customers under the SaaS model, which is software as a service on a subscription basis. The SaaS model allows customers to use Forgent s software without installing or maintaining it on their own servers. The acquisition of iEmployee and the continued growth of MRM On Demand led to a $1.2 million and $2.8 million increase in service revenues for the three and nine months ended April 30, 2008, respectively. During the third fiscal quarter, Forgent started bundling some of its more popular products to match its customers buying patterns and simplify its product line.

Software license revenues increased by $0.2 million and $0.6 million, for the three and nine months ended April 30, 2008, respectively. In addition to the enhancements to the MRM Outlook® Scheduling interface and MRM Active Directory released during the fourth fiscal quarter of 2007, Forgent further enhanced the MRM Outlook® Scheduling functionality by introducing new flexible and customizable fields during the third fiscal quarter of 2008. These enhanced features continue to attract enterprise companies and Forgent continues to generate increased sales to this market segment, which is driving sales with higher average sales prices during the three and nine months ended April 30, 2008, as compared to the three and nine months ended April 30, 2007. Additionally, in January 2008, Forgent released MRM 7.6, which included a new import capability with the SunGard Higher Education Banner®, a collegiate course scheduling solution widely used by higher education institutions which is one of Forgent s more significant vertical markets. These product enhancements and Forgent s expanded sales and marketing workforce have generated the increases in software license revenues during fiscal 2008. The increased sales in software license, as well as the continued pursuit of maintenance renewals, led to additional sales of maintenance and support contracts, which increased maintenance revenues by $0.1 million and $0.4 million for the three and nine months ended April 30, 2008, respectively.

During fiscal 2008, the Company has generated more sales from Fortune 500 companies than during fiscal 2007. As a result, Forgent generated approximately 35% and 35% of the Company s revenues from the education, governmental, healthcare and legal sectors during the three and nine months ended April 30, 2008, respectively, as compared to 61% and 55% during the three and nine months ended April 30, 2007, respectively. Forgent will continue to target small and medium businesses and divisions of enterprises and utilize marketing programs in certain vertical markets as appropriate. As the Company finalizes the integration of the iEmployee operations, continues the development of its sales force to increase sales performance, and releases new software updates and enhancements, management believes its revenues will increase.

Gross Margin

Gross margin for the three months ended April 30, 2008 was $2.1 million, a decrease of $8.1 million, or 80%, from the $10.2 million reported for the three months ended April 30, 2007. Gross margin for the nine months ended April 30, 2008 was $5.7 million, a decrease of $10.6 million, or 65%, from the $16.3 million reported for the nine months ended April 30, 2007. Gross margin as a percentage of total revenues were 76% and 49% for the three months ended April 30, 2008 and 2007, respectively. Gross margin as a percentage of total revenues were 78% and 52% for the nine months ended April 30, 2008 and 2007, respectively.

The $8.1 million decrease in gross margin for the three months ended April 30, 2008, as compared to the three months ended April 30, 2007, is due primarily to the $9.4 million decrease in gross margin resulting from the intellectual property licensing segment. Similarly, the $10.6 million decrease in gross margin for the nine months ended April 30, 2008, as compared to the nine months ended April 30, 2007, is due primarily to the $14.0 million decrease in gross margin resulting from the intellectual property licensing segment. Since the litigations related to the 672 patent and the 746 patent were concluded during fiscal year 2007 and no revenues were generated from the intellectual property licensing segment during fiscal 2008, the decline in intellectual property licensing revenues has adversely affected the Company s total gross margin. However, gross margin as a percentage of total revenues has improved significantly from 49% to 76% during the three months ended April 30, 2008 and from 52% to 78% during the nine months ended April 30, 2008, as compared to the respective periods ending April 30, 2007. This improvement is due to the higher margins achieved by the software and services segment, as compared to the intellectual property licensing segment.

Software and Services Business

Gross margin for the three months ended April 30, 2008 was $2.1 million, an increase of $1.3 million, or 165%, from the $0.8 million reported for the three months ended April 30, 2007. Gross margin for the nine months ended April 30, 2008 was $5.7 million, an increase of $3.5 million, or 153%, from the $2.2 million reported for the nine months ended April 30, 2007. Gross margin as a percentage of total revenues were 76% and 4% for the three months ended April 30, 2008 and 2007, respectively. Gross margin as a percentage of total revenues were 78% and 7% for the nine months ended April 30, 2008 and 2007, respectively.

The cost of sales for the software and services segment is relatively fixed and results primarily from compensation expenses and related overhead expenses and the amortization of the Company s purchased intangible assets. These expenses represent approximately 61% and 60% of the total cost of sales during the three and nine months ended April 30, 2008, respectively. In October 2007, the Company acquired the iEmployee workforce management software. As a result of this acquisition, compensation and related overhead expenses associated with the iEmployee operations increased by $0.2 million and $0.6 million, which accounts for 55% and 64% of the total increase in cost of sales for the three and nine months ended April 30, 2008, respectively. As part of the iEmployee integration process, management continues to investigate ways to maximize efficiencies within its company-wide operations in order to minimize these fixed costs without negatively affecting customer services and support.

Despite the overall increase in cost of sales, the stronger growth in revenues for the software and services segment caused the gross margin to increase as stated above and the gross margin as a percentage of revenues to increase from 76% for the nine months ended April 30, 2007 to 78% for the nine months ended April 30, 2008. Although gross margin increased for the three months ended April 30, 2008, gross margin as a percentage of revenues decreased from 80% for the three months ended April 30, 2007 to 76% for the three months ended April

30, 2008. This decrease in gross margin as a percentage of revenue is due primarily to the mix in gross margins contributed from the NetSimplicity operations and the newly acquired iEmployee operations. As management implements strategies to maximize efficiencies throughout the Company, Forgent expects to improve its gross margin as a percentage of revenue from its iEmployee operations, which will lead to an overall improvement in its gross margin as a percentage of revenue. Additionally, since Forgent expects to generate more sales, management expects gross margins to improve during the next fiscal quarter, in terms of total dollars, and to remain relatively consistent in terms of percentage of revenues.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses for the three months ended April 30, 2008 were $3.0 million, a decrease of $1.0 million, or 26%, from the $4.0 million reported for the three months ended April 30, 2007. SG&A expenses for the nine months ended April 30, 2008 were $8.3 million, a decrease of $0.7 million, or 7%, from the $9.0 million reported for the nine months ended April 30, 2007. SG&A expenses as a percentage of total revenues were 109% and 19% for the three months ended April 30, 2008 and 2007, respectively. SG&A expenses as a percentage of total revenues were 114% and 29% for the nine months ended April 30, 2008 and 2007, respectively.

SG&A expenses during the three months ended April 30, 2008 decreased $1.5 million due to the decrease in legal expenses generated from the intellectual property licensing segment. Since the litigations related to the 672 patent and the 746 patent were concluded in fiscal year 2007, Forgent incurred minimal legal expenses from its intellectual property licensing business during the three months ended April 30, 2008, as compared to the three months ended April 30, 2007. The decrease in these legal expenses was offset by a $0.4 million increase in SG&A expenses related to the iEmployee operations. Since the iEmployee operations were acquired in October 2007, no SG&A expenses related to the iEmployee operations were incurred during the three months ended April 30, 2007.

Similarly, SG&A expenses during the nine months ended April 30, 2008 decreased $2.2 million due to the decrease in legal expenses generated from the intellectual property licensing segment. The decrease in these legal expenses was offset by a $0.9 million increase in SG&A expenses related to the acquired iEmployee operations and a $0.7 million increase in compensation expenses related to sales and marketing personnel. During fiscal 2008, Forgent hired additional sales personnel such that each sales representative could specialize in the Company s software and services and focus on certain industries and/or smaller territories. Forgent s expanded sales force continues to operate through a low-cost direct web and telesales model. Additionally, Forgent hired a Director of Marketing and other marketing personnel to concentrate on creating and expanding market awareness of the Company s software and services. In addition to the appealing features of its software products and services, management believes the additional personnel have contributed to the increase in revenues during the three and nine months ended April 30, 2008. Management anticipates further increases in revenues as the Company s expanded sales and marketing workforce achieves its full productivity potential in building greater market awareness and generating increased sales.

Forgent will also continue 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 April 30, 2008 were $0.6 million, an increase of $0.4 million, or 242%, from the $0.2 million reported for the three months ended April 30, 2007. R&D expenses for the nine months ended April 30, 2008 were $1.5 million, an increase of $1.1 million, or 261%, from the $0.4 million reported for the nine months ended April 30, 2007. R&D expenses as a percentage of total revenues were 23% and 1% for the three months ended April 30, 2008 and 2007, respectively. R&D expenses as a percentage of total revenues were 21% and 1% for the nine months ended April 30, 2008 and 2007, respectively.

Approximately 83% of the $0.4 million increase in R&D expenses during the three months ended April 30, 2008 and approximately 78% of the $1.1 million increase in R&D expenses during the nine months ended April 30, 2008 are due to the acquisition of the iEmployee R&D workforce and operations in October 2007. As the Company further integrates the iEmployee R&D workforce into the existing R&D team, management is continuing to explore opportunities to create synergies within the group and is investigating all methods for managing its R&D efforts in the most cost-effective manner.

During the three months ended April 30, 2008, Forgent released an improved version of iEmployee s Time and Attendance product, which added an interface to iClock Advanced, a web-based punch clock that provides new capabilities and greater flexibility in order to serve a broader range of customers and meet more complex customer requirements by allowing companies to easily manage their employees schedules. Additionally, Forgent announced the release of a new version of its iEmployee HR & Benefits offering, which introduced new features to help the HR or Benefits administrator exercise better control over the benefits work flow through an easier interface, broadened capabilities to configure various parts of the benefit plans and increased flexibility. During the third fiscal quarter, Forgent also released MRM 7.7, which improved the MRM Enterprise Outlook® Scheduling functionality by introducing new flexible and customizable fields. As Forgent continues to develop and improve all of it products and services, management will attempt to maintain R&D expenses at reasonable levels in terms of percentage of revenue.

Other Income and Expenses

Other income and expenses for the three months ended April 30, 2008 were $0.1 million, a decrease of $0.1 million, or 50%, from the $0.2 million reported for the three months ended April 30, 2007. Other income and expenses for the nine months ended April 30, 2008 were $0.6 million, a decrease of $2.8 million, or 83%, from the $3.4 million reported for the nine months ended April 30, 2007. Other income and expenses as a percentage of total revenues were 3% and 1% for the three months ended April 30, 2008 and 2007, respectively. Other income and expenses as a percentage of total revenues were 8% and 11% for the nine months ended April 30, 2008 and 2007, respectively.

The $2.8 million decrease for the nine months ended April 30, 2008 resulted from the sale of assets during the second fiscal quarter of 2007. In November 2006, Forgent sold certain patents and applications associated with videoconferencing and related fields and technology, together with related goodwill, rights and documentation, to Tandberg Telecom AS for $3.2 million. Upon closing, Forgent received $2.9 million of the purchase price, all of which was recorded as a gain on sale of assets. The remaining balance of $0.3 million is held in escrow for two years for indemnity claims.

Net (Loss) Income

Forgent incurred a net loss of $1.6 million, or $0.05 per share, during the three months ended April 30, 2008 compared to a net income of $6.0 million, or $0.23 per share, during the three months ended April 30, 2007. Forgent incurred a net loss of $4.0 million, or $0.14 per share, during the nine months ended April 30, 2008 compared to a net income of $10.1 million, or $0.39 per share, during the nine months ended April 30, 2007. Net (loss) income as a percentage of total revenues were (58%) and 29% for the three months ended April 30, 2008 and 2007, respectively. Net (loss) income as a percentage of total revenues were (54%) and 32% for the nine months ended April 30, 2008 and 2007, respectively. The $7.6 million decrease in the Company s net income during the three months ended April 30, 2008, as compared to the three months ended April 30, 2007, is primarily attributable to the $9.4 million decrease in gross margin from the intellectual property licensing business. Similarly, the $14.1 million decrease in the Company s net income during the nine months ended April 30, 2008, as compared to the nine months ended April 30, 2007, is primarily attributable to the $14.0 million decrease in gross margin from the intellectual property licensing business.

LIQUIDITY AND CAPITAL RESOURCES

	FOR THE NINE MONTHS ENDED APRIL 30,	
	2008	2007
	(in thousands)	
Working capital	$ 11,449	$ 20,951
Cash, cash equivalents and short-term investments	16,122	26,147
Cash (used in) provided by operating activities	(11,926)	10,854
Cash used in investing activities	(8,737)	(1,978)
Cash provided by (used in) financing activities	13	(457)

Cash used in operating activities was $12.0 million for the nine months ended April 30, 2008 due primarily to a $4.0 million net loss and an $8.2 million decrease in accounts payables. Cash provided by operating activities was $10.9 million for the nine months ended April 30, 2007 due primarily to the $10.1 million in net income and a $9.1 million increase in accounts payables, which were offset by a $10.1 million increase in accounts receivables. During the nine months ended April 30, 2008, Forgent paid its legal counsel $7.4 million in contingency fees related to its 746 patent s settlement and license agreements. The Company will pay the related contingency fees to Jenkens & Gilchrist, P.C. (Jenkens) in a future period, once the litigation with Jenkens is finalized. Forgent s average days sales outstanding for its software and services segment was 39 days for the third fiscal quarter of 2008, an improvement over the 46 days for the third fiscal quarter of 2007.

Cash used in investing activities was $8.7 million for the nine months ended April 30, 2008 due primarily to $7.3 million paid in cash related to the iEmployee acquisition and $1.3 million purchase of short-term investments. Cash used in investing activities was $2.0 million for the nine months ended April 30, 2007 due primarily to $1.5 million in net purchases of short-term investments. Forgent manages its investments portfolio in order to fulfill corporate liquidity requirements and maximize investment returns while preserving the quality of the portfolio. During the nine months ended April 30, 2008, Forgent shifted its investment portfolio to investments with slightly longer maturities in order to maximize its interest income. As a result of this shift and the increase in the average cash equivalents and short-term investment balances during the nine months ended April 30, 2008, Forgent achieved an 8% increase in interest income during the nine months ended April 30, 2008, as compared to the nine months ended April 30, 2007.

Approximately 44% of Forgent s purchased fixed assets during the nine months ended April 30, 2008 related to leasehold improvements for the Company s expanded sales force and for one subtenant. In addressing all operational and facility capital requirements, management continues to evaluate how best to manage operations without expending significant additional resources and is maximizing its existing office space to facilitate the growth of its software business. Management does not anticipate any significant capital expenditures during the fourth fiscal quarter of 2008.

The Company leases office space and equipment under non-cancelable operating leases that expire at various dates through 2013. Certain leases obligate Forgent to pay property taxes, maintenance and insurance and include escalation clauses. The total amount of base rentals over the term of the Company s leases is charged to expense on a straight-line basis, with the amount of the rental expense in excess of the lease payments recorded as a deferred rent liability. Forgent may periodically make other commitments and thus become subject to other contractual obligations. Forgent s future minimum lease payments under all operating and capital leases as of April 30, 2008 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	$ 16,933	$ 3,693	$ 6,889	$ 6,351	$
Capital lease obligations	60	34	26		
Total	**$ 16,993**	**$ 3,727**	**$ 6,915**	**$ 6,351**	**$**

Approximately 98% of the Company s operating lease obligations relates to its corporate office location at Wild Basin in Austin, Texas. As of April 30, 2008, Forgent had approximately $5.6 million in future minimum lease payments receivable under non-cancelable sublease arrangements. Additionally, Forgent had a $0.5 million liability related to impairment charges for the economic value of the lost sublease rental income related to its Austin property.

Cash provided by financing activities was $13 thousand for the nine months ended April 30, 2008. Cash used in financing activities was $0.5 million for the nine months ended April 30, 2007 due primarily to the repayment of Forgent s outstanding notes payable. Although no debt was outstanding as of April 30, 2008, Forgent had $1.0 million available from a credit line from Silicon Valley Bank. This credit line expired on May 1, 2008. Forgent is currently working with Silicon Valley Bank to renew this source of financing and management anticipates obtaining similar terms of interest at prime plus 0.75% and monthly installments over a three year term for the future credit line.

Forgent s stock repurchase program allows the Company to purchase up to three million shares of the Company s common stock. No shares were repurchased during the nine months ended April 30, 2008 or 2007. As of April 30, 2008, Forgent had repurchased 1,790,401 shares for approximately $4.8 million and had the authority to repurchase approximately 1.2 million additional shares. Management will periodically assess repurchasing additional shares in fiscal year 2008, depending on the Company s cash position, market conditions and other factors.

As of April 30, 2008, Forgent s principal source of liquidity consisted of $16.1 million in cash, cash equivalents and short-term investments. Management currently plans to utilize its cash balances to continue developing its software business by making prudent investments when necessary, continue exploring potential opportunities in acquiring a growing and profitable public or privately held technology business or product line, and may repurchase outstanding shares. There is no assurance that the Company will be able to limit its cash consumption and preserve its cash balances, and it is possible that the Company s future business demands may lead to cash utilization at levels greater than recently experienced due to the iEmployee acquisition, potential other acquisitions and other business factors. Management believes that the Company has sufficient capital and liquidity to fund and cultivate the growth of its current and future operations for the next 12 months and thereafter. However, due to uncertainties related to the timing and costs of these efforts, Forgent may need to raise additional capital in the future. Yet, there is no assurance that the Company will be able to raise additional capital if and when it is needed.

CRITICAL ACCOUNTING POLICIES

The Company s condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of Forgent s wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. Preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, and the fair value of assets acquired and liabilities assumed during the recent acquisition. These estimates could be materially different under different conditions and assumptions. Additionally, the actual amounts could differ from the estimates made. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

Management believes the following represent Forgent s critical accounting policies:

Revenue Recognition

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

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

The Company determines the fair value of each element in the arrangement based on vendor-specific objective evidence (VSOE) of fair value. VSOE of fair value for the software, maintenance, and training and installation services are based on the prices charged for the software, maintenance and services when sold separately. Revenue allocated to maintenance and technical support is recognized ratably over the maintenance term (typically one year). Revenue allocated to installation and training is recognized upon completion of these services. The Company s training and installation services are not essential to the functionality of 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 Condensed Consolidated Statements of Operations when the service is completed and over the terms of the arrangements, primarily ranging from one to three years.

Impairment of Goodwill, Intangible Assets and Long-Lived Assets

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company 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 relatively 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/A for the year ended July 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports it files under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Such controls include those designed to ensure that information for disclosure is communicated to management, including the Chairman of the Board and the Chief Executive Officer (CEO), as appropriate to allow timely decisions regarding required disclosure.

The CEO and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of the Company s disclosure controls and procedures as of April 30, 2008. Based on their evaluation, they have concluded, to the best of their knowledge and belief, that the disclosure controls and procedures are effective. No changes were made in the Company s internal controls over financial reporting during the quarter ended April 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to the acquisition of iEmployee in October 2007, Forgent is required to implement internal controls related to those operations. As of April 30, 2008, the Company has not tested the operating effectiveness of the internal controls related to iEmployee or the integration of iEmployee. In compliance with the Public Company Accounting Oversight Board s and the Securities and Exchange Commission s regulations and guidance, Forgent will not report on the effectiveness of iEmployee s internal controls over financial reporting under the Sarbanes-Oxley Act of 2002 until its Annual Report on Form 10-K for fiscal 2008.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Litigation with Jenkens & Gilchrist, P.C.

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

After Forgent terminated Jenkens, the Company entered into a Resolution Agreement with Jenkens in December 2004. Under the Resolution Agreement, the Company believes Jenkens is entitled to $1.4 million for contingency fees and expenses related to the settlements from the litigation regarding the Company s DVR patents. Jenkens interprets the Resolution Agreement on broader terms and believes it is entitled to $3.4 million, including attorneys fees and interest.

On March 3, 2008, Forgent and Jenkens appeared before the Court regarding a hearing on a motion for summary judgment filed by Jenkens. On May 20, 2008, the Court granted Jenkens motion and ordered Forgent to pay Jenkens $2.8 million for recoveries related to the 746 patent and other amounts including attorney s fees and interest. Forgent disagrees with the Court s ruling and is currently pursuing efforts to appeal this Court order.

The trial date for this litigation is currently scheduled for October 6, 2008. However, management currently cannot predict how long it ultimately will take to resolve the Jenkens lawsuit. Until the Jenkens litigation is finalized, the related contingency fees and expenses may be adjusted in a future period and could have a material impact to the Company s consolidated financial statements.

Litigation with Wild Basin

On September 6, 2007, Forgent filed a petition against Wild Basin One & Two, Ltd. (Wild Basin) in the District Court of Travis County, Texas. The petition claims Wild Basin is in breach of contract relating to Forgent s lease agreement by unreasonably withholding and delaying its consent to a pending lease assignment. On October 19, 2007, Forgent amended its petition to include claims of fraud and breach of fiduciary duty against Wild Basin. On June 2, 2008, Wild Basin filed a counterclaim seeking a declaratory judgment that it had complied with its obligations under the lease and was seeking the recovery of attorney s fees. On June 5, 2008, Forgent amended its petition to request the Court make declaratory judgments on several issues in the case and to include as a breach of contract claim its claim for withholding amounts that should have been distributed by Wild Basin in the past pursuant to the lease. Forgent is seeking to recover all damages as a result of the delay in closing its pending assignment and amounts not distributed in the past, among other damages. The Company anticipates participating in mediation with Wild Basin in July 2008. The trial date for this litigation has been re-scheduled for July 21, 2008.

Re-examination of United States Patent No. 6,285,746

On October 2, 2006, the United States Patent and Trademark Office (the USPTO) ordered an *inter partes* re-examination of the 746 patent and issued its first office action related to this re-examination on October 30, 2006. This first action, which is not the final conclusion of the re-examination, rejected the five claims in the 746 patent. Forgent responded to the USPTO, but the USPTO has not issued any additional office actions related to this re-examination.

Re-examination of United States Patent No. 4,698,672

On January 31, 2006, the USPTO granted a petition to re-examine the Company s U.S. Patent No. 4,698,672 (the 672 patent) and subsequently issued its first office action on May 25, 2006. Forgent responded to this first office action, which confirmed 27 of the 46 claims in the 672 patent. On March 26, 2007, the USPTO issued its final office action, which affirmed its first office action. Forgent responded to the USPTO on May 11, 2007. On January 11, 2008, the Company received the USPTO s notice of intent to issue an Ex-Parte Reexamination Certificate. On April 15, 2008 Forgent received the USPTO s Ex-Parte Reexamination Certificate, which affirmed its previous office actions. The Company currently has no plans to pursue this matter further.

ITEM 1A. RISK FACTORS

Many factors affect Forgent s business, prospects, liquidity and the results of operations, some of which are beyond the Company s control. The following is a discussion of 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 material, may also affect the Company s business, prospects, liquidity and results of operations.

SOFTWARE AND SERVICES BUSINESS

The Company may encounter problems related to its acquisition of iEmployee, which could create business difficulties and adversely affect operations.

The Company may have difficulties fully integrating the services, technologies, personnel and operations of iEmployee into the Company s existing software business. These difficulties could disrupt Forgent s ongoing business, distract management and other personnel, increase expenses and adversely affect operating results. If

Forgent is unable to fully integrate iEmployee with its existing operations, the Company may not achieve all the intended benefits of the acquisition.

If Forgent is unable to successfully market and sell its software products and services, future revenues will decline.

The future success of the Company is dependent on its ability to generate demand for its scheduling, asset management, and workforce management software products and services. To this end, Forgent s marketing and sales operations must increase market awareness of the Company s products and services to generate increased revenue. All new hires within the sales and marketing departments 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. The Company also cannot be certain that it will be able to hire enough qualified individuals or retain existing employees in the future, and therefore, cannot be certain that it will be successful in its efforts to market and sell its products and services. If Forgent is not successful in building greater market awareness and generating increased sales, future revenues will decline.

Lack of new customers or additional sales from current customers could negatively affect the Company s ability to grow revenues.

Forgent s future success and business model depends significantly on its ability to expand the use of its software and services. The Company must execute on its growth objectives by increasing its market share, maintaining and increasing recurring revenues from new and existing customers, and selling additional products and services to new and existing customers. If the Company fails to grow its customer base or generate repeat and expanded business from its current customers, Forgent s revenues could be adversely affected.

Since NetSimplicity s maintenance and other service fees depend largely on the size and number of licenses that are sold, any downturn in NetSimplicity 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, NetSimplicity s maintenance revenue could be adversely affected.

Increased competition may have an adverse effect on the Company s operating results.

The Company may encounter new entrants or competition from vendors in some or all aspects of its software business. The Company currently competes on the basis of price, technology, availability, performance, quality, reliability, service and support. However, there can be no assurance that the Company will be able to maintain a competitive advantage with respect to any of these factors. Some of Forgent s competitors, both current and future, may have greater financial, technical and marketing resources than the Company and, therefore, may be able to respond quicker to new or emerging technologies and changes in customer requirements. As a result, they may compete more effectively on price and other terms. Additionally, these competitors may devote greater resources in developing products or in promoting and selling their products to achieve greater market acceptance. Such competition could adversely affect the Company s operating results.

Open source software may increase competition, resulting in decreases in the prices of Forgent s software products.

Many different formal and informal groups of software developers and individuals have created a wide variety of software and have made that software available for use, distribution and modification, often free of charge. Such open source software has been gaining in popularity among business users, particularly small to medium sized businesses, which are some of Forgent s targeted customers. Although management is currently unaware of any competing open source software, if developers make scheduling, asset management or workforce management software applications available to the open source community, and that software has competitive features, Forgent may need to change its pricing and distribution strategy in order to compete.

A systems failure or any other service interruption could result in substantial expenses to the Company, loss of customers and claims by customers for damages caused by any losses they incur.

Forgent s workforce management software, as well as the Company s MRM On Demand software, are delivered to customers under the SaaS model, which is software as a service on a subscription basis. These hosting services, which are supported by hardware, infrastructure, ongoing maintenance and back-up services, must be operated reliably on a 24 hours per day, seven days per week basis without interruption or data loss. If Forgent cannot protect its infrastructure, equipment and customer data files against damage from human error, power loss or telecommunication failures, intentional acts of vandalism, or any other catastrophic occurrences, services to its customers may be interrupted. If services are interrupted,

- Customers may not be able to retrieve their data;
- The Company could incur significant expenses to replace existing equipment or purchase services from an alternative data center;
- Customers may not renew their services or cancel their contracts;
- Customers may seek reimbursement for losses that they incur; and/or
- The Company s reputation may be impaired, making it difficult to attract new customers.

Although disaster recovery plans and strategies are in place, Forgent may not be successful in mitigating the effects of any systems failure or other service interruptions. Such failures or interruptions could significantly impair the Company s operations and adversely affect the Company s financial results.

If Forgent s business, systems and/or IT security is breached, the Company s businesses may be adversely affected.

A security breach in the Company s business processes and/or systems has the potential to impact the Company s customer information. Any issues of data privacy as they relate to unauthorized access to or loss of customer information could result in the potential loss of business, damage to the Company s reputation and litigation. To prevent unauthorized access to confidential information or attempts to breach the Company s security, Forgent continues to invest in the security of its IT systems and improve the controls within its IT systems and business processes. However, there is no assurance that the Company s business and/or systems will not be breached. If Forgent s security is breached or confidential information is accessed, the Company s business and operating results may be adversely affected.

Claims of intellectual property infringement by third parties may adversely affect Forgent s business.

The Company may become subjected to claims of intellectual property infringement by third parties as the number of competitors and available software products continue to grow and the functionality of such products increasingly overlaps. Any infringement claims, with or without merit, could be time-consuming, result in costly litigation, divert management s attention and financial resources, cause the loss or deferral of sales or require the Company to enter into royalty or license agreements. In the event of a successful claim of intellectual property infringement against Forgent, the Company s business, operating results and financial condition could be materially adversely affected, unless the Company is able to either license the technology or similar technology or develop an alternative technology on a timely basis. Even if Forgent is able to license the technology, such royalty or license agreements may not be available on terms acceptable to the Company.

If Forgent cannot prevent piracy of its software products, revenues may decline.

Although the Company is unable to determine the extent to which piracy of its software products occurs, software piracy could be a problem. Since Forgent has international resellers and customers, piracy may occur in foreign countries where laws do not protect proprietary rights to the same extent as the laws in the United States. Piracy may cause the Company s revenues to decline. Forgent seeks to protect its 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, competitors may also independently develop similar, but not infringing, technology or design around the Company s products.

The Company s software products functionality may be impaired if third-party hardware devices associated with the software do not operate successfully.

In addition to its software products, Forgent currently sells hardware devices from partnered vendors to its customers. The effective implementation of the Company s software products depends upon the successful operation of these third-party hardware products. Any undetected defects in these third-party products could prevent the implementation of or impair the functionality of the Company s software or blemish Forgent s reputation.

If customers cease using Microsoft Outlook© or if Microsoft changes its Outlook application significantly, revenues may decline and/or the Company may incur significant expenses to update its MRM Enterprise software.

The Company s MRM Enterprise software is designed to operate with Microsoft Outlook©. Although management believes that Microsoft Outlook© is currently and widely utilized by businesses in the Company s target markets, there are no assurances that businesses will continue to use Microsoft Outlook© as anticipated, will migrate from older versions to newer versions of Microsoft Outlook©, or will not adopt alternative technologies that are incompatible with MRM Enterprise. Forgent may not be timely in updating its MRM Enterprise software to be compatible with Microsoft Outlook©. As a result, software revenues may decline. Additionally, the Company may incur significant expenses updating its MRM Enterprise software to be compatible with changes in Microsoft Outlook©.

If Forgent fails to introduce new versions and releases of functional and scalable software products in a cost-effective and timely manner, customers may license competing products and Forgent s revenues will decline.

The technology industry is characterized by continuing improvements in technology, resulting in the frequent introduction of new products, short product life cycles, changes in customer needs and continual improvement in product performance characteristics. Forgent expects that its future financial performance will depend, in part, on revenue generated from future software products and enhancements as well as other software related products that the Company plans to develop and/or acquire. 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 spends a large portion of its research and development resources on product upgrades and 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, which may require significant resources, could ultimately be unsuccessful if Forgent does not achieve market acceptance for its new products or enhancements. Additionally, if the Company fails to anticipate and respond effectively to technological improvements or if Forgent s competitors release new products that are superior to Forgent s products in performance and/or price, demand for the Company s software products may decline and Forgent may lose sales and fail to achieve anticipated revenues.

Errors or defects in Forgent s software could reduce demand for its software and result in decreased revenues, decreased market acceptance and injury to the Company s reputation.

Errors or defects in the Company s software, sometimes called bugs, may be found from time-to-time, particularly when new versions or enhancements are released. Any significant software errors or defects may result in loss of sales, decreased revenues, delay in market acceptance and injury to the Company s reputation. Despite extensive product testing during development, new versions or enhancements of Forgent s software may still have errors after commercial shipments begin. Forgent corrects the bugs and delivers the corrections in subsequent maintenance releases, patches and on-going service. However, errors or defects could put the Company at a competitive disadvantage and can be costly and time-consuming to correct.

If Forgent is unable to develop or maintain strategic relationships with its resellers and vendor partners who market and sell the Company s products, revenues may decline.

Forgent supplements its direct sales force by contracting with resellers and vendor partners to generate additional sales. Forgent s revenue growth will depend, in part, on adding new resellers and partners to expand the Company s sales channels, as well as leveraging the Company s relationships with existing resellers and partners. If Forgent is unable to enter into successful new strategic relationships in the future or if the Company s current relationships with its resellers and partners deteriorate or terminate, Forgent may lose sales and revenues may decline.

OTHER

Forgent s stock may be de-listed from NASDAQ, which may adversely affect its stockholders ability to sell their shares and the Company s ability to raise capital.

On February 4, 2008, Forgent received a **Nasdaq** deficiency letter indicating that, for 30 consecutive business days, the bid price per share of the Company s common stock closed below the minimum $1.00 per share requirement. Therefore, its common stock is subject to potential delisting from the **Nasdaq** Global Market Exchange pursuant to Nasdaq Marketplace Rule 4450(a)(5). The Company was provided 180 calendar days, or until August 4, 2008, to regain compliance by maintaining a share price in excess of $1.00 for ten consecutive business days. If the Company cannot achieve compliance with the minimum share price requirement by August 4, 2008, Nasdaq will provide written notification that the Company s securities will be de-listed from the Global Market Exchange.

The Company may pursue trading on the Nasdaq Capital Market. If NASDAQ approves, Forgent would be provided an additional 180 calendar days to regain compliance with the minimum $1.00 share price requirement while trading on the Nasdaq Capital Market. If NASDAQ does not approve the Company to trade on the Capital Market and the Company cannot achieve compliance by any other means, Forgent s common stock will be de-listed from NASDAQ.

If Forgent s common stock is de-listed from NASDAQ, the market liquidity of Company s common stock will be significantly limited, which would reduce stockholders ability to sell their Company securities in the secondary market. Additionally, any such de-listing would harm Forgent s ability to raise capital through alternative financing sources on acceptable terms, if at all, and may result in the loss of confidence in the Company s financial stability by suppliers, customers and employees. Forgent cannot give investors in its common stock any assurance that the Company will be able to regain and maintain compliance with the $1.00 per share minimum price requirement for continued listing on NASDAQ or that its stock will not be de-listed by NASDAQ in the future.

Forgent may face problems in connection with future acquisitions, which could create business difficulties and adversely affect operations.

As part of the Company s business strategy, Forgent may acquire additional businesses, products and technologies that could complement or expand its ongoing business. However, the Company may be unable to identify suitable acquisitions or investment candidates. Even if Forgent identifies suitable candidates, there are no assurances that the Company will be able to make the acquisitions or investments on favorable terms. Negotiations of potential acquisitions could divert management time and resources and the Company may incorrectly judge the value or worth of an acquired business, product or technology. Additionally, Forgent may incur significant debt or be required to issue equity securities to pay for such future acquisitions or investments.

Historically, the Company has not been profitable and Forgent may continue to incur losses, which may result in decreases in revenues if customers raise viability concerns.

Although Forgent generated net income for the year ended July 31, 2007, the Company incurred losses during the prior fiscal years and during the nine months ended April 30, 2008. The net income during fiscal year 2007 was due to the income generated from the intellectual property licensing segment, which is no longer generating revenue. Additionally as of April 30, 2008, Forgent had an accumulated deficit of $242.4 million and may incur additional losses in the future. Continued losses may cause existing and new customers to question the Company s viability and be reluctant to purchase from the Company. If Forgent is unable to increase its sales due to such concerns, revenues will decline, which would further adversely affect the Company s operating results. Therefore, there are no assurances that the Company can achieve or generate sufficient revenues to realize profitability.

Forgent may not be able to protect or enforce its intellectual property rights, which could adversely affect the Company s operations.

The Company seeks to protect its assets through patent and trademark laws. Forgent currently has several patents and trademarks, as well as patent applications and trademark registrations. However, the Company s patent applications or trademark registrations may not be approved. Additionally, even if approved, the resulting patents or trademarks may not provide the Company with any competitive advantage or may be challenged by third parties. If challenged, patents and trademarks might not be upheld or claims could be narrowed. Any challenges or litigation surrounding the Company s rights could force Forgent to divert important financial and other resources away from business operations.

If Forgent elects to raise additional capital, funds may not be available or, if available, may not be on favorable terms to the Company.

In the future, Forgent may elect to raise additional capital to fund its operations and/or acquisitions. However, Forgent cannot be certain that it will be able to obtain financing on favorable terms. If Forgent takes out loans, the Company may incur significant interest expense, which could adversely affect operating results. If Forgent issues equity securities, its stockholders percentage of ownership would be reduced and the new equity securities may have rights, preferences or privileges senior to those of existing stockholders of the Company s common stock. If Forgent is unable to raise funds on acceptable terms, Forgent may not be able to acquire additional businesses, products or technologies, develop or enhance its existing products, respond to competitive pressures or unanticipated requirements, or take advantage of future opportunities, all of which could adversely affect the Company s business, operating results and financial condition.

Forgent may experience fluctuations in its quarterly results and if the Company s future results are below expectations, the price for the Company s common stock may decline.

In the past, the Company s revenues and operating results have varied significantly from quarter to quarter due to the various events primarily experienced by the intellectual property licensing segment. Although management expects that revenues and operating results may fluctuate less from quarter to quarter in the future, any fluctuation from Forgent s operations may lead to reduced prices for the Company s common stock. Several factors may cause the quarterly results to fluctuate, including:

- market demand for the Company s software products and services;
- timing of customers budget cycles;
- timing of customer orders and deployment of the Company s software products and services;
- mix of software license and services revenues;
- timing of introducing new products and services or enhancements to existing products and services;
- new product releases or pricing policies by Forgent s competitors;
- 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 potential additional acquisitions of businesses, products or technologies;
- costs of attracting, retaining and training skilled personnel;
- management s ability to manage future growth;
- changes in U.S. generally accepted accounting principles; 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 and that market analysts and investors should not rely on the results of any particular quarter as an indication of future performance.

The loss of key management and personnel could hinder the development of Forgent s technology and otherwise adversely affect the Company s business.

Forgent relies on the continued contributions of its senior management, and its sales and marketing, professional services and finance personnel. Forgent s success depends upon its ability to attract, hire and retain highly qualified and experienced personnel, especially software developers and engineers who 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, including iEmployee s senior management and the senior management of any business it may acquire in the future. If any of the Company s key personnel or senior management is unable or unwilling to continue in his or her present role, or if Forgent is unable to attract, train, retain and manage its employees effectively, Forgent could encounter difficulties in developing new products and product enhancements, generating revenue through increased sales efforts and/or providing high quality customer service.

Although Forgent has executed a shareholders rights plan, there are no assurances that a change of control will not occur.

In December 2005, the Company s Board of Directors approved and executed a shareholder rights plan (Rights Plan) whereby one preferred share purchase right was distributed for each outstanding share of the Company s common stock for all stockholders of record on December 31, 2005. The Rights Plan, which was not adopted in response to any threat to the Company, was designed to guard against any proposed takeover, partial tender offers, open market accumulations and other tactics designed to gain control of the Company. Under the Rights Plan, the preferred share purchase rights become exercisable if a person or group thereafter acquires 15% or more of the Company s common stock or announces a tender offer for 15% or more of the Company s common stock. Such events, or if the Company is acquired in a merger or other business combination transaction after a person or group acquires 15% or more of its common stock, would entitle the right holder to purchase, at an exercise price of $13.00 per share, a number of shares of common stock having a market value at that time equal to twice the right s exercise price. The Rights Plan may have the effect of discouraging, delaying or preventing unsolicited acquisition proposals, but there are no assurances a change of control will not occur.

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 market analysts and investors could have an immediate and significant effect on the trading price of the Company s common stock.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits:

2.2	Agreement and Plan of Merger, dated as of September 11, 2007 by and among Forgent Networks, Inc., Cheetah Acquisition Company, Inc. and iSarla Inc. (incorporated by reference to Exhibit 2.2 to the Company s quarterly report on Form 10-Q for the three months ended October 31, 2007).
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s quarterly report on Form 10-Q for the three months ended October 31, 2004).
3.2	Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company s quarterly report on Form 10-Q for the three months ended October 31, 2004).
4.1	Specimen Certificate for the Common Stock (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1, File No. 33-45876, as amended).
4.2	Rights Agreement, dated as of December 19, 2005, between Forgent Networks, Inc. and American Stock Transfer & Trust Company, which includes the form of Series A Preferred Stock, $0.01 par value, the form of Rights Certificate, and the Summary of Rights (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated December 19, 2005).
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

SIGNATURES

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

	FORGENT NETWORKS, INC.	
Date: June 16, 2008	By:	/s/ RICHARD N. SNYDER Richard N. Snyder Chief Executive Officer
Date: June 16, 2008	By:	/s/ JAY C. PETERSON Jay C. Peterson Chief Financial Officer

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