EXHIBIT A

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED JULY 31, 2004

OR

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

COMMISSION FILE NUMBER 0-20008

FORGENT NETWORKS, INC.

(f.k.a. VTEL Corporation)

A DELAWARE CORPORATION IRS EMPLOYER ID NO. 74-2415696

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

Indicate by check mark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. [X]

The aggregate market value of the 20,772,839 shares of the registrant's Common Stock held by nonaffiliates on January 30, 2004 was approximately $56,709,850. For purposes of this computation all officers, directors and 5% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the registrant.

At October 21, 2004 there were 24,906,454 shares of the registrant's Common Stock, $.01 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2004 Annual Meeting are incorporated by reference into Part III. The exhibit index is located after the signature page.

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PART I

ITEM 1. BUSINESS

GENERAL

Forgent Networks, Inc. ("Forgent" or "Company") is a licensor of intellectual property as well as a provider of low-cost, easy-to-use scheduling and asset management software solutions that enable organizations to schedule and manage their office environment effectively and efficiently. Forgent currently generates a significant portion of its revenues and cash flow from the licensing of its patent portfolio on a worldwide basis.

Forgent is a Delaware corporation incorporated in 1985 with principal executive offices located at 108 Wild Basin Road, Austin, Texas 78746. The Company telephone number is (512) 437-2700 and the Company website is www.forgent.com. The Company does not intend for information contained on its website to be part of this Form 10-K. Forgent makes available free of charge, on or through its website, its annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such material or furnishes it to the Securities and Exchange Commission. The Company has two main businesses — intellectual property licensing and scheduling and asset management software and professional services.

Forgent's intellectual property licensing business is derived from the Company's Patent Licensing Program. The Company's Patent Licensing Program is currently focused on generating licensing revenues related to the Company's data compression technology embodied in U.S. Patent No. 4,698,672 (the "672 patent") and its foreign counterparts and is currently conducted through the Company's wholly-owned subsidiary, Compression Labs, Inc. The Company's aggregate intellectual property licensing revenues, which were generated by the licensing of these patents, totaled over $94.5 million through July 31, 2004. Other patents are currently being investigated for additional licensing opportunities.

In October 2003, Forgent acquired software products from Network Simplicity Software Inc. and molded these products into the Company's NetSimplicity software product line which is currently sold through the Company's web and telesales business model. NetSimplicity's flagship product, Meeting Room Manager ("MRM"), automates the entire facility scheduling process: reserving rooms, requesting equipment, ordering food, sending invitations, creating reports and more. The product is easy to install and easy to deploy, which allows customers to be up and running within minutes of starting their deployment. Other products include Visual Asset Manager, an easy-to-use information technology asset tracking and management tool, Resource Scheduler, a scheduling application built on the same base as MRM but designed for scheduling resources such as equipment, computers, etc., and Classroom Manager, also a derivative product of MRM, that allows educational institutions and training facilities to schedule their classrooms. Additionally, the Company manufactures and sells Family Scheduler, an easy-to-install, simple-to-use scheduling solution for busy families.

With 20 years of experience and expertise in video network management, Forgent developed and launched, in December 2001, Video Network Platform ("VNP"), a multi-vendor, multi-protocol video network management platform that monitors and manages video and network devices from multiple vendors in order to ensure interoperability. The Company expanded the functionality of VNP and created ALLIANCE MEDIA MANAGER ("MEDIA MANAGER"), which configures all of the components of an audio, video or web conference via a single meeting request by interpreting user requests for rich-media resources, selecting and scheduling the appropriate devices and services, automatically launching the conferences as requested and providing ongoing monitoring to detect and recover if problems occur. Forgent is currently exploring opportunities to leverage its expertise with rich media networking through potential acquisitions of businesses that are considered to be a good fit with Forgent's experience.

Founded in 1985 and using its expertise in the videoconferencing equipment industry, the Company previously manufactured and installed videoconferencing endpoints. In January 2002, the Company sold its manufacturing products business and shifted its focus from hardware manufacturing to software and services. To further expedite this shift, during fiscal year 2002, Forgent also sold its integration business, which designed and installed custom integrated visual communication systems primarily in meetings spaces of large corporations. During fiscal year 2003, the Company completed the divestiture of its videoconferencing hardware services business, devoting itself entirely to its intellectual property licensing business, as well as its software and professional services business.

In fiscal year 2004, Forgent continued its focus on licensing of intellectual property and streamlined its software business with a low-cost, high transaction marketing and distribution model. During fiscal year 2004, Forgent achieved

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several goals including: (1) initiated litigation to protect its intellectual property rights related to the '672 patent, (2) continued licensing efforts from its Patent Licensing Program, (3) completed the integration of the acquisition of Network Simplicity Software, Inc. and (4) made progress in growing revenues related to its NetSimplicity software. Despite these achievements, uncertainties and challenges remain, and there can be no assurance that the Company can successfully grow its revenues or achieve profitability.

CORPORATE STRATEGY

Since the Company's inception, Forgent has designed, developed and acquired strategies to help find new and better ways to solve problems in its area of expertise. As these solutions were found, the Company patented and then sought to commercialize these innovative technologies. This effort has created a diverse portfolio of intellectual property such as data compression, video mail, videoconferencing, video call scheduling and many others. The Company's patent portfolio includes the combined invention of Compression Labs, Inc., VTEL Corporation and Forgent Networks, Inc.

The Company licenses its intellectual property to technology companies, which manufacture and sell hardware or software devices that incorporate Forgent's technology. Through the licensing program, the Company seeks to monetize its investment in its intellectual property portfolio and leverage the resulting cash flow from licensing revenues in order to achieve a profitable and growing business as well as returning value to its stockholders. The Company has taken a portion of the intellectual property cash flows and invested them in NetSimplicity, the Company's software business. As the Company further evolves, Forgent's strategy will continue to adhere to the following key elements:

- License its patents to companies that utilize Forgent's technology in their products,
- Pursue litigation against those companies who are infringing the Company's patent and refuse to sign license agreements,
- Achieve profitability within its software segment as quickly as possible,
- Explore opportunities to acquire a significant, growing and profitable business and
- Continue to reduce costs.

Intellectual Property Licensing Business

Forgent intends to continue its efforts to derive revenue from its intellectual property licensing business in order to provide stability and serve as an internal source of funding for the Company's future growth. The vast majority of the Company's Patent Licensing Program is currently focused on generating licensing revenues related to the Company's data compression technology embodied in U.S. Patent No. 4,698,672 and its foreign counterparts and is currently conducted through the Company's wholly-owned subsidiary, Compression Labs, Inc. The licensing revenues generated by the '672 patent thus far relate to one-time intellectual property license agreements and the Company does not anticipate any additional intellectual property revenue from these companies. However, Forgent continues to actively seek new licenses and put more companies on notice by extending the '672 patent's global reach and broadening its field of use. Additionally, Forgent is currently investigating other patents for additional licensing opportunities. Currently, the Company's success is largely dependent on its ability to license and commercialize its intellectual property from its patent portfolio, which currently includes several dozen issued patents and several pending patent applications.

During fiscal year 2004, Forgent initiated litigation against 31 technology companies for infringement of its '672 patent (the "'672 Litigation"). In August 2004, the Company added 11 more technology companies. Although the Company previously offered to provide a license of the '672 patent to these companies, none of the defendants chose to do so. In addition to the current litigation, Forgent continues to pursue license agreements with targeted companies, whether or not named in the litigation. The timing of signing the license agreements and the timing of the litigation results continue to pose forecasting challenges, which inevitably causes peaks and valleys in the Patent Licensing Program. Management anticipates its licensing program will generate additional intellectual property licensing revenues. However, uncertainties and challenges remain and there can be no assurances that Forgent's strategy will be successful. See Item 3 "Legal Proceedings" for more detail.

Software & Professional Services Business

Forgent's software products solve common office administration problems simply and affordably to save organizations time and money. Businesses, educational institutions and healthcare organizations of all sizes buy Forgent's software products because they solve real office administration problems in an easy and affordable manner. In October 2003, Forgent acquired software products from Network Simplicity Software Inc. and has molded these products into the Company's NetSimplicity software product line. NetSimplicity's flagship product, Meeting Room Manager™ (MRM), provides a complete meeting and meeting room scheduling solution in an easy-to-buy and easy-to-deploy application. Further, management is of the opinion that its current scheduling and asset management software and professional services helps to minimize or eliminate the inefficiencies plaguing meeting environments. As Forgent expands the market awareness of its products and services, management feels it will successfully generate additional revenue. However, uncertainties and challenges remain and there can be no assurances that Forgent's strategy will be successful.

Mergers & Acquisition Efforts

Forgent has considered and evaluated several businesses. However during the due diligence phase, the Company was not satisfied with the discovered quality of the prospects and thus terminated any further pursuit of these specific businesses. Forgent will continue to investigate other potential candidates for acquisition. Candidates to be considered include public and private technology businesses or product lines that have proven growth, audited profitability and are a good fit with Forgent's business. There can be no assurances, however, that Forgent will acquire any new businesses, or that if acquired, such acquisitions will be successful.

Focus on Expenses

The Company has continued to work to reduce operating expenses and has employed a variety of strategies including headcount reductions, office space rationalization, equipment lease terminations and asset divestitures among others. The majority of the Company's software development efforts are in its NetSimplicity office in Vancouver, Canada where it can realize lower operating costs due to salary and overhead costs savings. The Company will continue to plan additional overall spending reductions while increasing spending in the intellectual property business and also maintaining its investment in the software business.

INTELLECTUAL PROPERTY LICENSING BUSINESS

Background

In May 1997, the Company's stockholders approved a merger with Compression Labs, Incorporated ("CLI"), a Delaware corporation that developed, manufactured and marketed visual communication systems. As a result, CLI became a direct wholly-owned subsidiary of the Company. Through this merger, the Company acquired certain patents, including the '672 patent. Forgent also has foreign counterparts of this patent in force in Great Britain, France, Germany and Italy.

The Company's Strategic Patent Program was created during fiscal year 2001 to stimulate the creation of the Company's intellectual property. An internal patent committee representing all functions in the Company empowered all employees to develop intellectual property and rewarded those employees who generated ideas. In addition to the Strategic Patent Program, Forgent also initiated an active program for licensing its intellectual property, which developed into the Company's Patent Licensing Program. During fiscal year 2002, the Company signed its first two patent license agreements, including one with Sony Corporation. These patent license agreements relate to the Company's data compression technology embodied in the '672 patent that will expire in October 2006 and its foreign counterparts that will expire in September 2007. The '672 patent covers a type of encoding that plays a principle role in JPEG.

Joint Photographic Experts Group ("JPEG") is a standardized image compression mechanism, designed for compressing full-color or gray images. Since JPEG is designed for still images, it works well on photographs and other similar material. The JPEG standard compresses the still images into smaller files, which take less time to transmit across networks and saves significant disk space for archiving purposes. Additionally, JPEG can store full color information, thus allowing images to be exchanged among people with widely varying display hardware.

A wide variety of products create and manipulate digital images by using JPEG. Manufacturers, software product providers and media services providers in various industries worldwide use JPEG in their products, including many digital cameras, personal computers, camera cell phones, scanners, printing devices, video cameras, rendering devices, etc. The Company's '672 patent covers all of these types of products and accordingly, Forgent seeks to commercialize the patent through license agreements with companies making, using or selling these products. See Item 7

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"Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company – Results of Operations" for more detail.

Patent Licensing Program

To date, the Company has signed several license agreements with international consumer and commercial electronics firms. As a result of pursuing license agreements related to the '672 patent, Forgent's Patent Licensing Program has aggregated over $94.5 million in intellectual property licensing revenues since inception of the program as of July 31, 2004. The Company expends significant efforts and expenses identifying potential licensees and negotiating license agreements. During the negotiations, the Company typically seeks consideration for sales made prior to the effective date of the license agreement, as well as a license fee or royalties for future sales. Additionally, most of Forgent's license agreements to date are fully paid upon signing and do not require further payments. Management expects that most new license agreements will follow this model.

Forgent recognizes intellectual property licensing revenues and the related cost of sales in the period the license agreements are signed. The cost of sales on the intellectual property licensing business relates to the legal fees incurred on successfully achieving licensing revenues. Historically, Forgent's fee arrangement with its counsel engaged in connection with Forgent's Patent Licensing Program was based on a percentage of the licensing revenues received on signed agreements. The payment was based on a sliding scale that began during the quarter ended April 30, 2002 at 35% and increased to 50% based on the aggregate recoveries achieved. On October 27, 2004, Forgent formally terminated its counsel and is currently in discussions with the law firm regarding the termination. Forgent has engaged new counsel to advise it in connection with its Patent Licensing Program and is working with both counsels to ensure a timely and efficient transition in legal services. Presently, the Company has not yet finalized a new fee agreement with its new counsel.

In addition to the current litigation as discussed in the following "Litigation" section, Forgent will continue to pursue license agreements with targeted companies, whether or not named in the litigation. Since the end of fiscal 2004, Forgent has obtained additional licensing revenues and the Company is continuing to actively seek to license other users of its technology. Although management anticipates signing more patent license agreements with other companies from various industries, there can be no assurance that additional licenses can be obtained or, if obtained, that any new license agreements will be on similar or favorable terms. Additionally, the timing of signing the license agreements and the timing of the litigation results continue to pose forecasting challenges, which inevitably causes peaks and valleys in the Patent Licensing Program.

Forgent's Patent Licensing Program involves risks inherent in licensing intellectual property, including risks of protracted delays, legal challenges that would lead to disruption or curtailment of the licensing program, increasing expenditures associated with pursuit of the program and other risks that could adversely affect the Company's licensing program. Additionally, the '672 patent expires in October 2006 in the United States and its foreign counterparts expire in September 2007. Thus, there can be no assurance that the Company will be able to continue to effectively license its technology to other companies. Additionally, there are no guarantees that the Company can protect its intellectual property rights in its current litigation or prevent the unauthorized use of its technology in the future. However, Forgent will continue to enforce and pursue its rights through the legal system when necessary.

Litigation

During fiscal year 2004, Forgent initiated litigation against 31 technology companies for infringement of its '672 patent (the "'672 Litigation"). In August 2004, the Company added 11 more technology companies. Although the Company previously offered to provide a license of the '672 patent to these companies, including Canon USA, Dell Incorporated, Google Inc., International Business Machines Corp., Toshiba Corporation and Xerox Corporation, none of the defendants chose to do so. Several defendants have sued Forgent, claiming, among other assertions, that their products do not infringe Forgent's patent and that the patent is invalid. Thus, the litigation process of discovery and exchanging information and documents on infringement, invalidity and damage contentions, is ongoing. Management believes the litigation process is on track and has not discovered any new information that would lead the Company to change its current plans. Due to uncertainties inherent with litigation, management is unable to accurately predict the ultimate outcome. Forgent anticipates that it will continue to incur significant litigation costs and there can be no assurances that the Company will be able to recover these costs.

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In June 2004 and August 2004, Forgent settled with two of the defendants; one was a plaintiff in a suit filed against CLI and the Company related to the '672 patent. Forgent is also currently in discussions with other companies who are defendants in the lawsuit. Therefore, management is encouraged that other defendants, as well as companies not currently named in the lawsuit, will choose to license the '672 patent. See Item 3 "Legal Proceedings" for more detail.

In order to improve communication and information flow with its stockholders regarding the complicated litigation process with the remaining 40 defendants, the Company has enhanced the intellectual property section of its corporate website to include viewing of selected court filings and links to related governmental websites.

Other Patents and Trademarks

Since the Company's inception, Forgent has designed, developed and acquired strategies to find new and better ways to solve problems in its areas of expertise. As these solutions were found, the Company patented and then sought to commercialize these innovative technologies. The U.S. Patent and Trademark Office and foreign patent offices have issued the Company several dozen patents related to data compression, scheduling, videoconferencing, systems management and other technologies developed or acquired by Forgent. These patents comprise Forgent's diverse intellectual property portfolio. Additionally, Forgent has several patent applications pending with the U.S. Patent and Trademark Office and anticipates continuing to pursue these pending applications in order to protect its intellectual property. However, there can be no assurance that Forgent's pending patents will be issued or that the issued patents can be defended successfully. Management also plans to expand the Company's intellectual property program beyond its current focus on its patent related to data compression by attempting to enforce and license or sell the Company's intellectual property rights with respect to its other patents.

The U.S. Patent and Trademark Office has issued the Company the "Forgent" trademark under its current business practices in the United States. The Company was issued trademarks and service marks by the U.S. Patent and Trademark Office and by certain foreign countries and entities covering the "VTEL" mark and the "VTEL" logo. These trademarks and service marks were sold to VTEL Products Corporation as part of the sale of the products business segment in fiscal year 2002. Forgent retained all patents related to its discontinued products, integration and videoconferencing hardware services businesses sold during fiscal years 2002 and 2003.

SOFTWARE & PROFESSIONAL SERVICES BUSINESS

Background

Due to competitive pressures compelling companies to improve their critical business processes, the marketplace has witnessed a movement in which companies are re-examining opportunities for fundamental business improvement. Organizations of all sizes have realized that they can no longer schedule their facilities and related logistics, such as equipment, catering and other services, using a manual approach, which is fraught with inefficiencies such as double-booked rooms, catering errors and other time-consuming, costly issues. These inefficiencies have a significant negative business impact, including decreased productivity, diffused communications and delayed decisions, thus ultimately undermining the organization's competitiveness. As a result of these inefficiencies, businesses have recognized a need for scheduling software in order for them to streamline and optimize their approach to meeting planning.

Leveraging off of this desire to streamline operations and improve efficiencies, Forgent's scheduling software enables customers to quickly reserve rooms and other meeting logistics in a simplified manner. Because of its built-in capabilities to notify all service providers on the back end, needs such as special equipment and catering are communicated in advance and services are provided on time and without error. Additionally, Forgent's asset management software meets businesses' need to efficiently and effectively discover and track company assets such as computers, software, printers and other network equipment. By streamlining and automating scheduling and office administration tasks, Forgent helps reduce costs associated with day-to-day office operations and increases productivity of those involved with meetings. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company – Results of Operations" for more detail.

Products & Services

In October 2003, Forgent acquired software products from Network Simplicity Software Inc. and has molded these products into the Company's NetSimplicity software product line. NetSimplicity's flagship product, Meeting Room Manager ("MRM"), provides a complete meeting and meeting room scheduling solution in an easy-to-buy and easy-to-deploy application. MRM enables users to instantly find and book available meeting rooms, schedule meeting services, such as catering or audio and visual devices, and invite attendees to the meeting. It provides a powerful but easy-to-use web-based user interface, enabling everyone in an organization to access the system without requiring software to be deployed at each desktop. MRM also includes a SQL database and rich and extensible reports, which provide management oversight into resource utilization and costs associated with the meeting environment.

MRM is offered in two editions, Classroom Manager and Resource Scheduler. Classroom Manager allows schools and other educational organizations to customize scheduling of classrooms for their specific needs and allows instructors and students to view class schedules via the Internet from anywhere at anytime. Resource Scheduler allows businesses to schedule resources other than meeting rooms, such as shared equipment or other resources, through an intuitive and customizable interface.

In addition to MRM, Forgent's current NetSimplicity software product line also includes Visual Asset Manager ("VAM") and Family Scheduler. VAM solves an organization's needs to administer its information technology ("IT") and fixed assets by automatically locating IT assets, such as computers and software, and tracks these assets as well as other office equipment, furniture and other fixed assets. VAM provides a powerful but easy-to-use web-based interface that makes it easy to deploy in any environment, enabling organizations to map and display the locations of each asset on their floor plans as well as track maintenance coverage, equipment leases, warranties, repairs and depreciation for each asset in the inventory in a simple and cost-effective manner. Family Scheduler is a robust scheduling system that allows busy families to efficiently manage both single events and recurring events from one central location as well as organize all of their contact information for emergencies, schools, babysitters and other parents.

As an extension of its software product offerings, Forgent offers its customers maintenance and support contracts that provide ready access to qualified support staff, software patches as necessary and upgrades to the Company's next software version without any additional costs. Additionally, Forgent also provides professional services for installation and training on its software at the customer's request.

During fiscal year 2004, as well as in previous fiscal years, Forgent provided other software products including ALLIANCE, which was launched in July 2003, Global Scheduling System ("GSS") and Video Network Platform ("VNP"). The ALLIANCE suite consisted of two main products: ALLIANCE SCHEDULER ("SCHEDULER") and ALLIANCE MEDIA MANAGER ("MEDIA MANAGER"), each with optional add-on modules.

SCHEDULER, the enhanced product based on GSS which was originally acquired in June 2002, streamlines conference scheduling and empowers users to schedule meetings quickly, easily and without significant investment in additional training. This robust scheduling capability augments existing calendaring applications such as Microsoft Outlook® and Lotus Notes® and is also accessible via the Internet to support remote users and meeting environments that do not have access to Microsoft Outlook® or Lotus Notes®. MEDIA MANAGER, the enhanced product based on VNP, which was developed internally and originally released in November 2001, monitors and manages rich media communications and network devices from multiple vendors in order to ensure interoperability. MEDIA MANAGER's intuitive graphical user interface enables call administrators to easily configure calls and manage companies' audio and video devices, while further enhancing the quality of service via real-time notifications and diagnostics of faults. By combining SCHEDULER with MEDIA MANAGER, the entire ALLIANCE solution allows a user to schedule highly complex multi-participant, multi-time zone meetings and conferences, which are automatically launched on time and with quality, thus eliminating the need for administrative oversight of the conference.

In addition to installation and training, the Company's professional services, as related to its ALLIANCE product line, also included network consulting, which provided evaluation of current and evolving network requirements, preparation of capacity plans and development of migration and implementation plans, and customized integration of ALLIANCE with existing third-party applications or with customers' proprietary in-house applications. Due to Forgent's shift in its go-forward strategy related to its software business, the ALLIANCE software products and related professional services are no longer actively marketed.

Product Development

The future success of Forgent's software products depends largely on the Company's ability to develop innovative software solutions and to enhance its current software products in order to satisfy an evolving range of customer requirements and needs. The Company's development team, based in Richmond, British Columbia, Canada, consists of skilled software developers, testers and technical writers who work closely with sales and marketing teams to build products based on market requirements, customer feedback and technical support needs. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company – Results of Operations – Research and Development" for more detail.

Fiscal year 2004 was a period of substantial accomplishment for the Forgent development team, as it (1) introduced two major product releases, Meeting Room Manager 2004 and Visual Asset Manager 2004, (2) launched two new product editions designed to broaden the market application of MRM, Classroom Manager and Resource Scheduler, and (3) responded to technical support needs of a rapidly growing customer base of over 1,000 organizations. Additionally, Forgent released a new product, Family Scheduler. Available both as an installed software product, and as a hosted online offering, Family Scheduler is Forgent's first consumer product offering.

Forgent's research and development strategy is to continue to enhance Meeting Room Manager's functionality through new releases and new feature development to satisfy the requirements of current and prospective customers. Forgent will continue to evaluate opportunities and develop new software that enables organizations to streamline the tasks associated with administering a business, simultaneously allowing organizations to improve their productivity while reducing costs associated with those tasks.

Despite the Company's best efforts, there can be no assurance that Forgent will complete its existing and future development efforts within the anticipated schedule or that new and enhanced software products will adequately meet the requirements of the marketplace and achieve market acceptance. Additionally, Forgent may experience difficulties that could delay or prevent the successful development or introduction of new or enhanced software products. In the case of acquiring new or complementary software products or technologies, the Company may not be able to integrate the acquisitions into its current product line. Furthermore, despite extensive testing, errors may be found in the Company's new software products or releases after shipment, resulting in a diversion of development resources, increased service costs, loss of revenue and/or delay in market acceptance.

Sales and Distribution

Forgent sells its scheduling and asset management software principally through a direct telesales model. The Company' web and telesales business model enables it to sell its software solutions in an efficient, cost-effective manner. The prospect comes to Forgent's website, gathers the product information needed, downloads the product for a 30-day free trial if desired and then can either purchase the software via credit card on the website or engage with a sales representative to purchase the software via purchase order. Additionally, the Company supplements the efforts of its direct sales force with its Partner Program. By working with these partners, Forgent expands the reach of its direct sales force and gains access to key opportunities in major market segments worldwide.

The Company has two distinct levels of partners in its Partner Program: the Reseller Partner and the Referral Partner. Reseller Partners are companies that represent Forgent in geographies outside the United States or in the Federal government as well as companies with video room integration projects or information technology integration projects. The Reseller Partner commits to a minimum level of business per year with the Company, and for that commitment they receive a channel discount. Forgent has three Reseller Partners that represent the Company's software outside the United States: BusinessSolve, Ltd. in the United Kingdom, Meeting Manager, Gmbh in Germany and VPA in the Asia/Pacific region. Additionally, Forgent has two Reseller Partners that represent the Company's software in the Federal government space: CRV and AGT. A Referral Partner provides the Company with the name and particular information about a customer and their needs as a sales lead. If the Company accepts the sales lead, registers it for a particular Referral Partner and subsequently makes a sale as a direct result of such a lead, the Company will pay the Referral Partner a sales lead referral fee. Currently Forgent's Referral Partners include PolyVision Corp./Steelcase, Vmeals, e-Innovative Solutions and Marenzana Group.

The Company's software sales organization supporting the ALLIANCE product line included telemarketing, inside sales, pre-sales engineers and field sales territory managers. Due to Forgent's shift in its go-forward strategy related to its software business, the ALLIANCE sales organization was terminated during fiscal year 2004.

Competition

For the MRM product, a primary source of competition is point schedulers that include vendor-specific and homegrown tools that corporations have purchased or created to solve each individual scheduling problem in isolation of other problems. These disparate solutions each have a unique interface and users must be trained how to work with each separate tool. Additionally, many organizations have adopted personal calendaring tools such as Microsoft Outlook® in an

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attempt to meet their needs. These tools provide little in the way of end-to-end scheduling and management of meetings and meeting rooms. MRM has effectively delivered a unified meeting and meeting room management solution that truly solves the organization's problems in an easy, affordable and universally accessible manner. Management believes that no other product combines these attributes and offers the value that MRM does to its customers.

The VAM product competes in a different marketplace: asset management in general and IT asset management in particular, both of which are well-defined and well-served software categories. VAM is differentiated by the strength of its visual, floor-plan-oriented, user interface and its low price. Management believes there is an opportunity to continue to enrich the VAM feature set while maintaining price advantage to disrupt the more well-established products in the marketplace.

Competition for the ALLIANCE products included a range of individual products that provide some portion of the enterprise meeting automation solution, including personal calendaring applications such as Microsoft Outlook® and Lotus Notes®. Similar to MRM, ALLIANCE also competed against point schedulers. Although Forgent effectively delivered a unified scheduling and rich media platform that ties all the available tools and technologies into a single enterprise meeting automation solution, price sensitivity and integration with enterprise infrastructures prevented ALLIANCE from achieving the market acceptance that management originally anticipated.

Marketing

Forgent's software business has a large roster of more than 1,000 domestic and international customers, including many Fortune 500 companies. The consistent growth of the customer base relies on the development and implementation of a comprehensive integrated marketing plan, which is primarily aimed at reaching small to medium-sized businesses ("SMBs") and departments of enterprise organizations throughout the United States, Europe and Asia Pacific. The integrated elements of Forgent's marketing plan include a mix of demand generation, public relations and other corporate communications activities to ensure a consistent and accurate flow of information to and from prospects, customers and other key stakeholders.

In December 2003, Forgent established NetSimplicity as a brand in order to appeal more directly to its target audiences. Internal and external research provided the foundation for a NetSimplicity brand plan, which took the form of a new website, logos, product definitions and marketing support materials. Demand generation activities were launched, utilizing direct mail, e-mail, search engine optimization and online advertising. The primary marketing mandate was to continually seek out new ways and make use of proven methods to increase the demand for Meeting Room Manager, Classroom Manager, Resource Scheduler, Visual Asset Manager and Family Scheduler.

During the first half of fiscal year 2004, particular diligence was paid to the marketing efforts surrounding the Company's ALLIANCE software suite. Marketing efforts were targeted at Fortune 2000 and Global 1000 enterprises for which meetings are a critical part of the business process either due to a large meeting workforce, a geographically diverse workforce (i.e. many corporate offices), and/or organizations that drive revenue as a result of meetings. Due to Forgent's shift in its go-forward strategy related to its software business, marketing efforts related to ALLIANCE were terminated during the second half of fiscal year 2004.

EMPLOYEES

As of July 31, 2004, Forgent had 34 employees in the following departments:

FUNCTION	NUMBER OF EMPLOYEES
Research and development	13
Sales and marketing	10
Finance, human resources and administration	11
Total	**34**

As the Company continues to evolve its business strategy, Forgent's workforce is continually evaluated and adjusted accordingly — both in number and composition. The Company occasionally hires contractors to support its sales and marketing, engineering, information technology and administrative functions. Forgent believes it retains the appropriate management team and employees to fully implement its business strategy. None of the Company's employees

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are represented by a collective bargaining agreement. Forgent has not experienced any work stoppages and considers its relations with its employees to be good.

On October 6, 2003, Forgent acquired certain assets and the operations of Network Simplicity Software Inc., a privately held provider of web-based scheduling solutions. As a result of this acquisition, Forgent's workforce grew by 10 employees: five employees in sales and marketing, three employees in research and development; and two employees in administration. The acquired workforce has remained based in Richmond, British Columbia, Canada.

The future performance of the Company depends largely on its continuing ability to attract, train and retain highly qualified technical, sales, service, marketing and managerial personnel. Forgent's development and management of its growth and other activities depend on the efforts of key management and technical employees. Competition for such personnel is intense. The Company uses incentives, including competitive compensation and stock option plans to attract and retain well-qualified employees and generally does not have employment agreements with key management personnel or technical employees. Forgent's future success is dependent upon its ability to effectively attract, retain, train, motivate and manage its employees. However, there can be no assurance that the Company will continue to attract and retain personnel with the requisite capabilities and experience. The loss of one or more of Forgent's key management or technical personnel could have a material and adverse effect on its business and operating results.

EXECUTIVE OFFICERS

Forgent's executive officers are as follows:

Richard N. Snyder, age 60, joined the Company's Board of Directors in December of 1997 and became Chairman of the Board in March 2000. In June 2001 Mr. Snyder was named Forgent's President and Chief Executive Officer. Mr. Snyder has over 28 years of senior management experience, including Founder and Chief Executive Officer at Corum Cove Consulting, LLC, Senior Vice President of Worldwide Sales, Marketing, Service and Support at Compaq Computer Corporation, and Group General Manager at Hewlett-Packard. Mr. Snyder received a Masters in Business Administration from Saint Mary's College and a Bachelor of Science from Southern Illinois University.

Jay C. Peterson, age 47, joined the Company in September 1995 as Manager of Corporate Planning and has served as Chief Financial Officer and Vice President of Finance since May 2000. Prior to joining the Company, Mr. Peterson performed as Assistant Controller with the Dell Direct Channel that generated $1 billion in annual sales at Dell Computer Corporation and held various financial positions during 11 years with IBM Corporation. Mr. Peterson holds a Masters in Business Administration and a Bachelor of Arts in Economics from the University of Wisconsin.

Kenneth A. Kalinoski, age 44, joined the Company in February 2001 as Vice-President — Development, currently serves as Chief Technology Officer, and is responsible for all aspects of technology for the Company. Mr. Kalinoski's previous 20-year career focused on client/server and communications technology. He was the founder, company officer, and Vice-President of Development at Netpliance from February 1999 to January 2001 and was responsible for delivering the first information appliance to the consumer marketplace. Prior to that, Mr. Kalinoski spent 17 years at IBM and held multiple management positions, including director of IBM PC Systems and Licensing (1998), program director of IBM Multimedia Systems (1995-1997), and program director of AIX Development (1993 to 1995). Mr. Kalinoski received a Masters in Computer Engineering from State University of New York and a Bachelor of Science from Wilkes University and currently holds five patents.

Nancy L. Harris, age 41, joined the company in October 2001 as Vice-President of Marketing, currently serves as Vice-President of Software and is responsible for the daily operations of the Company's software business. Ms. Harris has 18 years experience in the software industry, serving in both marketing and development capacities. Prior to joining the Company, Ms. Harris was the Director of Marketing and Product Management at Clear Commerce, an Internet transaction-processing software company (2000 to 2001). Prior to that, Ms. Harris spent eight years with BMC Software in various positions including Director of Field Marketing, Director of Product Marketing and Development Manager. Ms. Harris also spent several years with Andersen Consulting in various capacities. Ms. Harris holds a Masters of Science in Marketing and a Bachelor of Science in Journalism from Northwestern University.

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ITEM 2. PROPERTIES

Forgent's headquarters, product development and sales and marketing facility leases approximately 137,000 square feet at Wild Basin in Austin, Texas under a lease that expires in March 2013. As a result of the sale of the products business segment during fiscal year 2002, 52,000 square feet of this space was vacated by the VTEL group. Additionally, Forgent had existing unoccupied leased space inventory due to the downsizing of the Company on account of past restructurings. Therefore, during the 2002 fiscal year, Forgent actively engaged in subleasing its available area and incurred a charge of $2.0 million related to these lease impairments. During fiscal year 2003, Forgent was able to sublease the vacated space quicker than originally anticipated; however, the rates on the subleases were considerably less than originally anticipated due to then current depressed market rates. Therefore, management calculated the economic value of the lost sublease rental income and recorded an additional charge of $0.5 million. During fiscal year 2004, the current depressed market rates continued to drive rates on the subleases to levels less than anticipated. As a result, management calculated the economic value of the lost sublease rental income and recorded an additional charge of $1.5 million. As of July 31, 2004, Forgent had $1.9 million recorded as a liability on the Consolidated Balance Sheet related to its Wild Basin property. Currently, the Company occupies approximately 29,000 square feet, subleases approximately 82,000 square feet and anticipates continuing to sublease the remaining under-utilized space.

Forgent's discontinued videoconferencing hardware services business partially occupies a facility of approximately 41,000 square feet in King of Prussia, Pennsylvania, which the Company leases through June 2006. As a result of the sale of Forgent's videoconferencing hardware services business to an affiliate of Gores Technology Group ("Gores") in fiscal year 2003, a portion of the total lease space was subleased to Gores. Gores and another subtenant currently sublease 100% of the total lease space. Since management was unable to sublease the space at the Company's lease rate, management calculated the economic value of the lost sublease rental income and recorded in discontinued operations a one-time charge of $0.5 million for the lease impairment related to its Pennsylvania facility in fiscal year 2003. As of July 31, 2004, Forgent had $0.2 million recorded as a liability on the Consolidated Balance Sheet related to its King of Prussia property.

With the acquisition of Network Simplicity Software Inc. in October 2003, Forgent also holds approximately 3,000 square feet of office space in Richmond, British Columbia, Canada. Management believes that the facility in Austin, Texas is adequate to meet Forgent's current requirements and can accommodate further physical expansion of corporate and development operations, as well as additional sales and marketing offices as needed.

ITEM 3. LEGAL PROCEEDINGS

The Company is the defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters, including those discussed below, may have a material adverse effect on the Company's financial condition or results of operations. With the exception of the proceedings described below, none of the pending legal proceedings to which the Company is a party involves claims for damages in excess of 10% of the Company's current assets for the period covered by this report.

In April 2004, Forgent's wholly-owned subsidiary, Compression Labs, Inc. ("CLI"), initiated litigation against 31 companies for infringement of United States Patent No. 4,698,672 in the United States District Court for the Eastern District of Texas, Marshall Division, seeking injunctive relief against sales of infringing products and monetary damages, among other relief sought. The defendants consist of Adobe Systems Incorporated; Agfa Corporation; Apple Computer, Incorporated; Axis Communications, Incorporated; Cannon USA; Concord Camera Corporation; Creative Labs, Incorporated; Dell Incorporated; Eastman Kodak Company; Fuji Photo Film Co U.S.A.; Fujitsu Computer Products of America; Gateway, Inc.; Hewlett-Packard Company; International Business Machines Corp.; JASC Software; JVC Americas Corporation; Kyocera Wireless Corporation; Macromedia, Inc.; Matsushita Electric Corporation of America; Oce' North America, Incorporated; Onkyo Corporation; PalmOne, Inc.; Panasonic Communications Corporation of America; Panasonic Mobile Communications Development Corporation of USA; Ricoh Corporation; Riverdeep, Incorporated (d.b.a. Broderbund); Savin Corporation; Thomson S.A.; Toshiba Corporation; and Xerox Corporation. Additionally, in August 2004, CLI initiated litigation against another 11 companies for infringement of United States Patent No. 4,698,672. The defendants consist of Acer America Corporation; AudioVox Corporation; BancTec, Inc.; BenQ America Corporation; Color Dreams, Inc. (d/b/a StarDot Technologies); Google Inc.; ScanSoft, Inc.; Sun Microsystems Inc.; TiVo Inc.; Veo Inc.; and Yahoo! Inc. Forgent has since settled with two of the defendants.

Twenty-four of the defendants have filed against CLI and Forgent in the U.S. Federal Court for Delaware, seeking declaratory relief that the '672 patent is not infringed, is unenforceable, and is invalid, among other assertions.

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Additionally, three other defendants have filed suit against CLI and Forgent in the U.S. District Court for Northern California, San Jose Division, the U.S. District Court for Delaware and the U.S. District Court for Northern California, Oakland Division, seeking similar declaratory relief. Forgent and CLI have moved to stay, dismiss or transfer the Delaware actions, asserting that all such issues should be heard in the U.S. District for the Eastern District, Marshall Division, rather than in Delaware. Although Forgent is currently unaware of any other suits against CLI and itself, it is possible that other defendants, and/or other accused infringers, could join in the pending Delaware actions or file similar suits for declaratory relief in Delaware or elsewhere.

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

In February 2003, the Company received a letter from legal counsel for the independent executrix of the Estate of Gordon Matthews, asserting that the Company was obligated to pay the independent executrix of the Estate of Gordon Matthews for the asserted value of services claimed to have been rendered by Mr. Matthews in connection with his alleged involvement in the Company's Patent Licensing Program. In February 2003, the Company initiated an action in the 261st District Court in Travis County Texas, styled Forgent Networks, Inc. v. Monika Matthews, et al., for the purposes of declaring that the Company has no obligation to the defendant. In that action, the defendant has filed a counter claim asserting that the independent executrix of the Estate of Gordon Matthews is entitled to recover in quantum meruit for the reasonable value of the work and services claimed to have been provided by Gordon Matthews, a former member of the board of directors and consultant to the Company, which the defendant asserts is at least $5.0 million. The Company does not believe the counter claim has merit and intends to continue to vigorously pursue declaratory relief from the court that no liability is due to the independent executrix of the Estate of Gordon Matthews.

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

On July 30, 2004, an annual meeting of the stockholders was held in Austin, Texas, whereby the stockholders voted on the following proposals:

1. Proposal to elect six directors to the board of directors to hold office until the next annual meeting of stockholders or until their respective successors are duly elected and qualified. The stockholders voted to approve the proposal by the following vote:

Nominees	For	Withheld
Richard N. Snyder	22,271,599	1,427,335
Richard J. Agnich	22,797,384	901,550
Kathleen A. Cote	22,433,127	1,265,807
Lou Mazzucchelli	22,443,373	1,255,561
Ray Rajko Miles	22,796,182	902,752
James H. Wells	22,443,927	1,255,007

2. Proposal to ratify the board of directors' appointment of Ernst & Young LLP, independent accountants, as the Company's independent auditors for the year ending July 31, 2004. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain
22,892,369	637,134	169,431

3. Proposal to transact such other business as may properly come before the meeting or any adjournment thereof. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain
21,244,049	1,846,441	608,444

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Starting June 1, 2001, Forgent's common stock has been traded in the NASDAQ-National Market System under the symbol "FORG". Previously, the Company's common stock was traded under the symbol "VTEL". The following table sets forth the range of high and low intra-day prices for each fiscal quarter of 2004 and 2003:

	FISCAL YEAR 2004		FISCAL YEAR 2003	
	HIGH	LOW	HIGH	LOW
1st Quarter	$3.99	$2.59	$3.25	$1.62
2nd Quarter	$3.57	$2.20	$1.90	$1.12
3rd Quarter	$2.89	$1.35	$2.64	$1.35
4th Quarter	$1.68	$1.01	$4.51	$1.02

The Company has not paid cash dividends on its common stock and presently intends to continue a policy of retaining earnings for reinvestment in its business.

On October 21, 2004, Forgent's common stock closed at $1.42 on the NASDAQ. At that date there were approximately 12,948 stockholders of record of the common stock.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth consolidated financial data for Forgent as of the dates and for the periods indicated. The selected consolidated balance sheet data as of July 31, 2003 and 2004 and the selected consolidated operations data for the years ended July 31, 2002, 2003 and 2004 have been derived from Forgent's audited consolidated financial statements included elsewhere in this Report. The selected consolidated balance sheet data as of July 31, 2000, 2001 and 2002 and the selected consolidated operations data for the year ended July 31, 2000 and 2001 have been derived from Forgent's audited consolidated financial statements not included in this Report.

The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements of Forgent and the notes to those statements included elsewhere in this Report. The information set forth below is not necessarily indicative of the results of future operations.

	FOR THE YEARS ENDED JULY 31,				
	2000(a)	2001(b)	2002(c)	2003(d)	2004(e)
	(In thousands, except per share amounts)				
STATEMENT OF OPERATIONS DATA:					
Intellectual property licensing revenues	$ —	$ —	$31,150	$48,935	$ 14,454
Software & professional service revenues	—	—	2,236	4,363	2,999
Other revenues	—	103	—	566	22
Gross margin	—	(273)	14,654	25,558	3,299
Income (loss) from continuing operations	27,236	(5,010)	(3,247)	9,375	(21,213)
(Loss) income from discontinued operations	(24,939)	(27,530)	(2,856)	(1,355)	573
Net income (loss)	2,297	(32,540)	(6,103)	8,020	(20,640)
INCOME (LOSS) PER COMMON SHARE:					
Basic income (loss) from continuing operations	1.11	(0.20)	(0.13)	0.38	(0.85)
Diluted income (loss) from continuing operations	1.09	(0.20)	(0.13)	0.37	(0.85)
Basic (loss) income from discontinued operations	(1.02)	(1.11)	(0.12)	(0.05)	0.02
Diluted (loss) income from discontinued operations	(1.00)	(1.11)	(0.12)	(0.05)	0.02
Basic net income (loss)	.09	(1.31)	(0.25)	0.33	(0.83)
Diluted net income (loss)	.09	(1.31)	(0.25)	0.32	(0.83)
BALANCE SHEET DATA:					
Working capital	$ 45,142	$ 19,324	$13,286	$28,866	$ 18,593
Total assets	106,436	56,205	42,578	47,249	26,015
Long-term liabilities	2,140	1,365	1,983	1,869	2,783
Stockholders' equity	82,661	41,622	32,278	39,254	19,500

(a) Net income for the year ended July 31, 2000 includes a non-recurring gain of $44.5 million and an expense for the write-down of impaired assets of $14.1 million.

(b) Net loss for the year ended July 31, 2001 includes an expense of $4.0 million for the impairment of certain assets and transaction expenses in anticipation of a segment sale and expenses for restructuring totaling $1.7 million.

(c) Net loss for the year ended July 31, 2002 includes an expense of $6.0 million for the reserve of the notes receivable from VTEL Products Corporation and an expense of $4.4 million for the impairment of certain assets.

(d) Net income for the year ended July 31, 2003 includes an expense of $1.1 million for the impairment of certain assets and an expense of $2.0 million for transaction expenses and loss on the disposal of a segment.

(e) Net loss for the year ended July 31, 2004 includes an expense of $11.8 million for the impairment of certain assets and expenses for restructuring totaling $0.6 million.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY

RESULT OF OPERATIONS

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

	FOR THE YEARS ENDED JULY 31,		
	2002	2003	2004
Intellectual property licensing revenues	93.3%	90.8%	82.7%
Software & professional services revenues	6.7	8.1	17.2
Other revenues	—	1.1	0.1
Gross margin	43.9	47.4	18.9
Selling, general and administrative	25.5	20.4	70.1
Research and development	9.6	7.2	23.2
Impairment of assets	24.1	2.1	40.0
Restructuring charge	—	—	3.6
Amortization of intangible assets	—	—	0.2
Total operating expenses	59.2	29.7	137.2
Other income (expenses), net	5.0	(0.1)	(3.0)
(Loss) income from continuing operations	(9.7)	17.4	(121.4)
(Loss) income from discontinued operations	(8.6)	(2.5)	3.3
Net (loss) income	(18.3)%	14.9%	(118.1)%

FOR THE YEARS ENDED JULY 31, 2002, 2003 AND 2004

Revenues

Consolidated revenues were $33.4 million in fiscal year 2002, $53.9 million in fiscal year 2003 and $17.5 million in fiscal year 2004. The increase was $20.5 million, or 61.3%, from 2002 to 2003. The decrease was $36.4 million, or 67.6%, from 2003 to 2004. Consolidated revenues represent the combined revenues of the Company and its subsidiaries, including royalties received from licensing the Company's intellectual property as well as sales of Forgent's software, software customization, installation and training, network consulting, hardware, software maintenance services and other comprehensive professional services. Consolidated revenues do not include any revenues from Forgent's discontinued products business, which manufactured and sold videoconferencing endpoint systems, the Company's discontinued integration business, which provided customized videoconferencing solutions, or the Company's discontinued videoconferencing hardware services business, which provided hardware maintenance, installation, technical support and resident engineer services (see Note 7, in the accompanying financial statements).

Intellectual property licensing revenues were $31.2 million in fiscal year 2002, $48.9 million in fiscal year 2003 and $14.5 million in fiscal year 2004. The increase was $17.7 million, or 57.1% from 2002 to 2003. The decrease was $34.4 million, or 70.5%, from 2003 to 2004. Intellectual property licensing revenues represent 93.3%, 90.8% and 82.7% of total revenues for the years ended July 31, 2002, 2003 and 2004 respectively. The Company began realizing revenue from its Patent Licensing Program during fiscal year 2002 and during the past ten consecutive quarters has achieved over $94.5 million in aggregate revenues generated from international consumer and commercial electronics firms in multiple countries, including the United States. These licensing revenues relate to one-time intellectual property license agreements with companies for Forgent's data compression technology embodied in U.S. Patent No. 4,698,672 and its foreign counterparts, which cover several types of products including many digital cameras, personal computers, camera cell phones, scanners, printing devices, video cameras, rendering devices and other technologies. Licensing of the '672 patent is currently conducted through the Company's wholly-owned subsidiary, Compression Labs, Inc. ("CLI"). Historically, Forgent's licensing revenues have been primarily generated from foreign-based corporations. During fiscal year 2004, the trend changed and Forgent's licensing revenues were primarily generated from U.S. based corporations. However, uncertainties remain and there are no assurances that the Company will continue this trend and derive future licensing revenues primarily from domestic companies. In addition, the Company does not anticipate any additional licensing revenue from the companies that it currently holds license agreements with, but Forgent will continue to actively seek new licenses from its '672 patent as well as licensing opportunities from other patents in its intellectual property portfolio.

During fiscal year 2004, Forgent initiated litigation against 31 technology companies for infringement of its '672 patent. In August 2004, the Company added 11 more technology companies. Although the Company previously offered to provide a license of the '672 patent to these companies, including Canon USA, Dell Incorporated, Google Inc., International Business Machines Corp., Toshiba Corporation and Xerox Corporation, none of the defendants chose to do so. Several defendants have sued Forgent, claiming, among other assertions, that their products do not infringe Forgent's patent and that the patent is invalid. In June 2004 and August 2004, Forgent settled with two of the defendants; one was a plaintiff in a suit filed against CLI and the Company related to the '672 patent. Forgent is also currently in discussions with other companies who are defendants in the lawsuit. Therefore, management is optimistic that other defendants, as well as companies not currently named in the lawsuit, will choose to license the '672 patent. In addition to the current litigation, Forgent will continue to pursue license agreements with targeted companies, whether or not named in the litigation. The timing of signing the license agreements and the timing of the litigation results continue to pose forecasting challenges, which inevitably causes peaks and valleys in the Patent Licensing Program. See Item 3 "Legal Proceedings" for more detail.

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

Software and professional services revenues were $2.2 million in fiscal year 2002, $4.4 million in fiscal year 2003 and $3.0 million in fiscal year 2004. The increase was $2.2 million, or 95.1%, from 2002 to 2003. The decrease was $1.4 million, or 31.3%, from 2003 to 2004. Software and professional services revenues represent 6.7%, 8.1% and 17.2% of total revenues for the years ended July 31, 2002, 2003 and 2004, respectively. Revenues from this line of business include sales of Forgent's NetSimplicity scheduling and asset management software as well as the Company's ALLIANCE enterprise meeting automation software. The NetSimplicity software includes Meeting Room Manager, Visual Asset Manager, Resource Scheduler, Classroom Manager and Family Scheduler. Also included in this line of business' revenues are software maintenance, royalties and professional services, such as add-on software customization, installation and training, and network consulting services.

The $1.4 million decrease in software and professional services revenues for the year ended July 31, 2004, as compared to the year ended July 31, 2003, was due primarily to a $2.5 million decrease in revenues from the ALLIANCE software products and related hardware and services sales. Despite the initial success of ALLIANCE, during the second fiscal quarter of 2004 management learned that while indicators of demand existed for ALLIANCE, issues regarding price sensitivity, lengthy sales cycle and integration with enterprise infrastructures were preventing ALLIANCE from achieving the revenues that management originally anticipated. As a result, the Company decided to shift its go-forward strategy for this segment and focus its efforts and resources on its NetSimplicity software product line.

In October 2003, Forgent acquired the assets and operations of Network Simplicity Software Inc., including its flagship product, Meeting Room Manager, a scheduling application. As a result of the acquisition, the acquired software products were molded into the Company's "NetSimplicity" software product line and the NetSimplicity's results of operations since October 6, 2003 have been included in the Company's Consolidated Statement of Operations. The $2.5 million decrease in revenues from the ALLIANCE product line was offset by a $1.0 million increase in revenues from the NetSimplicity product line. The demand and growing revenues from the NetSimplicity product line is attributable to the software's robust capability, ease of use and low pricing that easily fits into businesses' current budgets. During fiscal year 2004, sales of the NetSimplicity software were targeted primarily to the Education, Healthcare and Legal industries. Forgent currently has distribution partners in the United Kingdom, Germany and Australia and continues to search for additional distribution partners in key geographies around the world in order to grow revenues in the global market. Management believes the NetSimplicity software business will continue to be a growth business during fiscal year 2005.

During fiscal year 2003, existing customers upgraded their VNP and GSS software, prospects used the software on a trial basis and several new customers installed ALLIANCE, Forgent's then newly developed software product, which was introduced in July 2003 and was an expansion of the functionalities in its VNP and GSS software. The $2.2 million increase in software and professional services revenues for the year ended July 31, 2003, as compared to the year ended July 31, 2002, was due to the Company gaining momentum with its VNP, GSS and ALLIANCE software products in the marketplace. This momentum was short-lived as described above.

Other revenues were $0.0 million in fiscal year 2002, $0.6 million in fiscal year 2003 and $22 thousand in fiscal year 2004. The increase was $0.6 million from 2002 to 2003 and the decrease was $0.5 million, or 96.1%, from 2003 to 2004. Other revenues represent 0.0%, 1.1% and 0.1% of total revenues for the years ended July 31, 2002, 2003 and 2004, respectively. During the year ended July 31, 2003, the Company subcontracted several integration projects to SPL Integrated Solutions ("SPL"), which had purchased Forgent's integration business during fiscal year 2002. As a result of these subcontracts, Forgent recorded $0.6 million in other revenue during the 2003 fiscal year. During the first fiscal quarter of 2004, Forgent completed its final integration project and recorded $22 thousand in other revenues. As of October 31, 2003, Forgent no longer subcontracted any integration projects to SPL and referred all of its integration customers directly to SPL.

Gross Margin

Consolidated gross margins were $14.6 million in fiscal year 2002, $25.5 million in fiscal year 2003 and $3.3 million in fiscal year 2004. The increase was $10.9 million, or 74.4%, from 2002 to 2003. The decrease was $22.2 million, or 87.1%, from 2003 to 2004. Consolidated gross margin percentages were 43.9% for fiscal year 2002, 47.4% for fiscal year 2003 and 18.9% for fiscal year 2004.

The $22.2 million decrease in gross margin, as well as the related decrease in gross margin as a percentage of total revenues, for the year ended July 31, 2004, is due primarily to the $17.2 million decrease in gross margin resulting from the patent license agreements obtained during fiscal year 2004. Similarly, the $10.9 million increase in gross margin, as well as the related increase in gross margin as a percentage of total revenues, for the year ended July 31, 2003, is due primarily to the $8.0 million increase in gross margin resulting from the patent license agreements obtained during fiscal year 2003. The cost of sales on the intellectual property licensing business relates to the legal fees incurred on successfully achieving licensing revenues. The contingent legal fees were based on 50% of the licensing revenues received on signed agreements and were paid to Forgent's previous counsel pursuant to a fee agreement with such counsel. Forgent has terminated such counsel and is currently in discussions with the law firm regarding the termination. See Item 1 "Business — Intellectual Property Licensing Business — Patent Licensing Program" for more detail. Because of the inherent risks in licensing intellectual property, including the October 2006 expiration of the U.S. patent and the September 2007 expiration of the patent's foreign counterparts, total gross margins could be adversely affected in the future if licensing revenues decline.

Due to declining ALLIANCE revenues, management started in January 2004 to review its software segment and the related cash flows from its ALLIANCE and NetSimplicity product lines in order to re-evaluate its strategy regarding growing revenues from this segment. Based on the projected negative cash flows related to ALLIANCE, Forgent fully impaired the $4.7 million in net capitalized software development costs and $90 thousand of certain prepaid assets that specifically supported ALLIANCE, resulting in $4.8 million being charged to cost of sales for the software segment. This impairment represented 69.9% of the software and professional services' cost of sales during fiscal year 2004 and caused the gross margin for the segment to be (130.9%). Without the effect of the impairment, the gross margin for the software segment would have been 30.4% for the year ended July 31, 2004. Of the remaining $2.1 million cost of sales in fiscal year 2004, 89.5% of the costs associated with the software and professional services business resulted from the amortization of the Company's capitalized software development costs, depreciation and labor. Since the cost of sales from this line of business is relatively fixed, decreases in software and professional services revenues could adversely affect total gross margins.

The Company's OnScreen24™ operations, which were folded back into Forgent's core operations in January 2001, developed a video streaming technology, which is a server application with the abilities to create video e-mail programs and to store streamed video for playback. Initially, management intended to leverage these efforts and further develop this technology as an added feature to its previous VNP software. Based upon customer feedback regarding the VNP software during fiscal year 2002, customers did not need advanced features but desired fundamental network management applications with more robust device level support and valued added network level instrumentation for ISDN and IP networks. Therefore, management determined the video streaming technology would not be used in the development of VNP. As a result, the $2.4 million capitalized software development costs associated with the video streaming technology was impaired during the year ended July 31, 2002. This impairment represented 58.7% of the software and professional services' cost of sales during fiscal year 2002 and caused the gross margin for the segment to be (81.4%). Of the remaining $1.7 million cost of sales in fiscal year 2002, 64.3% of the costs associated with the software and professional services business resulted from the amortization of the Company's capitalized software development costs and labor. Similarly, approximately 61.7% of the software and professional services cost of sales during the year ended July 31, 2003 resulted from the amortization of the Company's capitalized software development costs and labor.

The cost of sales associated with other revenues during the years ended July 31, 2003 and July 31, 2004 relate to the costs incurred to complete the Company's remaining integration projects. The gross margin for the integration projects during fiscal years 2003 and 2004 were 12.2% and (9.1%), respectively. Since Forgent no longer has any remaining integration projects as of July 31, 2004, the low and negative gross margins from this line of business will not affect the Company's financial results in future periods.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses were $8.5 million in fiscal year 2002, $11.0 million in fiscal year 2003 and $12.2 million in fiscal year 2004. The increases were $2.5 million, or 29.3%, from 2002 to 2003 and $1.2 million, or 11.2%, from 2003 to 2004. SG&A expenses were 25.5%, 20.4% and 70.1% of total revenues for the years ended July 31, 2002, 2003 and 2004, respectively.

During the year ended July 31, 2004, SG&A expenses increased $1.2 million. Approximately $2.4 million of the increase in SG&A expenses is attributable to increases in corporate expenses, professional fees and marketing expenses, which are offset by approximately a $1.2 million decrease in compensation expenses. Forgent allocates certain corporate operating expenses to its segments. Since the Company sold its videoconferencing hardware services business during the fourth fiscal quarter of 2003, the operations of which are shown as discontinued operations in the consolidated financial statements, the Company had one less segment to allocate corporate operating expenses to and thus, SG&A expenses from continuing operations increased by an additional $1.4 million during the year ended July 31, 2004. In attempts to generate increased revenues for the Company, Forgent incurred $0.6 million more in professional fees during the year ended July 31, 2004, the majority of which is attributable to consulting and legal expenses related to the Company's mergers and acquisitions efforts. Additionally, during fiscal year 2004, Forgent's marketing expenses increased by $0.4 million over fiscal year 2003 due primarily to expenses related to generating demand for the ALLIANCE software products, which were launched in July 2003, and the NetSimplicity software products, which were acquired in October 2003. As a result of the restructuring executed during the third fiscal quarter of 2004, certain lay-offs during the year and attrition, the increases in corporate expenses, professional fees and marketing expenses are offset by approximately $1.2 million in decreased compensation expenses.

As a result of the '672 litigation, management anticipates that the Company may incur significant litigation costs during fiscal year 2005. Due to uncertainties inherent with litigation, management is unable to accurately predict the ultimate outcome and thus, there can be no assurances that the Company will be able to recover these costs. Additionally, management expects SG&A expenses may increase due to increased costs to comply with the Sarbanes-Oxley Act. Until the software business becomes profitable, management does not anticipate significant increases or decreases in SG&A expenses for its software segment during fiscal year 2005. Forgent will continue, however, its attempts to further decrease any unnecessary SG&A expenses, including corporate expenses, that do not directly support the generation of revenues for the Company without impacting the Company's ability to do business.

Forgent reviews potential customers' credit ratings to evaluate customers' ability to pay an obligation within the payment term before extending any new or additional credit. The Company follows its credit policy consistently and constantly monitors all of its accounts for indications of uncollectability. During the year ended July 31, 2004, Forgent recorded $0.3 million in bad debt expense related to its accounts receivable, approximately 88.7% of which is due to three customers' accounts. The uncollectability of one account resulted from the customer's current inability to pay timely and the uncollectability of the other two accounts resulted from the Company's shift away from its ALLIANCE software products. During fiscal year 2004, management turned these accounts over to a third party for increased collection efforts with minimal success. Therefore, these three accounts were written-off, accounting for 95.5% of the Company's total write-offs in fiscal year 2004. Forgent intends to continue aggressively pursuing collection from all of its other customers. As of July 31, 2004, approximately 6.7% of Forgent's remaining trade accounts receivable were aged past 90 days, all of which were related to ALLIANCE and reserved for in accordance with the Company's policy (see Note 2, in the accompanying financial statements).

During the year ended July 31, 2003, SG&A expenses increased $2.5 million. Approximately 69.1% of this increase is due to Forgent's Patent Licensing Program incurring additional consulting expenses, national and international travel expenses and other associated expenses as compared to the year ending July 31, 2002. Additionally, Forgent increased spending related to the ramp-up efforts in the sales organization and the launch of its ALLIANCE software products in July 2003. These additional expenditures largely account for the remaining 30.9% of the increase during the 2003 fiscal year.

Research and Development

Research and development ("R&D") expenses were $3.2 million in fiscal year 2002, $3.8 million in fiscal year 2003 and $4.0 million in fiscal year 2004. The increases were $0.6 million, or 20.5%, from 2002 to 2003 and $0.2 million, or 4.9%, from 2003 to 2004. R&D expenses were 9.6%, 7.2% and 23.2% of total revenues for the years ended July 31, 2002, 2003 and 2004, respectively.

Throughout fiscal year 2004, Forgent continued its efforts on developing its Meeting Room Manager and Visual Asset Manager software products as well as developing and supporting its ALLIANCE software products. In November 2003, Forgent released Meeting Room Manager 2004, which significantly improved the web client by providing many of the administrative functions, such as location management, filter management, options, etc. that were previously only available in the network client. The Company's latest version of its NetSimplicity product line provides virtual meetings from users' desktops across one or multiple offices and allows web client users to create advanced recurring meetings. Additionally, the new "MRM Assistant" performs automated functions such as sending meeting reminders to attendees, generating web-based reports, periodically archiving reservations and alerting administrators of certain actions. Administrators can track the status of the equipment in inventory, customize any detail or search form in the web client, as well as define rules based on reservation information, such as limiting the number of people in certain meeting rooms and identifying selected users with the ability to reserve equipment for a meeting room. The Company is currently developing its next versions of Meeting Room Manager and Visual Asset Manager. Additionally, in May 2004 Forgent released a new product, Family Scheduler, which is designed to help parents effortlessly keep track, by family member, of daily events for school, extra-curricular activities, doctor's appointments, vacations, etc. Available both as an installed software product, and as a hosted online offering, Family Scheduler is Forgent's first consumer product offering.

During fiscal year 2004, the Company also released ALLIANCE 4.1, which added several enhancements including abilities to support new audio and video devices, create more sophisticated reports and delegate scheduling responsibilities, enhanced international dialing rules, and improved Microsoft Exchange synchronization. Forgent also released ALLIANCE 4.2, which integrated web conferencing services into the ALLIANCE meeting automation platform and allowed for a single conference to be connected by multiple "cascaded" bridges in order to connect multiple participants who would otherwise not all fit on one bridge or would be too costly to be serviced by one bridge.

The R&D expenses were net of $3.5 million, $2.8 million and $0.9 million capitalized during the years ended July 31, 2002, 2003 and 2004 respectively. Software development costs are capitalized after a product is determined to be technologically feasible and is in the process of being developed for market. At the time the product is released for sale, the capitalized software is amortized over the estimated economic life of the related projects, generally three years, using the straight-line method. The software development costs capitalized during the 2002, 2003 and 2004 fiscal years were related to the continued efforts on enhancing Forgent's GSS, renamed as ALLIANCE SCHEDULER, and Forgent's VNP, renamed as ALLIANCE MEDIA MANAGER. Due to the decrease in software and professional services revenues and Forgent's shift in its go-forward strategy for its software segment during fiscal year 2004, Forgent evaluated the recoverability of its long-lived assets, including the capitalized software development costs, related to the ALLIANCE efforts in accordance with SFAS No. 86, "Accounting for the Costs of Software to Be Sold, Leased, or Otherwise Marketed," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Based on the projected negative cash flows related to ALLIANCE, Forgent fully impaired $4.7 million in net capitalized software development costs as of January 31, 2004. All of the impaired capitalized software development costs was related to ALLIANCE and as of July 31, 2004, Forgent no longer had any capitalized software development costs recorded on its Consolidated Balance Sheet.

Total research and development expenditures from continuing operations, including software development costs that were capitalized, were $6.7 million in fiscal year 2002, $6.7 million in fiscal year 2003 and $5.0 million in fiscal year 2004. The decreases were $54.7 thousand, or 0.0%, from 2002 to 2003 and $1.7 million, or 25.9%, from 2003 to 2004. During the year ended July 31, 2004, total R&D expenses decreased $1.7 million. Approximately $1.4 million, or 80.5%, of this decrease is attributable to decreases in compensation expenses. Due to the restructuring of its software operations during fiscal year 2004, Forgent terminated 22 employees in research and development. Additionally, nine employees terminated their employment voluntarily. These employment terminations caused the decrease in compensation expenses during the year ended July 31, 2004. Although the total R&D expenditures did not change significantly from 2002 to 2003, R&D expenses for the year ended July 31, 2003 increased $0.7 million due primarily to solving complications with the then newly acquired GSS software during the first part of that fiscal year and to more expenses incurred in supporting

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the Company's enterprise meeting automation software under the new brand name Forgent ALLIANCE. This increase in expenses was offset by a corresponding $0.7 million decrease in capitalized software development costs.

Forgent will continue to develop scheduling and asset management solutions to assist businesses in streamlining their operations and improving meeting efficiencies in a simplified manner. However, until the software business becomes profitable, management does not anticipate significant increases or decreases in total R&D expenses during fiscal year 2005.

Impairment of Assets

During the year ended July 31, 2004, Forgent recorded impairment losses on the Consolidated Statement of Operations as follows:

	For the Year Ended July 31, 2004 (in thousands)		
	Intellectual Property Segment	Software Segment	Total Impairment
Prepaid assets	$ —	$ 90	$ 90
Capitalized software development costs	—	4,748	4,748
Impairment in cost of sales	—	**4,838**	**4,838**
Prepaid assets	—	10	10
Equipment	—	211	211
Goodwill	—	5,042	5,042
Leasehold improvements	161	22	183
Property leases	1,123	420	1,543
Impairment in operating expenses	**1,284**	**5,705**	**6,989**
Total impairment	**$1,284**	**$ 10,543**	**$ 11,827**

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

Pursuant to SFAS No. 86, "Accounting for the Costs of Software to Be Sold, Leased, or Otherwise Marketed," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Forgent evaluated the recoverability of its long-lived assets, including the equipment and capitalized software development costs, related to the ALLIANCE efforts. Based on the projected negative cash flows related to ALLIANCE, Forgent fully impaired the $4.7 million in net capitalized software development costs and $0.2 million in equipment related to ALLIANCE. Additionally, Forgent impaired $0.1 million of certain prepaid assets that specifically supported ALLIANCE. Due to the decrease in software and professional services revenues and Forgent's shift in its go-forward strategy for its software segment, the Company was also required to perform an impairment analysis in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." As part of the impairment analysis, Forgent determined the implied fair value of goodwill based on a discounted cash flow model. As a result of this valuation, Forgent recorded a $5.0 million impairment of its goodwill related to its acquisitions of Vosaic, LLC and Global Scheduling Solutions, Inc. The technology obtained from these acquisitions supported the development efforts on ALLIANCE and its predecessor, Forgent's Video Network Platform. The $10.1 million impairment charge related to ALLIANCE was recorded as part of continuing operations on the Consolidated Statement of Operations, with $4.8 million in cost of sales and $5.3 million in operating expenses.

Due to the change in focus of its software segment, Forgent also evaluated the recoverability of its intangible assets and long-lived assets related to its NetSimplicity product line in accordance with SFAS No. 142 and SFAS No. 144.