

FORGENT NETWORKS INC
Form PRER14A
March 17, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

Forgent Networks, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**FORGENT NETWORKS, INC.
d/b/a Asure Software
108 Wild Basin Road
Austin, TX 78746**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD , 2009**

Dear Stockholder:

You are cordially invited to attend the special meeting of stockholders (the "Special Meeting") of Forgent Networks, Inc. d/b/a Asure Software (NASDAQ: ASUR), a Delaware corporation (the "Company"), to be held at 108 Wild Basin Road, Austin, Texas 78746 on , 2009 at 10:00 a.m. local time.

At the Special Meeting, you will be asked to act on the following matters:

1. To approve a proposal to amend the Company's Restated Certificate of Incorporation to effect a reverse/forward stock split (the "Reverse/Forward Stock Split") of the Company's common stock, par value \$.01 per share (the "Common Stock"), whereby the Company would first effect a 1-to-750 reverse stock split (such that stockholders owning less than 750 shares of Common Stock before the reverse stock split would have such shares cancelled and converted into the right to receive the cash consideration set forth herein), then immediately effect a 750-to-1 forward stock split (such that stockholders owning 750 or more shares of Common Stock before the reverse stock split would own the same number of shares of Common Stock after the forward stock split);
2. To approve a proposal to postpone or adjourn the Special Meeting to permit further solicitation of proxies in the event that an insufficient number of shares of Common Stock is present in person or by proxy to approve the Reverse/Forward Stock Split; and
3. To transact such other business as may properly come before the Special Meeting or any adjournment thereof.

As a result of the Reverse/Forward Stock Split, the Company will cease being classified as a public reporting company and will become privately-held. The Reverse/Forward Stock Split accomplishes this goal by allowing the Company to acquire sufficient stock, at a premium to current market prices, from smaller stockholders so that immediately following the Reverse/Forward Stock Split the Company will have less than 300 stockholders of record. If the Reverse/Forward Stock Split is not completed, the Company will continue to operate its business as presently conducted and to incur significant reporting and compliance costs as a result of its status as a public reporting company. However, the Company's Common Stock may be involuntarily delisted from the Nasdaq Capital Market if the Company fails to meet Nasdaq's minimum bid price per share requirement of \$1.00 by August 4, 2009.

YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED AND RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO AMEND THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE/FORWARD STOCK SPLIT AND "FOR" THE APPROVAL OF THE POSTPONEMENT OR ADJOURNMENT OF THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE TO SOLICIT ADDITIONAL PROXIES IF THERE ARE INSUFFICIENT VOTES TO ADOPT THE AMENDMENT TO EFFECT THE REVERSE/FORWARD STOCK SPLIT AT THE TIME OF THE MEETING.

Only holders of record of Common Stock at the close of business on , 2009 will be entitled to notice of and to vote at the Special Meeting or any adjournment thereof.

The Board of Directors of the Company is soliciting proxies in connection with the above matters. **Stockholders are urged to review carefully the information contained in the *Proxy Statement* attached hereto, including the *Summary Term Sheet* on pages 1 through 9 which summarizes the material terms**

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of the Proxy Statement in question and answer format, prior to deciding how to vote their shares at the Special Meeting.

Your participation in the Special Meeting, in person or by proxy, is important. We hope you will be able to attend the Special Meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY CARD PROMPTLY.** If you attend the Special Meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your Proxy Card. Simply attending the Special Meeting, however, will not revoke your proxy; you must vote at the Special Meeting. If you do not attend the Special Meeting, you may still revoke your proxy at any time prior to the Special Meeting by providing a later-dated proxy card or by providing written notice of your revocation to the Secretary of the Company. Your prompt cooperation will be greatly appreciated.

Sincerely,

JAY C. PETERSON
Secretary

This Proxy Statement is dated _____, 2009 and is first being mailed to stockholders on or about _____, 2009.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS: APPROVED OR DISAPPROVED OF THE GOING PRIVATE TRANSACTION TO BE EFFECTED BY THE REVERSE/FORWARD STOCK SPLIT; PASSED UPON THE MERITS OR FAIRNESS OF SUCH TRANSACTION; OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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FORGENT NETWORKS, INC.
d/b/a Asure Software
108 Wild Basin Road
Austin, TX 78746

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Forgent Networks, Inc. d/b/a Asure Software (NASDAQ: ASUR), a Delaware corporation (the "Company"), for use at the Company's special meeting of stockholders (the "Special Meeting"), to be held at 10:00 a.m. local time on _____, 2009 at the Company's executive offices located at 108 Wild Basin Road, Austin, Texas 78746, and at any and all adjournments of such Special Meeting.

SUMMARY TERM SHEET

The material terms from this Proxy Statement, including the Reverse/Forward Stock Split (as defined herein) and the proposed amendment to the Company's Restated Certificate of Incorporation, are summarized below through our responses to the following specific questions. For a more complete discussion of these matters, you are urged to carefully review the more detailed information appearing elsewhere in, or accompanying, this Proxy Statement.

What matters will be considered at the Special Meeting?

Why are these matters being considered now?

What is the Reverse/Forward Stock Split?

What are the purposes of the Reverse/Forward Stock Split?

What are the reasons for the Reverse/Forward Stock Split?

What other considerations support the Reverse/Forward Stock Split?

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Does the Board of Directors recommend the Reverse/Forward Stock Split?

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How will the Reverse/Forward Stock Split affect affiliated stockholders?

How is the Company financing the Reverse/Forward Stock Split?

What happens if the Reverse/Forward Stock Split is not completed?

What matters will be considered at the Special Meeting?

At the Special Meeting, you will be asked to consider and vote upon two proposals.

First, you will be asked to approve a proposal to amend the Company's Restated Certificate of Incorporation to effect a 1-for-750 reverse stock split of the Company's common stock, par value \$.01 per share (the "Common Stock"), followed immediately by a 750-for-1 forward stock split of the Company's Common Stock (the "Reverse/Forward Stock Split"). If approved, the Reverse/Forward Stock Split will affect the Company's stockholders as follows:

If you are a record stockholder with:	Effect:
750 or more shares:	You will continue to hold the same number of shares.
Fewer than 750 shares:	You will be entitled to \$0.36 in cash per share.

If the proposal to amend the Company's Restated Certificate of Incorporation is approved by the stockholders at the Special Meeting, then the Reverse/Forward Stock Split would take effect on the date (the "Effective Date") that the Company subsequently files a certificate of amendment (the "Certificate of Amendment") with the Delaware Secretary of State, or on any later date that the Company may specify in the Certificate of Amendment.

Second, you will be asked to approve a proposal to postpone or adjourn the Special Meeting (the "Adjournment Proposal"), if necessary or appropriate to solicit additional proxies, in the event there are insufficient votes at the time of the Special Meeting to approve the Reverse/Forward Stock Split.

Why are these matters being considered now?

The Company is currently facing the prospect of involuntarily delisting from the Nasdaq Capital Market for failing to meet Nasdaq's minimum bid price per share requirement. If the Company cannot regain compliance with the minimum \$1.00 share bid price requirement by August 4, 2009, Nasdaq will provide written notification to the Company that its Common Stock will be delisted from the Nasdaq Capital Market. The Company expects that delisting from the Nasdaq Capital Market would substantially reduce or eliminate the public market for the Common Stock and, as a result, stockholders may experience a significant decrease in the value of their shares of Common Stock. If the Company is involuntarily delisted by Nasdaq, rather than voluntarily in connection with the Reverse/Forward Stock Split, the Company would continue to be subject to the SEC's reporting requirements under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and continue incurring significant reporting and compliance costs. For more detailed discussion of the consequences of not effecting the Reverse/Forward Stock Split, see "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Potential Involuntary Delisting by Nasdaq."

What is the Reverse/Forward Stock Split?

The Reverse/Forward Stock Split refers to a two-step transaction designed to reduce the Company's number of stockholders of record to fewer than 300, so the Company can (i) terminate the registration of its Common Stock under Section 12(g) the Exchange Act, (ii) suspend its reporting obligations with the Securities and Exchange Commission (the "SEC"), and (iii) voluntarily delist its Common Stock from the Nasdaq Capital Market. Pursuant to the Reverse/Forward Stock Split, the

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Company would first effect a 1-to-750 reverse stock split, such that stockholders owning less than 750 shares of Common Stock before the reverse stock split (referred to herein as "Cashed-Out Stockholders") would have such shares cancelled and converted into the right to receive the cash consideration set forth herein (referred to herein as "Cashed-Out Shares"). The Company would then immediately effect a 750-to-1 forward stock split, such that stockholders owning 750 or more shares of Common Stock before the reverse stock split (referred to herein as "Continuing Stockholders") would have the same number of shares of Common Stock after the forward stock split (referred to herein as "Continuing Shares").

What are the purposes of the Reverse/Forward Stock Split?

The Reverse/Forward Stock Split has been recommended by the Board of Directors to enable the Company to terminate the registration of its Common Stock under Section 12(g) of the Exchange Act. Deregistration will result in the suspension of the Company's duty to file periodic reports with the SEC and the cessation of the Company's classification as a public reporting company. The benefits of these results are discussed below.

To facilitate the goal of deregistration, the Reverse/Forward Stock Split has been designed to allow the Company to acquire, for cash, the equity positions of a sufficient number of its smaller stockholders such that, immediately after the Reverse/Forward Stock Split, the Company will have less than 300 stockholders of record. Dropping below the 300 stockholders of record threshold is a prerequisite to deregistration under the Exchange Act. As used in this Proxy Statement, the term "smaller stockholders" refers to stockholders owning less than 750 shares of Common Stock, which shares would be cashed out pursuant to the Reverse/Forward Stock Split. For more detailed discussion of the purposes of the Reverse/Forward Stock Split, see "SPECIAL FACTORS Purposes of the Reverse/Forward Stock Split."

What are the reasons for the Reverse/Forward Stock Split?

The principal reasons for the Reverse/Forward Stock Split are the following anticipated benefits to the Company, which the Board of Directors deems to be in the best interests of the Company and its stockholders:

Annual cost savings of approximately \$1,069,000 per year resulting from the suspension of the Company's periodic reporting obligations under the Exchange Act, including the anticipated cost savings resulting from not having to comply with the increased compliance burdens imposed by the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley");

Time savings resulting from the Company's management no longer being required to prepare the periodic reports required of public companies under the Exchange Act and no longer being required to manage stockholder relations and communications pursuant to the mandates of the Exchange Act;

Greater operational flexibility that should allow the Company's management to focus more on long-term growth and maximization of stockholder value, with less emphasis on quarter-to-quarter earnings and short-term fluctuations in the market price of the Company's Common Stock; and

The Board of Directors believes that the Reverse/Forward Stock Split is the most attractive and viable option for converting the Company from a public reporting company to a privately-held, non-reporting company, as compared to other alternatives.

For more detailed discussion of the reasons for the Reverse/Forward Stock Split, see "SPECIAL FACTORS Reasons for the Reverse/Forward Stock Split."

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What other considerations support the Reverse/Forward Stock Split?

In making its determination to pursue the Reverse/Forward Stock Split, the Board of Directors focused on the fact that, primarily due to the Common Stock's limited liquidity and low market price, the Company has not realized many of the benefits that typically accrue to public companies. These missed benefits/opportunities include enhanced stockholder value, enhanced corporate image, the ability to use company stock to attract, retain and motivate employees, and the ability to use company stock as currency for acquisitions.

The Board of Directors also believes that the Company's stockholders have not benefited proportionately from the costs associated with maintaining the Company's status as a public company. Some of the relevant causes include (i) the relatively thin trading market for the Common Stock which may have resulted in depressed market prices for the Common Stock, (ii) the limited number of market makers and analysts that routinely follow the Company's performance, and (iii) a practical limitation of the ability of the Company's stockholders to sell relatively large blocks of Common Stock in the open market without significantly depressing the market price.

Any stockholder owning shares that would otherwise qualify as Cashed-Out Shares may elect to continue owning Common Stock after the reverse stock split, and thus avoid being cashed-out, by taking certain actions by 5:59 p.m. C.S.T. on the Effective Date. Conversely, any stockholder owning shares that would otherwise qualify as Continuing Shares may elect to be cashed-out after the reverse stock split, and thus no longer own Common Stock, by taking certain actions by 5:59 p.m. C.S.T. on the Effective Date. The Company recommends that such actions be completed by the close of business on the day immediately preceding the Effective Date.

For more detailed discussion of other considerations in connection with the Reverse/Forward Stock Split, see "SPECIAL FACTORS Reasons for the Reverse/Forward Stock Split," "SPECIAL FACTORS Effects of the Reverse/Forward Stock Split," and "SPECIAL FACTORS Fairness of the Reverse/Forward Stock Split."

What happens to stockholders owning less than 750 shares of Common Stock?

Pursuant to the reverse stock split, any stockholder owning less than 750 shares of Common Stock at 5:59 p.m. C.S.T. on the Effective Date will receive cash in exchange for such Cashed-Out Shares, and will no longer be a stockholder of the Company. The Company will pay each of these Cashed-Out Stockholders an amount in cash equal to \$0.36 per Cashed-Out Share. To illustrate, a stockholder owning 500 shares of Common Stock at 5:59 p.m. C.S.T. on the Effective Date would receive an amount of cash equal to \$180 (*i.e.*, $500 \times \$0.36$) as a result of the reverse stock split.

What happens to stockholders owning 750 or more shares of Common Stock?

Pursuant to the reverse stock split, any stockholder owning 750 or more shares of Common Stock at 5:59 p.m. C.S.T. on the Effective Date will be deemed to own one seven-hundred-and-fiftieth ($1/750^{\text{th}}$) of a share (referred to herein as "Reverse Split Shares") for each such Continuing Share. These Continuing Stockholders will not receive any cash consideration in connection with the Reverse/Forward Stock Split. To illustrate, a stockholder owning 1,125 shares of Common Stock at 5:59 p.m. C.S.T. on the Effective Date will be deemed to own 1.5 Reverse Split Shares (*i.e.*, $1,125 \times 1/750$) as a result the reverse stock split.

Pursuant to the forward stock split, any stockholder holding Reverse Split Shares will be deemed to own 750 shares of Common Stock for each whole Reverse Split Share held and, with respect to any fractional Reverse Split Shares held, such lesser number of shares as may be applicable based upon a

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750-to-1 ratio. To illustrate, a stockholder owning 1.5 Reverse Split Shares would be deemed to own 1,125 shares of Common Stock (*i.e.*, 1.5×750) as a result the forward stock split.

What is the cash consideration to be paid to the Cashed-Out Stockholders?

In connection with the Reverse/Forward Stock Split, the Board of Directors has set the cash consideration to be paid to Cashed-Out Stockholders at \$0.36 per share of Common Stock which amount provides a premium to the Common Stock's current and historical market prices over the last three months. The Company anticipates that Cashed-Out Stockholders will receive the cash consideration within 30 days after the Effective Date of the Reverse/Forward Stock Split, and no interest will accrue or be paid on such cash consideration during that time. The Board of Directors made its determination of the cash consideration above in good faith, based upon a variety of factors, including the current and recent historical market prices for the Common Stock, the recommendation of a Special Committee (as defined herein) appointed by the Board of Directors, and a fairness opinion, dated January 29, 2009 (the "Fairness Opinion"), prepared by the investment banking firm of Southwest Securities, Inc. ("Southwest Securities"). For more detailed discussion of the cash consideration for the Reverse/Forward Stock Split, see "SPECIAL FACTORS Fairness of the Reverse/Forward Stock Split" and "SPECIAL FACTORS Fairness Opinion of Southwest Securities."

How are the Reverse/Forward Stock Split and the Adjournment Proposal approved?

The Reverse/Forward Stock Split and the Adjournment Proposal must be approved by the Company's stockholders. At the Special Meeting, the Company's stockholders will be voting to approve a proposal to amend the Company's Restated Certificate of Incorporation to effect the Reverse/Forward Stock Split and to approve the postponement or adjournment of the Special Meeting, if necessary or appropriate to solicit additional proxies.

Assuming the existence of a quorum at the Special Meeting, approval of the amendment will require the affirmative vote of at least a majority of the outstanding shares of the Company's Common Stock entitled to vote in favor of such matter. Shares held in street name that are not voted by brokerage firms or other nominees are referred to as "broker non-votes." Abstentions and broker non-votes will be counted for purposes of establishing a quorum at a Special Meeting, and will be counted as votes "AGAINST" the approval of the proposal to amend the Company's Restated Certificate of Incorporation.

Approval of the Adjournment Proposal requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the Special Meeting and entitled to vote at the Special Meeting. Abstentions and broker non-votes will not affect the outcome of the vote regarding the Adjournment Proposal.

Who can vote at the Special Meeting?

Only stockholders of record at the close of business on _____, 2009 will be entitled to vote at the Special Meeting. As of January 28, 2009, the most recent practicable date prior to the first public announcement of the proposed Reverse/Forward Stock Split, the Company had 31,111,276 shares of its Common Stock issued and outstanding. Each holder of Common Stock is entitled to one vote per share on each matter to be voted upon at the Special Meeting.

How many votes are required to approve the Reverse/Forward Stock Split?

If a quorum is present, the approval of the proposal to amend the Company's Restated Certificate of Incorporation will require the affirmative vote of at least a majority of the outstanding shares of the Company's Common Stock entitled to vote. A quorum for the Special Meeting will exist if a majority of the shares entitled to vote are present in person or by proxy. Abstentions and broker non-votes will

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be counted for purposes of establishing a quorum at a Special Meeting. Once a quorum has been established, only votes expressly cast, whether in person or by proxy, will be counted. Under the Delaware General Corporation Law (the "DGCL"), once a share is represented for any purpose at a meeting of the stockholders, such share is deemed present for quorum purposes for the remainder of the meeting. Therefore, an abstention vote on a measure will not affect a duly established quorum for the Special Meeting.

The proposal to amend the Company's Restated Certificate of Incorporation is a "non-discretionary" item, meaning that a brokerage firm cannot vote shares in its discretion on behalf of a client if the client has not given the brokerage firm voting instructions. Abstentions and broker non-votes will be counted as votes "AGAINST" the approval of the proposal to amend the Company's Restated Certificate of Incorporation and, in turn, the Reverse/Forward Stock Split.

How can a stockholder vote by proxy?

If the enclosed Proxy Card is properly executed and returned in time to be voted at the Special Meeting (*i.e.*, by close of business on the day before the Special Meeting), the shares represented will be voted in accordance with the instructions contained therein. *Executed Proxy Cards that contain no instructions will be voted in favor of the proposal to amend the Company's Restated Certificate of Incorporation that would effect the Reverse/Forward Stock Split.* In their discretion, the designated proxies are also authorized to vote upon such other business as may properly come before the Special Meeting or any and all adjournments thereof.

Can a stockholder change his or her vote after returning the Proxy Card?

A stockholder who executes a Proxy Card for the Special Meeting may revoke its proxy any time before its proxy is voted, by delivering written notice of revocation to the Secretary of the Company, by delivering a duly executed Proxy Card bearing a later date, or by attending the meeting and voting in person. However, attending the Special Meeting will not, in itself, constitute a revocation of proxy.

What happens if the Special Meeting is postponed or adjourned?

If the Special Meeting is postponed or adjourned, proxies will remain valid and may be voted at the postponed or adjourned meeting. However, a stockholder may still change or revoke his or her proxy until it has been voted.

How will proxies be solicited?

This Proxy Statement and the enclosed Proxy Card are being mailed on or about _____, 2009 to stockholders of record of the Company on _____, 2009. Proxies may be solicited by mail, telephone, facsimile, internet, or personal solicitation by the Company's directors and executive officers, for which they receive no additional compensation. The Board of Directors has authorized the Company's executive officers to engage the services of an independent third party to assist the Company in making solicitations to its stockholders in connection with the proposed going private transaction and Reverse/Forward Stock Split. The Company intends to engage BNY Mellon Shareholder Services to provide such services. Proxy materials will also be available in electronic form and may be accessed electronically at www.asuresoftware.com, www.proxyvote.com and www.sec.gov. The proxy materials distributed to stockholders will provide instructions for accessing these websites.

Meeting and proxy solicitation costs, including the costs of preparing and mailing the Proxy Statement and Proxy Cards, will be borne by the Company. The Company will also request banks, brokers, and others who hold shares of the Company in nominee names to distribute proxy soliciting

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materials to the relevant beneficial owners, and will reimburse such banks and brokers for reasonable out-of-pocket expenses which they may incur in so doing.

Does the Board of Directors recommend the Reverse/Forward Stock Split?

The Board of Directors unanimously recommends that the Company's stockholders approve the Reverse/Forward Stock Split. This includes the unanimous recommendation of the Company's "Independent Directors" (*i.e.*, those members of the Company's Board of Directors who, in the opinion of the Company's Board of Directors, considering all relevant facts and circumstances, satisfy the definition of "independent directors" under Nasdaq Marketplace Rule 4200(a)(15)).

The Board of Directors believes that the Reverse/Forward Stock Split is in the best interests of the Company and its stockholders, and is substantively and procedurally fair to all unaffiliated stockholders, whether they will be Cashed-Out Stockholders or Continuing Stockholders as a result of the transaction. Such belief is based on the following:

A Special Committee appointed by the Board of Directors and comprised solely of Independent Directors has unanimously recommended the Reverse/Forward Split.

The Board of Directors engaged Southwest Securities to prepare the Fairness Opinion. The full text of the Fairness Opinion is attached hereto as Appendix 2.

The Board of Directors expressly adopted the recommendation of the Special Committee and the conclusion and analyses of Southwest Securities contained in the Fairness Opinion.

The cash consideration to be paid to the Cashed-Out Stockholders is based, in part, on the recommendation of the Special Committee and the Fairness Opinion.

Each officer and director intends to vote his or her shares in favor of the Reverse/Forward Stock Split at the Special Meeting.

The Board of Directors has unanimously approved the Reverse/Forward Stock Split.

For more detailed discussion of the deliberations of the Board of Directors with respect to the Reverse/Forward Stock Split, see "SPECIAL FACTORS Deliberations and Recommendation of the Board of Directors."

What are the federal income tax consequences of the Reverse/Forward Stock Split?

Neither the Company nor the Continuing Stockholders generally will recognize any taxable income, gain, or loss in connection with the Reverse/Forward Stock Split. However, the Cashed-Out Stockholders generally will recognize taxable income, gain, or loss as a result of the Reverse/Forward Stock Split. For more detailed discussion of the federal income tax consequences with respect to the Reverse/Forward Stock Split, see "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Material Federal Income Tax Consequences."

Do stockholders have appraisal rights in connection with the Reverse/Forward Stock Split?

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Under the DGCL, the Company's Restated Certificate of Incorporation, and the Company's Bylaws, stockholders are not entitled to appraisal rights in connection with the Reverse/Forward Stock Split, even if they vote against the transaction. The Company is not aware of any similar rights available under any applicable law, regulation, custom, or contract to security holders who object to the transaction. For more detailed discussion of stockholders' appraisal rights in connection with the Reverse/Forward Stock Split, see "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Appraisal Rights."

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How is the Reverse/Forward Stock Split effected?

If the proposal to amend the Company's Restated Certificate of Incorporation is approved by the stockholders at the Special Meeting, then the Reverse/Forward Stock Split would take effect on the date that the Company subsequently files a certificate of amendment (the "Certificate of Amendment") with the Delaware Secretary of State, or on any later date that the Company may specify in the Certificate of Amendment. Pursuant to the Certificate of Amendment, the Company will effect a 1-for-750 reverse stock split at 5:59 p.m. C.S.T. on the Effective Date and then effect a 750-for-1 forward stock split at 6:01 p.m. C.S.T. on the Effective Date. The Board of Directors intends to file the Certificate of Amendment after the Special Meeting and after the Common Stock has been voluntarily delisted from the Nasdaq Capital Market. However, the Board of Directors retains the right to abandon the Reverse/Forward Stock Split, before or after the Special Meeting, and not file the Certificate of Amendment with the Delaware Secretary of State. For more detailed discussion of the basic procedures for effecting the Reverse/Forward Stock Split, see "SPECIAL FACTORS Effects of the Reverse/Forward Stock Split," "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Reservation of Rights," "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Voluntary Delisting," and "MATTER NO. 1 APPROVAL OF THE PROPOSAL TO AMEND THE RESTATED CERTIFICATE OF INCORPORATION (THE REVERSE/FORWARD STOCK SPLIT) Summary and Structure of the Reverse/Forward Stock Split."

How will the Reverse/Forward Stock Split affect affiliated stockholders?

If the Reverse/Forward Stock Split is effected, the ownership percentage of shares of the Common Stock held by the Company's affiliated stockholders would increase by less than 0.5% as a result of the reduction of the number of shares of Common Stock outstanding as part of the cash-out of fractional shares. For example, on January 28, 2009, the most recent practicable date prior to the first public announcement of the proposed Reverse/Forward Stock Split, the Company's officers and directors beneficially owned approximately 5.42% of the outstanding shares of Common Stock, and will beneficially own approximately 5.65% of the Common Stock following completion of the Reverse/Forward Stock Split. For more detailed discussion of the effect of the Reverse/Forward Stock Split on the ownership interests of affiliated stockholders, see "SPECIAL FACTORS Fairness of the Reverse/Forward Stock Split Factors Considered To Be in Support of Substantive Fairness."

How is the Company financing the Reverse/Forward Stock Split?

The Company estimates that the total funds required to pay the cash consideration to the Cashed-Out Stockholders and the other costs of the Reverse/Forward Stock Split will be approximately \$835,000. This total amount could be larger or smaller depending on, among other things, the number of shares that will be outstanding after the Reverse/Forward Stock Split as a result of purchases, sales, and other transfers of our shares of Common Stock by the Company's stockholders, or an increase in the costs and expenses of the Reverse/Forward Stock Split. The Company intends to pay all costs associated with the Reverse/Forward Stock Split from cash on hand. For more detailed discussion of the Company's financing plans for the Reverse/Forward Stock Split, see "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Sources of Funds and Expenses."

What happens if the Reverse/Forward Stock Split is not completed?

It is possible that the proposed Reverse/Forward Stock Split will not be completed. For example, the Company's stockholders may not approve the proposed amendment to the Company's Restated Certificate of Incorporation by the required vote or, even if stockholder approval is obtained, the Board of Directors may determine that it is not in the best interests of the Company or its stockholders

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to complete the transaction and may decide to abandon it. The conditions in which the Board of Directors might consider not going through with the Reverse/Forward Stock Split could include, among other things, (i) any change in the nature of the Company's shareholdings prior to the Effective Date of the Reverse/Forward Stock Split which would result in the Company being unable to reduce its number of stockholders of record to below 300 as a result of the Reverse/Forward Stock Split, (ii) a change in the number of shares to be exchanged for cash in the Reverse/Forward Stock Split that would substantially increase the cost of the Reverse/Forward Stock Split, and (iii) any adverse change in the Company's financial condition that would render the Reverse/Forward Stock Split inadvisable. If the Reverse/Forward Stock Split is not completed, the Company will continue to operate its business as presently conducted. However, as indicated above, the Company may be involuntarily delisted from the Nasdaq Capital Market later this year for failing to meet Nasdaq's minimum bid price per share requirement. For more detailed discussion of the consequences of not effecting the Reverse/Forward Stock Split, see "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Potential Involuntary Delisting by Nasdaq" and "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT Reservation of Rights."

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SPECIAL FACTORS

Purposes of the Reverse/Forward Stock Split.

The Reverse/Forward Stock Split is designed to permit the Company to acquire, for cash, the equity interests in the Company of those stockholders who, as of the Effective Date of the Reverse/Forward Stock Split, own less than 750 shares of Common Stock. The purposes of the Reverse/Forward Stock Split are as follows:

To reduce the Company's number of stockholders of record to less than 300, which will permit the Company to terminate the registration of its Common Stock under Section 12(g) of the Exchange Act and to suspend the Company's duty to file periodic reports with the SEC;

To allow smaller stockholders to receive cash for their shares of Common Stock without having to pay brokerage commissions (the Company will pay all transaction costs in connection with the Reverse/Forward Stock Split); and

With respect to the forward stock split, which will immediately follow the reverse stock split, to return the number of shares held by each remaining stockholder to that number of shares which each such stockholder held immediately prior to the reverse stock split. Accordingly, the holders of 750 or more shares who are not being cashed out pursuant to the Reverse/Forward Stock Split will not be required to forward their stock certificates to the Company to receive cash for fractional shares, or to obtain replacement stock certificates for whole shares of Common Stock.

Reasons for the Reverse/Forward Stock Split.

Annual Cost Savings. The Company incurs substantial direct and indirect costs in complying with the Exchange Act's filing and reporting requirements for public companies, costs which have increased significantly with the implementation of Sarbanes-Oxley. The direct costs include the premiums for directors and officers insurance policies. The indirect costs include the time expended by the Company's executive officers in preparing and reviewing the Company's public reports filed with the SEC. Finally, most of the requirements of Sarbanes-Oxley apply equally to all public companies, regardless of their relative size. Therefore, given the Company's current size and resources, the Board of Directors believes that the foregoing costs associated with the Company being able to maintain its public company status are no longer justified.

The Board of Directors believes that, by deregistering the Common Stock and suspending the Company's periodic reporting obligations with the SEC, the Company will experience annual cost savings of approximately \$1,069,000, consisting of approximately (i) \$636,000 in professional fees and related expenses historically incurred in connection with the preparation and filing of reports required by the Exchange Act, (ii) \$107,000 in the cost of premiums for directors and officers insurance, and

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(iii) \$326,000 in fees due to compliance with Section 404 of Sarbanes-Oxley. These annual cost savings estimates are described in greater detail below:

Fees	Cost Savings (\$ per year)
PROFESSIONAL FEES AND RELATED EXPENSES	
Legal fees:	\$ 160,000
Printing, mailing, & filing costs:	\$ 35,000
Independent Director compensation:	\$ 52,000
Stock market fees:	\$ 40,000
Transfer Agent fees:	\$ 84,000
Audit fees:	\$ 245,000
Other fees:	\$ 20,000
Subtotal:	\$ 636,000
DIRECTORS AND OFFICERS INSURANCE:	\$ 107,000
SECTION 404 OF SARBANES-OXLEY FEES:	
Third party planning, testing & documentation:	\$ 75,000
Audit fees:	\$ 131,000
Internal personnel:	