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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.**

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(Name of Registrant as Specified In Its Charter)

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(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: \_\_\_\_\_
- (2) Aggregate number of securities to which transaction applies: \_\_\_\_\_
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \_\_\_\_\_
- (4) Proposed maximum aggregate value of transaction: \_\_\_\_\_
- (5) Total fee paid: \_\_\_\_\_
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- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount Previously Paid: \_\_\_\_\_
- (2) Form, Schedule or Registration Statement No.: \_\_\_\_\_
- (3) Filing Party: \_\_\_\_\_
- \_\_\_\_\_

(4) Date Filed:

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**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 an amendment to 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); and
2. 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 6, 2009.

**YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED AND RECOMMENDS THAT AN AFFIRMATIVE VOTE BE CAST IN FAVOR OF THE PROPOSAL TO AMEND THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE/FORWARD STOCK SPLIT.**

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 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

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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**

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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?*
- *What happens to stockholders owning less than 750 shares of Common Stock?*
- *What happens to stockholders owning 750 or more shares of Common Stock?*
- *What is the cash consideration to be paid to the Cashed-Out Stockholders?*
- *How is the Reverse/Forward Stock Split approved?*
- *Who can vote at the Special Meeting?*
- *How many votes are required to approve the Reverse/Forward Stock Split?*
- *How can a stockholder vote by proxy?*
- *Can a stockholder change his or her vote after returning the Proxy Card?*
- *How will proxies be solicited?*
- *Does the Board of Directors recommend the Reverse/Forward Stock Split?*
- *What are the federal income tax consequences of the Reverse/Forward Stock Split?*
- *Do stockholders have appraisal rights in connection with the Reverse/Forward Stock Split?*

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- *How is the Reverse/Forward Stock Split effected?*
- *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 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:

<u>If you are a record stockholder with:</u>	<u>Effect:</u>
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 amendment to 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.

***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 6, 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 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."

***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 ( $1/750$ 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 of 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



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.*,  $1.5 \times 750$ ) 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 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 is the Reverse/Forward Stock Split approved?***

The Reverse/Forward Stock Split must be approved by the Company's stockholders. At the Special Meeting, the Company's stockholders will be voting to approve an amendment to the Company's Restated Certificate of Incorporation to effect the Reverse/Forward Stock Split. 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 amendment to the Company's Restated Certificate of Incorporation.

***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 amendment to 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 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 approve the amendment to 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 amendment to 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 amendment to 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.

***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.

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 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.

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- 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?***

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."

### ***How is the Reverse/Forward Stock Split effected?***

If the amendment to 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 AMENDMENT TO 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, the Company's officers and directors currently beneficially own 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 to complete the transaction and may decide to abandon it. 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

(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:

<u>Fees</u>	<u>Cost Savings (\$ per year)</u>
<b>PROFESSIONAL FEES AND RELATED EXPENSES:</b>	
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
<b>SECTION 404 OF SARBANES-OXLEY FEES:</b>	
Third party planning, testing & documentation:	\$ 75,000
Audit fees:	\$ 131,000
Internal personnel:	\$ 120,000
Subtotal:	\$ 326,000
GRAND TOTAL:	\$ 1,069,000

The estimated annual cost savings above reflect, among other things:

- A reduction in auditing and related fees;
- A reduction in legal fees related to securities law compliance;
- The elimination of costs associated with filing periodic reports with the SEC;
- The lower printing and mailing costs attributable to the reduced reporting requirements, and the less complicated and extensive disclosures required as a result of the Company's status as a private company;
- The reduction in management time spent on compliance and disclosure matters attributable to the Company's Exchange Act filings;
- The lower risk of liability that is associated with non-reporting (as distinguished from public reporting) company status and, consequently, reducing premiums for directors and officers liability insurance;
- The elimination of significant costs associated with compliance with Section 404 of Sarbanes-Oxley, including costs related to computer software and hardware and fees to third parties for compliance planning, assessment, documentation, and testing; and
- The reduction in direct miscellaneous clerical and other expenses.

The annual cost savings figures set forth above are only estimates. The actual savings the Company will realize from going private may be higher or lower than such estimates. Estimates of the annual savings to be realized if the Reverse/Forward Stock Split is consummated are based upon (i) the actual costs to the Company of the services and disbursements in each of the categories listed above and (ii) the allocation to each category of management's estimates of the portion of the expenses and disbursements in such category believed to be solely or primarily attributable to the Company's public reporting company status. In some instances, management's cost savings expectations were based on



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information provided by third parties. For example, the Company has been informed by its auditors, informally, that there will be a reduction in auditing fees if the Company ceases to be a public reporting company. In addition, the costs associated with retaining legal counsel to assist with complying with the Exchange Act's reporting requirements will be eliminated if the Company no longer files reports with the SEC and is otherwise not required to comply with the disclosure requirements that apply to public reporting companies.

Pursuant to Section 404 of Sarbanes-Oxley, the Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's Chief Executive Officer and Chief Financial Officer are further required to annually test and evaluate the effectiveness of the Company's disclosure controls and procedures and identify any changes to such controls and procedures that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting. The Company estimates that it incurred \$190,000 in complying with Section 404 of Sarbanes-Oxley in fiscal year 2008, the first year in which the Company was subject to such internal control requirements.

Additionally, the Company's compliance requirements under Section 404 of Sarbanes-Oxley will soon increase. Beginning in fiscal year 2010, the Company will be required to obtain an attestation report from its registered public accounting firm regarding the Company's internal control over financial reporting and include such attestation report in its future annual reports on Form 10-K. This new Section 404 requirement will result in increased accounting fees for the Company. Beginning in fiscal year 2010, management's assessment of the effectiveness of the Company's internal control over financial reporting will also be considered "filed" under the Exchange Act rather than "furnished," meaning that such assessment will subject management to potential personal liability for false or misleading statements under Section 18 of the Exchange Act.

Finally, the Company expects the actual cost savings of becoming a privately-held, non-reporting company to be much greater than simply eliminating the estimated historical out-of-pocket costs above. As a result of the recent downturn in the U.S. economy and the legislative and litigation environment that may result from the current economic environment, the costs of maintaining public company status are expected to continue to increase in the near future. These developments could have the effect of increasing the compliance burdens and potential liabilities of being a public reporting company, increasing audit fees and other costs of compliance such as securities counsel fees, increasing outside director fees, and increasing potential liability faced by the Company's officers and directors.

*Operational Flexibility.* The Board of Directors believes that effecting the Reverse/Forward Stock Split and ceasing to be a public reporting company will enable management to further concentrate its efforts on the long-term growth of the Company's businesses. Due to the public market's emphasis on quarterly results and the short-term impact of such results on the market price of the Company's Common Stock, the Company often is required to focus on short-term goals such as quarterly financial results. This short-term focus can at times come at the expense of management's attention to the Company's longer-term objectives. The Board of Directors believes that a reduced emphasis on short-term performance, as result of going private, may benefit the Company's long-term growth. The Board of Directors also believes that, as a result of going private, the Company will be able to more quickly react and respond to corporate opportunities.

*Inability to Realize Benefits Associated with Public Company Status.* The Company has been unable to fully realize many of the benefits that typically accrue to public companies, including:

- The limited ability to use Company securities, as opposed to cash or other consideration, to effect acquisitions;
- The ability to obtain financing by issuing Company securities in a public offering;
- The ability to use Company securities to attract, retain, and motivate employees; and

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- The ability to enhance Company image by virtue of public company status.

The Company has generally been unable to realize the foregoing benefits due to one or a combination of the following: (i) the limited liquidity and low market price of its Common Stock, and/or (ii) the relatively small size of the Company. In addition, the Company has not recently been an attractive investment for institutional investors due to its current lack of profitability and earnings history.

*Structure.* The Board of Directors has determined that the Reverse/Forward Stock Split is the most expeditious and economical way of liquidating the holdings of smaller stockholders and of changing the Company's status from that of a public reporting company to that of a privately-held, non-reporting company. The Board of Directors has further determined that the reverse stock split ratio should be 1-for-750 and that the forward stock split ratio should be 750-for-1.

The forward stock split, which is scheduled to occur immediately after the reverse stock split, is intended to benefit the Company by preventing its Common Stock from having unusually high values per share, which would tend to decrease the liquidity of shares in the event the Common Stock ends up trading in the Pink Sheets®. Effecting the forward stock split immediately after the reverse stock split would have the added benefit of not requiring the Company to adjust the exercise price of any stock options previously issued by the Company. Additionally, by effecting the forward stock split, the Company would avoid incurring administrative costs to reissue stock certificates. The two step structure of the Reverse/Forward Stock Split will also prevent disruption to holders of 750 or more shares of the Company's Common Stock, who are not being cashed out in the Reverse/Forward Stock Split, by not requiring that these stockholders forward their stock certificates to the Company for replacement.

*Timing.* The Board of Directors has decided to pursue a going private transaction as this time for several reasons. Such reasons include the Board of Directors' determination that the potential annual costs savings described above have reached a point where they could have a significant positive impact on the Company's future operations. Additionally, the Board of Directors considers the benefits of being a privately-held company to now outweigh the benefits of being a publicly-held company, and does not foresee any change in this relationship in the near future.

### ***Effects of the Reverse/Forward Stock Split.***

As soon as practicable after the completion of the Reverse/Forward Stock Split (assuming it is consummated and assuming it results in the Company having less than 300 stockholders of record), the Company intends to voluntarily delist its Common Stock from the Nasdaq Capital Market and apply for termination of the registration of its Common Stock under the Exchange Act. Upon termination of the Company's reporting obligations under the Exchange Act, the Common Stock may be eligible for listing and trading in the Pink Sheets®. However, trading opportunities in the Pink Sheets® will be dependent upon whether any broker-dealers commit to make a market for the Common Stock. The Company cannot guarantee or anticipate whether its Common Stock will be quoted in the Pink Sheets®.

*Effects on Stockholders with Less than 750 Shares of Common Stock.* As a result of the Reverse/Forward Stock Split (assuming it is implemented), each stockholder, whether affiliated or unaffiliated, that owns less than 750 shares of Common Stock immediately before the Reverse/Forward Stock Split (referred to in this Proxy Statement as a "Cashed-Out Stockholder"):

- Will receive cash equal to \$0.36 per share for each share of Common Stock held by such Cashed-Out Stockholder at 5:59 p.m. C.S.T. on the Effective Date of the Reverse/Forward Stock Split, in accordance with the procedures described in this Proxy Statement;

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- Will not have to pay any service charges or brokerage commissions in connection with the Reverse/Forward Stock Split;
- Will not receive any shares, whole or fractional, of Common Stock; and
- Will have no further ownership interest in the Company and will no longer be entitled to vote as a stockholder of the Company.

If you are a stockholder who would otherwise become a Cashed-Out Stockholder as a result of the Reverse/Forward Stock Split, you may elect to continue holding Common Stock after the Reverse/Forward Stock Split and not be cashed out by the Reverse/Forward Stock Split by taking one of the actions specified below. To ensure that your holdings of Common Stock are appropriately adjusted prior to the Reverse/Forward Stock Split, the Company recommends that you take such action so that it has been completed by the close of business on the day immediately preceding the Effective Date. Also be aware that, given the limited trading market for the Common Stock, you may not be able to purchase, at an acceptable price, enough shares to remain a stockholder after the Reverse/Forward Stock Split.

- A. Purchase a sufficient number of additional shares of Common Stock on the open market and have such additional shares registered in your name and consolidated with your current record account (if you are a record holder), or have such additional shares entered in your account with a nominee (if you are a beneficial owner holding shares in street name), so that you will hold at least 750 shares of Common Stock in your record account or relevant nominee account by 5:59 p.m. C.S.T. on the Effective Date of the Reverse/Forward Stock Split; or
- B. If applicable, consolidate your record accounts or relevant nominee accounts so that, together, you hold at least 750 shares of Common Stock in one record account or nominee account by 5:59 p.m. C.S.T. on the Effective Date of the Reverse/Forward Stock Split.

The Company intends to treat stockholders holding less than 750 shares of Common Stock in street name through a nominee (such as a bank or broker) in the same manner as stockholders whose shares are registered in their names. However, nominees may have different procedures and stockholders holding Common Stock in street name should contact their nominees. For example, upon receiving this Proxy Statement, a nominee may notify its beneficial owners of the Reverse/Forward Stock Split and instruct such beneficial owners to complete option A or B above prior to the Effective Date (if they desire to remain a stockholder of the Company after the Reverse/Forward Stock Split) and that otherwise they will be cashed out. The relevant shares calculation (i.e., whether a beneficial owner has 750 or more shares of Common Stock in a single account) will then take place at the street account level rather than the record account level. The nominee would then be responsible for informing the Company of the proper treatment of such nominee's beneficial owners.

*Effects on Stockholders with 750 or More Shares of Common Stock.* As a result of the Reverse/Forward Stock Split (assuming it is implemented), each stockholder of record, whether affiliated or unaffiliated, holding 750 or more shares of Common Stock at 5:59 p.m. C.S.T. on the Effective Date of the Reverse/Forward Stock Split (referred to in this Proxy Statement as a "Continuing Stockholder"):

- Will not receive cash for any portion of such Continuing Stockholder's shares;
- Will not be affected in terms of the number of shares of Common Stock held by such Continuing Stockholder before and after the Reverse/Forward Stock Split;
- Will continue to be entitled to vote as a stockholder of the Company; and
- Will experience a significant reduction in liquidity with respect to the Common Stock.

If you are a stockholder who would otherwise become a Continuing Stockholder as a result of the Reverse/Forward Stock Split, you may elect to cash out your holdings of Common Stock after the

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Reverse/Forward Stock Split and not continue holding Common Stock after the Reverse/Forward Stock Split by taking one of the actions specified below. To ensure that your holdings of Common Stock are appropriately adjusted prior to the Reverse/Forward Stock Split, the Company recommends that you take such action so that it has been completed by the close of business on the day immediately preceding the Effective Date.

- A. Sell a sufficient number of shares of Common Stock on the open market, so that you will hold less than 750 shares of Common Stock in your record account or your relevant nominee account by 5:59 p.m. C.S.T. on the Effective Date of the Reverse/Forward Stock Split; or
- B. Divide your record accounts or nominee accounts so that you do not hold more than 750 shares of Common Stock in any one record account or nominee account by 5:59 p.m. C.S.T. on the Effective Date of the Reverse/Forward Stock Split.

The Company intends to treat stockholders holding 750 or more shares of Common Stock in street name through a nominee (such as a bank or broker) in the same manner as stockholders whose shares are registered in their names. However, nominees may have different procedures and stockholders holding Common Stock in street name should contact their nominees. For example, upon receiving this Proxy Statement, a nominee may notify its beneficial owners of the Reverse/Forward Stock Split and instruct such beneficial owners to complete option A or B above prior to the Effective Date (if they desire to be cashed out as a result of the Reverse/Forward Stock Split) and that otherwise they will remain as stockholders of the Company. The relevant shares calculation (i.e., whether a beneficial owner has less than 750 shares of Common Stock in a single account) will then take place at the street account level rather than the record account level. The nominee would then be responsible for informing the Company of the proper treatment of such nominee's beneficial owners.

*Effects on the Company.* The Company intends to apply for termination of the registration of its Common Stock under Section 12(g) of the Exchange Act as soon as practicable after the Reverse/Forward Stock Split has been approved, the Common Stock has been voluntarily delisted from the Nasdaq Capital Market, and the Reverse/Forward Stock Split has been consummated. The delisting of the Common Stock, together with the reduction in public information concerning the Company as a result of the Company no longer being required to file reports under the Exchange Act, may reduce the liquidity of the Common Stock. As a result, Continuing Stockholders should expect the public market for their shares of Common Stock to be eliminated or, at a minimum, substantially reduced. Trading opportunities in the Pink Sheets® will be dependent upon whether any broker-dealers commit to make a market for the Common Stock. Accordingly, the Company cannot guarantee or anticipate whether its Common Stock will be quoted in the Pink Sheets®.

The Company has no current plans to issue additional Common Stock after the Reverse/Forward Stock Split. However, the Company reserves the right to do so at any time, and from time to time, at such prices and on such terms as the Board of Directors determines to be in the best interests of the Company. Continuing Stockholders will not have any preemptive or other preferential rights to purchase any capital stock that the Company may issue in the future, unless such rights are otherwise specifically granted to the Continuing Stockholders.

The Company also has no current plans to repurchase shares of Common Stock pursuant to an odd-lot repurchase program, private negotiated sale or other transaction. However, the Company reserves the right to do so at any time, and from time to time. Whether or not the Company seeks to purchase shares in the future will depend on a number of factors, including the Company's financial condition, operating results, and available capital at the time.

Finally, the Reverse/Forward Stock Split will have no effect on outstanding options to purchase shares of the Company's Common Stock.

***Alternatives Considered by the Board of Directors.***

In making the determination to proceed with the Reverse/Forward Stock Split, the Board of Directors considered the potential feasibility of certain other strategic alternatives for the Company going forward. These alternatives were outlined by Southwest Securities in its presentation to the Board of Directors on December 10, 2008 (the "Presentation"): (i) maintaining the status quo as a public company; (ii) strategic acquisitions; (iii) sale or merger with a strategic partner; (iv) merger of the Company with a newly formed company owned by a control group; and (v) self-tender or significant shares repurchase by the Company. These alternatives were determined to be either unattractive or not viable, particularly in the context of the multiple benefits potentially afforded by the Reverse/Forward Stock Split. These benefits include the observation by Southwest Securities that the cash demands on the Company to accomplish the Reverse/Forward Stock Split are moderate and predictable. For more detailed discussion of the anticipated benefits of the Reverse/Forward Stock Split, see "SPECIAL FACTORS—Reasons for the Reverse/Forward Stock Split."

***Fairness of the Reverse/Forward Stock Split.***

*In General.* For the reasons discussed below, the Board of Directors reasonably believes the Reverse/Forward Stock Split to be fair to the Company's unaffiliated stockholders, both in terms of its form and the cash consideration being offered. Furthermore, the Board of Directors has unanimously concluded that the Reverse/Forward Stock Split is in the best interests of the Company and is substantively and procedurally fair to the Company's unaffiliated stockholders, regardless of whether such stockholders are classified as Cashed-Out Stockholders or Continuing Stockholders. Such conclusion was based on the fact that the sole determining factor as to whether a stockholder will become a Cashed-Out Stockholder or a Continuing Stockholder as a result of the Reverse/Forward Stock Split is the number of shares of Common Stock held by such stockholder immediately before the Reverse/Forward Stock Split.

*Special Committee.* The Board of Directors appointed three of the Company's Independent Directors (i.e., James H. Wells, Lou Mazzucchelli, and Ray R. Miles) as a Special Committee to consider whether the proposed Reverse/Forward Stock Split would be in the best interests of the Company and would be substantively and procedurally fair to all of the Company's stockholders and, in particular, to evaluate the fairness of the Reverse/Forward Stock Split to the Company's unaffiliated stockholders who would be cashed out as a result of the Reverse/Forward Stock Split. In the opinion of the Board of Directors, considering all relevant facts and circumstances, each member of the Special Committee satisfies the definition of "independent directors" provided in Nasdaq Marketplace Rule 4200(a)(15).

*Factors Considered To Be in Support of Substantive Fairness.* The Special Committee and the Board of Directors reasonably believe that the factors mentioned below, when viewed together, support a conclusion that the Reverse/Forward Stock Split is substantively fair to all unaffiliated stockholders, whether they will be Cashed-Out Stockholders or Continuing Stockholders. The Special Committee and the Board of Directors did not assign specific weight to any factors they considered, nor did they apply them in a formulaic fashion, although they particularly noted the opportunity for Cashed-Out Stockholders to sell their shares at a premium, as well as the significant cost and time savings for the Company resulting from the Reverse/Forward Stock Split, which will benefit Continuing Stockholders.

*Unaffiliated stockholders owning less than 750 shares of Common Stock may sell their shares at a premium.* In connection with the Reverse/Forward Stock Split, the Company retained Southwest Securities to act as financial advisor to the Special Committee and the Board of Directors and to issue an opinion as to the fairness to the Company's stockholders of the financial terms of the proposed Reverse/Forward Stock Split. The Board of Directors determined that the consideration to be paid to unaffiliated stockholders receiving cash in lieu of fractional shares should include a premium over the

current market price of the Common Stock. At the time the proposed Reverse/Forward Stock Split was first publicly announced on January 29, 2009, the \$0.36 cash consideration represented a 89% premium over the closing price for the Common Stock on January 28, 2009 (the most recent practicable date prior to such public announcement), which was \$0.19 per share. The Board of Directors set the cash consideration at \$0.36 because, in the business judgment of the Board of Directors, such price represented fair consideration at a premium to the current market price set forth above, as well as a premium to the historical market prices of the Common Stock over the last three months.

*The cash consideration is fair to the unaffiliated Cashed-Out Stockholders.* The Board of Directors believes the cash consideration above to be fair to the unaffiliated Cashed-Out Stockholders. There are no indications that, without effecting the proposed Reverse/Forward Stock Split, the market price for the Common Stock would meet or exceed such consideration at any time in the foreseeable future. The Board of Directors determined the consideration to be paid in connection with the Reverse/Forward Stock Split to be fair to Cashed-Out Stockholders because such consideration provides a premium above the current market price, and allows Cashed-Out Stockholders to immediately receive the cash value of their investment in the Company (at a premium above the current market price) without having to incur transaction costs. Since the Company will be paying all transaction costs associated with the Reverse/Forward Stock Split, the Reverse/Forward Stock Split presents a cost-effective way for the Cashed-Out Stockholders to liquidate their holdings of Common Stock.

*The Company will accrue significant cost and time savings.* By reducing the Company's number of stockholders of record to less than 300 and deregistering the Common Stock under the Exchange Act, the Company expects to save approximately (i) \$636,000 per year in professional fees and expenses historically incurred in connection with the preparation and filing of reports required by the Exchange Act, (ii) \$107,000 in premiums for directors and officers insurance, and (iii) \$326,000 per year in expenses incurred in connection with compliance with the internal control and audit requirements of Section 404 of Sarbanes-Oxley. The termination of the Company's public reporting obligations will also alleviate a significant amount of time and effort previously required of the Company's management in preparing and reviewing these ongoing reports and filings required of public companies under the Exchange Act.

*All stockholders have the ability to control their decision to remain a stockholder or to liquidate their holdings of Common Stock.* The Board of Directors considers the structure of the Reverse/Forward Stock Split to be fair to unaffiliated stockholders because it gives them the option, exercised in their sole discretion, to either remain a stockholder of the Company after the Reverse/Forward Stock Split (*i.e.*, a Continuing Stockholder) or to receive the cash consideration offered in connection with the Reverse/Forward Stock Split (*i.e.*, a Cashed-Out Stockholder). Current stockholders owning less than 750 shares of Common Stock may elect to remain stockholders of the Company following the Reverse/Forward Stock Split by acquiring additional shares of Common Stock so that they own at least 750 shares of Common Stock immediately before the Reverse/Forward Stock Split. Conversely, stockholders owning 750 or more shares of Common Stock who desire to liquidate their shares in connection with the Reverse/Forward Stock Split at the premium price offered may reduce their holdings to less than 750 shares by selling shares prior to the Reverse/Forward Stock Split.

Generally speaking, there is limited liquidity for the Common Stock. However, there is sufficient liquidity to allow current stockholders owning less than 750 shares of Common Stock to acquire additional shares of Common Stock so that they own at least 750 shares of Common Stock immediately before the Reverse/Forward Stock Split. To illustrate, the largest number of shares such a stockholder would have to buy would be 749 shares (assuming the stockholder currently owns only one share). As of January 28, 2009 the average daily trading volume for the Common Stock over the preceding three months was 55,839 shares. Given this average daily trading volume, there would be more than enough liquidity for a stockholder to acquire 749 shares of Common Stock.

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*There should be no material change in percentage ownership of affiliated stockholders.* All of the Company's affiliated stockholders (i.e., Richard N. Snyder, Nancy L. Harris, James H. Wells, Jay C. Peterson, Kathleen A. Cote, Ray R. Miles, Lou Mazzucchelli, and Richard J. Agnich), which includes all of the Company's Independent Directors (i.e., James H. Wells, Kathleen A. Cote, Lou Mazzucchelli, Ray R. Miles, and Richard J. Agnich), own 750 or more shares of the Common Stock (see "ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT—Interests of Certain Persons in Matters to be Acted Upon") and, therefore, are expected to be Continuing Shareholders. Additionally, there should be no material change in the shareholdings of the Company's affiliated stockholders following completion of the Reverse/Forward Stock Split. To illustrate, the Company's officers and directors currently beneficially own 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.

*There should be no material change in percentage ownership of Continuing Stockholders.* An estimated 1,346,740 out of the 31,111,276 shares of the Common Stock currently issued and outstanding will be eliminated by the Reverse/Forward Stock Split. As a result, the percentage ownership of a Continuing Stockholder, whether affiliated or unaffiliated, after the Reverse/Forward Stock Split should be approximately the same as it was prior to the Reverse/Forward Stock Split. The Company believes that structuring the Reverse/Forward Stock Split in a manner that preserves the approximate percentage ownership of the Continuing Stockholders, as well as the affiliated stockholders, supports the fairness of the Reverse/Forward Stock Split to the unaffiliated stockholders.

*Long-term plan for corporate governance and Company operations.* The Board of Directors has endorsed a long-term plan for corporate governance and Company operations once the Company ceases to be a public reporting company, assuming that the Reverse/Forward Stock Split is approved by the Company's stockholders. Such long-term plan includes the following items: (i) the Company's Independent Directors will continue to constitute a majority of the Board of Directors, 100% of the Company's Audit Committee (which hires, oversees, and determines the compensation of the independent auditors), and 100% of the Company's Compensation Committee (which recommends the annual compensation package for the Company's executive officers to the Board of Directors); (ii) the Board of Directors plans no material change in the current method of calculation of aggregate annual compensation of the Company's executive officers; (iii) the Company plans to continue to engage a highly reputable independent accounting firm to perform annual audits of the Company's financial statements; (iv) the Company plans to continue to distribute to the Company's stockholders an annual report containing such audited financial statements; and (v) the Company plans to continue operations in the same lines of business, with the same levels of overhead, and with the same operational methods, which have proved successful and profitable in the past. The Board of Directors believes that the above actions are consistent with the Company's history of maintaining positive stockholder relations, and are important elements of the Board of Directors' long-term plan for Company operations and its long-term plan to maximize stockholder value.

*The Reverse/Forward Stock Split may avoid potential involuntary delisting from Nasdaq.* On February 4, 2008, the Company received a Nasdaq deficiency letter indicating that, for 30 consecutive business days, the bid price per share of the Company's Common Stock closed below the minimum \$1.00 per share requirement. Therefore, the Company's Common Stock was subject to potential delisting from the Nasdaq Global Market Exchange pursuant to Nasdaq Marketplace Rule 4450(a)(5). The Company was provided 180 calendar days, or until August 4, 2008, to regain compliance by maintaining a share bid price in excess of \$1.00 for ten consecutive business days. The Company worked to regain compliance through improving its operating results, but it was unable to regain compliance with the minimum bid requirement. Consequently, the Company applied for a transfer listing on the Nasdaq Capital Market. Nasdaq approved the application and transferred the Company's securities to the Nasdaq Capital Market, effective September 19, 2008. As a result of this transfer, the

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Company was provided an additional 180 calendar days, beginning from the original August 4, 2008 deadline, or until February 2, 2009, to regain compliance with the minimum \$1.00 share bid price requirement.

Due to unprecedented market conditions, on October 16, 2008, Nasdaq suspended the enforcement of its rules requiring that all Nasdaq-listed companies maintain a minimum bid price and market value of their public float until January 19, 2009. On December 19, 2008, Nasdaq further extended its enforcement suspension to April 20, 2009, which in turn extended the Company's compliance deadline from May 5, 2009 to August 5, 2009. Therefore, if the Company cannot achieve compliance with the minimum share price requirement by August 5, 2009, Nasdaq will provide written notification that the Company's securities 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 Common Stock. If the Company is involuntarily delisted by Nasdaq, rather than by voluntarily delisting in connection with the Reverse/Forward Stock Split, the Company would continue to be subject to the reporting requirements of the SEC. By effecting the Reverse/Forward Stock Split, the Company could terminate its registration, suspend its reporting obligations, and reduce or eliminate its reporting and compliance costs.

### *Factors Considered Not To Be in Support of Substantive Fairness.*

*There should be a substantial reduction or complete elimination of public sale opportunities for the Common Stock.* Following the consummation of the Reverse/Forward Stock Split, the deregistration of the Common Stock under the Exchange Act, and the voluntary delisting of the Common Stock from the Nasdaq Capital Market, the Company anticipates that the public market for its Common Stock will be substantially reduced or eliminated altogether, meaning that the Company's stockholders will likely no longer have an opportunity to sell their shares of Common Stock in a public market. While such shares may be listed in the Pink Sheets®, in all likelihood any current public market for the Common Stock will be highly illiquid after the suspension of the Company's periodic reporting obligations. These factors may have the effect of making it more difficult for unaffiliated stockholders to sell their shares of Common Stock and may also have the result of reducing the price that a potential buyer may pay for such shares.

*There will be a reduction of publicly available information.* Upon terminating the registration of the Common Stock under the Exchange Act, the Company's duty to file periodic reports with the SEC will be suspended, meaning that new information regarding the Company's operations and financial results (which is currently available to investors and the general public) will no longer be publicly available. Thereafter, investors seeking information about the Company will have to contact the Company directly to receive such information. In such event, the Company may or may not provide investors with such requested information, subject to the requirements of the DGCL. In addition, certain provisions of the Exchange Act, including proxy statement disclosures in connection with stockholder meetings and related requirements of annual reports to stockholders, will no longer apply to the Company. The Board of Directors acknowledges that there are circumstances in which such termination of publicly available information may be disadvantageous to the Company's stockholders. However, the Board of Directors believes that the overall benefits to the Company of no longer being a public reporting company substantially outweigh such disadvantages to the Company's stockholders.

Unaffiliated stockholders will still be entitled to information regarding the Company in accordance with the DGCL. Specifically, the DGCL authorizes stockholders, upon giving the Company written notice, to inspect and copy certain corporate documents at the Company's principal office during usual business hours, such as organizational documents, stock ledgers, minutes of stockholder meetings, written communications to the stockholders, and other books and records.



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*There may be a significant decline in the value of the Common Stock.* Given the factors described under the two immediately preceding paragraphs, Continuing Stockholders may experience a significant decrease in the value of their shares of Common Stock.

*Cashed-Out Stockholders will be unable to participate in any future increases in value of the Common Stock.* After the Reverse/Forward Stock Split, Cashed-Out Stockholders will have no further financial interest in the Company with respect to their Cashed-Out Shares, and thus will not have the opportunity to participate in the potential appreciation in the value of such shares. However, the Board of Directors has determined that this factor does not make the Reverse/Forward Stock Split unfair to unaffiliated stockholders given their options to remain as stockholders of the Company after the Reverse/Forward Stock Split.

*Continuing Stockholders will lose some protections afforded by the Company's SEC filing requirements.* After the Company terminates the registration of its Common Stock with the SEC, the restrictions on short-swing transactions by executive officers and directors under Section 16 of the Exchange Act will no longer apply to the Company. In addition, the executive officers and directors will no longer be subject to potential liability for false or misleading statements under Section 18 of the Exchange Act. Furthermore, the Company will no longer be subject to certain provisions of Sarbanes-Oxley, including the requirement that the chief executive officer and chief financial officer certify the accuracy of the Company's financial statements.

*Going private may affect the Company's current and prospective customers and business partners.* The Company could have a lower public profile as a result of taking the Company private, which may be a negative factor for some of the Company's current and prospective customers. Additionally, future business partners may require additional information about the Company before entering into a business relationship due to the lack of new publicly available information about the Company.

*The Company's SEC filing requirements could be reinstated.* The filing of a Form 15 with the SEC following consummation of the Reverse/Forward Stock Split will result in the suspension but not the termination of the Company's filing obligations under the Exchange Act. This suspension remains in effect so long as the Company has fewer than 300 stockholders of record on the first day of each subsequent fiscal year. If, on the first day of any fiscal year subsequent to the time the Form 15 becomes effective, the Company has 300 or more stockholders of record, then the Company must resume reporting pursuant to Section 15(d) of the Exchange Act by filing an Annual Report on Form 10-K for the preceding fiscal year within 120 days after the end of such fiscal year.

*Procedural Fairness.* The Board of Directors believes that the Reverse/Forward Stock Split is procedurally fair to both Cashed-Out Stockholders and Continuing Stockholders, whether they are affiliated or unaffiliated, due to the following:

- The Reverse/Forward Stock Split is being effected in accordance with all applicable requirements of the Company's organizational documents and Delaware law.
- The Reverse/Forward Stock Split has been unanimously approved by the members of the Special Committee and the Board of Directors.
- The Reverse/Forward Stock Split is being submitted to a vote of, and is subject to the approval of, the Company's stockholders.
- Other than the expressed intent of the Company's directors and executive officers to vote their shares of Common Stock for the Reverse/Forward Stock Split, the Company has not obtained any prior assurances from any of its stockholders regarding the vote on the Reverse/Forward Stock Split.

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- Between the date of this Proxy Statement and the Effective Date of the Reverse/Forward Stock Split, all of the Company's stockholders will have an opportunity to adjust the number of shares of Common Stock they will own as of such Effective Date. Accordingly, stockholders who would otherwise become Cashed-Out Stockholders can become Continuing Stockholders, and stockholders who would otherwise become Continuing Stockholders can become Cashed-Out Stockholders prior to the Effective Date.

*Approval of Unaffiliated Stockholders.* The Reverse/Forward Stock Split has not been structured so as to require the separate approval of a majority of the Company's unaffiliated stockholders. Furthermore, the DGCL does not require such approval in order to effect an amendment to a Delaware corporation's certificate of incorporation (see "VOTING RIGHTS AND VOTE REQUIRED"). However, the Company's affiliated stockholders own less than 3% of the outstanding shares of Common Stock and the Reverse/Forward Stock Split requires the approval of a majority of all the shares of Common Stock outstanding. Additionally, if the Reverse/Forward Stock Split is not approved as provided in the section of this Proxy Statement entitled "VOTING RIGHTS AND VOTE REQUIRED," then, as a matter of Delaware corporate law, the going private transaction will not go forward.

*Unaffiliated Representative.* The Company has not retained an unaffiliated representative to act solely on behalf of the Company's unaffiliated stockholders for the purpose of negotiating the terms of the Reverse/Forward Stock Split or preparing a report covering the fairness of the Reverse/Forward Stock Split, nor have special provisions been made to grant unaffiliated stockholders access to the corporate files or to obtain counsel or appraisal services. The Board of Directors established the Special Committee and retained Southwest Securities to consider possible alternatives to the Reverse/Forward Stock Split, the related advantages and disadvantages to the Company and its stockholders of each of those alternatives, the fairness of the price to be paid to Cashed-Out Stockholders, and to make a recommendation to the Board of Directors concerning the advisability of the alternatives considered. The Board of Directors believes that its appointment of the Special Committee, whose members are each independent within the meaning of Nasdaq Marketplace Rule 4200(a)(15), and its retention of Southwest Securities sufficiently protect the interests of unaffiliated stockholders. In addition, the Special Committee and the Board of Directors took note of the fact that the interests of unaffiliated stockholders inherently varied depending upon whether any particular unaffiliated stockholder held more or less than 750 shares of Common Stock. The Board of Directors believes that separate representatives and advisors for each of these classes would have provided no measurable additional protection to unaffiliated stockholders.

*Cash Consideration.* The Board of Directors believes that it has a fiduciary responsibility to all Company stockholders, both Cashed-Out Stockholders and Continuing Stockholders, and whether affiliated or unaffiliated. It further believes that paying excessive consideration to the Cashed-Out Stockholders in connection with the Reverse/Forward Stock Split would not be fair to the Continuing Stockholders and, conversely, that paying inadequate consideration would not be fair to the Cashed-Out Stockholders. In upholding its fiduciary responsibility to all Company stockholders, the Board of Directors reviewed and considered the terms, alternatives, and effects of the Reverse/Forward Stock Split as to each of the Cashed-Out Stockholders, the Continuing Stockholders, and the Company.

In determining the cash consideration to be paid to Cashed-Out Stockholders in connection the Reverse/Forward Stock Split, the Board of Directors factored in the Common Stock's current and recent historical market prices. The Board of Directors also considered market premiums paid by other issuers in going private transactions (particularly during the post—Sarbanes-Oxley period), as contained in compilations of publicly available information. Finally, it considered the recommendations of the Special Committee and the analyses and opinions of Southwest Securities set forth in the Presentation and Fairness Opinion. See "SPECIAL FACTORS—Fairness Opinion of Southwest Securities" and

"SPECIAL FACTORS—Fairness of the Reverse/Forward Stock Split—Deliberations and Recommendation of the Board of Directors."

*No Firm Offers.* The Special Committee and the Board of Directors are not aware of any firm offers during the past two years by any unaffiliated person for the merger or consolidation of the Company, the sale or other transfer of all or any substantial part of the assets of the Company, or a purchase of our shares of common stock or other securities that would enable the holder to exercise control of the Company.

***Fairness Opinion of Southwest Securities.***

*Summary of Fairness Opinion and Presentation.* The Board of Directors retained Southwest Securities to act as exclusive financial advisor to the Special Committee and the Board of Directors and requested that Southwest Securities evaluate the fairness, from a financial point of view, of the Reverse/Forward Stock Split. On December 10, 2008, at a meeting of the Board of Directors, Southwest Securities delivered a report and oral opinion, along with the Presentation, to the effect that, as of the date of the Presentation and based upon and subject to the matters stated in the Presentation, the Reverse/Forward Stock Split with fractional share consideration of between \$0.35 and \$0.40 per share would be fair, from a financial point of view, to the holders of the Company's Common Stock. The oral opinion was confirmed by delivery of the Fairness Opinion on January 29, 2009. The cash consideration to be paid to the Cashed-Out Stockholders was determined by the Board of Directors and is based, in part, on the Fairness Opinion. The Board of Directors did not expressly provide any instructions to, or place any limitations on, Southwest Securities beyond those instructions and limitations reflected in the Fairness Opinion and Presentation.

The Fairness Opinion and the Presentation will be made available for inspection and copying during ordinary business hours at the Company's executive offices located at 108 Wild Basin Road, Austin, Texas 78746 by any interested stockholder of the Company or any representative designated by the stockholder in writing. Upon written request, the Company will furnish a copy of the Fairness Opinion and the Presentation to any interested stockholder of the Company, or any representative designated by the stockholder in writing, at the expense of the requesting stockholder. Southwest Securities consented to the filing of the Presentation with the Company's Transaction Statement and the filing of the Fairness Opinion with this Proxy Statement. The Fairness Opinion is attached as Appendix 2 to this Proxy Statement, and the Presentation is attached as Exhibit (c)(1) to the Company's Transaction Statement on Schedule 13E-3 filed with the SEC on January 30, 2009.

The preparation of Southwest Securities Fairness Opinion and Presentation was a complex process and is not necessarily susceptible to partial analysis or summary description. Nevertheless, the following is a brief summary of the Fairness Opinion and the Presentation, and subject to the assumptions, qualifications and limitations set forth therein, that the cash consideration to be paid in the proposed going private transaction and Reverse/Forward Stock Split is fair, from a financial point of view, to the Company's stockholders, including the Cashed-Out Stockholders who will receive cash consideration for their shares, as well as the Continuing Stockholders who will remain stockholders after the proposed Reverse/Forward Stock Split and who will not receive cash consideration for their shares.

**The summary of the Fairness Opinion and Presentation set forth below is qualified in its entirety by reference to such documents. Company stockholders are urged to, and should, read the Fairness Opinion and Presentation carefully in their entirety for a complete statement of the considerations and procedures followed, factors considered, findings, assumptions and qualifications made, the bases for and methods of arriving at such findings, limitations on the review undertaken in connection with the Fairness Opinion and Presentation, and judgments made or conclusions undertaken by Southwest Securities in reaching its opinion therein.**

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The Fairness Opinion and Presentation were furnished for the use and benefit of the Special Committee and the Board of Directors in connection with their consideration of the proposed going private transaction and Reverse/Forward Stock Split. The opinion of Southwest Securities was not intended to be, and does not constitute, a recommendation to any stockholder as to how such stockholder should vote with respect to the proposed going private transaction. Southwest Securities believes, and so advised the Special Committee and the Board of Directors, that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all factors and analyses, could create an incomplete view of the process underlying its analyses and opinions.

The opinion of Southwest Securities addresses only the fairness, from a financial point of view, of the cash consideration to be paid in the Reverse/Forward Stock Split to the Company's stockholders, including stockholders who will receive such consideration in the transaction, as well as those who will remain stockholders after the proposed Reverse/Forward Stock Split. Southwest Securities was not requested to opine as to, and its opinion does not address:

- the underlying business decision of the Board of Directors, the Special Committee, the Company or its stockholders or any other party to proceed with or effect the going private transaction;
- the fairness of any portion or aspect of the going private transaction not expressly addressed in its opinion;
- the fairness of any portion or aspect of the going private transaction to the holders of any class of securities, creditors or other constituencies of the Company, or any other party other than those set forth in its opinion;
- the relative merits of the going private transaction as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage;
- the tax or legal consequences of the proposed going private transaction to either the Company, its stockholders, or any other party;
- the fairness of any portion or aspect of the going private transaction to any one class or group of the Company's or any other party's stockholders vis-à-vis any other class or group of the Company's or such other party's stockholders;
- how any stockholder should act or vote, as the case may be, with respect to the going private transaction; or
- the solvency, creditworthiness, or fair value of the Company or any other participant in the going private transaction under any applicable laws relating to bankruptcy, insolvency, or similar matters.

Furthermore, no opinion, counsel or interpretation was intended with respect to matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice.

In connection with its opinion, Southwest Securities made such reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Among other things, Southwest Securities has:

- (1) Reviewed a draft of this Proxy Statement;
- (2) Reviewed and analyzed certain publicly available financial and other data with respect to the Company and certain other relevant historical operating data relating to the Company made available to Southwest Securities from published sources and from the internal records of the Company;

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- (3) Conducted discussions with members of the senior management of the Company with respect to the business prospects and financial outlook the Company;
- (4) Visited certain facilities and the business offices of the Company;
- (5) Reviewed current and historical market prices and trading activity of the Common Stock;
- (6) Compared certain financial information for the Company with similar information for certain other companies, the securities of which are publicly traded;
- (7) Reviewed the financial terms, to the extent publicly available, of selected precedent transactions which Southwest Securities deemed generally comparable to the Company and the Reverse/Forward Stock Split; and
- (8) Conducted such other financial studies, analyses and investigations and considered such other information as they deemed appropriate.

In rendering its opinion, Southwest Securities relied upon and assumed, without independent verification, the accuracy and completeness of all data, material, and financial, legal, tax, operating and other information (including, without limitation, the financial statements and related notes thereto of the Company) furnished or otherwise made available to them, discussed with them or reviewed by them, and did not assume responsibility for such information. Southwest Securities did not assume any responsibility to perform, and did not perform, an independent evaluation, physical inspection, or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, and was not furnished with any such valuations or appraisals. Additionally, Southwest Securities did not undertake any independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company is or may be a party or is or may be subject, or of any governmental investigation or any possible unasserted claims or other contingent liabilities to which the Company is or may be a party or is or may be subject. Southwest Securities also assumed that the going private transaction will be consummated in a timely manner and in accordance with applicable corporate law and the terms described in the draft Proxy Statement reviewed by it, without any regulatory restrictions, conditions, amendments or modifications. Southwest Securities also assumed in its opinion that the Proxy Statement will be identical in all material respects to the latest available draft reviewed by Southwest Securities; that the going private transaction will be consummated in a timely manner and in accordance with the terms set forth in the Proxy Statement without waiver, modification, or amendment of any material term, condition or agreement; and that all governmental, regulatory, and other consents and approvals necessary for the consummation of the going private transaction will be obtained without any material adverse effect on the Company or on the contemplated benefits of the going private transaction.

With respect to the data and discussions relating to the business prospects and financial outlook of the Company, Southwest Securities assumed that the financial analyses and forecasts provided to it were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company, and that the Company will perform substantially in accordance with such financial analyses and forecasts. Southwest Securities further relied on the assurances of members of senior management of the Company that they are unaware of any facts that would make such business prospects and financial outlooks incomplete or misleading.

Southwest Securities' opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion. Southwest Securities did not undertake, and is under no obligation, to update, revise, reaffirm or withdraw its opinion, or otherwise comment on or consider events occurring after the date of its opinion.

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*Summary of Financial Analyses Performed by Southwest Securities.* Southwest Securities performed the valuation analysis contained in its opinion without regard to the actual transaction price, but knowing that the price would ultimately be based within some reasonable range of its current trading price. Ultimately, the Board of Directors determined the method for determining the transaction price, which transaction price is within the range of values concluded by Southwest Securities.

In arriving at its opinion, in addition to reviewing the matters listed above, Southwest Securities used the following approaches to evaluate the fairness, from a financial point of view, of the consideration to be paid in the Reverse/Forward Stock Split:

- a historical trading price approach;
- a selected comparable public companies approach;
- a precedent transaction approach including both an analysis of going private transactions and selected merger and acquisition transactions;
- a discounted cash flow approach; and
- a liquidation analysis approach.

Southwest Securities calculated the Company's implied equity market value by multiplying the recent Common Stock price of \$0.21 per share as of December 5, 2008, by the common shares outstanding of 31,108,839 and determined the implied equity market value to be \$6.5 million. Then Southwest Securities calculated the implied enterprise value of the Company, which is defined as equity market value plus book value of debt plus preferred stock minus cash and equivalents, to be approximately *negative* \$7.3 million.

*Historical Trading Price Approach.* Because the Company's Common Stock is publicly traded, Southwest Securities considered the per share value ascribed to it by public markets. Accordingly, Southwest Securities analyzed the Company's historical Common Stock price, trading volume, level of institutional ownership and analyst coverage relative to other companies in similar industries. On December 5, 2008, the Company's Common Stock closed at a price of \$0.21 per share. Almost half of the trading volume in the last 12 months has been below \$0.50 per share. The public market share price has closed below the Company's cash and cash equivalents per share value in six of the previous ten quarters. Additionally, the Company is not actively followed by security analysts and has less than 13% of its outstanding shares held by institutional investors. In performing its fundamental valuation, Southwest Securities considered the Company's publicly traded price per share as one indication of value among several others analyzed and described in this Proxy Statement.

*Comparable Public Companies Approach.* This analysis provides an indication of value expressed as a multiple of operating and financial metrics (such as revenues or earnings before interest, taxes, depreciation and amortization, or EBITDA) of comparable publicly traded companies. Neither Southwest Securities nor management were able to identify any public companies that provide the limited suite of software products and services that the Company provides. Most of the Company's direct competitors are smaller, private companies. Thus, the comparable companies were selected by Southwest Securities from the broader universe of publicly traded companies in the Enterprise Application Software and Software-as-a-Service (SaaS) industries. Southwest Securities determined that none of the Enterprise Application and SaaS industry companies identified for this analysis was sufficiently similar to the Company in size, capital structure and/or overall business model to draw useful conclusions as to the implied value of the Company. Using publicly available information and information provided by the Company, Southwest Securities analyzed, among other things, the market multiples of the Company and the corresponding market multiples of selected publicly traded companies, as identified below, that Southwest Securities considered to be somewhat comparable to the Company.

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Concur Technologies, Inc.	Taleo Corp.
Deltek, Inc.	UCN Inc.
Epicor Software Corp.	Ultimate Software Group Inc.
SuccessFactors, Inc.	Vertical Computer Systems

Southwest Securities noted the Company's financial condition and historical financial results generally show continued operating losses, negative cash flow from operations, and significant operating lease liabilities.

In its analysis, Southwest Securities derived and compared multiples for the Company (based on trading prices of the Company's Common Stock prior to December 5, 2008), and a range of multiples for the selected companies and noted that the Company has a negative enterprise value based on the public market price per share. Southwest Securities analyzed the enterprise value/revenues and market capitalization/tangible book value multiples calculated for the selected comparable companies and based on these results and an assessment of various qualitative and quantitative operating and financial characteristics of the comparable companies, Southwest Securities estimated multiple ranges.

This approach did not yield highly relevant comparable data because, due to the Company's significant operating losses, the only multiple comparisons that could be generated were based on revenues and tangible book value, which do not reflect the associated profitability of the comparable companies or recognize the significant losses incurred by the Company.

*Precedent Reverse Split Going Private Transactions Approach.* Southwest Securities reviewed recent going private transactions effected by means of a reverse stock split and analyzed the premiums paid in these transactions relative to the closing price of the underlying common stock prior to the announcement of the transaction. The median premiums observed for the one, 30, 60, 90, and 120-day periods were as follows:

<u>Average Price Per Share</u>	<u>Recent Prices</u>	<u>Median Premium</u>	<u>Implied Price</u>
Price at 12/5/08	\$0.21	25.0%	\$ 0.26
30-Day Average	\$0.20	22.8%	\$ 0.25
60-Day Average	\$0.23	20.9%	\$ 0.28
90-Day Average	\$0.27	19.4%	\$ 0.32
120-Day Average	\$0.30	24.4%	\$ 0.37

Southwest Securities observed that the range of implied equity prices per share based on the median premiums paid in the precedent reverse split transactions ranged from a high of \$0.37 to a low of \$0.25 with a mean and median of \$0.30 and \$0.28, respectively.

*Precedent Merger and Acquisition Transactions Approach.* Southwest Securities reviewed merger and acquisition transactions in the Enterprise Application Software and SaaS industries that it deemed somewhat comparable to the Company. Southwest Securities noted that none of the target companies used in this analysis (with the partial exception of iEmployee which was acquired by the Company) were identical to the Company and while these companies were generally in the industry categories of the Company most were not comparable in size, capital structure and/or overall business

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model. It selected these transactions by searching SEC filings, analyst reports and industry databases. These comparable merger and acquisition transactions are set forth below:

<u>Acquirer</u>	<u>Target</u>
NextGen Healthcare Information Systems, Inc.	Practice Management Partners, Inc.
Taleo Corp.	Vurv Technology Inc.
Concur Technologies, Inc.	H-G Holdings
Asure Software, Inc.	iEmployee
Hellman & Friedman Capital Partners	Kronos, Inc.
Infor Global Solutions, Inc.	Workbrain Corporation
Taleo Corp.	JobFlash, Inc.
BPO Management Services, Inc.	Human Resource MicroSystems, Inc.
Concur Technologies, Inc.	Outtask, Inc.

This approach did not yield highly relevant comparable data because, due to the Company's significant operating losses, the only multiple comparisons that could be generated were based on revenues and tangible book value, which do not reflect the associated profitability of the comparable transactions or recognize the significant losses incurred by the Company.

*Discounted Cash Flow Approach.* Southwest Securities performed a discounted cash flow analysis for the Company in which it calculated the present value of the projected future cash flows using the Company management's projections for the fiscal years 2009 through 2013.

Southwest Securities estimated a range of enterprise values for the Company based on the net present value of the Company's implied annual unlevered cash flows and a terminal value in 2013 calculated based upon a multiple of EBITDA. Southwest Securities applied a range of discount rates of 18.0% to 21.0% and a range of terminal value multiples of 10.0x to 13.0x of projected 2013 EBITDA. Projected unlevered cash flow numbers for the Company for the fiscal years 2009 to 2013 are *negative* \$8.4 million, *negative* \$2.1 million, *negative* \$1.5 million, *negative* \$0.8 million and \$99,000, respectively. Based on the ranges of discount rates and terminal EBITDA multiples set forth above, the implied equity values for the Company were in a range of \$0.26 per share and \$0.29 per share. Southwest Securities did not independently verify the completeness or accuracy of the financial forecasts and other information provided by the Company's management and assumed such forecasts and information were reasonably prepared by the Company's management and reflect the best currently available estimates as to the future financial performance of the Company. The implied equity values were divided by the common shares outstanding of 31,109,000 in this analysis.

Southwest Securities noted that the appropriate discount rate should be the rate of return available on alternative investment opportunities with comparable risk. This should be the rate that investors expect their investments to earn on equity to induce them to make the investment. Based on its analyses, Southwest Securities calculated the weighted average costs of capital of the comparable companies' stock which resulted in a mean discount rate of 19.1% and a median discount rate of 20.5%. The 10.0x-13.0x range of EBITDA multiples used in the discounted cash flow approach reflected the range of multiples that Southwest Securities observed for the comparable companies. Although discounted cash flow analysis is a widely accepted and practiced valuation methodology, it relies on a number of assumptions, including growth rates, terminal multiples and discount rates. The valuation derived from the discounted cash flow analysis is not necessarily indicative of the Company's present or future value or results.

*Liquidation Analysis Approach.* Southwest Securities derived an implied equity reference range for the Company by performing a liquidation analysis based on internal estimates of the management of the Company. The analysis was based on an assessment of the liquidation value of balance sheet assets net of liabilities of the Company. The analysis assumed no federal tax impact. Based on certain ranges within this analysis, the implied high and low equity values for the Company



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were in a range of *negative* \$7.9 million to positive \$7.4 million. When the implied equity values were divided by the common shares outstanding of 31,109,000 this analysis resulted in the following implied per share equity range for the Company:

Implied Equity Values  
Per Share  
\$0.24—\$(0.25)

*Miscellaneous Considerations.* No single company or transaction used in the above analyses, as a comparison, is identical to the Company or the proposed Reverse/Forward Stock Split, and an evaluation of the results of the foregoing analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, businesses, or transactions analyzed. The analyses were prepared solely for purposes of Southwest Securities providing an opinion as to the fairness, from a financial point of view, of the cash consideration to be paid in the Reverse/Forward Stock Split and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty.

The preparation of a fairness opinion is a complex process that involves the application of subjective business judgments in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Several analytical approaches were used by Southwest Securities and no one method of analysis should be regarded as critical to the overall conclusion reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular approaches. The overall conclusions of Southwest Securities were based on all the analyses and factors described above taken as a whole and also based on Southwest Securities' experience and judgment. These conclusions may involve significant elements of subjective judgment and qualitative analysis. Southwest Securities therefore believes that its analyses must be considered as a whole and that selecting portions of the analyses and of the factors considered, without considering all factors and analyses, could create an incomplete or misleading view of the processes underlying its opinion.

In connection with its analyses, Southwest Securities made, and was provided by the Company's management with, numerous assumptions with respect to industry performance, general business and economic conditions and other matters many of which are beyond the Company's control. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the Company, neither the Company nor Southwest Securities nor any other person assumes responsibility if future results or actual values are materially different from these forecasts or assumptions. In addition, Southwest Securities has not been engaged to consider, and has expressed no opinion as to the effect of any possible changes in the assumptions or subsequent transactions as of the date of this Proxy Statement from those described to Southwest Securities in connection with the delivery of its Fairness Opinion.

*Conclusion.* Based on its experience as an investment bank and subject to the various assumptions and limitations set forth in its Fairness Opinion, Southwest Securities concluded in its Fairness Opinion that, as of the date of the Fairness Opinion, the cash consideration to be paid to Cashed-Out Stockholders in lieu of fractional shares in the Reverse/Forward Stock Split is fair, from a financial point of view, to both the stockholders that will receive such consideration and the stockholders that will not receive such consideration.

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*Engagement of Southwest Securities.* The Board of Directors selected Southwest Securities to render its Fairness Opinion based on the experience of Southwest Securities in mergers, acquisitions, going private transactions and in securities valuation generally. Southwest Securities is a nationally recognized investment banking firm that is continuously engaged in providing financial advisory services and rendering fairness opinions in connection with mergers and acquisitions, leveraged buyouts, and business and securities valuations for a variety of regulatory and planning purposes, recapitalizations, financial restructuring and private placements of debt and equity securities.

Southwest Securities has received \$100,000 in connection with delivering its Fairness Opinion. Southwest Securities has not received any other fees for financial advisory or investment banking services from the Company or its affiliates in the last two years. Southwest Securities has provided financial advisory services to the Company in the past for which it received customary industry standard fees. Southwest Securities may provide other services to the Company in the future, for which it may receive a fee. No portion of the fee paid to Southwest Securities is contingent on the completion of the proposed going private transaction or the conclusions set forth in its Fairness Opinion. In addition, and regardless of whether the proposed going private transaction is completed, Southwest Securities is entitled to reimbursement from the Company of its reasonable out-of-pocket expenses incurred in connection with its services, including its reasonable attorneys' fees and related expenses, as well as indemnification against certain liabilities and expenses related to or arising in connection with the rendering of its services, including liabilities under the federal securities laws.

***Deliberations and Recommendation of the Board of Directors.***

The Board of Directors reached its conclusions regarding the advisability of the Reverse/Forward Stock Split after an evaluation process chronologically summarized below:

Given the various factors described in this Proxy Statement, such as the Company's current stock price, the potential involuntary delisting of the Company's Common Stock from the Nasdaq Capital Market, and the escalating reporting and compliance costs associated with the Company's status as a publicly-held reporting company, the Company's management decided to bring the possibility of a going private transaction to the attention of the Board of Directors in the fall of 2008.

On October 16, 2008, the Board of Directors held a special meeting, by telephone, attended by five of the Company's six directors: Richard N. Snyder, Chairman of the Board of Directors, James H. Wells, Ray R. Miles, Kathleen A. Cote, and Lou Mazzucchelli (Richard J. Agnich was not in attendance). Also in attendance were Jay Peterson and Nancy Harris of the Company and Mark G. Johnson of the law firm of Winstead PC, the Company's general corporate legal counsel. Several agenda items were discussed at the meeting, including a discussion by Chairman Snyder of the Company's various options on a going forward basis, one option being the possibility of pursuing a going private transaction. Chairman Snyder generally advised the Board of Directors regarding the difficulties in pursuing such a transaction without additional information regarding the underlying considerations and procedures. Accordingly, the Board of Directors instructed management to further explore this possibility and to consider engaging an investment bank to assist in such process. Shortly thereafter, the Company's management recommended Southwest Securities to the Board of Directors.

On November 19, 2008, the Board of Directors held a special meeting, by telephone, attended by all six of the Company's directors: Richard N. Snyder, Chairman of the Board of Directors, James H. Wells, Ray R. Miles, Kathleen A. Cote, Richard J. Agnich, and Lou Mazzucchelli. Also in attendance were Jay Peterson and Nancy Harris of the Company, Mark G. Johnson of Winstead PC, and Richard L. Davis of Southwest Securities. Several agenda items were discussed at the meeting, including a detailed presentation by Mr. Davis regarding going private transactions. Following the presentation, the Board of Directors asked Mr. Davis a series of questions pertaining to his presentation and engaged in a thorough discussion of the topic. The Board of Directors then instructed management to continue to

explore with Southwest Securities the possibility of going private, with the objective of presenting the Board of Directors with an update and, possibly, a proposal for going private at the next meeting of the Board of Directors.

On December 10, 2008, the Board of Directors held a special meeting, in person, attended by five of the Company's six directors: Richard N. Snyder, Chairman of the Board of Directors, James H. Wells, Ray R. Miles, Richard J. Agnich, and Lou Mazzucchelli (Kathleen A. Cote was not in attendance). Also in attendance were Jay Peterson and Nancy Harris of the Company, Mark G. Johnson of Winstead PC, and representatives of Southwest Securities. Although other matters were discussed, the primary intent of the meeting was to discuss a possible going private transaction in the context of the Company's future direction. First, Chairman Snyder noted that the Board of Directors had previously retained Southwest Securities and appointed the members of the Special Committee. Second, Southwest Securities gave a detailed presentation on the advantages and disadvantages of going private, on the economics of going private at it relates particularly to the Company, and on the logistics and timing for going private. As part of this report, Southwest Securities delivered an oral opinion to the effect that, as of the date of the report and based upon and subject to the matters stated in the report, the Reverse/Forward Stock Split with fractional share consideration of between \$0.35 and \$0.40 per share would be fair, from a financial point of view, to the holders of the Company's Common Stock. The presentation by Southwest Securities was followed by a full discussion between the Board of Directors and representatives of Southwest Securities, who were subsequently excused from the meeting. Third, the Board of Directors, including the members of the Special Committee, internally discussed the going private transaction in further detail. Among other discussion points, the Board of Directors noted that the Company does not currently enjoy any meaningful benefit from being a public reporting company. Fourth, the Special Committee formally recommended that the Board of Directors specifically consider a going private transaction by a reverse/forward stock split. Finally, after a full discussion of the recommendation, the Board of Directors voted unanimously to proceed with further analysis of such proposed going private transaction.

On January 28, 2009, the Board of Directors held a special meeting, by telephone, attended by all six of the Company's directors: Richard N. Snyder, Chairman of the Board of Directors, James H. Wells, Ray R. Miles, Kathleen A. Cote, Richard J. Agnich, and Lou Mazzucchelli. Also in attendance were Jay Peterson of the Company, Mark G. Johnson and Justin A. Hoover of Winstead PC, and Richard L. Davis of Southwest Securities. First, the Special Committee presented its final recommendations to the Board of Directors for the Reverse/Forward Stock Split, namely fractional share consideration of \$0.36 per share and a reverse split ratio of 1-for-750. Among other things, the Board of Directors noted the significant premium represented by such fractional share consideration over the current market price for the Common Stock and the likelihood of reducing the Company's number of stockholders of record to less than 300 as a result of such reverse split ratio. Second, the Board of Directors discussed the form of a preliminary Proxy Statement and Schedule 13E-3 previously circulated by the Company's executive officers. Third, the Board of Directors unanimously (i) approved the Reverse/Forward Stock Split at a fractional share consideration of \$0.36 per share; (ii) approved the issuance of a press release with respect to the Reverse/Forward Stock Split and the filing of a Form 8-K (attaching the press release as an exhibit); (iii) approved the form of a preliminary Proxy Statement and a Schedule 13E-3; and (iv) resolved that, with the assistance of counsel, such preliminary Proxy Statement and Schedule 13E-3 be finalized and filed with the SEC by the executive officers of the Company.

Based upon its review of the Fairness Opinion and the Presentation, its discussions with Southwest Securities and independent legal counsel, the recommendation of the Special Committee, and its own evaluation of those and other factors, the Board of Directors unanimously determined that the Reverse/Forward Stock Split is in the best interests of the Company and is fair, substantively and procedurally, to the Company's unaffiliated stockholders, regardless of whether such stockholders are classified as Cashed-Out Stockholders or Continuing Stockholders.

## ADDITIONAL INFORMATION REGARDING THE REVERSE/FORWARD STOCK SPLIT

### *Material Federal Income Tax Consequences.*

The following discussion is a summary of certain United States federal income tax consequences relating to the Reverse/Forward Stock Split. It does not purport to be a complete discussion or analysis of all potential tax consequences which may apply to the Company and its stockholders, and it is not intended as tax advice to any person or entity. ACCORDINGLY, YOU ARE STRONGLY URGED TO CONSULT YOUR OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF THE PROPOSED REVERSE/FORWARD STOCK SPLIT, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS.

In reviewing this discussion of federal income tax consequences, please be advised of the following:

- This disclosure only addresses the United States federal income tax consequences to stockholders (both Cashed-Out Stockholders and Continuing Stockholders) who hold their shares of Common Stock as a capital asset.
- This disclosure does not address all of the federal income tax consequences that may be relevant to particular stockholders based upon their individual circumstances or to stockholders who are subject to special rules, such as financial institutions, tax-exempt organizations, insurance companies, dealers in securities, foreign holders, or holders who acquired their shares pursuant to the exercise of employee stock options or otherwise as compensation.
- This disclosure is based upon the United States Internal Revenue Code of 1986, as amended (the "Code"), and the laws, regulations, rulings, and decisions in effect as of the date of this information statement, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. There can be no assurance that future legislation, regulations, administrative rulings or court decisions would not alter the consequences set forth below.
- This disclosure does not address the tax consequences to the Company's stockholders under state, local, and foreign laws.
- The Company has not requested or received a tax opinion from legal counsel with respect to any of the matters discussed herein.
- No rulings have been or will be requested from the Internal Revenue Service with respect to any of the matters discussed herein, and there can be no assurances that the Internal Revenue Service will not take a position contrary to that described herein.

*Federal Income Tax Consequences to the Company.* The Board of Directors believes that the Reverse/Forward Stock Split will be treated as a tax-free "recapitalization" for federal income tax purposes. Accordingly, the Company will not recognize taxable income, gain or loss in connection with the Reverse/Forward Stock Split.

*Federal Income Tax Consequences to the Continuing Stockholders.* Continuing Stockholders will not recognize gain or loss, or dividend income, as a result of the Reverse/Forward Stock Split and the aggregate basis and holding period of such Continuing Stockholders in shares of Common Stock held immediately prior to the Reverse/Forward Stock Split will carry over as the aggregate basis and holding period of such Continuing Stockholders' shares of Common Stock held immediately after the Reverse/Forward Stock Split.

*Federal Income Tax Consequences to the Cashed-Out Stockholders.* The Cashed-Out Stockholders' receipt of cash pursuant to the Reverse/Forward Stock Split will be treated as a redemption of stock and will be a taxable transaction for federal income tax purposes. The tax treatment of a redemption of stock is governed by Section 302 of the Code and, depending on the Cashed-Out Stockholder's specific

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circumstances, will be taxed as either: (i) a sale or exchange of the redeemed shares, in which case the Cashed-Out Stockholder will recognize gain or loss equal to the difference between the cash payment and the Cashed-Out Stockholder's adjusted tax basis for the redeemed shares; or (ii) a cash distribution which is deemed to have the effect of a dividend, in which case it is treated: (A) first, as a taxable dividend to the extent of the Cashed-Out Stockholder's allocable share of the Company's accumulated earnings and profits; (B) then, as a tax-free return of capital to the extent of the stockholder's adjusted tax basis in the redeemed shares; and (C) finally, as gain from the sale or exchange of the redeemed shares.

Under the principles of Section 302 of the Code, the Cashed-Out Stockholders will recognize capital gain or loss (rather than have the effect of the distribution of a dividend) with respect to the cash received if the redemption (1) is "not essentially equivalent to a dividend", (2) constitutes a "substantially disproportionate redemption of stock", or (3) is a "complete redemption" of the Cashed-Out Stockholder's interest in the Company, as described below.

In applying the principles of Section 302 of the Code, the constructive ownership rules of Section 318 of the Code apply in determining a Cashed-Out Stockholder's ownership interest in the Company. For example, in determining whether a Cashed-Out Stockholder is considered to continue to hold an interest in the Company for federal income tax purposes immediately following the Reverse/Forward Stock Split, the Cashed-Out Stockholder will be treated as owning shares actually or constructively owned by certain family members and certain entities in which the Cashed-Out Stockholder has an interest.

*Not Essentially Equivalent to a Dividend.* The receipt of cash is "not essentially equivalent to a dividend" if the reduction in the Cashed-Out Stockholder's proportionate interest in the Company resulting from the Reverse/Forward Stock Split (taking into account for this purpose shares of stock which such Cashed-Out Stockholder is considered to constructively own under the attribution rules described above) is considered a "meaningful reduction" given such Cashed-Out Stockholder's particular facts and circumstances. In other cases, the Internal Revenue Service has ruled that a small reduction by a minority stockholder whose relative stock interest is minimal and who exercises no control over the affairs of a corporation can satisfy this test.

*Substantially Disproportionate Redemption of Stock.* The receipt of cash in the Reverse/Forward Stock Split will be a "substantially disproportionate redemption of stock" for the Cashed-Out Stockholder if the percentage of the outstanding shares of Company stock owned by such Cashed-Out Stockholder (and those other stockholders whose shares of stock are considered to be constructively owned by the Cashed-Out Stockholder under the attribution rules described above) immediately after the Reverse/Forward Stock Split is (a) less than 50% of the total combined voting power of all classes of stock entitled to vote, and (b) less than 80% of the percentage of all shares of the Company's voting stock actually and constructively owned by the Cashed-Out Stockholder immediately before the Reverse/Forward Stock Split.

*Complete Redemption.* A Cashed-Out Stockholder's interest in the Company is completely redeemed if all of the shares of the Company actually and constructively owned by the Cashed-Out Stockholder are redeemed, unless the Cashed-Out Stockholder makes a waiver of family attribution election and files it with the Internal Revenue Service pursuant to Section 302(c) of the Code, in which case the stock constructively owned by such stockholder does not have to be redeemed.

If the Cashed-Out Stockholders' receipt of cash pursuant to the Reverse/Forward Stock Split is not treated as capital gain or loss under any of these tests, it will be treated: (A) first, as a taxable dividend to the extent of the Cashed-Out Stockholder's allocable share of the Company's accumulated earnings and profits; (B) then, as a tax-free return of capital to the extent of the Cashed-Out Stockholder's

adjusted tax basis in the redeemed shares; and (C) finally, as a capital gain from the sale or exchange of the redeemed shares.

*Capital Gain and Loss.* For individuals, net capital gain (defined generally as total capital gains in excess of capital losses for the year) recognized upon the sale of capital assets that have been held for more than 12 months generally will be subject to tax at a rate not to exceed 15%. However, net capital gain recognized from the sale of capital assets that have been held for 12 months or less will continue to be subject to tax at ordinary income tax rates. Also, capital gain recognized by a corporate taxpayer will continue to be subject to tax at the ordinary income tax rates applicable to corporations. There are limitations on the deductibility of capital losses.

*Special Rate for Certain Dividends.* In general, dividends are taxed at ordinary income rates. However, "qualified dividend income" received by individual or non-corporate stockholders will be taxed at the rate that applies to net capital gain. As previously discussed, the maximum capital gain rate is 15%. To be eligible for the capital gain rate for "qualified dividend income," a stockholder must have held the shares of Common Stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend period as measured under Section 246(c) of the Code and such stockholder must not be under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. "Qualified dividend income" does not include any amount which a stockholder takes into account as investment income under Section 163(d)(4)(B) of the Code for purposes of determining such stockholder's allowed investment interest deduction. **YOU ARE URGED TO CONSULT WITH YOUR TAX ADVISOR REGARDING YOUR APPLICABILITY FOR, AND THE APPROPRIATE FEDERAL, STATE, LOCAL, FOREIGN OR OTHER TAX TREATMENT OF, ANY SUCH DIVIDEND INCOME.**

*Backup Withholding.* Stockholders will be required to provide their social security or other taxpayer identification numbers (or, in some instances, additional information) to the Transfer Agent in connection with the Reverse/Forward Stock Split to avoid backup withholding requirements that might otherwise apply. The letter of transmittal will require each stockholder to deliver such information when the Common Stock certificates are surrendered following the effective date of the Reverse/Forward Stock Split. Failure to provide such information may result in backup withholding.

As explained above, the amounts paid to Cashed-Out Stockholders as a result of the Reverse/Forward Stock Split may result in dividend income, capital gain income or some combination thereof depending on your individual circumstances. The foregoing discussion of the Material Federal Income Tax Consequences of the Reverse/Forward Stock Split represents general information only and does not purport to be a complete analysis or listing of all potential tax effects that may apply to the stockholders. **ACCORDINGLY, YOU ARE STRONGLY URGED TO CONSULT YOUR OWN INDEPENDENT TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE PROPOSED REVERSE/FORWARD STOCK SPLIT, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS, AND ANY PROPOSED CHANGES IN APPLICABLE LAW.**

***Persons Retained to Make Solicitations.***

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.

**Summary Financial Information.**

The following summary of historical consolidated financial data was derived from the Company's audited consolidated financial statements as of and for the fiscal years ended July 31, 2007 and July 31, 2008 and the quarter ended October 31, 2008. This financial information is only a summary and should be read in conjunction with the consolidated financial statements of the Company and other financial information, including notes thereto, contained in the Company's Annual Report on Form 10-K/A for the year ended July 31, 2008 and Quarterly Report on Form 10-Q for the quarter ended October 31, 2008, which are incorporated by reference in this Proxy Statement.

	Three Months Ended October 31,		Fiscal Years Ended July 31,	
	2008	2007	2008	2007
	(in thousands except per share data)			
Total revenues	\$ 2,792	\$ 1,875	\$ 10,182	\$40,407
Total operating expense	3,907	2,767	21,271	12,623
Operating income	(1,679)	(1,222)	(13,327)	8,552
Net interest (expense) income	45	325	626	915
Net income	(1,539)	(918)	(12,708)	12,249
Basic earnings per share	\$ (0.05)	\$ (0.03)	\$ (0.42)	\$ 0.48
Diluted earnings per share	\$ (0.05)	\$ (0.03)	\$ (0.42)	\$ 0.47

	Three Months Ended October 31,		Fiscal Years Ended July 31,	
	2008	2007	2008	2007
Total current assets	\$15,451	\$21,237	\$16,672	\$36,313
Total long-term assets	5,309	13,391	5,636	979
Total current liabilities	6,810	6,814	6,582	13,458
Total long-term liabilities	689	1,093	806	1,214
Total stockholders' equity	13,261	26,721	14,920	22,620
Book value per share	\$ 0.43	\$ 0.87	\$ 0.48	\$ 0.88

**Stock Certificates.**

Cashed-Out Stockholders with stock certificates representing their Cashed-Out Shares will receive a letter of transmittal from the Company as soon as practicable after the Effective Date of the Reverse/Forward Stock Split. The letter of transmittal will contain instructions on how to surrender existing certificates to the Transfer Agent for cash payment. Cashed-Out Stockholders will not receive cash payment until they surrender their outstanding certificates to the Transfer Agent, together with a completed and executed copy of the letter of transmittal. PLEASE DO NOT SEND YOUR CERTIFICATES UNTIL YOU HAVE RECEIVED YOUR LETTER OF TRANSMITTAL. Continuing Stockholders with stock certificates representing their Continuing Shares will continue to evidence ownership of the same number of shares as is set forth on the face of the certificates.

The Company has appointed the Transfer Agent to act as exchange agent to carry out the exchange of certificates for cash. On the Effective Date of the Reverse/Forward Stock Split, all stock certificates evidencing ownership of Common Stock held by Cashed-Out Stockholders shall be deemed canceled without further action by such Cashed-Out Stockholders. Such certificates will no longer represent an ownership interest in the Company but will represent only the right to receive cash equal to \$0.36 per share in exchange for such shares. Certificates representing shares of Common Stock held

by Cashed-Out Stockholders subsequently presented for transfer will not be transferred on the Company's books and records.

The Transfer Agent will furnish Cashed-Out Stockholders with the necessary materials and instructions to effect such surrender promptly following the Effective Date of the Reverse/Forward Stock Split. The letter of transmittal will direct how certificates are to be surrendered for cash. Stockholders must complete and sign the letter of transmittal and return it with their stock certificates to the Transfer Agent in accordance with the instructions set forth on the letter of transmittal before they can receive cash payment for those shares. Cashed-Out Stockholders should not send their stock certificates to the Company or the Transfer Agent until they have received a transmittal letter and followed the instructions therein.

No service charges will be payable by Cashed-Out Stockholders in connection with the exchange of stock certificates or the payment of cash in lieu of issuing fractional shares. All expenses of the Reverse/Forward Stock Split will be borne by the Company.

***Appraisal Rights.***

Stockholders are not entitled to appraisal rights under the DGCL, the Company's Restated Certificate of Incorporation, or the Company's Bylaws in connection with the Reverse/Forward Stock Split, even if they vote against the Reverse/Forward Stock Split. The Company is not aware of any similar rights available under any applicable law, regulation, custom or contract to stockholders who object to the going private transaction.

***Reservation of Rights.***

Although the Company is requesting stockholder approval of the Reverse/Forward Stock Split, the Board of Directors reserves the right to decide, in its sole discretion, to withdraw the proposed amendment to the Company's Restated Certificate of Incorporation for effecting such transaction from the agenda of the Special Meeting prior to any stockholder vote thereon or to abandon the Reverse/Forward Stock Split after such vote and before the Effective Date of the Reverse/Forward Stock Split, even if the proposal is approved. Although the Board of Directors presently believes that the Reverse/Forward Stock Split is in the best interests of the Company and its stockholders, and thus has recommended a vote for the approval of the amendment to the Company's Restated Certificate of Incorporation, the Board of Directors nonetheless believes that it is prudent to recognize that, between the date of this Proxy Statement and the Effective Date of the Reverse/Forward Stock Split, factual circumstances could possibly change such that it might not be appropriate or desirable to effect the Reverse/Forward Stock Split at that time. Such reasons include, without limitation, 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. If the Board of Directors decides to withdraw the proposed amendment to the Company's Restated Certificate of Amendment from the agenda of the Special Meeting, the Board of Directors will notify the stockholders of such decision promptly by mail and by announcement at the Special Meeting. If the Board of Directors decides to abandon the Reverse/Forward Stock Split after the Special Meeting and before the Effective Date of the Reverse/Forward Stock Split, the Board of Directors will notify the stockholders of such decision promptly by mail or by press release and any other appropriate public disclosure.

***Voluntary Delisting.***

In order to avoid the added expense of applicable fees potentially levied by the Nasdaq Capital Market in connection with the Reverse/Forward Stock Split, the Company intends to voluntarily delist its Common Stock from trading on the Nasdaq Capital Market following approval of the Reverse/



Forward Stock Split by the Company's stockholders and prior to the filing of the Certificate of Amendment with the Delaware Secretary of State. In accordance with Nasdaq Marketplace Rules, the Company will notify Nasdaq at least ten calendar days prior to the Special Meeting that if the Company's stockholders approve the Reverse/Forward Stock Split at the Special Meeting, then the Company plans to file a Form 25 with the SEC to voluntarily delist its Common Stock from trading on the Nasdaq Capital Market. If the stockholders approve the Reverse/Forward Stock Split, the Company will immediately file the Form 25 with the SEC, and Nasdaq will suspend trading of the Company's Common Stock promptly thereafter. The Company's Common Stock would cease to be listed on the Nasdaq Capital Market on the tenth calendar day after the Company has filed the Form 25 with the SEC. The Company would then file the Certificate of Amendment with the Delaware Secretary of State to consummate the Reverse/Forward Stock Split. In the event the Company's stockholders do not approve the Reverse/Forward Stock Split, the Company will not file the Form 25 with the SEC and will promptly notify Nasdaq that the Company no longer intends to voluntarily delist its Common Stock from trading on the Nasdaq Capital Market.

***Potential Involuntary Delisting by Nasdaq***

If the Reverse/Forward Stock Split is not completed, the Common Stock may be involuntarily delisted from the Nasdaq Capital Market due to the Company's failure to comply with Nasdaq's continued listing standards. On February 4, 2008, the Company received a Nasdaq deficiency letter indicating that, for 30 consecutive business days, the bid price per share of the Company's Common Stock closed below the minimum \$1.00 per share requirement. Therefore, the Company's Common Stock was subject to potential delisting from the Nasdaq Global Market Exchange pursuant to Nasdaq Marketplace Rule 4450(a)(5). The Company was provided 180 calendar days, or until August 4, 2008, to regain compliance by maintaining a share bid price in excess of \$1.00 for ten consecutive business days. The Company worked to regain compliance through improving its operating results, but it was unable to regain compliance with the minimum bid requirement. Consequently, the Company applied for a transfer listing on the Nasdaq Capital Market. Nasdaq approved the application and transferred the Company's securities to the Nasdaq Capital Market, effective September 19, 2008. As a result of this transfer, the Company was provided an additional 180 calendar days, beginning from the original August 4, 2008 deadline, or until February 2, 2009, to regain compliance with the minimum \$1.00 share bid price requirement.

Due to current unprecedented market conditions, on October 16, 2008, Nasdaq suspended the enforcement of its rules requiring a minimum \$1.00 share bid price for all Nasdaq-listed companies through January 19, 2009. On December 19, 2008, Nasdaq further extended the suspension of the bid price requirement until April 20, 2009. Therefore, if the Company cannot achieve compliance with the minimum share price requirement by August 5, 2009, Nasdaq will provide the Company with written notification 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 Common Stock. Furthermore, if the Company is involuntarily delisted by Nasdaq, rather than by voluntarily delisting in connection with the Reverse/Forward Stock Split, the Company would continue to be subject to the reporting requirements of the SEC and continue incurring significant reporting and compliance costs.

***Rights Agreement.***

If the Reverse/Forward Stock Split is approved by the stockholders, the Board of Directors intends to amend the Company's existing Rights Agreement, dated December 19, 2005 (the "Rights Agreement"), so that the Rights Agreement will terminate immediately prior to the Effective Date of the Reverse/Forward Stock Split. The Rights Agreement was originally adopted by the Board of

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Directors as a defensive measure in the event of an unsolicited acquisition of 15% or more of the Company's Common Stock by certain persons unaffiliated with the Company (e.g., in the context of a hostile takeover bid). Pursuant to the Rights Agreement, each holder of a share of Common Stock is also granted a right to purchase one one-thousandth of a share of the Company's Series A Preferred Stock upon the occurrence of certain triggering events. Neither the Reverse/Forward Stock Split nor the proposed going private transaction constitute one of those triggering events. Accordingly, the Board of Directors intends to effectively terminate the Rights Agreement, pursuant to its amendatory authority under the Rights Agreement and the DGCL, in the event the Reverse/Forward Stock Split is approved by the stockholders. To date, no shares of the Company's Series A Preferred Stock have been issued or are outstanding currently.

***Price Range of Common Stock.***

The Common Stock is traded on the Nasdaq Capital Market under the symbol "ASUR." On January 28, 2009, the most recent practicable date prior to the first public announcement of the proposed Reverse/Forward Stock Split, the closing price for the Common Stock was \$0.19 per share. The high and low bid prices for the Common Stock for each quarter during the past two years are set forth in the table below. These quotations represent prices among dealers of the Common Stock and do not include retail mark-ups, mark-downs, or commissions, and do not necessarily represent actual transactions.

<u>Quarter Ended</u>	<u>High Bid Price</u>	<u>Low Bid Price</u>
January 31, 2007	\$ 2.00	\$ 0.42
April 30, 2007	\$ 1.67	\$ 0.82
July 31, 2007	\$ 1.38	\$ 0.80
October 31, 2007	\$ 1.49	\$ 0.65
January 31, 2008	\$ 1.39	\$ 0.65
April 30, 2008	\$ 0.90	\$ 0.29
July 31, 2008	\$ 0.57	\$ 0.28
October 31, 2008	\$ 0.45	\$ 0.15

***Prior Stock Purchases by the Company.***

The Company has not purchased any shares of its Common Stock during the past two years.

**Dividends.**

The Company has not paid dividends on its Common Stock during fiscal years 2008 and 2007, and has no plans to pay dividends on the Common Stock in the foreseeable future, preferring to continue its policy of retaining earnings for reinvestment in its business, rather than paying cash dividends.

**Interests of Certain Persons in Matters to be Acted Upon.**

Certain directors and officers of the Company have an interest in the equity securities of the Company, as set forth below. The Reverse/Forward Stock Split shall affect the stockholders of the Company only in accordance with the numbers of Common Stock held by them and will not be affected by the insider status of any stockholders. The directors and executive officers receive no extra or special benefit not shared on a pro rata basis by all other holders of the Common Stock, except that, by deregistering the Common Stock under the Exchange Act subsequent to the consummation of the Reverse/Forward Stock Split, the Company will no longer be prohibited, pursuant to Section 402 of Sarbanes-Oxley, from making personal loans to the Company's directors or executive officers. However, the Company does not have a present intention of making personal loans to its directors and officers, and the ability to make such loans was not a reason considered by the Company or the Board of Directors in evaluating the benefits of the Reverse/Forward Stock Split. If the Reverse/Forward Stock Split is implemented, neither the directors and officers of the Company nor the Continuing Stockholders will benefit by any material increase in their percentage ownership of the Common Stock or in the net book value of their holdings.

As of January 28, 2009, the directors (including the Independent Directors) and officers of the Company, who collectively own approximately 2.3% of the voting power of the Common Stock outstanding and entitled to vote at the Special Meeting, have indicated that they will vote in favor of the Reverse/Forward Stock Split at the Special Meeting.

The following table sets forth the beneficial ownership of each of the Company's executive officers and directors as a group of the Common Stock as of July 31, 2008.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1) (2)</u>	<u>Percent of Class</u>
Richard N. Snyder	983,655(3)	3.12%
Kathleen A. Cote	68,772(4)	*
James H. Wells	95,672(5)	*
Lou Mazzucchelli	57,772(6)	*
Richard J. Agnich	97,772(7)	*
Ray R. Miles	51,772(8)	*
Jay C. Peterson	275,392(9)	*
Nancy Harris	265,680(10)	*
All Officers and Directors as a group (8 persons)	1,884,391(11)	6.04%

\* Indicates ownership of less than 1% of our common stock

- (1) Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. The persons and entities named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them, except as noted below. Amounts shown include shares of our common stock issuable upon exercise of certain outstanding options within 60 days after July 31, 2008.
- (2) Except for the percentages of certain parties that are based on presently exercisable options which are indicated in the following footnotes to the table, the percentages indicated are based on 30,696,727 shares of our common stock issued and outstanding on July 31, 2008. In the case of

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parties holding presently exercisable options, the percentage ownership is calculated on the assumption that the shares presently held or purchasable within the next 60 days underlying such options are outstanding.

- (3) Consists of 442,933 shares held by Mr. Snyder directly and 540,722 shares which Mr. Snyder may acquire upon the exercise of options within 60 days after July 31, 2008.
- (4) Consists of 23,772 shares held by Ms. Cote directly and 45,000 shares which Ms. Cote may acquire upon the exercise of options within 60 days after July 31, 2008.
- (5) Consists of 50,672 shares held by Mr. Wells directly and 45,000 shares which Mr. Wells may acquire upon the exercise of options within 60 days after July 31, 2008.
- (6) Consists of 12,772 shares held directly by Mr. Mazzucchelli and 45,000 shares which Mr. Mazzucchelli may acquire upon the exercise of options within 60 days after July 31, 2008.
- (7) Consists of 62,772 shares held directly by Mr. Agnich and 35,000 shares which Mr. Agnich may acquire upon the exercise of options within 60 days after July 31, 2008.
- (8) Consists of 16,772 shares held by Mr. Miles directly and 35,000 shares which Mr. Miles may acquire upon the exercise of options within 60 days after July 31, 2008.
- (9) Consists of 51,017 shares held by Mr. Peterson directly and 224,375 shares which Mr. Peterson may acquire upon the exercise of options within 60 days after July 31, 2008.
- (10) Consists of 115,512 shares held by Ms. Harris directly and 150,168 shares which Ms. Harris may acquire upon the exercise of options within 60 days after July 31, 2008.
- (11) All options held by our chief executive officer and the named executive officers were granted under the 1989 Stock Option Plan or the 1996 Stock Option Plan. Pursuant to these stock option plans, all options granted thereunder are immediately exercisable, however, shares issued upon exercise are subject to repurchase by our company, at the exercise price, to the extent of the number of shares that have not vested in the event that the optionees' employment terminates prior to all such optionees' options becoming vested.

### ***Sources of Funds and Expenses.***

Based on estimates of record ownership of the Common Stock, the number of shares of Common Stock outstanding, and other information as of January 28, 2009, and assuming that 1,346,740 fractional shares will be cashed out pursuant to the Reverse/Forward Stock Split, the Company estimates that the total funds required to consummate the Reverse/Forward Stock Split will be approximately \$835,000, of which \$485,000 will be used to pay the cash consideration to Cashed-Out Stockholders and \$350,000 will be used to pay the following transactional costs:

Legal fees:	\$125,000
Financial advisory services & Fairness Opinion	\$100,000
Printing and related proxy costs:	\$ 65,000
Accounting fees:	\$ 50,000
Transfer Agent fees:	\$ 10,000
Total:	<u>\$350,000</u>

The Company intends to fund the costs of the Reverse/Forward Stock Split with cash on hand.

**MEASURE NO. 1—APPROVAL OF AMENDMENT TO THE RESTATED CERTIFICATE OF INCORPORATION (THE REVERSE/FORWARD STOCK SPLIT)**

***Summary and Structure of the Reverse/Forward Stock Split.***

The Board of Directors has authorized, and unanimously recommends for stockholder approval, an amendment to the Company's Restated Certificate of Incorporation to effect a going private transaction via a reverse/forward stock split (referred to in this Proxy Statement as the "Reverse/Forward Stock Split"). The Reverse/Forward Stock Split consists of a 1-for-750 reverse stock split (such that stockholders owning less than 750 shares of Common Stock would have such shares canceled and converted into the right to receive the cash consideration set forth herein), followed immediately by a 750-for-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). The Reverse/Forward Stock Split is intended to take effect on the date the Company files 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 (as previously defined, the "Effective Date"). At 5:59 p.m. C.S.T. on the Effective Date, the Company will effect a 1-for-750 reverse stock split of the Common Stock. Any stockholder owning less than 750 shares of the Common Stock at 5:59 p.m. C.S.T. (referred to in this Proxy Statement as a "Cashed-Out Stockholder") will have the right to receive cash in exchange for each share of Common Stock held by such stockholder immediately before the reverse stock split, and will no longer be a stockholder of the Company. Any stockholder owning 750 or more shares of the Common Stock immediately before the reverse stock split (referred to in this Proxy Statement as a "Continuing Stockholder") will receive one seven-hundred-and-fiftieth (1/750th) of a share of Common Stock for each such share. At 6:01 p.m. C.S.T. on the Effective Date (and after the completion of the reverse stock split), the Company will effect a 750-for-1 forward stock split of the Common Stock, pursuant to which a holder of one or more shares of Common Stock immediately before the forward stock split (and immediately after the reverse stock split) will hold 750 shares of Common Stock immediately after the forward stock split and, with respect to any fractional shares, will hold such lesser number of shares as may be applicable based upon a 750-to-1 ratio. (For more detail, see "SPECIAL FACTORS—Effects of 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. The Board of Directors made this determination in good faith, based, in part, upon the Fairness Opinion and the Presentation prepared by Southwest Securities, the recommendation of the Special Committee, and other factors the Board of Directors deemed relevant. The Company currently estimates that Cashed-Out Stockholders would receive cash consideration for their cancelled shares within approximately 30 days after the Effective Date. (For more detail, see "SPECIAL FACTORS—Fairness of the Reverse/Forward Stock Split.")

In order to complete the Reverse/Forward Stock Split, the affirmative vote of at least a majority of the outstanding shares of the Common Stock entitled to vote, voting together as a single class, is required to approve the amendment to the Company's Restated Certificate of Incorporation to effect the Reverse/Forward Stock Split. As of January 28, 2009, the directors (including the Independent Directors) and officers of the Company, who collectively own approximately 2.3% of the voting power of the Common Stock outstanding and entitled to vote at the Special Meeting, have indicated that they will vote in favor of the Reverse/Forward Stock Split at the Special Meeting. The Board of Directors has retained for itself the absolute authority to reject (and not implement) the Reverse/Forward Stock Split (even after approval thereof by the stockholders) if the Board of Directors subsequently determines, for any reason, that the Reverse/Forward Stock Split is not then in the best interests of the Company. Such reasons may include a change in the nature of the Company's shareholdings prior to the Effective Date such that the Company would be unable to reduce the number of its stockholders of record to less than 300 as a result of the Reverse/Forward Stock Split.

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The Reverse/Forward Stock Split would be considered a "going private" transaction as defined in Rule 13e-3 promulgated under the Exchange Act because the Reverse/Forward Stock Split is intended to and, if completed, will likely terminate the registration of the Common Stock under Section 12(g) of the Exchange Act and suspend the Company's duty to file periodic reports with the SEC. In connection with the Reverse/Forward Stock Split, the Company has filed a Schedule 13E-3 with the SEC. (For more detail, see "SPECIAL FACTORS—Purposes of the Reverse/Forward Stock Split.")

***Certificate of Amendment.***

The form of the proposed amendment to the Company's Restated Certificate of Incorporation underlying Measure No. 1, which would be effected by filing the Certificate of Amendment with the Delaware Secretary of State, is as follows:

The Restated Certificate of Incorporation is hereby amended by amending the Second Article so that, as amended, it shall read as follows:

FOURTH: The Corporation shall have the authority to issue two (2) class of shares to be designated, respectively, "*Preferred Stock*" and "*Common Stock*." All of said shares shall be One Cent (\$.01) par value each. The total number of shares of capital stock which the Corporation shall have the authority to issue is Fifty Million (50,000,000), which shall consist of Forty Million (40,000,000) shares of Common Stock and Ten Million (10,000,000) shares of Preferred Stock.

Without regard to any other provision of this Restated Certificate of Incorporation, effective at 5:59 p.m. C.S.T. on \_\_\_\_\_, 2009, each one (1) share of Common Stock, either issued and outstanding or held by the Corporation as treasury stock, immediately prior to the time this amendment becomes effective shall be and is hereby automatically reclassified and changed (without any further act) into one seven-hundred-and-fiftieth (1/750th) of a fully-paid and non-assessable share of Common Stock, without increasing or decreasing the amount of stated capital or paid-in surplus of the Corporation, provided that no fractional shares shall be issued to any stockholder owning less than 750 shares of Common Stock immediately prior to the time this amendment becomes effective, and that instead of issuing fractional shares to such stockholders, the Corporation shall pay an amount in cash equal to \$0.36 per share of Common Stock held by such stockholders immediately before this amendment becomes effective.

Without regard to any other provision of this Restated Certificate of Incorporation, effective at 6:01 p.m. C.S.T. on \_\_\_\_\_, 2009, each one (1) share of Common Stock, either issued and outstanding or held by the Corporation as treasury stock (and including each fractional share in excess of one (1) share held by any stockholder and each fractional interest in excess of one (1) share held by the Corporation or its agent pending disposition on behalf of those entitled thereto), immediately prior to the time this amendment becomes effective shall be and is hereby automatically reclassified and changed (without any further act) into seven hundred and fifty (750) fully-paid and non-assessable shares of Common Stock (or, with respect to such fractional shares and interests, such lesser number of shares and fractional shares or interests as may be applicable based upon such 750-to-1 ratio), without increasing or decreasing the amount of stated capital or paid-in surplus of the Corporation, provided that no fractional shares shall be issued.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF MEASURE NO. 1—APPROVAL OF AMENDMENT TO THE RESTATED CERTIFICATE OF INCORPORATION (THE REVERSE/FORWARD STOCK SPLIT)**

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**OTHER BUSINESS**

Management of the Company knows of no other business which may come before the Special Meeting. However, if any additional matters are properly presented at the meeting, it is intended that the persons named in the enclosed Proxy Card, or their substitutes, will vote such proxy in accordance with their judgment on such matters.

**Appendix 1**

FRONT OF CARD

**Preliminary Proxy**

**PROXY**

**PROXY**

**FORGENT NETWORKS, INC.  
d/b/a Asure Software  
SPECIAL MEETING OF STOCKHOLDERS— , 2009**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints \_\_\_\_\_ and \_\_\_\_\_ severally as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and vote, as designated below, all of the votes to which the shares of common stock, par value \$.01 per share (the "Common Stock"), of Forgent Networks, Inc. d/b/a Asure Software held of record by the undersigned are entitled at the Special Meeting of stockholders of the Company and at any and all adjournments thereof, with respect to the matters set forth below and described in the Notice of Special Meeting and Proxy Statement, dated \_\_\_\_\_, 2009, receipt of which is hereby acknowledged.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" MEASURE 1**

1. Approval of an amendment to 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 whereby the Company would first effect a 1-for-750 reverse stock split (such that stockholders owning less than 750 shares of Common Stock would have such shares cancelled and converted into the right to receive the cash consideration of \$0.36 per share on a pre-split basis), then immediately effect a 750-for-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); and

FOR                       AGAINST                       ABSTAIN

2. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any and all adjournments thereof.



BACK OF CARD

This Proxy Card, when properly executed, will be voted in the manner directed herein by the undersigned Stockholder. If no indication is made, this proxy will be voted for Measure 1.

Please sign exactly as your name appears hereon.  
When the shares are held by joint tenants, both should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in the partnership name by an authorized person.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature, if held jointly

Dated: \_\_\_\_\_, 2009

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED POSTAGE PRE-PAID ENVELOPE.

Appendix 2



January 29, 2009

Special Committee of the Board of Directors  
Forgent Networks, Inc.  
108 Wild Basin Road  
Austin, Texas 78746

Dear Members of the Special Committee:

Forgent Networks, Inc. (the "Company") proposes to effect a reverse stock split of its common stock in which the holders of less than one share following the reverse stock split will receive cash in lieu of their fractional shares (the "Reverse Stock Split"). We were engaged by a special committee of the board of directors of the Company (the "Special Committee") to provide advisory services in connection with the proposed Reverse Stock Split. The Special Committee has requested our opinion as to the fairness from a financial point of view to common stockholders of the Company of the \$0.36 per pre-Reverse Stock Split share to be paid in lieu of their fractional shares (the "Consideration").

In the course of performing our review and analysis for rendering this opinion, we have, among other things: (i) reviewed a draft of the proxy statement of the Company pertaining to the Reverse Stock Split (the "Proxy Statement"); (ii) reviewed and analyzed certain publicly available financial and other data with respect to the Company and certain other relevant historical operating data relating to the Company made available to us from published sources and from the internal records of the Company; (iii) conducted discussions with members of the senior management of the Company with respect to the business prospects and financial outlook the Company; (iv) visited certain facilities and the business offices of the Company; (v) reviewed current and historical market prices and trading activity of the common stock of the Company; (vi) compared certain financial information for the Company with similar information for certain other companies, the securities of which are publicly traded; (vii) reviewed the financial terms, to the extent publicly available, of selected precedent transactions which we deemed generally comparable to the Company and the Reverse Stock Split; and (viii) conducted such other financial studies, analyses and investigations and considered such other information as we deemed appropriate.

In rendering our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all data material, and other information furnished or otherwise made available to us, discussed with us or reviewed by us, or that was publicly available, and we do not assume responsibility for or with respect to such data, material, or other information. We have not performed an independent evaluation, physical inspection or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, and we have not been furnished with any such valuations or appraisals. We have undertaken no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company is or may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which the Company is or may be a party or is or may be subject. In relying on the financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company. We have further relied on the assurances of management of the Company that they are unaware of any facts that would make such business prospects and financial outlook incomplete or misleading. We have also assumed that the Proxy Statement will be identical in all material respects to the latest available drafts reviewed by us; that the Reverse Stock Split will be consummated in a timely manner and in accordance with the terms set forth in the Proxy Statement without waiver, modification, or amendment of any material term, condition or agreement; and that all governmental, regulatory, and other consents and approvals necessary for the consummation of the Reverse Stock Split will be obtained without any material adverse effect on the Company or on the contemplated benefits of the Reverse Stock Split.

Southwest Securities, Inc. • 1201 Elm Street, Suite 350 • Dallas, Texas 75270-2180 • 214.859.1800 • [www.swst.com](http://www.swst.com)  
**MEMBER: NEW YORK STOCK EXCHANGE**

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Our opinion is necessarily based on economic, market and other conditions as in effect on, and information available to us, as of the date hereof. We have not undertaken to reaffirm or revise this opinion or otherwise comment upon any events occurring after the date hereof and do not have any obligation to update, revise or reaffirm this opinion.

Our opinion addresses solely the fairness of the financial terms of the Reverse Stock Split and does not address any other terms or agreement relating to the Reverse Stock Split or any other matters pertaining to the Company. We were not authorized to solicit, and did not solicit, other potential parties with respect to a transaction with the Company. We have not considered, nor are we expressing any opinion with respect to, the price at which shares of the Company's common stock may trade following announcement or consummation of the Reverse Stock Split.

We are acting as financial advisor to a Special Committee in connection with the Reverse Stock Split and will receive a fee for our services. A portion of our fee was paid at the commencement of our engagement, and the remainder is payable upon delivery of our opinion. No portion of our fee is contingent upon consummation of the Reverse Stock Split. In addition, the Company has agreed to reimburse our expenses and indemnify us for certain liabilities that may arise out of our engagement. In the ordinary course of business, we may, for our own account and the accounts of our customers, actively trade the securities of the Company and, accordingly, may hold a long or short position in such securities.

This opinion is furnished solely for the use and benefit of the Special Committee in connection with their consideration of the Reverse Stock Split and is not intended to, and does not, confer any rights or remedies upon any other person, and is not intended to be used, and may not be used, for any other purpose, without our express, prior written consent. This opinion should not be construed as creating any fiduciary duty on our part to any party. This opinion is not to be used, circulated, quoted or otherwise referred to (either in its entirety or through excerpts or summaries) for any other purposes, unless it is to be filed with or referred to in any registration statement, proxy statement or any other document filed with the Securities and Exchange Commission in connection with the Reverse Stock Split and it is included in full (and we have had an opportunity, if we deem it appropriate, in our sole discretion, to update the opinion to the date of the document in which it is included) and you have received our prior approval with respect to all of the references to it included in any such registration statement, proxy statement or any other document filed with the Securities and Exchange Commission.

This opinion does not constitute legal, regulatory, accounting, insurance, tax or other similar professional advice, and does not address: (i) the underlying business decision of the board of directors of the Company, the Special Committee, the Company, or its security holders to proceed with or effect the Reverse Stock Split; (ii) the fairness of any portion or aspect of the Reverse Stock Split not expressly addressed in this opinion; (iii) the fairness of any portion or aspect of the Reverse Stock Split to the creditors or other constituencies of the Company other than those set forth in the opinions; (iv) the relative merits of the Reverse Stock Split as compared to any alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage; (v) the tax or legal consequences of the Reverse Stock Split to either the Company or its security holders; (vi) how any security holder should act or vote, as the case may be, with respect to the Reverse Stock Split; or (vii) the solvency, creditworthiness or fair value of the Company or any other participant in the Reverse Stock Split under any applicable laws relating to bankruptcy, insolvency or similar matters.

Based on our experience as investment bankers and subject to the foregoing, including the various assumptions and limitations set forth herein, it is our opinion that, as of the date hereof, the Consideration to be paid in lieu of fractional shares in the Reverse Stock Split is fair, from a financial point of view, to both the shareholders that will receive such Consideration and the shareholders that will not receive such Consideration.

Very truly yours,

SOUTHWEST SECURITIES, INC.

By: /s/ RICHARD L. DAVIS

\_\_\_\_\_  
Richard L. Davis  
Managing Director and  
Senior Vice President

