

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2000

Commission file number 0-20008

VTEL Corporation

A Delaware Corporation

IRS Employer ID No. 74-2415696

108 Wild Basin Road

Austin, Texas 78746

(512) 437-2700

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

At March 3, 2000 the registrant had outstanding 24,591,289 shares of its Common Stock, \$0.01 par value.

VTEL CORPORATION

CONSOLIDATED BALANCE SHEET

(Amounts in thousands, except per share data)

	January 31, 2000 (Unaudited)	July 31, 1999
ASSETS		
Current assets:		
Cash and equivalents	\$ 9,122	\$ 7,805
Short-term investments	1,403	4,308
Accounts receivable, net of allowance for doubtful accounts of 1,778 and 1,223 at January 31, 2000 and July 31, 1999	28,144	38,291
Inventories	14,119	15,553
Prepaid expenses and other current assets	2,170	2,320
	-----	-----
Total current assets	54,958	68,277
Property and equipment, net	27,012	29,704
Intangible assets, net	15,305	15,841
Capitalized software	10,020	7,351
Other assets	2,478	2,918
	-----	-----
	\$ 109,773	\$ 124,091
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,987	\$ 18,375

Borrowings under revolving line of credit	12,500	-
Accrued compensation and benefits	3,891	4,916
Other accrued liabilities	3,380	3,555
Notes payable, current portion	1,638	2,234
Deferred revenue	10,907	11,062
	-----	-----
Total current liabilities	46,303	40,142
Long-term liabilities:		
Borrowings under revolving line of credit	-	11,200
Notes payable	250	554
Other long-term obligations	4,107	4,176
	-----	-----
Total long-term liabilities	4,357	15,930
	-----	-----
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 authorized; none issued or outstanding		
Common stock, \$.01 par value; 40,000,000 authorized; 24,414,000 and 24,423,000 issued at January 31, 2000 and July 31, 1999	244	244
Additional paid-in capital	260,225	260,057
Accumulated deficit	(200,979)	(191,665)
Unearned compensation	(252)	(385)
Stock subscriptions receivable	(138)	(150)
Accumulated other comprehensive income [loss]	13	(82)
	-----	-----
Total stockholders' equity	59,113	68,019
	-----	-----
	\$ 109,773	\$ 124,091
	=====	=====

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

2

VTEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
(Amounts in thousands, except per share data)

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2000	1999	2000	1999
Revenues:				
Products	\$26,133	\$26,386	\$50,508	\$52,274
Services and other	11,129	11,369	21,820	22,421
	-----	-----	-----	-----
	37,262	37,755	72,328	74,695
Cost of sales:				
Products	15,203	14,483	29,721	27,763
Services and other	7,833	7,485	15,258	14,833
	-----	-----	-----	-----
	23,036	21,968	44,979	42,596
Gross margin	14,226	15,787	27,349	32,099
	-----	-----	-----	-----
Operating expense:				
Selling, general and administrative	13,562	15,916	27,587	34,419
Research and development	3,915	4,638	7,682	9,874
Amortization of intangible assets	378	259	742	511
Restructuring expense	-	2,915	-	2,915
	-----	-----	-----	-----
Total operating expenses	17,855	23,728	36,011	47,719
	-----	-----	-----	-----
Loss from operations	(3,629)	(7,941)	(8,662)	(15,620)

Other income (expense):				
Interest income	130	248	209	536
Interest expense and other	(471)	(251)	(861)	(299)
	(341)	(3)	(652)	237
Net loss before provision for income taxes	(3,970)	(7,944)	(9,314)	(15,383)
Provision for income taxes	-	-	-	-
Net loss	\$ (3,970)	\$ (7,944)	\$ (9,314)	\$ (15,383)
Basic and diluted loss per share:	\$ (0.16)	\$ (0.35)	\$ (0.38)	\$ (0.67)
Weighted average shares outstanding:				
Basic and diluted	24,395	22,987	24,346	23,036

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

3

VTEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in thousands)

	For the Six Months Ended January 31, 2000		1999
Cash flows from operating activities:			
Net loss	\$ (9,314)	\$ (15,383)	
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation and amortization	5,998	5,833	
Provision for doubtful accounts	571	164	
Amortization of unearned compensation	133	120	
Gain on sale of fixed assets	(41)	(40)	
Foreign currency translation loss	124	19	
Decrease in accounts receivable	9,576	5,423	
(Increase) decrease in inventories	1,434	(1,948)	
Increase (decrease) in prepaid expenses and other current assets	150	(199)	
Decrease in accounts payable	(4,386)	(6,000)	
Increase (decrease) in accrued expenses	(1,141)	679	
Increase (decrease) in deferred revenues	(122)	375	
Net cash (used in) provided by operating activities	2,982	(10,973)	
Cash flows from investing activities:			
Net short-term investment activity	2,905	(1,000)	
Net purchase of property and equipment	(1,781)	(7,912)	
Issuance of note receivable	(97)	-	
Increase in capitalized software	(3,147)	(2,993)	
Increase in other assets	(36)	(973)	
Net cash used in investing activities	(2,156)	(12,878)	
Cash flows from financing activities:			
Borrowings under line of credit	1,300	15,000	
Payments on notes payable	(960)	(367)	
Issuance of notes payable	-	3,688	
Net proceeds from issuance of stock	157	257	

Purchase of treasury stock	-	(2,265)
Sale of treasury stock	23	402
	-----	-----
Net cash provided by financing activities	520	16,715
	-----	-----
Effect of translation exchange rates on cash	(29)	(13)
	-----	-----
Net increase (decrease) in cash and equivalents	1,317	(7,149)
Cash and equivalents at beginning of period	7,805	15,191
	-----	-----
Cash and equivalents at end of period	\$ 9,122	\$ 8,042
	=====	=====

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

4

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 - General and Basis of Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accordingly, do not include all information and footnotes required under generally accepted accounting principles for complete financial statements. In the opinion of management, these interim financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the financial position of the Company as of January 31, 2000 and July 31, 1999, the results of the Company's operations for the three and six month period ended January 31, 2000 and 1999 and cash flows for the six month period ended January 31, 2000 and 1999. The results for interim periods are not necessarily indicative of results for a full fiscal year.

Note 2 - Inventories

Inventories consist of the following (amounts in thousands):

	January 31, 2000	July 31, 1999
Raw materials	\$ 8,047	\$ 8,595
Work in process	1,021	1,504
Finished goods	4,258	4,637
Finished goods held for evaluation and rental and loan agreements	793	817
	-----	-----
	\$ 14,119	\$ 15,553
	=====	=====

Finished goods held for evaluation consist of completed digital visual communications systems used for demonstration and evaluation purposes.

Note 3 - Net Income (Loss) Per Share

The Company reports earnings per share under SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive shares outstanding.

5

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

 The calculation of the number of weighted average shares outstanding for basic and dilutive earnings (loss) per share for each of the periods presented is as follows (amounts in thousands):

	For the Three Months Ended January 31		For the Six Months Ended January 31,	
	2000	1999	2000	1999
Weighted average shares				
Outstanding - basic	24,395	22,987	24,346	23,036
	-----	-----	-----	-----
Effect of dilutive securities:				
Stock options	-	-	-	-
	-----	-----	-----	-----
Dilutive potential common shares	-	-	-	-
	-----	-----	-----	-----
Weighted average shares				
Outstanding - diluted	24,395	22,987	24,346	23,036
	=====	=====	=====	=====
Antidilutive securities	4,663	4,512	4,761	4,351
	=====	=====	=====	=====

Note 4 - Restructuring Charge

In November 1998, the Company adopted a restructuring plan which resulted in the reduction of 100 employees (approximately 14%) of the Company. While terminations were effective immediately for most employees upon announcement in November 1998, all employees terminated in the restructuring had left the Company during the third fiscal quarter. The Company also made the decision to reduce operating costs by exiting other activities and reducing the related overhead costs. These activities include the closure or consolidation of certain field sales offices, its Sunnyvale, California spare parts depot and technical assistance center. As a result of the restructuring, the Company recorded a restructuring charge of \$2.9 million during the second fiscal quarter of 1999. All restructuring efforts had been completed by the end of the 1999 fiscal year.

Note 5 - Comprehensive Loss

The Company's comprehensive loss is comprised of net income, foreign currency translation adjustments and unrealized gains and losses on marketable securities held as available-for-sale investments.

Comprehensive loss for the three and six months ended January 31, 2000 was \$4.0 million and \$9.3 million, respectively, and comprehensive loss for the three and six months ended January 31, was \$7.9 million and \$15.4 million, respectively, including the impact of other accumulated comprehensive loss.

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

 Note 6 - Line of Credit

Amounts outstanding under the credit agreement are secured by substantially

all of the Company's assets. The Company has issued a letter of credit totaling \$1.2 million under the line of credit as a lease deposit on one of its facilities. At January 31, 2000, the Company had drawn \$12.5 million under the credit line. The line of credit agreement is subject to loan covenants that require the maintenance of certain financial ratios. As the Company was not in compliance with several of the Financial Covenants, a loan modification and forbearance agreement was completed between the company and its lenders in December 1999. This agreement provided for a revised facility amount of \$15.2 million, a maturity date of March 15, 2000 and provided for the lenders to forbear through February 15, 2000. As of March 10, 2000, the Company had repaid all amounts drawn on the line. The Company expects to obtain an alternative line of credit in the near term.

7

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note 7-Segment Information

In 1999, the Company adopted SFAS 131 "Disclosure about Segments of an Enterprise and Related Information". The Company manages its business primarily on a products and services basis. The Company's reportable segments are Products and Services/Other. The Products segment provides multi-media visual communication (commonly referred to as video teleconferencing) products to customers primarily through a network of resellers, and to a lesser extent directly to end-users. The Services/Other segment provides custom integrated systems, installations and product support services to customers. The accounting policies of the segments are the same as those of the Company.

The Company evaluates the performance of its segments and allocates resources to them based on revenue and operating income; however, there is a charge to allocate certain corporate operating expenses to the segments. The prior year's segment information has been restated to present the Company's reportable segments.

The table below presents segment information about revenue from unaffiliated customers, depreciation and operating income for the three and six month periods ended January 31, 2000 and 1999:

	Products	Services/ Other	Corporate/ Other	Total
	-----	-----	-----	-----
For the three-month period ending				
January 31, 2000				
Revenues from unaffiliated customers	\$ 26,133	\$ 11,129	\$ -	\$ 37,262
Depreciation and amortization	135	291	2,801	3,227
Operating income (loss)	10,930	3,296	(17,855)	(3,629)
For the three-month period ending				
January 31, 1999				
Revenues from unaffiliated customers	\$ 26,386	\$ 11,369	\$ -	\$ 37,755
Depreciation and amortization	45	347	2,684	3,076
Operating income (loss)	11,903	3,884	(23,728)	(7,941)
For the six-month period ending				
January 31, 2000				
Revenues from unaffiliated customers	\$ 50,508	\$ 21,820	\$ -	\$ 72,328
Depreciation and amortization	169	601	5,228	5,998
Operating income (loss)	20,787	6,562	(36,011)	(8,662)
For the six-month period ending				
January 31, 1999				
Revenues from unaffiliated customers	\$ 52,274	\$ 22,421	\$ -	\$ 74,695
Depreciation and amortization	92	694	5,047	5,833
Operating income (loss)	24,511	7,588	(47,719)	(15,620)

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note 8 - Subsequent Events

On March 3, 2000 VTEL settled a lawsuit pending in the 126th Judicial District Court in Travis County, Texas which VTEL had previously initiated against five former employees who left the Company in September 1996 to form Via Video Communications, Inc. ("Via Video"). Via Video was subsequently acquired by Polycom, Inc. Pursuant to the settlement agreement, the former employees of VTEL have paid \$2.5 million in cash and have delivered to VTEL 300,800 shares of common stock of Polycom, Inc., having a market value \$39,104,000 as of March 3, 2000, in settlement of the claims asserted by VTEL. The parties have agreed to dismissal of all claims and counterclaims and third party claims in the lawsuit, ending the litigation. Separately, VTEL voluntarily dismissed Polycom, Inc. and Via Video from the case without consideration.

On March 3, 2000, VTEL granted non-exclusive licenses to Polycom, Inc. ("Polycom") to use three of its patented technologies, and Polycom has agreed to a one time payment to VTEL of \$8.3 million as a fully paid up royalty in exchange for such license. In turn and without any payments by VTEL, Polycom also has granted VTEL a non-exclusive sublicense to its rights under its license agreement with Brown University pertaining to its single camera tracking technology. Through this technology exchange, the parties will have access to specified distinctive technologies of the other for use in their product offerings.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following review of VTEL's financial position as of January 31, 2000 and 1999 and for the three months and six months ended January 31, 2000 and 1999 should be read in conjunction with our 1999 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 5, 1999.

Results of Operations

The following table provides the percentage of revenues represented by certain items in VTEL's Condensed Consolidated Statement of Operations:

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2000	1999	2000	1999
Revenues	100%	100%	100%	100%
Gross margin	38	42	38	43
Selling, general and administrative	36	42	38	46
Research and development	11	12	11	13
Restructuring expense	0	8	0	4
Total operating expenses	48	63	50	64
Net income (loss)	(11)	(21)	(13)	(21)

Three and Six Months Ended January 31, 2000 and 1999

Revenues. Revenue for the quarters ended January 31, 2000 decreased by \$0.5 million, or 1%, to \$37.3 million from \$37.8 million for the quarter ended January 31, 1999. Revenues for the six months ended January 31, 2000 decreased to \$72.3 million from \$74.7 million for the six months ended January 31, 1999, a decrease of \$2.4 million or 3%. The decline over the comparable six month

periods ended January 31, 2000 and 1999 can be attributed to a delay in the purchase decision of our customers as a result of the introduction of VTEL's new product line, Galaxy(TM), which was introduced near the end of the first fiscal quarter of 2000.

Unit sales of our core products Galaxy(TM) and ESA(TM) (Enterprise Series Architecture, our prior generation flagship product line) increased 6% and 9% for the three and six months ended January 31, 2000 as compared to the same periods in fiscal 1999. The declining revenue levels over these same periods reflect the shift in product mix to units with lower average sales prices. Our market analysis indicates that the demand for high end video conferencing solutions is focused on relatively narrow market sectors such as education and state and federal government, while the corporate video conferencing market has migrated toward appliance type products. We continue to excel in the primary and secondary education and government sectors where we are perceived to be gaining market share. We believe that the desk top videoconferencing solution currently addressed by appliance type products by our competitors will ultimately be replaced with Internet solutions using videoconferencing software. This will be accomplished with the proliferation of

10

high speed, broad band internet protocol (IP) networks that are currently being deployed within the United States and abroad. We expect to continue our focus on bringing videoconferencing solutions to our targeted markets while we develop videoconferencing solutions for the Internet.

Total sales of the combined product lines of Galaxy(TM) and ESA(TM) during the quarter ended January 31, 2000 were similar to total sales of the ESA product line in previous quarters. We expect the transition to the Galaxy(TM) product line to continue for several quarters due to the size of the install base of the ESA product line and the desire by our customers to install additional endpoints that are familiar. Approximately 75% of our product sales are from existing customers. A new, more innovative user interface software (Vtouch(TM)) and the additional functionality of H.323 IP (Internet Protocol) networking capability distinguish the Galaxy product line.

For the three and six month periods ended January 31, 2000 and 1999, service revenue as a percent of total revenues was 30%. Less than 10% of service revenue relates to installation of our products and the balance of service revenue relates to maintenance contracts on videoconferencing units previously sold. Service and other revenue declined by \$0.2 million and \$0.6 million in the three and six months ended January 31, 2000 compared to the three and six months ended January 31, 1999. This decline reflects, in part, the decline in product sales over the past year.

International sales represented approximately 25% and 22% respectively, of product revenues for the three months and six months ended January 31, 2000 compared to 28% and 22% respectively, for the three months and six months ended January 31, 1999. These revenue percentages represent export sales from our domestic operations, as well as sales from our foreign subsidiaries that are installed in foreign locations.

VTEL primarily sells its products through resellers. For the three months and six months ended January 31, 2000 reseller sales were 81% and 78% of product sales, respectively. For the three months and six months ended January 31, 1999 reseller sales were 82% and 83% respectively. All other sales of our products are made directly to the end user customer.

One of VTEL's initiatives is to grow revenues from non-U.S. markets. Non-U.S. operations are subject to certain risks inherent in conducting business abroad including price and currency exchange fluctuations and restrictive government actions. We believe our foreign currency exposure to be relatively low as foreign sales are predominantly settled in U.S. dollars. We use currency-hedging programs that utilize foreign currency forward contracts on a limited basis and review the credit worthiness of our customers to mitigate foreign currency exchange and credit risk. There can be no assurance that our foreign currency-hedging program will effectively hedge foreign currency exchange risk.

While we strive for revenue growth, there can be no assurance that revenue growth or profitability can be achieved. Most recently VTEL has experienced neither revenue growth or profitability. Consistent with many companies in the

technology industry, our business model is characterized by a very high degree of operating leverage. Our expense levels are based, in part, on our expectations as to future revenue levels, which are difficult to predict partly due to VTEL's strategy of distributing its products primarily through resellers. Because expense levels are based on our expectations as to future revenues, our expense base is relatively fixed in the short term. If revenue levels are below expectations, operating results may be materially and adversely affected and net income is likely to be disproportionately adversely affected. In addition, our quarterly and annual results may fluctuate as a result of many factors, including price reductions, delays in the introduction of new products,

11

delays in purchase decisions due to new product announcements by VTEL or its competitors, cancellations or delays of orders, interruptions or delays in supplies of key components, changes in reseller base, customer base, business or product mix and seasonal patterns and other shifts of capital spending by customers. There can be no assurance that we will be able to increase or even maintain our current level of revenues on a quarterly or annual basis in the future.

Gross margin. Gross margin as a percentage of total revenues was 38% for the three and six months ended January 31, 2000, a decrease from the gross margin as a percentage for revenues of 42% and 43%, for the three and six months ended January 31, 1999. The decrease in gross margin percentage for the three and six month periods ended January 31, 2000 was the result of a shift by our customers towards the purchase of lower margin products. Additionally, product margins were affected unfavorably by inventory write-downs taken on non-core product lines in the three and six months ended January 31, 2000 that were \$0.7 million greater than the comparable periods.

We believe the shift to smaller group systems will reflect continued transition to visual communications systems that function within an IP network environment. As such, we anticipate that lower gross margins will be offset by stronger unit sales once IP networks proliferate. We expect gross margin pressures due to price competitiveness in the industry, shifts in the product sales mix and anticipated offerings of new products, which may carry a lower gross margin. We expect that overall price competitiveness in the industry will continue to become more intense as users of visual communication systems attempt to balance performance, functionality and cost. Our gross margin is subject to fluctuation based on pricing, production costs and sales mix.

12

Selling, general and administrative. Selling, general and administrative expenses decreased by \$2.4 million, or 15%, to \$13.6 million for the quarter ended January 31, 2000 from \$15.9 million for the quarter ended January 31, 1999. Selling, general and administrative expenses decreased by \$6.8 million, or 20%, to \$27.6 million for the six months ended January 31, 2000 from \$34.4 million for the six months ended January 31, 1999. Selling, general and administrative expenses as a percentage of revenues were 36% and 42% for the three months ended January 31, 2000 and 1999, respectively, and were 38% and 46% for the six months ended January 31, 2000 and 1999, respectively. The overall decline reflects the higher expense levels present during the three and six months ended January 31, 1999, prior to the restructuring efforts. As a result of the restructuring activities, selling, general and administrative expenses were reduced which is reflected in a comparison of the periods ended January 31, 2000 and 1999. However, VTEL believes that it must continue to reduce our selling, general and administrative expenses as a percent of revenues in order to become profitable.

Research and development. Research and development expenses decreased by \$0.7 million, or 16%, to \$3.9 million for the quarter ended January 31, 2000 from \$4.6 million for the quarter ended January 31, 1999. Research and development expenses decreased by \$2.2 million, or 22%, to \$7.7 million for the six months ended January 31, 2000 from \$9.9 million for the six months ended January 31, 1999. Research and development expenses as a percentage of revenues were 11% and 12% for the three months ended January 31, 2000 and 1999, respectively, and were 11% and 13%, respectively, for the six months ended

January 31, 2000 and 1999. Capitalized software development costs totaled \$1.4 million and \$1.8 million for the three months ended January 31, 2000 and 1999 respectively, and \$3.1 and 3.0 million for the six months ended January 31, 2000 and 1999 respectively.

Overall research and development expenditures (including capitalized costs) decreased during the three and six months ended January 31, 2000 in comparison with the three and six months ended January 31, 1999. This reduction reflects in part the completion of the development of our new product line, Galaxy(TM), but it also reflects planned reductions in research and development spending in order to maintain a spending level that is consistent with our cash flow expectations. The effort to reduce spending levels was initiated as part of the restructuring activities that took place in the second quarter of fiscal 1999.

New products are generally characterized by increased functionality and better picture quality at lower bandwidths and often at reduced prices. The introduction of products, by either VTEL or its competitors, embodying new technology and the emergence of new industry standards may render existing products obsolete and unmarketable. Our ability to successfully develop and introduce on a timely basis new and enhanced products that embody new technology, anticipate and incorporate evolving industry standards and achieve levels of functionality and prices acceptable to the market will be a significant factor in VTEL's ability to grow and to remain competitive. Although the percentage of revenues invested in research and development may vary from period to period, VTEL is committed to investing in its research and development programs.

13

Net loss. VTEL generated a net loss of \$4.0 million, or \$0.16 per share, during the quarter ended January 31, 2000 compared to net loss of \$7.9 million or \$0.35 per share, during the quarter ended January 31, 1999. VTEL generated a net loss of \$9.3 million, or \$0.38 per share during the six months ended January 31, 2000 compared to net loss of \$15.4 million, or \$0.67 per share during the six months ended January 31, 1999. The decreased losses for the three and six month periods ended January 31, 2000 reflect in part the restructuring plan adopted during the quarter ended January 31, 1999 which included a restructuring charge of \$2.9 million (see "Restructuring Activities"). The restructuring activities reduced operating expenses to a level more consistent with expected revenue levels. The higher losses for the three and six months ended January 31, 1999 reflect the higher expense levels prior to the restructuring activities. Although we continue to sustain losses in fiscal 2000, a large portion of the total loss is made up of VTEL's continued investment in our Internet businesses. That investment is a key element in our strategy to provide the foundation for future growth and additional value for our shareholders.

There can be no assurance that we will generate net income at lower revenue levels. Current operational planning for the interim has been to incur losses to the extent we maintained positive cash flow. If revenues decline by more than we expect or if the product mix shifts to lower margin products then we could incur further substantial losses in the future and may have to consider additional restructuring measures in future quarters which may have a material adverse affect on VTEL's financial position and results of operations.

Restructuring Activities

In November 1998, the VTEL adopted a restructuring plan which resulted in the reduction of 100 employees (approximately 14%). While terminations were effective immediately for most employees upon announcement in November 1998, all employees terminated in the restructuring had left VTEL during the third fiscal quarter. We also made the decision to reduce operating costs by exiting other activities and reducing the related overhead costs. These activities include the closure or consolidation of certain field sales offices and our Sunnyvale, California spare parts depot and technical assistance center. As a result of the restructuring, we recorded a restructuring charge of \$2.9 million during the second fiscal quarter of 1999. All restructuring efforts had been completed by the end of the 1999 fiscal year.

Introduction of New Product Lines and Services

VTEL continually strives to introduce the latest technology in digital visual communications. During the three months ended October 31, 1999, we introduced our new product line of Galaxy(TM) visual communication systems. The enhanced software included in the Galaxy(TM) line can accommodate and support customer migration to Internet Protocol networks easily because these endpoints can operate on either type network and move from one network architecture to another on a call by call basis through simple software commands. For many customers that previously purchased VTEL products, the migration to Internet Protocol network functionally can be accomplished through software upgrades to existing products.

On January 24, 2000, we announced the formation of Onscreen24(TM), a business unit established by VTEL to focus exclusively on delivering high-impact, visual communications products and services for the World Wide Web. Onscreen24's strategy is to leverage new products, partnerships and acquisitions with existing VTEL assets - technical innovations, software and customer base -

14

that will enable Web-based service providers and portals to deploy media-rich solutions for high-impact communication experiences. Initially focused on business-to-business commerce, Onscreen24 will visually enable communications applications and platforms, making them more unique and enjoyable for the user and thereby more productive and profitable for businesses engaging in E-commerce. Through this strategy, Onscreen24 expects to introduce Video Commerce(R) to Internet customers. Onscreen24's initial objective will focus on market penetration and acceptance of its products in two key areas - Internet infrastructure providers and early adopters of media-rich solutions, specifically online advertising, E-learning and customer relationship management.

Quarterly Revenue Cycle

Historically, a significant percentage of our sales occur in the last few weeks of the quarter. By compressing most of our shipments into a short period of time at the end of each quarter, we will incur overtime costs, sharply increase our inventory levels in anticipation of this demand and deplete or exhaust our backlog of customer orders. Our sales cycle is difficult to predict and manage. It is possible that management's estimates of product demand will be inaccurate and as a result we could experience a rise in inventory levels and a decline in expected revenue levels in any given quarter. Management's estimates of future product revenue are derived from our analysis of market conditions and reports from our sales force of customer leads and prospective interest. Backlog of customer product orders cannot be relied upon to forecast future revenue levels. Because of the short cycle time between customer order and shipment, it is also possible that unanticipated delays from our vendors can disrupt shipments and adversely affect the results in a given quarter. This is especially an issue due to our reliance on a limited number of highly specialized suppliers. The above factors represent uncertainties that can have a material adverse effect on our financial position and results of operations.

Liquidity and Capital Resources

At January 31, 2000, VTEL had working capital of \$8.7 million, including \$10.5 million in cash, cash equivalents and short-term investments. Cash provided by operating activities was \$3.0 million for the six months ended January 31, 2000 and primarily resulted from a decrease in accounts receivable and inventory, which was partially offset by the net operating loss incurred and a decrease in accounts payable. Cash used in operating activities was \$11.0 million for the six months ended January 31, 1999 and primarily resulted from the net operating loss, an increase in inventories and the decrease in accounts payable. This was partially offset by the decrease in accounts receivable.

Net cash used in investing activities during the six months ended January 31, 2000 was \$2.2 million and primarily resulted from an increase in net property and equipment and an increase in capitalized software development costs. Net cash used in investing activities during the six months ended January 31, 1999 was \$12.9 million and primarily resulted from increases in net property and equipment and an increase in capitalized software.

Cash flows provided by financing activities during the six months ended

January 31, 2000 were \$0.5 million and resulted from \$1.3 million being drawn on our revolving line of credit, and was partially offset by payments on notes payable. Cash flows provided by financing activities during the six months ended January 31, 1999 were \$16.7 million and related primarily to \$15.0 million drawn on our revolving line of credit.

15

VTEL has a \$20.0 million revolving line of credit with a banking syndicate. We have issued a letter of credit totaling \$1.2 million under our revolving line of credit as a lease deposit on one of our facilities. At January 31, 2000 we have drawn \$12.5 million under the syndicated line of credit. The line of credit is subject to loan covenants that require the maintenance of certain financial ratios. At January 31, 2000, we were not in compliance with several of the financial covenants. In December 1999, a loan modification and forbearance agreement was completed between VTEL and its lenders. This agreement provided for a revised facility amount of \$15.2 million, a maturity date of March 15, 2000 and provided for the lender to forbear through February 15, 2000. As of March 10, 2000, we had repaid all amounts drawn on the line. We expect to obtain an alternative line of credit in the near term.

VTEL's principal sources of liquidity at January 31, 2000 consisted of \$10.5 million of cash, cash equivalents and short-term investments and the ability to generate cash from operations. In addition, VTEL may be able to monetize certain assets that have significant potential value or secure additional equity infusions in the private marketplace. On March 3, 2000 VTEL announced certain Subsequent Events as noted below that allowed VTEL to realize an immediate increase in cash of \$10.8 million and an increase in marketable securities valued at \$39.1 million.

Subsequent Events

On March 3, 2000 VTEL settled a lawsuit pending in the 126th Judicial District Court in Travis County, Texas which VTEL had previously initiated against five former employees who left the VTEL in September 1996 to form Via Video Communications, Inc. ("Via Video"). Via Video was subsequently acquired by Polycom, Inc. Pursuant to the settlement agreement, the former employees of VTEL have paid \$2.5 million in cash and have delivered to VTEL 300,800 shares of common stock of Polycom, Inc., having a market value \$39,104,000 as of March 3, 2000, in settlement of the claims asserted by VTEL. The parties have agreed to dismissal of all claims and counterclaims and third party claims in the lawsuit, ending the litigation. Separately, VTEL voluntarily dismissed Polycom, Inc. and Via Video from the case without consideration.

On March 3, 2000, VTEL granted non-exclusive licenses to Polycom, Inc. ("Polycom") to use three of its patented technologies, and Polycom has agreed to a one time payment to VTEL of \$8.3 million as a fully paid up royalty in exchange for such license. In turn and without any payments by VTEL, Polycom also has granted VTEL a non-exclusive sublicense to its rights under its license agreement with Brown University pertaining to its single camera tracking technology. Through this technology exchange, the parties will have access to specified distinctive technologies of the other for use in their product offerings.

Legal Matters

VTEL is the defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse affect on our financial condition or results of operations.

General

The markets for our products are characterized by a highly competitive and rapidly changing environment in which operating results are subject to the effects of frequent product introductions, manufacturing technology innovations and rapid fluctuations in product demand. While we attempt to identify and respond to these changes as soon as possible, prediction of and reaction to such events will be an ongoing challenge and may result in revenue shortfalls during certain periods of time.

VTEL's future results of operations and financial condition could be impacted by the following factors, among others: trends in the videoconferencing market, introduction of new products by competitors, increased competition due to the entrance of other companies into the videoconferencing market, especially more established companies with greater resources than ours, delay in the introduction of higher performance products, market acceptance of new products we introduce, price competition, interruption of the supply of low-cost products from third-party manufacturers, changes in general economic conditions in any of the countries in which we do business, adverse legal disputes and delays in purchases relating to federal government procurement. In addition, notwithstanding the internal control procedures instituted by VTEL, there can be no guarantee that accounting errors will not occur.

Due to the factors noted above and elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operations, VTEL's past earnings and stock price has been, and future earnings and stock price potentially may be, subject to significant volatility, particularly on a quarterly basis. Past financial performance should not be considered a reliable indicator of future performance and investors are cautioned in using historical trends to anticipate results or trends in future periods. Any shortfall in revenue or earnings from the levels anticipated by securities analysts could have an immediate and significant effect on the trading price of our common stock in any given period. Also, we participate in a highly dynamic industry, which often contributes to the volatility of our common stock price.

Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results

Certain portions of this report contain forward-looking statements about the business, financial condition and prospects of VTEL. Our actual results could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties including, without limitation, changes in demand for our products and services, changes in competition, economic conditions, interest rates fluctuations, changes in the capital markets, changes in tax and other laws and governmental rules and regulations applicable to our business, and other risks indicated in our filings with the Securities and Exchange Commission. These risks and uncertainties are beyond the ability of our control, and in many cases, we cannot predict all of the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. When used in this report, the words "believes," "estimates," "plans," "expects," "anticipates" and similar expressions as they relate to VTEL or its management are intended to identify forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe our foreign currency exposure to be relatively low as foreign sales are predominantly in U.S. dollars. We use currency hedging programs that utilize foreign currency forward contracts on a limited basis and review the credit worthiness of our customers to mitigate foreign currency exchange and credit risk. For additional Quantitative and Qualitative Disclosures about Market Risk reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended July 31, 1999.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

VTEL is the defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse affect on our financial condition or results of operations.

On March 6, 2000 VTEL filed a Current Report on Form 8K reporting the termination of a pending legal proceeding. Reference is made to such report and

to Note 7 - Subsequent Events in the unaudited financial statements contained herein, for information relating to the disposition of the pending claim.

Item 2.

None

Item 3. Defaults Upon Senior Securities

At January 31, 2000 VTEL was not in compliance with certain covenants as stipulated in the line of credit agreement in place with our lenders and therefore was in technical default. As of March 13, 2000, advances drawn on the line of credit had been repaid. Reference is made to Note 6 - Line of Credit of the unaudited financial statements contained herein, for additional information related to the technical default.

Item 4. Submission of Matters to a Vote of Security Holders

On December 16, 1999, an annual meeting of the stockholders was held whereby shareholders voted on the following proposals:

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

Nominee	For	Withheld	Broker Non-votes
F.H. (Dick) Moeller	20,376,228	522,134	-
Stephen L. Von Rump	20,379,086	519,276	-
Gordon H. Matthews	20,379,444	518,918	-
T. Gary Trimm	20,379,244	519,118	-
Richard Snyder	20,379,444	518,918	-
Kathleen A. Cote	20,379,183	519,179	-
James H. Wells	20,379,329	519,033	-

18

2. Proposal to approve an amendment to the Company's Employee Stock Purchase Plan ("ESPP") to increase the number of shares of the Company's Common Stock issuable under the ESPP upon the exercise of stock options granted pursuant to the ESPP from 950,000 shares to 1,450,000 shares. Details of this plan are incorporated by reference to the Company's proxy statement of December 16, 1999. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain	Broker Non-votes
18,950,085	1,106,570	189,647	-

3. Proposal to approve an amendment of the Company's 1992 Director Stock Option Plan (the "Director Plan") to increase the number of shares of the Company's Common Stock issuable under the Director Plan upon the exercise of stock options granted pursuant to the Director Plan from 150,000 to 250,000 shares and to modify the formula pursuant to which options are granted thereunder. Details of this plan are incorporated by reference to the Company's proxy statement of December 16, 1999. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain	Broker Non-votes
18,521,967	1,526,975	189,647	-

4. Proposal to ratify the Board of Directors' appointment of PricewaterhouseCoopers LLP, independent accountants, as the Company's independent auditors for the year ending July 31, 2000. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain	Broker Non-votes
-----	---------	---------	------------------

20,603,376

203,336

91,650

-

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits:

10.1 Change-in Control Agreements with members of senior management of the Company:

(a) Brian C. Sullivan;

(b) Stephen Cox; and

(c) Stephen Von Rump.

(B) Reports on Form 8-K:

Incorporated by reference to two Forms 8-K filed on March 6, 2000

* * *

19

SIGNATURES

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

VTEL CORPORATION

March 15, 2000

By: /s/ Mark E. Lang

Mark E. Lang
Vice President-Finance
(Chief Financial Officer
and Principal Accounting Officer)

February 15, 2000

Mr. Brian C. Sullivan
Senior Director, Human Resources
VTEL Corporation
108 Wild Basin Road

Austin, TX 78746

Dear Brian,

VTEL Corporation (the "Company") considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. In this connection, should the Company receive a proposal from a third party, whether solicited by the Company or unsolicited, concerning a possible business combination with, or the acquisition of a substantial share of the equity or voting securities of, the Company, the Board of Directors of the Company (the "Board") has determined that it is imperative that it and the Company be able to rely upon your continued services without concern that you might be distracted by the personal uncertainties and risks that such a proposal might otherwise entail. Accordingly, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances that could arise out of a proposal for a change in control of the Company. The Board has also determined that it is in the best interest of the Company and its stockholders to ensure your continued availability to the Company and its subsidiaries in the event of a "potential change in control" (as defined in Section 2 hereof). In order to induce you to remain in the employ of the Company and its subsidiaries and in consideration of your agreement set forth in Section 2(ii) hereof, the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("Agreement") in the event your employment with the Company and its subsidiaries is terminated subsequent to a Change in Control (as defined in Section 2 hereof) under the circumstances described below.

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2000; provided, however, that commencing on January 1, 2001 and each January 1 thereafter, the term of this agreement shall automatically be extended for one additional year unless, not later than September 30 of the preceding year, the Company shall have given notice that it does not wish to extend this Agreement; provided, further, that, notwithstanding any such notice by the Company not to extend, if a Change in Control shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of twenty-four (24) months beyond the expiration of the term in effect immediately before such Change in Control.

2. Change in Control. (i) No benefits shall be payable hereunder unless there shall have been a Change in Control of the Company, as set forth below. For purposes of this Agreement, a "Change in Control" of the Company shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement; provided that, without limitation, such a Change in Control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities; or (B) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board and any new director, whose election to the Board or nomination for election to the Board by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; (C) the stockholders of the Company approve a merger or consolidation of the Company with any other

corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, except that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 40% of the combined voting power of the Company's then outstanding securities shall not constitute a change in control of the Company; or (D) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(ii) For purposes of this Agreement, a "potential change in control of the Company" shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (B) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; (C) any person becomes the beneficial owner, directly or indirectly, of securities of the Company representing 25.0% or more of the combined voting power of the Company's then outstanding securities; or (D) the Board adopts a resolution to the effect that, for purposes of this Agreement, a potential change in control of the Company has occurred. You agree that, subject to the terms and conditions of this Agreement, in the event of a potential change in control of the Company occurring after the date hereof, you will not voluntarily terminate your employment with the Company and its subsidiaries for a period of nine (9) months from the occurrence of such potential change in control of the Company. If more than one potential change in control occurs during the term of this Agreement, the provision of the preceding sentence shall be applicable to each potential change in control occurring prior to the occurrence of a Change in Control.

3. Termination Following Change in Control. If any of the events described in Section 2(i) hereof constituting a Change in Control shall have occurred, you shall be entitled to the benefits provided in Section 4(iv) hereof upon the subsequent termination of your employment with the Company and its subsidiaries during the term of this Agreement unless such termination is

(A) because of your death or Retirement, (B) by the Company or any of its subsidiaries for Disability or Cause or (C) by you other than for Good Reason.

(i) Disability; Retirement. For purposes of this Agreement, "Disability" shall mean permanent and total disability as such term is defined under Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Any question as to the existence of your Disability upon which you and the Company cannot agree shall be determined by a qualified independent physician selected by you (or, if you are unable to make such selection, such selection shall be made by any adult member of your immediate family), and approved by the Company. The determination of such physician made in writing to the Company and to you shall be final and conclusive for all purposes of this Agreement. For purposes of this Agreement, "Retirement" shall mean your voluntary termination of employment with the Company in accordance with the Company's retirement policy (excluding early retirement) generally applicable to its salaried employees or in accordance with any retirement arrangement established with your consent with respect to you.

(ii) Cause. For purposes of this Agreement, "Cause" shall mean your willful breach of duty in the course of your employment, or your habitual neglect of your employment duties or your continued incapacity to perform them. For purposes of this Section 3(ii), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company and its subsidiaries. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel,

to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in this Section 3(ii) and specifying the particulars thereof in detail.

(iii) Good Reason. You shall be entitled to terminate your employment for Good Reason. For the purpose of this Agreement, "Good Reason" shall mean the occurrence, without your express written consent, of any of the following circumstances unless, in the case of paragraphs (A), (E), (F), (G), or (H) such circumstances are fully corrected prior to the Date of Termination (as defined in Section 3(v)) specified in the Notice of Termination (as defined in Section 3(iv)) given in respect thereof:

(A) a substantial diminution in the nature or status of your responsibilities from those in effect immediately prior to the Change in Control,

(B) a reduction by the Company or any of its subsidiaries in your annual base salary as in effect on the date hereof or as the same may be increased from time to time;

(C) a requirement from the Company or any of its subsidiaries for you to be based anywhere outside a radius of 50 miles from the executive office in which you are located prior to the Change in Control except for required travel on the business of the Company and its subsidiaries to an extent substantially consistent with your present business travel obligations;

(D) the failure by the Company to pay to you any portion of an installment of deferred compensation under any deferred compensation program of the Company within seven (7) days of the date such compensation is due;

(E) the failure by the Company or any of its subsidiaries to continue in effect any compensation plan in which you participate prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made in such plan in connection with the Change in Control, or the failure by the Company or any of its subsidiaries to continue your participation therein on the same basis, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control;

(F) the failure by the Company or any of its subsidiaries to continue to provide you with benefits at least as favorable to those enjoyed by you under the employee benefit and welfare plans of the Company and its subsidiaries, including, without limitation, the pension, life insurance, medical, health and accident, disability, deferred compensation and savings plans in which you were participating at the time of the Change in Control, the taking of any action by the Company or any of its subsidiaries which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the Change in Control, or the failure by the Company or any of its subsidiaries to provide you with the number of paid vacation days to which you are entitled at the time of the Change in Control;

(G) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof;

(H) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(iv) below (and, if applicable, the requirements of Section 3(ii) above); for purposes of this Agreement, no such purported termination shall be effective. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder. A Change in Control of the Company shall not, by itself, constitute Good Reason.

(iv) Notice of Termination. Any purported termination of your employment by the Company and its subsidiaries or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 6 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(v) Date of Termination, Etc. "Date of Termination" shall mean (A) if your employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty (30) day period), and (B) if your employment is terminated pursuant to Section 3(ii) or (iii) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 3(ii) above shall not be less than thirty (30) days, and in the case of a termination pursuant to Section 3(iii) above shall not be less than thirty (30) nor more than sixty (60) days, respectively, from the date such Notice of Termination is given); provided that, if within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the grounds for termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or the time for appeal therefrom having expired and no appeal having been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence.

Notwithstanding the pendency of any such dispute, the Company and its subsidiaries will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section 3(v). Amounts paid under this Section 3(v) are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. Compensation Upon Termination or During Disability. Following a Change in Control of the Company, as defined by Section 2(i), upon termination of your employment or during a period of Disability you shall be entitled to the following benefits, provided that such period of Disability or Date of Termination occurs during the term of this Agreement;

(i) During any period that you fail to perform your full-time duties with the Company and its subsidiaries as a result of your Disability, you shall continue to receive an amount equal to your base salary at the rate in effect at the commencement of any such period through the Date of Termination for Disability, together with all amounts payable to you under the disability plans and/or policies of the Company and its subsidiaries. Thereafter, your benefits shall be determined in accordance with the insurance programs of the Company and its subsidiaries then in effect.

(ii) If your employment shall be terminated by the Company or any of its subsidiaries for Cause or by you other than for Good Reason, the Company (or one of its subsidiaries, if applicable) shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and shall pay any amounts to be paid to you pursuant to any other compensation plans, programs or employment agreements then in effect, and the Company shall have no further obligations to you under this Agreement.

(iii) If your employment shall be terminated by reason of your death or Retirement, your benefits shall be determined in accordance with the retirement and the insurance programs of the Company and its subsidiaries then in effect.

(iv) If your employment by the Company and its subsidiaries shall be terminated by (a) the Company and its subsidiaries other than for Cause, your death, Retirement, or Disability or (b) by you for Good Reason, then you shall be entitled to the benefits provided below:

(A) The Company (or one of its subsidiaries, if applicable) shall pay you your full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given, no later than the fifth day following the Date of Termination, plus all other amounts to which you are entitled under any compensation plan of the Company applicable to you, at the time such payments are due;

(B) The Company shall pay as severance pay to you a severance payment (the

"Unadjusted Severance Payment") equal to 1.0 times your "Base Amount" as such term is defined under section 280G(b)(3) of the Code. Your Base Amount shall be determined in accordance with temporary or final regulations promulgated under section 280G of the Code in effect, if any. In the absence of such regulations, if you were not employed by the Company (or any corporation affiliated with the Company (an "Affiliate") within the meaning of section 1504 of the Code or a predecessor of the Company) during the entire five calendar years (the "Base Period") preceding the calendar year in which a change in control of the Company occurred, your average annual compensation for the purposes of such determination shall be the lesser of (1) the average of your annual compensation for the complete calendar years during the Base Period during which you were so employed or (2) the average of your annual compensation for both complete and partial calendar years during the Base Period during which you were so employed, determined by annualizing any compensation (other than nonrecurring items)

includible in your gross income for any partial calendar year or (3) the annual average of your total compensation for the Base Period during which you were so employed, determined by dividing such total compensation by the number of whole and fractional years included in the Base Period. Compensation payable to you by the Company or any Affiliate or predecessor of the Company shall include every type and form of compensation includible in your gross income in respect of your employment by the Company or any Affiliate or predecessor of the Company, including compensation income recognized as a result of your exercise of stock options or sale of the stock so acquired, except to the extent otherwise provided in temporary or final regulations promulgated under section 280G of the Code. For purposes of this Section 4(iv) a "change in control of the Company" shall have the meaning set forth in section 280G of the Code and any temporary or final regulations promulgated thereunder.

(C) The Company shall accelerate vesting of options, both qualified and non-qualified, based on the number of years of continuous employment at the time of termination. Vesting of outstanding options will be accelerated 3 months for each year of employment at the Company. Compensation income recognized by you as a result of your exercise of such stock options or sale of the stock so acquired shall be included in deriving the limitations set forth in Section 4(iv)(D), if such benefits, in the opinion of tax counsel referred to in Section 4(iv)(D), constitute "parachute payments" within the meaning of section 280G of the Code.

(D) The Unadjusted Severance Payment shall not be reduced by the amount of any other payment or the value of any benefit received or to be received by you in connection with your termination of employment or contingent upon a change in control of the Company (whether payable pursuant to the terms of this Agreement or any other agreement, plan or arrangement with the Company or an Affiliate, predecessor or successor of the Company or any person whose actions result in a change in control of the Company or an Affiliate of such person) unless (1) in the opinion of tax counsel selected by the Company's independent auditors and reasonably acceptable to you, such other payment or benefit constitutes a "parachute payment" within the meaning of section 280G(b)(2) of the Code, and (2) in the opinion of such tax counsel, the Unadjusted Severance Payment plus all other payments or benefits which constitute "parachute payments" within the meaning of section 280G(b)(2) of the Code would result in a portion of the Unadjusted Severance Payment being subject to the excise tax under section 4999 of the Code. In such event, the amount of the Unadjusted Severance Payment shall be reduced by the minimum amount necessary such that no portion thereof will be subject to the excise tax under section 4999 of the Code. The Unadjusted Severance Payment, as reduced, if at all, pursuant to the provisions of this paragraph shall be referred to as the Adjusted Severance Payment. In determining whether the Unadjusted Severance Payment shall be reduced under this paragraph, (i) there shall not be included in the computation any payment if you shall have

effectively waived your receipt or enjoyment of such payment or benefit, and (ii) the value of any non-cash benefit or any deferred cash payment shall be determined by the Company's independent auditors in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(E) Except to the extent that the payment thereof would subject any payment hereunder to the excise tax under section 4999 of the Code:

(1) The Company shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to

obtain or enforce any right or benefit provided by this Agreement); and

(2) For a twelve (12) month period after termination of your employment, the Company shall arrange, at your expense, to provide you with life, disability, accident and health insurance benefits substantially similar to those which you are receiving or entitled to receive immediately prior to the Notice of Termination. Benefits otherwise receivable by you pursuant to this Section 4 (iv) (D) (2) shall be reduced to the extent comparable benefits are actually received by you during the twenty-four (24) month period following your termination, and any such benefits actually received by you shall be reported to the Company.

(F) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of you and the Company in applying the terms of this Section 4 (iv), the aggregate "parachute payments" paid to or for your benefit are in an amount that would result in any portion of such "parachute payments" being subject to the excise tax under section 4999 of the Code, then you shall have an obligation to pay the Company upon demand an amount equal to the sum of (1) the excess of the aggregate "parachute payments" paid to or for your benefit over the aggregate "parachute payments" that would have been paid to or for your benefit without any portion of such "parachute payments" being subject to the excise tax under section 4999 of the Code; and (2) interest on the amount set forth in clause (1) of this sentence at the applicable Federal rate (as defined in section 1274(d) of the Code) from the date of your receipt of such excess until the date of such payment.

(G) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise except as specifically provided in this Section 4.

(H) The Company shall pay you the Unadjusted Severance Payment in a lump sum no later than the fifth day following the Date of Termination; provided, however, that if the Company in good faith believes that the Unadjusted Severance Payment shall be reduced under the provisions of Section 4 (iv) (C) hereof, the Company shall pay to you at such time a good faith estimate of the Adjusted Severance Payment (the "Estimated Adjusted Severance Payment", the computation of which shall be given to you in writing together with a written explanation of the basis for making such adjustment) which amount shall in no event be less than 50% of the Unadjusted Severance Payment. The Company shall, within 60 days of the Date of Termination, either pay to you the balance of the Unadjusted Severance Payment together with interest thereon at the applicable Federal rate (as defined in section 1274(d) of the Code) or deliver to you a copy of the opinion of the tax counsel referred to in Section 4(iv) (C) hereof establishing the amount of the Adjusted Severance Payment. If the Adjusted Severance Payment exceeds the Estimated Adjusted Severance Payment, the difference shall be paid to you at such time together with interest thereon at the applicable Federal rate (as defined in section 1274(d) of the Code).

5. Successors; Binding Agreement.

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you had terminated your employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any such successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. (ii) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had

continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

6. Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer with a copy to the Chief Financial Officer, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

7. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior to subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

8. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

/s/ Dick Moeller

Dick Moeller
Chairman of the Board
VTEL Corporation

Agreed to this ____ day of _____, 2000.

/s/ Brian C. Sullivan

Brian C. Sullivan

February 15, 2000

Mr. Stephen Cox

CIO and Vice-President, Information Services
VTEL Corporation
108 Wild Basin Road

Austin, TX 78746

Dear Stephen,

VTEL Corporation (the "Company") considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. In this connection, should the Company receive a proposal from a third party, whether solicited by the Company or unsolicited, concerning a possible business combination with, or the acquisition of a substantial share of the equity or voting securities of, the Company, the Board of Directors of the Company (the "Board") has determined that it is imperative that it and the Company be able to rely upon your continued services without concern that you might be distracted by the personal uncertainties and risks that such a proposal might otherwise entail. Accordingly, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances that could arise out of a proposal for a change in control of the Company. The Board has also determined that it is in the best interest of the Company and its stockholders to ensure your continued availability to the Company and its subsidiaries in the event of a "potential change in control" (as defined in Section 2 hereof). In order to induce you to remain in the employ of the Company and its subsidiaries and in consideration of your agreement set forth in Section 2(ii) hereof, the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("Agreement") in the event your employment with the Company and its subsidiaries is terminated subsequent to a Change in Control (as defined in Section 2 hereof) under the circumstances described below.

1. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 2000; provided, however, that commencing on January 1, 2001 and each January 1 thereafter, the term of this agreement shall automatically be extended for one additional year unless, not later than September 30 of the preceding year, the Company shall have given notice that it does not wish to extend this Agreement; provided, further, that, notwithstanding any such notice by the Company not to extend, if a Change in Control shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of twenty-four (24) months beyond the expiration of the term in effect immediately before such Change in Control.

2. Change in Control. (i) No benefits shall be payable hereunder unless there shall have been a Change in Control of the Company, as set forth below. For purposes of this Agreement, a "Change in Control" of the Company shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is then subject to such reporting requirement; provided that, without limitation, such a Change in Control shall be deemed to have occurred if (A) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities; or (B) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board and any new director, whose election to the Board or nomination for election to the Board by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; (C) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 60% of the combined

voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, except that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 40% of the combined voting power of the Company's then outstanding securities shall not constitute a change in control of the Company; or (D) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(ii) For purposes of this Agreement, a "potential change in control of the Company" shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (B) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; (C) any person becomes the beneficial owner, directly or indirectly, of securities of the Company representing 25.0% or more of the combined voting power of the Company's then outstanding securities; or (D) the Board adopts a resolution to the effect that, for purposes of this Agreement, a potential change in control of the Company has occurred. You agree that, subject to the terms and conditions of this Agreement, in the event of a potential change in control of the Company occurring after the date hereof, you will not voluntarily terminate your employment with the Company and its subsidiaries for a period of nine (9) months from the occurrence of such potential change in control of the Company. If more than one potential change in control occurs during the term of this Agreement, the provision of the preceding sentence shall be applicable to each potential change in control occurring prior to the occurrence of a Change in Control.

3. Termination Following Change in Control. If any of the events described in Section 2(i) hereof constituting a Change in Control shall have occurred, you shall be entitled to the benefits provided in Section 4(iv) hereof upon the subsequent termination of your employment with the Company and its subsidiaries during the term of this Agreement unless such termination is

(A) because of your death or Retirement, (B) by the Company or any of its subsidiaries for Disability or Cause or (C) by you other than for Good Reason.

(i) Disability; Retirement. For purposes of this Agreement, "Disability" shall mean permanent and total disability as such term is defined under Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Any question as to the existence of your Disability upon which you and the Company cannot agree shall be determined by a qualified independent physician selected by you (or, if you are unable to make such selection, such selection shall be made by any adult member of your immediate family), and approved by the Company. The determination of such physician made in writing to the Company and to you shall be final and conclusive for all purposes of this Agreement. For purposes of this Agreement, "Retirement" shall mean your voluntary termination of employment with the Company in accordance with the Company's retirement policy (excluding early retirement) generally applicable to its salaried employees or in accordance with any retirement arrangement established with your consent with respect to you.

(ii) Cause. For purposes of this Agreement, "Cause" shall mean your willful breach of duty in the course of your employment, or your habitual neglect of your employment duties or your continued incapacity to perform them. For purposes of this Section 3(ii), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company and its subsidiaries. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in this Section 3(ii) and specifying the particulars thereof in detail.

(iii) Good Reason. You shall be entitled to terminate your employment for Good

Reason. For the purpose of this Agreement, "Good Reason" shall mean the occurrence, without your express written consent, of any of the following circumstances unless, in the case of paragraphs (A), (E), (F), (G), or (H) such circumstances are fully corrected prior to the Date of Termination (as defined in Section 3(v)) specified in the Notice of Termination (as defined in Section 3(iv)) given in respect thereof:

(A) a substantial diminution in the nature or status of your responsibilities from those in effect immediately prior to the Change in Control,

(B) a reduction by the Company or any of its subsidiaries in your annual base salary as in effect on the date hereof or as the same may be increased from time to time;

(C) a requirement from the Company or any of its subsidiaries for you to be based anywhere outside a radius of 50 miles from the executive office in which you are located prior to the Change in Control except for required travel on the business of the Company and its subsidiaries to an extent substantially consistent with your present business travel obligations;

(D) the failure by the Company to pay to you any portion of an installment of deferred compensation under any deferred compensation program of the Company within seven (7) days of the date such compensation is due;

(E) the failure by the Company or any of its subsidiaries to continue in effect any compensation plan in which you participate prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made in such plan in connection with the Change in Control, or the failure by the Company or any of its subsidiaries to continue your participation therein on the same basis, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change in Control;

(F) the failure by the Company or any of its subsidiaries to continue to provide you with benefits at least as favorable to those enjoyed by you under the employee benefit and welfare plans of the Company and its subsidiaries, including, without limitation, the pension, life insurance, medical, health and accident, disability, deferred compensation and savings plans in which you were participating at the time of the Change in Control, the taking of any action by the Company or any of its subsidiaries which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the Change in Control, or the failure by the Company or any of its subsidiaries to provide you with the number of paid vacation days to which you are entitled at the time of the Change in Control;

(G) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof;

(H) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(iv) below (and, if applicable, the requirements of Section 3(ii) above); for purposes of this Agreement, no such purported termination shall be effective. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder. A Change in Control of the Company shall not, by itself, constitute Good Reason.

(iv) Notice of Termination. Any purported termination of your employment by the Company and its subsidiaries or by you shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 6 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

(v) Date of Termination, Etc. "Date of Termination" shall mean (A) if your employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such thirty (30) day period), and (B) if your

employment is terminated pursuant to Section 3(ii) or (iii) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 3(ii) above shall not be less than thirty (30) days, and in the case of a termination pursuant to Section 3(iii) above shall not be less than thirty (30) nor more than sixty (60) days, respectively, from the date such Notice of Termination is given); provided that, if within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the grounds for termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or the time for appeal therefrom having expired and no appeal having been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence.

Notwithstanding the pendency of any such dispute, the Company and its subsidiaries will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section 3(v). Amounts paid under this Section 3(v) are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. Compensation Upon Termination or During Disability. Following a Change in Control of the Company, as defined by Section 2(i), upon termination of your employment or during a period of Disability you shall be entitled to the following benefits, provided that such period of Disability or Date of Termination occurs during the term of this Agreement;

(i) During any period that you fail to perform your full-time duties with the Company and its subsidiaries as a result of your Disability, you shall continue to receive an amount equal to your base salary at the rate in effect at the commencement of any such period through the Date of Termination for Disability, together with all amounts payable to you under the disability plans and/or policies of the Company and its subsidiaries. Thereafter, your benefits shall be determined in accordance with the insurance programs of the Company and its subsidiaries then in effect.

(ii) If your employment shall be terminated by the Company or any of its subsidiaries for Cause or by you other than for Good Reason, the Company (or one of its subsidiaries, if applicable) shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and shall pay any amounts to be paid to you pursuant to any other compensation plans, programs or employment agreements then in effect, and the Company shall have no further obligations to you under this Agreement.

(iii) If your employment shall be terminated by reason of your death or Retirement, your benefits shall be determined in accordance with the retirement and the insurance programs of the Company and its subsidiaries then in effect.

(iv) If your employment by the Company and its subsidiaries shall be terminated by (a) the Company and its subsidiaries other than for Cause, your death, Retirement, or Disability or (b) by you for Good Reason, then you shall be entitled to the benefits provided below:

(A) The Company (or one of its subsidiaries, if applicable) shall pay you your full base salary through the Date of Termination at the rate in effect at the time the Notice of Termination is given, no later than the fifth day following the Date of Termination, plus all other amounts to which you are entitled under any compensation plan of the Company applicable to you, at the time such payments are due;

(B) The Company shall pay as severance pay to you a severance payment (the "Unadjusted Severance Payment") equal to 1.8 times your "Base Amount" as such term is defined under section 280G(b)(3) of the Code. Your Base Amount shall be determined in accordance with temporary or final regulations promulgated under section 280G of the Code in effect, if any. In the absence of such regulations, if you were not employed by the Company (or any corporation affiliated with the

Company (an "Affiliate") within the meaning of section 1504 of the Code or a predecessor of the Company) during the entire five calendar years (the "Base Period") preceding the calendar year in which a change in control of the Company occurred, your average annual compensation for the purposes of such determination shall be the lesser of (1) the average of your annual compensation for the complete calendar years during the Base Period during which you were so employed or (2) the average of your annual compensation for both complete and partial calendar years during the Base Period during which you were so employed, determined by annualizing any compensation (other than nonrecurring items) includible in your gross income for any partial calendar year or (3) the annual

average of your total compensation for the Base Period during which you were so employed, determined by dividing such total compensation by the number of whole and fractional years included in the Base Period. Compensation payable to you by the Company or any Affiliate or predecessor of the Company shall include every type and form of compensation includible in your gross income in respect of your employment by the Company or any Affiliate or predecessor of the Company, including compensation income recognized as a result of your exercise of stock options or sale of the stock so acquired, except to the extent otherwise provided in temporary or final regulations promulgated under section 280G of the Code. For purposes of this Section 4(iv) a "change in control of the Company" shall have the meaning set forth in section 280G of the Code and any temporary or final regulations promulgated thereunder.

(C) The Company shall accelerate vesting of options, both qualified and non-qualified, based on the number of years of continuous employment at the time of termination. Vesting of outstanding options will be accelerated 3 months for each year of employment at the Company. Compensation income recognized by you as a result of your exercise of such stock options or sale of the stock so acquired shall be included in deriving the limitations set forth in Section 4(iv)(D), if such benefits, in the opinion of tax counsel referred to in Section 4(iv)(D), constitute "parachute payments" within the meaning of section 280G of the Code.

(D) The Unadjusted Severance Payment shall not be reduced by the amount of any other payment or the value of any benefit received or to be received by you in connection with your termination of employment or contingent upon a change in control of the Company (whether payable pursuant to the terms of this Agreement or any other agreement, plan or arrangement with the Company or an Affiliate, predecessor or successor of the Company or any person whose actions result in a change in control of the Company or an Affiliate of such person) unless (1) in the opinion of tax counsel selected by the Company's independent auditors and reasonably acceptable to you, such other payment or benefit constitutes a "parachute payment" within the meaning of section 280G(b) (2) of the Code, and (2) in the opinion of such tax counsel, the Unadjusted Severance Payment plus all other payments or benefits which constitute "parachute payments" within the meaning of section 280G(b) (2) of the Code would result in a portion of the Unadjusted Severance Payment being subject to the excise tax under section 4999 of the Code. In such event, the amount of the Unadjusted Severance Payment shall be reduced by the minimum amount necessary such that no portion thereof will be subject to the excise tax under section 4999 of the Code. The Unadjusted Severance Payment, as reduced, if at all, pursuant to the provisions of this paragraph shall be referred to as the Adjusted Severance Payment. In determining whether the Unadjusted Severance Payment shall be reduced under this paragraph, (i) there shall not be included in the computation any payment if you shall have

effectively waived your receipt or enjoyment of such payment or benefit, and (ii) the value of any non-cash benefit or any deferred cash payment shall be determined by the Company's independent auditors in accordance with the principles of sections 280G(d) (3) and (4) of the Code.

(E) Except to the extent that the payment thereof would subject any payment hereunder to the excise tax under section 4999 of the Code:

(1) The Company shall also pay to you all legal fees and expenses incurred by you as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement); and

(2) For a twelve (12) month period after termination of your employment, the Company shall arrange, at your expense, to provide you with life, disability, accident and health insurance benefits substantially similar to those which you

are receiving or entitled to receive immediately prior to the Notice of Termination. Benefits otherwise receivable by you pursuant to this Section 4 (iv) (D) (2) shall be reduced to the extent comparable benefits are actually received by you during the twenty-four (24) month period following your termination, and any such benefits actually received by you shall be reported to the Company.

(F) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of you and the Company in applying the terms of this Section 4 (iv), the aggregate "parachute payments" paid to or for your benefit are in an amount that would result in any portion of such "parachute payments" being subject to the excise tax under section 4999 of the Code, then you shall have an obligation to pay the Company upon demand an amount equal to the sum of (1) the excess of the aggregate "parachute payments" paid to or for your benefit over the aggregate "parachute payments" that would have been paid to or for your benefit without any portion of such "parachute payments" being subject to the excise tax under section 4999 of the Code; and (2) interest on the amount set forth in clause (1) of this sentence at the applicable Federal rate (as defined in section 1274(d) of the Code) from the date of your receipt of such excess until the date of such payment.

(G) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise except as specifically provided in this Section 4.

(H) The Company shall pay you the Unadjusted Severance Payment in a lump sum no later than the fifth day following the Date of Termination; provided, however, that if the Company in good faith believes that the Unadjusted Severance Payment shall be reduced under the provisions of Section 4 (iv)(C) hereof, the Company shall pay to you at such time a good faith estimate of the Adjusted Severance Payment (the "Estimated Adjusted Severance Payment", the computation of which shall be given to you in writing together with a written explanation of the basis for making such adjustment) which amount shall in no event be less than 50% of the Unadjusted Severance Payment. The Company shall, within 60 days of the Date of Termination, either pay to you the balance of the Unadjusted Severance Payment together with interest thereon at the applicable Federal rate (as defined in section 1274(d) of the Code) or deliver to you a copy of the opinion of the tax counsel referred to in Section 4(iv)(C) hereof establishing the amount of the Adjusted Severance Payment. If the Adjusted Severance Payment exceeds the Estimated Adjusted Severance Payment, the difference shall be paid to you at such time together with interest thereon at the applicable Federal rate (as defined in section 1274(d) of the Code).

5. Successors; Binding Agreement.

(i) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you had terminated your employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any such successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. (ii) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

6. Notice. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Chief Executive Officer with a copy to the Chief Financial Officer, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

7. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior to subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

8. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

/s/ Dick Moeller

Dick Moeller
Chairman of the Board
VTEL Corporation

Agreed to this ____ day of _____, 2000.

/s/ Steven Cox

Steven Cox

February 15, 2000

Mr. Stephen Von Rump
CEO and President
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

RE: Amendment of Change in Control Agreement

Dear Stephen,

Reference is made to that certain Letter Agreement, dated September 9, 1998, by and between you and the undersigned, relating to your continued employment by VTEL Corporation (the "Company") following a change in control of the Company (the "Letter Agreement"). Pursuant to Section 4 (iv)(B) of the Letter Agreement, you are entitled to receive as severance pay a payment equal to 1.8 times your base amount (a "Severance Payment") as such term is defined under section 280G of the Code in effect, if any (the "Base Amount"). Pursuant to Section 4 (iv)(C) of the Letter Agreement, you are also entitled to an accelerated vesting of outstanding options, both qualified and non-qualified, such that the vesting of those options will be accelerated 3 months for each year of employment at the Company.

However, in consideration of your recent promotion within the Company, you and the undersigned desire to amend the Letter Agreement to increase the Severance Payment to 2.5 times your Base Amount. You and the undersigned also desire to amend the Letter Agreement to increase the acceleration of the vesting of options to 6 months for each year of employment.

Therefore, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the first sentence of Section 4 (iv)(B) of the Letter Agreement is hereby amended to read in its entirety as follows:

The Company shall pay as severance pay to you a severance payment (the "Unadjusted Severance Payment") equal to 2.5 times your "Base Amount" as such term is defined under section 280G(b)(3) of the Code.

Also, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the second sentence of Section 4 (iv)(C) of the Letter Agreement is hereby amended to read in its entirety as follows:

Vesting of outstanding options will be accelerated 6 months for each year of employment at the Company.

Except as provided herein, the Letter Agreement shall otherwise remain in full force and effect, as amended hereby. If you agree with the foregoing, please so indicate in the space provided below.

Sincerely,

/s/ Dick Moeller

Dick Moeller
Chairman of the Board
VTEL Corporation

Agreed and accepted:

/s/ Stephen Von Rump

Stephen Von Rump
Date

<ARTICLE> 5
<LEGEND>

This schedule contains summary financial information extracted from VTEL Corporation's Balance Sheet & Income Statement for the six months ended January 31, 2000, and is qualified in its entirety by reference to such quarterly report on Form 10-Q filing.

</LEGEND>
<CIK> 0000884144
<NAME> VTEL Corporation
<MULTIPLIER> 1
<CURRENCY> U.S. Dollars

<PERIOD-TYPE> 3-MOS
<FISCAL-YEAR-END> JUL-31-2000
<PERIOD-START> NOV-01-1999
<PERIOD-END> JAN-31-2000
<EXCHANGE-RATE> 1
<CASH> 9,122,000
<SECURITIES> 1,403,000
<RECEIVABLES> 29,922,000
<ALLOWANCES> (1,778,000)
<INVENTORY> 14,119,000
<CURRENT-ASSETS> 54,958,000
<PP&E> 59,261,000
<DEPRECIATION> (32,249,000)
<TOTAL-ASSETS> 109,773,000
<CURRENT-LIABILITIES> 46,303,000
<BONDS> 0
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<COMMON> 260,469,000
<OTHER-SE> (201,356,000)
<TOTAL-LIABILITY-AND-EQUITY> 109,773,000
<SALES> 0
<TOTAL-REVENUES> 72,328,000
<CGS> 44,979,000
<TOTAL-COSTS> 36,011,000
<OTHER-EXPENSES> 31
<LOSS-PROVISION> 0
<INTEREST-EXPENSE> (683,000)
<INCOME-PRETAX> (9,314,000)
<INCOME-TAX> 0
<INCOME-CONTINUING> (9,314,000)
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> (9,314,000)
<EPS-BASIC> (0.38)
<EPS-DILUTED> (0.38)