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 OCTOBER 31, 1996

Commission file number 0-20008

VTEL CORPORATION

A DELAWARE CORPORATION IRS EMPLOYER ID NO. 74-2415696

108 WILD BASIN ROAD
AUSTIN, TEXAS 78746

(512) 314-2700

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 December 1, 1996 the registrant had outstanding 13,940,567 shares of its Common Stock, $0.01 par value.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VTEL Corporation
CONDENSED CONSOLIDATED BALANCE SHEET

	October 31, 1996 (Unaudited)	July 31, 1996
ASSETS		
Current assets:		
Cash and equivalents	$ 1,502,000	$ 1,973,000
Short-term investments	40,666,000	48,307,000
Accounts receivable, net of allowance for doubtful accounts of $240,000 and $203,000 at October 31, 1996 and July 31, 1996	23,539,000	15,585,000
Inventories	13,723,000	15,004,000
Prepaid expenses and other current assets	1,241,000	1,597,000
Total current assets	80,671,000	82,466,000
Property and equipment, net	14,066,000	13,906,000
Intangible assets, net	13,488,000	13,730,000
Other assets	1,742,000	1,801,000
	$109,967,000	$111,903,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,942,000	$ 9,831,000
Accrued compensation and benefits	1,510,000	1,529,000
Other accrued liabilities	1,693,000	2,241,000
Research and development advance	906,000	906,000
Deferred revenue	5,082,000	2,980,000
Total current liabilities	18,133,000	17,487,000
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 25,000,000 authorized; 13,904,000 and 14,308,000 issued and outstanding at October 31, 1996 and July 31, 1996	139,000	143,000
Additional paid-in capital	124,477,000	124,190,000
Treasury stock	(3,351,000)	-
Accumulated deficit	(29,224,000)	(30,068,000)
Cumulative translation adjustment	(1,000)	151,000
Unearned compensation	(206,000)	-
Total stockholders' equity	91,834,000	94,416,000
	$109,967,000	$111,903,000

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

VTEL Corporation

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

	For the Three Months Ended October 31, 1996	1995
Revenues:		
Products	$20,962,000	$18,410,000
Services and other	7,237,000	1,100,000
	28,199,000	19,510,000
Cost of sales:		
Products	11,073,000	9,169,000
Services and other	4,795,000	419,000
	15,868,000	9,588,000
Gross margin	12,331,000	9,922,000
Selling, general and administrative	8,867,000	7,120,000
Research and development	2,918,000	2,969,000
Amortization of intangible assets	240,000	-
Total operating expenses	12,025,000	10,089,000
Income (loss) from operations	306,000	(167,000)
Other income (expense):		
Interest income	609,000	361,000
Other	58,000	(41,000)

	667,000	320,000
Net income before provision for income taxes	973,000	153,000
Provision for income taxes	(19,000)	(21,000)
Net income	$ 954,000	$ 132,000
Net income per share	$ 0.07	$ 0.01
Weighted average shares outstanding	14,575,000	13,054,000

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

VTEL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	For the Three Months Ended October 31, 1996	1995
Cash flows from operating activities:		
Net income	$ 973,000	$ 132,000
Adjustments to reconcile net income to net cash from operations:		
Depreciation and amortization	1,972,000	851,000
Provision for doubtful accounts	35,000	6,000
Amortization of unearned compensation	(206,000)	5,000
Amortization of deferred gain	(24,000)	(24,000)
Foreign currency translation (gain) loss	(39,000)	69,000
(Increase) decrease in accounts receivable	(7,989,000)	3,108,000
(Increase) decrease in inventories	1,281,000	(2,183,000)
(Increase) decrease in prepaid expenses and other current asse	356,000	(381,000)
Increase (decrease) in accounts payable	(889,000)	908,000
Increase (decrease) in accrued expenses	(562,000)	707,000
Increase (decrease) in deferred revenues	2,102,000	(127,000)
Net cash provided by (used in) operating activities	(2,990,000)	3,071,000
Cash flows from investing activities:		
Net short-term investment activity	7,641,000	(56,573,000)
Net purchase of property and equipment	(1,890,000)	(1,767,000)
(Increase) decrease in other assets	59,000	(166,000)
Net cash provided by (used in) investing activities	5,810,000	(58,506,000)
Cash flows from financing activities:		
Principal payments under capital lease obligations	-	(1,000)
Net proceeds from issuance of stock	563,000	57,590,000
Purchase of treasury stock	(3,742,000)	-
Net cash provided by (used in) financing activities	(3,179,000)	57,589,000

Effect of translation exchange rates on cash	(112,000)	(106,000)
Net increase (decrease) in cash and equivalents	(471,000)	2,048,000
Cash and equivalents at beginning of period	1,973,000	2,283,000
Cash and equivalents at end of period	$ 1,502,000	$ 4,331,000

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

VTEL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

VTEL Corporation (the "Company") designs, manufactures, markets,services and supports integrated, multi-media videoconferencing systems which operate over private and switched digital communication networks. The Company distributes its systems to a domestic and international marketplace through third parties.

The Company's systems integrate traditional video and audio conferencing with additional functions including the sharing of PC software applications and the transmission of high-resolution images and facsimiles. Through the use of the Company's multi-media conferencing systems, users are able to replicate more closely the impact and effectiveness of face-to-face meetings. The Company's headquarters and production facilities are in Austin, Texas.

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 only normal, recurring adjustments, necessary for a fair presentation of the financial position of the Company as of October 31, 1996 and the results of the Company's operations and its cash flows for the three month period ended October 31, 1996. The results for interim periods are not necessarily indicative of results for a full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements (including the notes thereto) contained in the Company's 1996 Transition Report on Form 10-K filed with the Securities and Exchange Commission on November 13, 1996.

NOTE 2 - INVENTORIES

Inventories consist of the following:

	OCTOBER 31, 1996	JULY 31, 1996
Raw materials	$ 8,327,000	$ 8,959,000
Work in process	1,920,000	920,000
Finished goods	2,855,000	4,508,000
Finished goods held for evaluation	621,000	617,000
	$13,723,000	$15,004,000

=========== ===========

Finished goods held for evaluation consists of completed multi-media communication systems used for demonstration and evaluation purposes, which are generally sold during the next 12 months.

NOTE 3 - NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period.

NOTE 4 - TREASURY STOCK

During the fiscal period ended July 31, 1996, the Company adopted a share repurchase program whereby the Company may repurchase shares of its Common Stock in the open market provided that the aggregate purchase price of the shares repurchased does not exceed $8.4 million and the repurchase price for any shares does not exceed $12 per share. The repurchased shares will be issued from time to time to fulfill requirements for the Company's Common Stock under its employee stock plans. During the quarter ended October 31, 1996, the Company repurchased 455,200 shares of its Common Stock for $3,742,000. At October 31, 1996, the Company has 407,848 shares of treasury stock. The Company applies the cost method of accounting for its treasury stock.

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

The following review of the Company's financial position and results of operations for the three month periods ended October 31, 1996 and 1995 should be read in conjunction with the Company's 1996 Transition Report on Form 10-K filed with the Securities and Exchange Commission on November 13, 1996.

In May 1996, the Company changed its fiscal year end from December 31 to July 31. As such, the quarter ended October 31, 1996 represents the first quarter of the Company's 1997 fiscal year. The comparative information for the quarter ended October 31, 1995 has been restated from the information presented in prior Quarterly Reports on Form 10-Q to conform to the Company's newly adopted fiscal quarters.

RESULTS OF OPERATIONS

The following table sets forth for the fiscal periods indicated the percentage of revenues represented by certain items in the Company's Condensed Consolidated Statement of Operations:

	FOR THE THREE MONTHS ENDED OCTOBER 31, 1996	1995
Revenues	100%	100%
Gross margin	44	51
Selling, general and administrative	31	37
Research and development	10	15
Total operating expenses	43	52
Other income, net	2	2
Net income (loss)	3%	1%

THREE MONTHS ENDED OCTOBER 31, 1996 AND 1995

Revenues. Revenues for the quarter ended October 31, 1996 increased to $28,199,000 from $19,510,000 in the quarter ended October 31, 1995, an increase of $8,689,000 or 45%. The increase in revenues is due to an increase in the number of units sold during the quarter ended October 31, 1996 and additional videoconferencing-related revenues generated during the quarter ended October 31, 1996 by the Company's systems integration and service operations which were acquired in November 1995.

The following table summarizes the Company's group system unit sales activity:

	FOR THE THREE MONTHS ENDED OCTOBER 31, 1996	1995
Large group conferencing systems	484	377
Small group conferencing systems	104	75
Multipoint control units	31	33
Total units	619	485

The increase in sales of the Company's large group conferencing systems during the quarter ended October 31, 1996 in comparison with the quarter ended October 31, 1995 is due to the introduction of the MediaMax-based Leadership Conferencing systems during the fourth calendar quarter of 1995 and the Lynx-based Team Conferencing systems during the second calendar quarter of 1996. Sales of these new products represented almost 80% of large group conferencing revenues for the quarter ended October 31, 1996. The increase in sales of the Company's small group conferencing systems during the quarter ended October 31, 1996 in comparison with the quarter ended October 31, 1995 is due to the introduction of the small group Lynx-based Team Conferencing Model 1000 system during the second calendar quarter of 1996.

The average selling price for a group system sold in the quarters ended October 31, 1996 and 1995 was approximately $33,000 and $41,000, respectively. The decrease in the average selling price is attributable to the increase in shipments during the quarter ended October 31, 1996 of the Lynx-based Team Conferencing systems which generally carry a lower average selling price than the Company's MediaMax-based products.

During the first calendar quarter of 1996, the Company introduced its Personal Collaborator videoconferencing kits as part of its desktop system product line. Desktop system products represented 3% and 1% of products sales for the quarters ended October 31, 1996 and 1995, respectively.

International sales contributed approximately 24% of product revenues for the quarter ended October 31, 1996 as compared to 16% in the quarter ended October 31, 1995.

While the Company strives for consistent revenue growth, there can be no assurance that consistent revenue growth or profitability can be achieved. Consistent with many companies in the technology industry, the Company's business model is characterized by a very high degree of operating leverage. The Company's expense levels are based, in part, on its expectations as to future revenue levels, which are difficult to predict partly due to the Company's strategy of distributing its products through resellers.

Because expense levels are based on the Company's expectations as to future revenues, the Company's 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, the Company's quarterly and annual results may fluctuate as a result of many factors, including price reductions, delays in the introduction of new products, delays in purchase decisions due to new product announcements by the Company 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 the Company will be able to increase or even maintain its current level of revenues on a quarterly or annual basis in the future. Due to all of the foregoing factors, it is possible that in one or more future quarters the Company's operating results will be below the expectations of public securities market analysts. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

Gross margin. Gross margin as a percentage of total revenues in the quarter ended October 31, 1996 was 44%, a decrease from the 51% gross margin generated in the quarter ended October 31, 1995. Approximately half of the change in the gross margin percentage relates to the incremental revenues generated by the Company's systems integration and service operations, which were acquired in the fourth calendar quarter of 1995. Revenues from the Company's systems integration and service operations generally carry a lower gross margin than product revenues. The remaining decrease in the gross margin percentage is the result of a shift in the product sales mix such that the Company's higher margin MediaMax-based products declined to approximately 20% of the Company's product revenues during the quarter ended October 31, 1996 as sales of the Company's new products have increased. Price competition in certain of the Company's older products also contributed to lower gross margins in the quarter ended October 31, 1996.

Although the Company expects gross margins to improve during fiscal 1997, it continues to 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. The Company expects that overall price competitiveness in the industry will continue to become more intense as users of videoconferencing systems attempt to balance performance, functionality and cost. The Company's gross margin is subject to fluctuation based on pricing, production costs and sales mix.

Selling, general and administrative. Selling, general and administrative expenses increased by $1,747,000 or 25% from $7,120,000 in the quarter ended October 31, 1995 to $8,867,000 in the quarter ended October 31, 1996. Selling, general and administrative expenses as a percentage of revenues were 31% and 36% for the three months ended October 31, 1996 and 1995, respectively. The increase in the amount of these expenses is due to additional investments made by the Company in sales and marketing programs related to new product introductions, incremental expenses required to support the Company's overall revenue growth, and incremental expenses incurred during the quarter ended October 31, 1996 which relate to the Company's systems integration and service operations which were acquired in the fourth calendar quarter of 1995. Selling, general and administrative expenses as a percentage of revenues has declined during the three months ended October 31, 1996 in comparison with the three months ended October 31, 1995 as the Company's sales and marketing programs have caused revenues to increase at a faster rate than the Company's selling, general and administrative expenses have.

Research and development. Research and development expenses decreased by $51,000, or 2%, from $2,969,000 in the quarter ended October 31, 1995 to $2,918,000 in the quarter ended October 31, 1996. Research and development expenses as a percentage of revenues were 10% and 15% for the three months ended October 31, 1996 and 1995, respectively. Research and development expenses are consistent from the three months ended October 31, 1995 to the three months ended October 31, 1996 as the Company has focused its research and development resources and effort under the Customer Business Unit organization resulting in a more efficient and productive use of research and development resources. Research and development expenses decreased as a percentage of revenues from the quarter ended October 31, 1995 to the quarter ended October 31, 1996 due to the incremental systems integration and service revenues generated in the quarter ended October 31, 1996, which do not carry any related research and development costs.

Although the percentage of revenues invested by the Company in research and development may vary from period to period, the Company is committed to investing in its research and development programs. Future research and development expenses will increase as revenues increase. All of the Company's research and development costs and internal software development costs have been expensed as incurred.

During the third calendar quarter of 1993, the Company entered into a Development and License Agreement ("Development Agreement") with Intel Corporation ("Intel"). As a part of this Development Agreement, Intel agreed to advance the Company $3 million of funds in order to enable the Company to jointly research and develop videoconferencing products with Intel. Of the $3 million advance, $906,000 remains at October 31, 1996 for future development projects. As of October 31, 1996, the Company had no research and development activities in process or planned related to the Development Agreement.

Other income, net. Other income, net increased by $347,000, or 108%, from $320,000 in the quarter ended October 31, 1995 to $667,000 in the quarter ended October 31, 1996. The increase in other income, net is attributable to higher interest income earned during the quarter ended October 31, 1996 on the Company's cash and investment balances. The cash and investment balances increased as a result of the cash provided by the completion of a secondary offering in the fourth calendar quarter of 1995.

Net income (loss). The Company generated net income of $954,000, or $.07 per share, during the quarter ended October 31, 1996 compared to net income of $132,000, or $.01 per share, during the quarter ended October 31, 1995. The increase in net income in the quarter ended October 31, 1996 compared to the quarter ended October 31, 1995 was the result of revenues increasing at a faster rate than operating expenses.

Improvement in the Company's financial performance during the remainder of fiscal year 1997 will depend on the Company's ability to continue to significantly increase revenues through growth in the Company's distribution channels and the successful introduction of its new products, to generate improving gross margins and to control the growth of operating expenses. There can be no assurances that the Company will be successful in achieving these objectives during the remainder of fiscal year 1997.

LIQUIDITY AND CAPITAL RESOURCES

At October 31, 1996, the Company had working capital of $62,538,000, including $42,168,000 in cash, cash equivalents and short-term investments. The primary uses of cash during the quarter ended October 31, 1995 were to purchase property and equipment and leasehold improvements and to fund working capital needs required to support the Company's growth. The primary uses of cash during the quarter ended October 31, 1996 were to repurchase shares of the Company's Common Stock under a stock repurchase program (see Note 4 to the Condensed Consolidated Financial Statements), to purchase property and equipment and leasehold improvements and to fund working capital needs required to support the Company's growth.

Cash used in operating activities was $2,990,000 for the quarter ended October 31, 1996, due to an increase in accounts receivable as a result of revenue growth during the quarter and decreases in accounts payable and accrued liabilities, slightly offset by a decrease in inventories. Cash provided by operating activities was $3,071,000 for the quarter ended October 31, 1995, due to a decrease in accounts receivable and increases in accounts payable and accrued liabilities, slightly offset by an increase in inventories.

Cash flows from investing activities during the quarter ended October 31, 1996 were the result of capital expenditures of $1,890,000 and net investment activity from short-term investments which generated cash of $7,641,000. The Company periodically generates cash from short-term investments, as such investments are utilized from time to time to provide cash needed to support the Company's growth. Cash flows from investing activities during the quarter ended October 31, 1995 were the result of the investment of the proceeds of the Company's secondary offering which netted approximately $57,000,000 to the Company and capital expenditures of $1,767,000. The increase in capital expenditures during the quarters ended October 31, 1996 and 1995 is related to increases in demonstration and support videoconferencing systems acquired to support the Company's growth.

Cash flows used in financing activities during the quarter ended October 31, 1996 relate to the repurchase of 455,200 shares of the Company's Common Stock for $3,742,000 under a share repurchase program (see Note 4 to the Condensed Consolidated Financial Statements). Cash flows provided by financing activities relate to the completion by the Company of a secondary offering whereby the Company netted approximately $57,000,000 from the sale of 3,000,000 shares of its Common Stock.

At October 31, 1996, the Company had a $10,000,000 revolving line of credit available with a financial institution. No amounts have been drawn or are outstanding under the line of credit. The Company's principal sources of liquidity at October 31, 1996 consist of $42,168,000 of cash, cash equivalents and short-term investments and amounts available under the Company's revolving line of credit. The Company believes that existing cash and cash equivalent balances, short-term investments, cash generated from product sales and its revolving line of credit will be sufficient to meet the Company's cash and capital requirements for at least the next 12 months.

GENERAL

The markets for the Company's 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 the Company attempts 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.

The Company'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 those of the Company, delay in the introduction of higher performance products, market acceptance of new products introduced by the Company, 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 the Company does business, adverse legal disputes and delays in purchases relating to federal government procurement.

Due to the factors noted above and elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company'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 affect on the trading price of the Company's Common Stock in any given period. Also, the Company participates in a highly dynamic industry which often contributes to the volatility of the Company's Common Stock price.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

*   *   *

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

December 12, 1996   By: /s/ Rodney S. Bond

Rodney S. Bond
Vice President-Finance
(Chief Financial Officer
and Principal Accounting Officer)

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VTEL CORPORATION'S BALANCE SHEET & INCOME STATEMENT FOR THE THREE MONTHS ENDED 10\31\96, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10/31/96 10-Q FILING.
</LEGEND>

<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	JUL-31-1997
<PERIOD-START>	AUG-01-1996
<PERIOD-END>	OCT-31-1996
<CASH>	1,502,000
<SECURITIES>	40,666,000
<RECEIVABLES>	23,779,000
<ALLOWANCES>	(240,000)
<INVENTORY>	13,723,000
<CURRENT-ASSETS>	80,671,000
<PP&E>	24,362,000
<DEPRECIATION>	(10,296,000)
<TOTAL-ASSETS>	109,967,000
<CURRENT-LIABILITIES>	18,133,000
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	121,265,000
<OTHER-SE>	(29,431,000)
<TOTAL-LIABILITY-AND-EQUITY>	109,967,000
<SALES>	28,199,000
<TOTAL-REVENUES>	28,199,000
<CGS>	(15,868,000)
<TOTAL-COSTS>	(12,025,000)
<OTHER-EXPENSES>	667,000
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	973,000
<INCOME-TAX>	(19,000)
<INCOME-CONTINUING>	973,000
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	954,000
<EPS-PRIMARY>	.07
<EPS-DILUTED>	.07