

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

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

OR

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

FOR THE FISCAL YEAR ENDED JULY 31, 1998

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

Securities registered pursuant to section 12 (b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [].

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

The aggregate market value of 21,215,873 shares of the registrant's Common Stock held by nonaffiliates on September 18, 1998 was approximately \$84,863,492. For purposes of this computation all officers, directors and 5% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the registrant.

At October 8, 1998 there were 23,282,700 shares of the registrant's Common Stock, \$.01 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 1998 Annual Meeting are incorporated by reference into Part III.

A list of all Exhibits to this Annual Report on Form 10-K is located at pages 52 through 56.

PART I.

ITEM 1. BUSINESS

GENERAL

VTEL Corporation ("VTEL" or the "Company") designs, manufactures, markets and supports digital visual communication systems. The Company's product line is based on the latest microprocessor technology, a unique integration of hardware and software that provides features which are far beyond traditional video and audio conferencing. The use of open PC architecture and standard Microsoft(R) operating systems allows users to bring virtually any kind of data into a meeting or training environment. These new digital visual communications systems allow access and sharing of any information available on the World Wide Web, data that resides on an organization's Local Area Network or Intranet, or local PC files and software applications. The Company's systems are built upon a system platform that is based on industry-standard, PC-compatible open hardware and software architecture. The PC-architecture also provides a natural pathway to connect the Company's digital visual communication systems to either Internet Protocol (IP) networks or traditional telephone networks on a call by call basis through simple software commands. The Company's network management software uses industry standard protocols to allow large digital visual communications networks to be operated in the same manner currently used in traditional data networks, thereby leveraging the rapidly expanding network infrastructures being deployed in organizations throughout the world. The Company offers a wide range of global professional services to assist customers in designing, installing, operating and supporting organizational digital visual communications networks worldwide.

The cornerstone of the Company's business strategy is to identify end-user customer markets that can most benefit from the advanced functionality of the Company's multi-media digital visual communication systems and to focus a substantial portion of its sales and marketing efforts on these targeted markets. Consistent with this strategy, the Company has targeted the manufacturing, education, government, health care, and financial institution market segments and certain portions of the general business market. VTEL primarily distributes its systems through third-party resellers which include major telecommunications providers and distributors such as Ameritech, Anixter, GTE, MCI, Norstan, PacBell, SBC, Sprint, US West and other value-added resellers. The Company has built an extensive marketing and sales organization to support its third-party resellers. This organization provides marketing programs; field support personnel including sales managers, system engineers, and business development managers; and personnel with industry expertise to implement the Company's targeted market strategy. Since the Company's inception, it has sold over 28,000 group digital visual communication systems.

In November 1995, the Company completed the acquisition of certain assets and a specified work force of the Integrated Communications Systems Group ("ICS") of Peirce-Phelps, Inc. (the "ICS Transaction"). As part of Peirce-Phelps, ICS was a value-added reseller of systems manufactured by several videoconferencing manufacturers, including the Company, and also provided integration, installation and maintenance services to certain of the end-users of these manufacturers. The completion of the acquisition allowed the Company to significantly enhance its ability to support the Company's resellers' abilities to offer systems integration, installation and end-user support to the ultimate purchaser of the Company's products, thereby allowing the resellers to more effectively provide an essential part of the services that are integral to the purchase of the Company's products.

On May 23, 1997, shareholders of VTEL and Compression Labs, Incorporated, a Delaware corporation ("CLI"), approved the merger (the "Merger") of VTEL-Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of VTEL ("Merger Sub"), with and into CLI, pursuant to an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), with CLI becoming a direct wholly-owned subsidiary of VTEL. As a result of the Merger, (a) the outstanding shares of CLI's Common Stock, par value \$.001 per share ("CLI Common Stock"), were converted into the right to receive 0.46 shares of Common Stock of VTEL, par value \$.01 per share ("VTEL Common Stock"), per share of CLI Common Stock converted (or cash in lieu of fractional shares otherwise deliverable in respect thereof), and (b) the outstanding shares of CLI Series C Preferred Stock, par value \$.001 per share ("CLI Preferred Stock"), were converted into the right to receive 3.15 shares of VTEL

fractional shares otherwise deliverable in respect thereof). The CLI shares were exchanged for a total of 8,424,741 shares of VTEL Common Stock. The acquisition was accounted for as a pooling of interests.

The Merger was completed for the following reasons, among others:

1. The Merger permits VTEL to broaden and diversify its product lines with complementary technology, creating additional opportunities for overall growth and reducing the risk of dependence on individual products.
2. The economies of scale that can be realized by the combined companies in development, administration, marketing and sales and the improvement in product gross margins that may also be realized by the combined companies. Historically, VTEL's gross profit margins have been significantly higher than CLI's, and a material portion of the combined companies revenues may shift to higher margin products.
3. VTEL's experienced management team and product development organization, in combination with key CLI managers, will provide a stronger management team with greater depth and experience to lead the combined company.

The synergy created as a result of the Merger was first demonstrated with the introduction of StandardsPlus Video, the next generation of video quality that is based on industry standards, but vastly improves the image quality through innovation and software coding techniques. StandardsPlus Video improves video quality in terms of motion handling and image clarity while maintaining interoperability with standards-based systems.

The Company's executive offices are located at 108 Wild Basin Road, Austin, Texas 78746, and its telephone number is (512) 437-2700.

INDUSTRY BACKGROUND

Digital visual communications systems enable users at remote locations to meet and share information face-to-face. A wide range of business or professional meetings, education and training classes, and technical or medical consultations make use of this innovative technology to reduce operating costs, improve customer services, reduce cycle times, or improve intra- or inter-company communications. A videoconference entails the transmission of video, audio and data signals between two or more locations over a network connection. Video, audio and data conferencing involves a large amount of digital information. In order to transmit this information over digital networks, the video, audio and data signals must be digitized and compressed without substantially reducing the information content. Improved compression algorithms reduce transmission costs by allowing more information to be sent over lower capacity digital networks. Improved quality and lower costs of videoconferencing systems and network services have made videoconferencing applications more attractive to a broader group of users worldwide. Also contributing to the wider use of videoconferencing is the increased availability of switched digital telephone service and the use of Internet Protocol networks, allowing a videoconference to be initiated with nearly the ease of a normal telephone call.

The major change occurring in the industry today involves the evolutionary migration of telecommunications networks from circuit-switched technology (like traditional telephone lines) to packet-switched technology (Internet Protocol networks). The Company is ideally positioned to take advantage of this change because its underlying product technology is built upon an open PC architecture. The Company can accommodate and support customer migration to Internet Protocol networks through simple software upgrades to existing products.

Videoconferencing systems are also becoming simpler to use. Current videoconferencing systems can be configured as "set-top" appliances or "roll-about" room systems that can be used without the need for trained operators or special room requirements. In general, the videoconferencing market can be grouped into four complementary categories: personal conferencing, set-top conferencing, workgroup conferencing, and group conferencing. The personal conferencing market is targeted at the individual. As such, solutions are typically priced in the \$1,000 to \$6,000 range. The set-top conferencing market is targeted at groups of two to three individuals. Systems in this market range from \$4,000 to \$9,000. The workgroup conferencing market is targeted at the project teams or executive offices

that require collaborative data and software interaction. Solutions in this market range from \$6,000 to \$15,000. The group conferencing market is targeted at larger groups, typically eight or more individuals. Application uses vary greatly from boardrooms to large classrooms. These group systems are priced at \$10,000 and above.

Another factor contributing to the growth of videoconferencing is the continuing emergence of international industry standards designed to allow interoperability of videoconferencing systems manufactured by different vendors. The International Telecommunications Union ("ITU-T") sets international standards used by the industry. The Company has been a leader in promoting standards across the industry and delivers standards-based products to its customers.

While technological advances and market receptivity have increased the use of videoconferencing, traditional audio and video videoconferencing alone lacks the functionality and effectiveness of face-to-face meetings in many applications. The Company believes that, for certain applications, users are seeking conferencing features, in addition to audio and video, that allow for the exchange of information and interaction through a variety of media. For example, engineers can communicate and solve problems more effectively by supplementing the videoconference with shared media, such as graphics with annotations, computer programs, document exchanges and whiteboards, which results in a better replication of the impact and effectiveness of a face-to-face meeting. VTEL has taken a leadership position in this exact form of high-value digital visual communication technology due to its open PC platform and flexible architecture.

CORPORATE STRATEGY

The Company's primary focus is on high-value digital visual communication systems which provide high functionality tailored to the needs of markets targeted by the Company. This results in a range of offerings from the desktop to the boardroom. The following are the components of the Company's corporate strategy:

PRODUCT DIFFERENTIATION. The Company's strategy is to differentiate its products from the products marketed by its competitors. Key elements of this strategy are as follows:

Open Architecture. The Company's principal digital visual communication systems are built upon a system platform which integrates video, audio and data compression technologies in a PC-compatible open hardware and software architecture. This open architecture allows the Company to accelerate the development process through the use of commonly available, low-cost hardware and software components and the incorporation of third-party technological developments. The Company's PC-based system platforms are field-upgradable and easily accommodate software upgrades, thereby extending the useful life of the customer's investment and providing the Company with incremental revenues through these upgrade sales.

Centralized Management and Administration. Using the industry standard Simple Network Management Protocol "SNMP", VTEL is able to centrally manage and administer large, distributed digital visual communication networks. The Company's SmartVideoNet Manager product provides advanced functionality for management in the videoconferencing industry. It leverages the industry standard SNMP for statistics, controls, and alerts. These functions allow for centralized problem determination and resolution, thereby eliminating the requirement for on-site expert personnel to support the system. An additional benefit of SmartVideoNet Manager is the ability to establish video calls from a centralized console with no local user intervention. Using this, meeting participants simply arrive at the conference room or classroom and the video call is already in session waiting for their participation.

Consistent Operating Platform. An important characteristic of each product in the family is the consistent use of standard Microsoft operating systems (Windows 95(R), Windows 98(R), Windows NT(R)). This consistency combines the PC-microprocessor architecture with a recognized software platform and provides a familiar look and feel for the user throughout the product family architecture. Windows operating systems support a wide variety of software and

hardware applications that can be integrated into a videoconference as stand-alone features or as shared applications by digital visual communication users through the Company's collaboration capability.

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Multi-media Functionality. The Company's digital visual communication systems provide a wide range of functions that enable users to exchange information and interact through a variety of media and, as such, more closely replicate the impact and effectiveness of face-to-face meetings. These functions, referred to by the Company as digital visual communication technology, combine video and audio, document exchange, shared whiteboard, and computer application sharing. The Company strives to make this functionality easily accessible to the user. The Company's Pen Pal GraphicsTM and AppsViewTM user interfaces are designed to make the Company's group systems easy to use. AppsViewTM, which was introduced in early 1995 and is now fully integrated into all of the Company's products, is a customizable user interface that runs on a Microsoft Windows(R) operating system. AppsViewTM integrates all application functions under a set of software-defined icons which can be customized by the user to meet specific needs. This same user interface is used across the entire product family for consistency, commonality, and ease of use.

Standards Compliance. The Company believes the continued adoption and implementation of industry standards for interoperability are critical to the continued growth of the videoconferencing market. All of the Company's digital visual communication systems and multipoint products comply with the leading ITU-T standards for videoconferencing. The Company's platforms also comply with an extensive array of additional communications and computer industry standards, both formal and de facto (such as ISA, PCI, Intel x86, SNMP, and Microsoft Windows(R)), involving video, audio, graphics, communications, computers, peripherals, and network management. The Company has been an active participant on the relevant ITU-T committees and intends to continue to promote both acceptance of the standards by all vendors and formal compliance testing to assure interoperability.

Network Integration Capabilities. The PC-based open architecture design of the Company's products provides a natural pathway to connect the Company's digital visual communication systems onto local area networks (LANs) and wide area networks (WANs), thereby leveraging the rapidly expanding network infrastructures being deployed in organizations throughout the world. The Company believes that not only will such networks continue to expand globally, but the capability to centrally manage large internationally dispersed networks will become a requirement for the successful establishment of such networks. The Company believes that development of network integration and network management capabilities will be an important success factor to the Company's strategy.

Service and Systems Integration Capabilities. The Company determined that it would be advantageous to establish the capacity to offer installation, integration and support services to resellers of its products, which could be resold by the resellers to the ultimate purchasers of the Company's products. By enhancing the Company's resellers' abilities to offer systems integration, installation and end-user support to the ultimate purchasers of the Company's products, the Company believes that it would enhance its resellers' ability to sell the Company's digital visual communication systems as well as generate additional revenues to the Company from the sales of such services to the Company's resellers.

In November 1995, the Company completed the ICS Transaction (see "Business - General"). The completion of the ICS Transaction allows the Company to significantly enhance its ability to support the Company's resellers' abilities to offer systems integration, installation and end-user support to the ultimate purchaser of the Company's products, thereby allowing the resellers to more effectively provide an essential part of the services that are integral to the purchase of the Company's products.

TARGETED MARKETS. The cornerstone of the Company's business strategy is to identify end-user customer markets that can most benefit from the advanced functionality of the Company's multi-media digital visual communication systems, and to focus a substantial portion of its sales and marketing efforts on these targeted markets. Consistent with this strategy, the Company has targeted the manufacturing, education, government, health care, financial institution markets and certain portions of the general business market. The Company intends to

focus its product strategy in the targeted markets in which the Company is currently the leader and in other markets in which the Company believes it has the highest potential for increasing its market share.

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PRODUCT LINE MANAGEMENT. In 1997, the Company added increased emphasis to the lifecycle management of key platforms and services. As such, Strategic Business Units (SBUs) were defined for Personal and Workgroup Systems, Networking Systems, Enterprise Systems, and Professional Services. These SBUs are responsible for product management, marketing, and development. Additionally, the SBUs have product line profit and balance sheet responsibility.

DISTRIBUTION STRATEGY. The Company primarily relies on third parties worldwide to sell, install and support its digital visual communication systems in an effort to leverage the sales forces of the resellers which provide telecommunications and support services to potential purchasers of digital visual communication systems. The Company has established relationships with many of the leading telecommunications providers in the United States, including Ameritech, GTE, MCI, Norstan, PacBell, Southwestern Bell, Sprint, and US West. Consistent with its focus on its targeted market segments, the Company works with a number of value added resellers ("VARs") that specialize in specific applications, geographic areas and markets such as education, health care, project management and government procurement. The Company has built an extensive marketing and sales organization to support its third-party resellers. This organization provides marketing programs; field support personnel including sales managers, system engineers and business development managers; and personnel with industry expertise to implement the Company's targeted market strategy.

VTEL also sells products directly to certain end-user customers, generally large global end user customers which have sophisticated global digital visual communication networks and require and demand much more involvement of the Company to support the sale, installation and maintenance of the network.

PRODUCTS

The Company offers a complete line of interoperable multi-media digital visual communication systems. The Company differentiates its systems from competitive products by a high level of advanced functionality, such as presentation graphics and access to PC-based software and hardware peripherals. Because VTEL systems are based on open PC-architecture, and most functionality is contained in software, many system upgrades are accomplished via software, enabling customers to protect their investment in the Company's Systems. VTEL systems may be configured with LAN connections so that data and presentations may be created at an individual PC workstation, stored on the LAN and retrieved by the digital visual communication system for presentation or transfer to the remote location during a videoconference.

Videoconferences can range from simple point-to-point connections between two locations of a single organization to connections between multiple locations of multiple organizations in several countries. The Company's primary digital visual communication systems are based upon one of two architectures, either its SmartStation Architecture (SSA) for personal and workgroup digital visual communication or its Enterprise Series Architecture (ESA) for group conferencing.

ENTERPRISE SERIES ARCHITECTURE PLATFORM. VTEL's Enterprise Series Architecture™ ("ESA(TM)") is the hardware and software platform for a family of products designed to meet the needs of large and small groups. The ESA platform is a PC-based, open architecture digital visual communication system configured around an Intel Pentium(TM) PC chassis containing the ESA video-audio processing boardset. The ESA system contains, in addition to the standard internal disk drive and 3.5 inch floppy drive, a CD-ROM drive as well as an expansion chassis which contains all the audio and video input/output ports. The ESA platform utilizes the Microsoft Windows(R) operating system as its software platform and incorporates the AppsView(TM) software user interface and control system. Through AppsView™, the user controls all conference functions with on-screen software icons which may be customized for each user or application. The ESA

platform contains open PC card slots for application-specific peripherals.

The ESA platform supports industry standards for video, audio, and data compression and is interoperable with any other system supporting the H.320 standard. The platform operates over digital communication bandwidths transmitting at data rates from 56 Kbps to T1 or E1 rates in point-to-point and multipoint conferences. ESA connections can be made over public dial-up digital networks or private digital dedicated facilities. During 1999, ESA connectivity will be expanded to include Internet Protocol networks.

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Configurations of the ESA(TM) platform include the Company's Team Conferencing(TM) and Leadership Conferencing(TM) Systems. The Team Conferencing or "TC" systems are single or dual monitor systems built on the ESA platform and designed to provide mid-range products for users seeking high quality video and audio and digital visual communication capability in a small to mid-sized group setting. Data rates from 56 Kbps to 512 Kbps are provided. The systems provide higher performance PC-based functionality through the use of the Intel Pentium(TM) microprocessor, inclusion of a CD-ROM drive, the Microsoft Windows(TM) operating system and the AppsView(TM) user interface. Product features include LAN connectivity, Internet access, both document and computer conferencing, 30 frame per second video and capability of including software applications designed for Microsoft Windows(TM) as part of the videoconference. The TC systems have suggested list prices of \$21,495 to \$46,995.

The Leadership Conferencing LC5000 system is the flagship model of the ESA(TM) platform. The LC5000 provides for high-speed data rates up to T1 or E1 and delivers extremely sharp, smooth video. A document stand with VTEL's SmartView software allows users to utilize printed material as easily as using an overhead projector. LC5000 configurations vary in price from \$53,995 to \$57,995.

WG500. The WG500 is a series of workgroup digital visual communication systems targeted at the project team or executive office where the ability to share and interactively create a work product is required. As such, it is designed to utilize industry leading collaborative multi-media tools such as Microsoft NetMeeting(TM). Based on a high performance, multi-media PC platform, the WG500 fills the price-point and functionality gap between the personal desktop conferencing market and the large group conferencing market. The WG500 has suggested list prices of \$9,995 to \$14,995.

SETTOP 250. The SETTOP 250 is the first business-class, set-top videoconferencing system in the industry priced under \$5,000. Combining ease-of-use with high-quality features, the SETTOP 250 is the best solution for enterprise users who require entry-level group conferencing with industry-standard voice and video. The SETTOP 250 includes an intuitive user interface, an easy, color-coded installation process, and comes in both 128 Kbps and 384 Kbps models.

SMARTSTATION. The SmartStation(TM) converts a Windows-based PC into a videoconferencing system for personal use. Incorporating the performance of the ESA(TM) products with its high-quality audio and video, the SmartStation(TM) allows users to collaborate while still leveraging the power and versatility of their desktop PC. In one easy-to-install package, SmartStation(TM) includes VTEL's AppsView(TM) graphical conference control interface for consistent operation across all of VTEL's digital visual communication solutions. SmartStation(TM) supports data rates up to 384 Kbps for high-quality desktop conferencing and supports the T.120 standard for data collaboration by integrating Microsoft NetMeeting 2.0(TM).

SMARTVIDEONET MANAGER(TM). SmartVideoNet Manager(TM) software is a tool designed to help customers simplify the administration of video networks and reduce the operating costs. Based on the Windows NT platform and utilizing the SNMP communications protocol, SmartVideoNet Manager(TM) leverages the PC-based architecture of the Company's systems to allow customers to use their existing Intranet to provide continuous monitoring of their video network. SmartVideoNet Manager(TM) allows administrators to remotely control, configure, diagnose and troubleshoot VTEL systems, all from their PC console on their desk.

NETWORK EQUIPMENT. VTEL carries an extensive line of equipment to optimize connectivity in a variety of network environments. In order to

maximize communication effectiveness, many customers choose to purchase multipoint control units to link multiple users into a single meeting. The SmartLink Multimedia Conference Server(TM) ("MCS(TM)") is the hub of a videoconferencing meeting, allowing interactive communications with up to 48 participants. The SmartLink MCS(TM) provides translation capabilities for a number of line rates and video and audio algorithms to ensure maximum flexibility. Additionally, the SmartLink MCS(TM) is manageable through SmartVideoNet Manager(TM). SmartLink MCS(TM) configurations range in price from \$19,900 to over \$150,000 for advanced configurations. VTEL's MCU-II product line supports up to 20 participants and has a list price of \$49,995 for a four-port configuration.

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PRODUCT DEVELOPMENT

The Company's product development strategy is to design and develop core systems capabilities and leverage the availability of hardware peripherals and application software from third parties and to efficiently integrate such third party resources into its systems. To the extent that market needs cannot be met by available third party resources, the Company may undertake the development of such resources. The following represent development efforts that have been undertaken by the Company:

SOFTWARE SYSTEM PLATFORM. The SmartStation(TM) Architecture and ESA(TM) platforms are the Company's proprietary software architectures. The characteristics of the Company's products are developed and implemented primarily through software, facilitating upgrades for users and the rapid incorporation of new technologies. Upgrades are modular in nature, allowing additional licensed program products to be added incrementally to the user's basic system. The Company's software products are developed primarily in "C", a commonly-used, high-level programming language, to provide future portability to other hardware platforms. Development resources are being applied to the creation of new system software and program products for increased functionality and flexibility of the platform.

USER INTERFACE. The Company has developed a Microsoft Windows(TM)-based user interface called AppsView(TM). The feature is software driven and provides a customized menu of application icons that the user creates. This user interface runs on the Microsoft Windows(TM) operating systems and is OLE-2 compatible. AppsView(TM) is now available on all of the Company's primary digital visual communication systems.

PERSONAL DIGITAL VISUAL COMMUNICATION SYSTEMS. Increased performance of semiconductor processors specifically designed for video and image processing allow for the cost-effective design and packaging of small group digital visual communication systems and high functionality personal desktop systems which are compatible with small and large group digital visual communication systems. The Company recently introduced the SmartStation(TM) digital visual communication cardset which was developed utilizing the capability of the Company's digital visual communication software ported to a suitable hardware platform. The principal hardware-related resource commitment in the development process is the effort to find and test boardset candidates for suitability for the Company's software.

AUDIO COMPRESSION/ECHO CANCELLATION. Audio quality is an important element in any video conference. At lower transmission rates, the amount of bandwidth allocated to audio decreases, thereby requiring audio compression algorithms to maintain acceptable audio quality. The Company produces its own proprietary, integrated echo canceller to improve audio quality. The Company offers audio compression capability at allocated bandwidths of 8, 12, 32 and 74 Kbps through audio subsystems.

VIDEO/IMAGE COMPRESSION. Both the Company's H.320 standard-based video compression algorithm and its proprietary algorithm are products of compression research started in 1988. The Company's continuing video compression development activity is focused on the refinement of both algorithms for higher resolution video capabilities and the integration of that technology. Shortly following the merger with CLI, VTEL announced StandardsPlus(TM) Video which provides improved video quality using industry standards. Significant video quality improvements using industry technology standards was achieved via a collaborative development

effort between VTEL engineers in Austin and San Jose.

SMARTVIDEONET MANAGER(TM). In the summer of 1997, VTEL introduced the industry's first standards-based management and administration platform for distributed digital visual communication networks. Using the SNMP standard, SmartVideoNet Manager(TM) allows VTEL customers to centrally control their digital visual communication network for functions such as problem determination, problem resolution, call setup and conference statistics. Using this management framework, conference support can be provided centrally with no requirement for local user intervention, even for networks with hundreds of digital visual communication system endpoints.

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SALES AND MARKETING

VTEL believes that a well-positioned distribution channel is critical to marketing success. The Company primarily relies on third parties to sell, install and support its digital visual communication systems in an effort to leverage the sales forces of the resellers which are already providing telecommunications and systems integration services to potential purchasers of digital visual communication systems. The Company believes that its early commitment to indirect distribution has resulted in a relatively comprehensive, well-trained group of resellers, many of which are leading telecommunications providers in their respective countries. All of its major resellers maintain demonstration networks, with trained sales and support personnel motivated by quotas and commissions for marketing the Company's products. The use of resellers is expected to continue to account for a large percentage of the Company's revenues in the foreseeable future.

Consistent with its focus on its targeted market segments, the Company works with a number of VARs that specialize in specific applications, geographic areas and markets such as education, health care, project management and government procurement. Typically, the Company's agreements with its resellers and VARs involve non-exclusive arrangements which may be canceled by either party at will and contain no minimum purchase requirements on the part of the resellers.

VTEL also sells products directly to certain end-user customers, generally large global end user customers which have sophisticated global digital visual communication networks and require much more involvement of the Company to support the sale, installation and maintenance of the network.

PRODUCT SUPPORT AND EXPANSION OF SUPPORT CAPABILITIES

Currently, end-user support and installation of the Company's products are provided by resellers and VARs, by Dictaphone in the United States, Fujitsu-Bell Atlantic and ICL Sorbus (a wholly-owned subsidiary Fujitsu-Bell Atlantic) in most foreign markets as third-party service providers or directly by the Company in order to provide a comprehensive service offering for its worldwide customer base. The Company trains the service employees of Dictaphone, Fujitsu/Bell Atlantic and ICL Sorbus and VTEL's resellers on diagnostics and service of its products. Dictaphone, Fujitsu/Bell Atlantic and ICL Sorbus and the reseller service network are supported by trained technicians at the Company's Technical Assistance Center.

In 1995, the Company determined that it would be advantageous to establish the capacity to offer installation, integration and support services to resellers of its products, which could be resold by the resellers to the ultimate purchasers of the Company's products. By enhancing the Company's resellers' abilities to offer systems integration, installation and end-user support to the ultimate purchasers of the Company's products, the Company believes that it enhances its resellers' ability to sell the Company's digital visual communication systems as well as generate additional revenues to the Company from the sales of such services to the Company's resellers.

In November 1995, the Company completed the ICS Transaction (see "Business - General"). The completion of the acquisition allowed the Company to significantly enhance its ability to support the Company's resellers' abilities to offer systems integration, installation and end-user support to the ultimate purchaser of the Company's products, thereby allowing the resellers to more effectively provide an essential part of the services that are integral to the

purchase of the Company's products.

The Company completed the ICS Transaction with the payment of \$10.7 million in cash, which includes \$0.14 million of transaction expenses, and the issuance of 260,000 shares of the Company's unregistered Common Stock. The Company also assumed certain ICS liabilities (see Note 3 to the Consolidated Financial Statements).

COMPETITION

The videoconferencing industry is highly competitive. The Company believes that the principal competitive factors in the industry are product architecture, ease of use, video and audio quality, functionality, service and support, market visibility, and price. The Company faces competition from a number of companies that market communications systems for videoconferencing. Currently in the United States, PictureTel Corporation, Sony Corporation, Nippon Electric Corporation, Polycom Corporation, and Tandberg, among others, are marketing roll-about group videoconferencing systems and multipoint control units. Internationally, videoconferencing systems are available from, among others, British Telecommunications plc., PictureTel Corporation, Sony Corporation, Nippon Electric Corporation, Mitsubishi, Ltd., Fujitsu, Ltd., Panasonic Ltd., Polycom Corporation, and Tandberg. Intel Corporation also entered the low-end work group system market in mid 1997.

Certain of the Company's competitors have devoted significant resources to the development and marketing of person-to-person visual communications products, such as desktop videoconferencing systems, set-top systems, and software-based internet/intranet visual communications systems, which may help to increase awareness in the value of visual communications products while also resulting in increased competition. Microsoft has introduced visual components to its NetMeeting Release 2.0(TM) product, PictureTel has announced its intent to deliver a client/server architected brand of desktop videoconferencing, and Intel has delivered a minimal set of video and audio extensions in the MMX enhancements to its Pentium microprocessors. The Company intends to continue its focus on large-, small-, and work-group digital visual communication systems, in addition to gateways and other products, where the Company believes it can add significant value through software, user interfaces, integrated environments, and applications designed to meet the needs of its targeted markets.

The Company's competitors and many of its potential competitors are more established, benefit from greater market recognition, and have greater financial, technological, production, and marketing resources than the Company. It is possible for these factors to have an adverse impact on the Company's competitive position.

MANUFACTURING

The Company's manufacturing operations consist of integration and testing of subsystems and assemblies. The Company's manufacturing strategy is to contract work to established vendors, with the Company fulfilling the quality and materials management functions. Substantially all of the integrated circuits, subsystems and assemblies used in the Company's products are made to Company specifications by third parties under contract. The Company establishes the relationship with the component vendors, qualifies the vendors and arranges for shipment to the Company or directly to the vendor responsible for the next level of integration. Systems must pass several levels of testing, including testing with current-release software, prior to shipment. The Company's manufacturing quality system was certified in December 1994 as meeting the standards of ISO 9002 as set by the International Standards Organization. The Company has passed subsequent audits with no corrective action needed.

The Company relies on outside vendors for supplying substantially all of its electronic components, subsystems and assemblies. Although the Company uses standard parts and components for its products that are generally available from multiple vendors, certain components are currently available only from sole sources and embody such parties' proprietary technology. The Company depends upon its suppliers to deliver products which are free from defects, competitive in functionality and price and consistent with the Company's specifications and

delivery schedules. The failure of a supplier to provide such products could delay or interrupt the Company's manufacture and delivery of products and thereby adversely affect the Company's business and operating results. The Company endeavors to mitigate the potential adverse effect of supply interruptions by carefully qualifying vendors on the basis of quality and dependability and by maintaining adequate inventories of certain components. However, there can be no assurance that such components will be readily available when needed. Similarly, excessive rework costs associated with defective components or process errors could adversely affect the Company's business and operating results. The Company does not have contracts with many of its suppliers ensuring continued availability of key components.

The Company attempts to forecast orders and to purchase certain long lead-time components in advance of receipt of purchase orders from customers to enable the Company to provide timely deliveries to customers when

customer orders are received. In addition, the Company from time to time enters into development arrangements with other third parties to develop and incorporate new features and functions into the Company's products. As such, the Company is dependent upon these third parties to fulfill their respective obligations under these development arrangements, and failure of these third parties to do so could have a material adverse effect on the Company's results of operations.

PATENTS AND TRADEMARKS

The Company has 13 patents issued by the United States Patent and Trademark Office and 11 patent applications pending related to the Company's technology.

There can be no assurance that the pending patents will be issued or that issued patents can be defended successfully. However, the Company does not consider patent protection crucial to its success. The Company believes that, due to the rapid pace of technological change in the videoconferencing industry, legal protection for its products are less significant than factors such as the Company's use of an open architecture, the success of the Company's distribution strategy, the Company's ongoing product innovation and the knowledge, ability and experience of the Company's employees.

The Company has been issued two trademarks and two service marks by the United States Patent and Trademark Office covering the "VTEL" mark and the Company's logo as well as trademarks and service marks issued by certain foreign countries and entities. Applications for other trademarks are currently pending both in the United States and abroad.

EMPLOYEES

At July 31, 1998, the Company employed 740 full-time employees as follows:

FUNCTION	NUMBER OF EMPLOYEES
Sales and marketing	256
Research and development	158
Service, support and systems integration	148
Manufacturing	78
Finance and administration	100

Total	740
	=====

The Company's continued success will depend, in large part, on its ability to attract and retain trained and qualified personnel who are in great demand throughout the industry. None of the Company's employees is represented

by a labor union. The Company believes that its employee relations are good.

The Company's development, management of its growth and other activities depend on the efforts of key management and technical employees. Competition for such personnel is intense. The Company uses incentives, including competitive compensation and stock option plans, to attract and retain well-qualified employees. There can be no assurance, however, that the Company will continue to attract and retain personnel with the requisite capabilities and experience. The loss of one or more of the Company's key management or technical personnel also could materially and adversely affect the Company. The Company generally does not have employment agreements with its key management personnel or technical employees. The Company's future success is also dependent upon its ability to effectively attract, retain, train, motivate and manage its employees. Failure to do so could have a material adverse effect on the Company's business and operating results.

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EXECUTIVE OFFICERS

The Company's executive officers are as follows:

JERRY S. BENSON, JR., age 42, is currently Chief Executive Officer and President. He joined the Company in May 1997 as President and Chief Operating Officer and assumed his current position in September 1998. Prior to joining VTEL, Mr. Benson spent 10 years at NEC Technologies, Inc., the last two years as President and Chief Operating Officer. Mr. Benson also served in the Office of the Chairman and on the Board of Directors of NEC Technologies. He also served as a director on the Board of Directors of Packard Bell. Prior to his role as President and Chief Operating Officer at NEC Technologies, Mr. Benson held a number of significant operational and general management roles at NEC Technologies. These included general management positions in several NEC groups, divisions and strategic business units. Before NEC, he held marketing and sales management positions at Wyse, Amdek, and Ericsson.

RODNEY S. BOND, age 54, joined the Company in May 1990 as Chief Financial Officer, Vice President Finance and Assistant Secretary and Treasurer. He has served as Secretary of the Company since February 1993. From 1989 until he joined the Company, he served as Managing Director of Sherman Partners, a Dallas-based private investment and consulting firm. From September 1985 to October 1988, Mr. Bond served as Chief Financial Officer and Executive Vice President of Advanced Business Communications, Inc., a telecommunications equipment manufacturer.

CHARLES M. DENTON, age 58, joined the Company in May 1993 as the Area Vice President of Sales for the Eastern Area of the United States based in Washington D. C. In July 1996, he was named Vice President Indirect Sales responsible for channel strategy and operations based in Austin, Texas. In July 1997, Mr. Denton was named to the position of Vice President - North American Sales where he was responsible for the overall sales operations including indirect channels as well as direct sales. In August 1998, he was named to his current position of Vice President - Global Sales Development where he is responsible for channel development, training, vertical marketing, lead generation and sales support operations. Mr. Denton has held various Sales Management positions with Ascend Communications, PictureTel and Motorola.

DENNIS M. EGAN, age 47, joined the Company in November 1995 as Vice President - Service. From January 1993 to November 1995, Mr. Egan served as Senior Vice President of Peirce-Phelps, Inc. From June 1985 to January 1993, Mr. Egan was Vice President and General Manager of the Integrated Communications Systems Group of Peirce-Phelps. Mr. Egan's pre-1985 experience includes 13 years serving in various sales and management positions with Peirce-Phelps.

VINAY GOEL, age 32, joined the Company in July 1998 as Vice President and General Manager for the Personal and Workgroup Systems strategic business unit. Immediately prior to joining VTEL, Mr. Goel spent two years as the Vice President and General Manager at Microwave Systems Corporation focused on the digital television and internet phone markets. Before Microwave, he held marketing positions at General Instruments, Intel and Oracle.

FRANK S. KAPLAN, age 43, joined the Company in September 1995 as Vice President - International Sales and Marketing. In August 1998, Mr. Kaplan was

named to the position of Vice President - Worldwide Sales. Prior to joining VTEL, Mr. Kaplan spent seven years at Compression Labs, Inc., the last two years as Regional Vice President - Sales for Asia Pacific and Latin America. Mr. Kaplan's previous experience includes working for AT&T for seven years in various sales positions, the last two years as District Sales Manager in San Francisco, California.

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STEVE F. KEILEN, age 39, joined the Company in July 1998 as Vice President and General Manager of Enterprise Systems Strategic Business Unit. Prior to joining VTEL, Mr. Keilen served as the Director for Systems Marketing North America at Compaq Computer Corporation and was Director of Desktop Marketing and Product Management at Digital Equipment Corporation prior to the merger of these two companies. He previously held management positions at Digital Equipment Corporation and Hewlett-Packard Company.

F.H. (DICK) MOELLER, age 53, joined the Company in October 1989 and is currently Chairman of the Board of Directors. From 1989 to September 1998, Mr. Moeller was also President and Chief Executive Officer of the Company. From May 1982 to October 1989, Mr. Moeller served as the founder and President of ProfitMaster Computer Systems, Inc., a computer software firm specializing in real-time financial management systems for retail point-of-sale applications. Prior to founding such firm, Mr. Moeller spent 12 years with Texas Instruments, Inc. during which he held a variety of management positions, most recently serving as Advanced Systems Manager of its Computer Systems Division. Mr. Moeller also serves as General Partner of SSM Ventures.

LY-HUONG T. PHAM, age 40, joined the Company in October 1997 as Chief Technology Officer and Vice President of Research and Development. From May 1992 to October 1997, Ms. Pham served in numerous senior management positions at Apple Computer, most recently serving as senior director, Operating Systems Technologies. Prior to Apple, Ms. Pham spent 12 years at Wang Laboratories where she held a variety of technical and senior management positions.

BARRY RUMAC, age 57, joined the Company in June 1995 as Director of Investor Relations. In May 1998, he was named to the position of Vice President of Corporate Communications. Before joining the Company, Mr. Rumac was responsible for advertising at Dell Computer Corporation.

MICHAEL J. STEIGERWALD, age 39, joined the Company in June 1998 as Vice President and General Manager of the Professional Services strategic business unit, based in King of Prussia, Pennsylvania. Prior to joining the Company, Mr. Steigerwald held the position of Vice President at Newbridge Networks, where he lead the Global Service and Support organization responsible for the company's ViVID Internetworking Products business unit. For thirteen years prior to his experience with Newbridge Networks, Mr. Steigerwald held several services management positions at Ungermann-Bass Networks, an early pioneer in the LAN industry, with his last position being that of Vice President, Worldwide Customer Care.

BOB R. SWEM, age 61, joined the Company in September 1992 as Vice President - Manufacturing. From June 1981 to July 1992, Mr. Swem held various positions with the Austin Division of Tandem Computers, Inc., ranging from Manager of Manufacturing to Director of Operations.

STEPHEN L. VON RUMP, age 40, joined the Company as Chief Marketing Officer in September 1998. Mr. Von Rump spent the last eight years at MCI Corporation most recently as Vice President, Enterprise Services Marketing.

JUDY A. WALLACE, age 47, joined the Company in March 1997 as Vice President - Human Resources. Prior to joining the Company, Ms. Wallace was the Director of Human Resources with Falcon Seaboard Holdings L.P. She previously spent five years at Enron Corp. as Human Resource Manager and 11 years at Weatherford International as Human Resource Supervisor.

ITEM 2. PROPERTIES

The Company's headquarters, product development, and sales and marketing facility occupies approximately 139,000 square feet in Austin, Texas under a lease which expires in March 2013. The Company believes that these

facilities are adequate to meet its current requirements, and that suitable additional space will be available, as needed, to accommodate further physical expansion of corporate and development operations and for additional sales and marketing offices. The Company occupies approximately 70,000 square feet of a facility that is situated in a light industrial area in Austin, Texas where the Company's manufacturing, training and spare parts depot are located. The

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Company's manufacturing facilities and equipment are currently utilized generally on a one shift per day basis. Should additional manufacturing capacity be needed during the next year, the Company believes that it could provide the necessary manufacturing capacity through the addition of work shifts or subcontractors and additional warehouse space.

The Company occupies 52,500 square feet in Sunnyvale, California. The lease expires in April 2008. The Company has a research and development, technical assistance and service and support group in its Sunnyvale location. The Company's Professional Services group occupies a facility of approximately 41,000 square feet in the Philadelphia, Pennsylvania vicinity which is leased through June 2006.

ITEM 3. LEGAL PROCEEDINGS

CLI is currently engaged in several legal proceedings relating to matters arising prior to the Merger. There can be no assurance that CLI's legal proceedings can be resolved favorably to CLI or VTEL. Such legal proceedings, if continued for an extended period of time, could have an adverse effect upon CLI's working capital and management's ability to concentrate on its business. An unfavorable outcome in any one or several such legal proceedings could have a material adverse effect on CLI and hence, VTEL.

In a complaint filed on December 20, 1993 in the United States District Court in Dallas, Texas, Datapoint Corporation ("Datapoint") alleged that CLI had infringed two United States patents owned by Datapoint relating to video conferencing networks. The complaint sought a judgment of infringement, monetary damages, injunctive relief and attorneys' fees. CLI responded to the complaint by denying the material allegations of the complaint and asserting affirmative defenses. In July 1998, the United States District Court dismissed the civil action filed by Datapoint.

In June 1997, Keytech, S.A. ("Keytech") filed suit against CLI in the United States District Court in Tampa, Florida. Keytech was a distributor of satellite encoder and decoder products manufactured by a division of CLI which was sold by CLI in June 1996. Keytech has asserted that the equipment sold was defective and did not conform to contract specifications and express and implied warranties. Keytech has asserted damages in excess of \$20 million based on its allegations of breach of contract, breach of warranties and fraud. CLI has filed an answer denying liability and has asserted cross-claims against Keytech for amounts due and unpaid for equipment sold by CLI to Keytech.

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

None

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PART II.

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

Since April 7, 1992, the Company's Common Stock has been traded in the NASDAQ-National Market System under the symbol "VTEL". The following table sets forth the range of high and low closing prices for each fiscal quarter of 1996, 1997 and 1998:

	CALENDAR YEAR 1996		FISCAL YEAR 1997		FISCAL YEAR 1998	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
1st Quarter	\$17.250	\$ 8.813	\$10.625	\$ 6.625	\$ 8.875	\$ 5.438
2nd Quarter	\$12.625	\$ 9.500	\$11.000	\$ 8.250	\$ 8.438	\$ 5.625
3rd Quarter	\$ --	\$ --	\$ 8.625	\$ 4.875	\$ 7.688	\$ 5.250
4th Quarter	\$ --	\$ --	\$ 7.125	\$ 5.500	\$ 7.063	\$ 4.750

In May 1996, the Company changed its fiscal year end from December 31 to July 31. Therefore, the above quarterly information for 1996 reflects the first two calendar quarters of the year and the information relating to the remainder of calendar 1996 is included in the fiscal 1997 quarters (the first fiscal quarter beginning on August 1, 1996), except for July 1996 which had a low stock price of \$6.375 and a high stock price of \$9.6875.

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

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth consolidated financial data for VTEL as of the dates and for the periods indicated. All such data reflects the Merger with CLI on May 23, 1997, which was accounted for as a pooling of interests. The consolidated operations data for the year ended December 31, 1995, the seven months ended July 31, 1996, and the years ended July 31, 1997 and 1998 has been derived from the audited consolidated financial statements of VTEL included elsewhere herein. The consolidated operations data for the year ended December 31, 1993 and 1994 has been derived from the audited consolidated financial statements of VTEL not included herein.

The consolidated balance sheet data as of July 31, 1997 and 1998 has been derived from the audited consolidated financial statements of VTEL included elsewhere herein. The consolidated balance sheet data as of December 31, 1993, 1994 and 1995 and July 31, 1996 has been derived from the audited consolidated financial statements of VTEL not included herein.

The consolidated financial data as of July 31, 1995 and for the seven months then ended have been derived from the unaudited consolidated financial statements of VTEL not included herein. The unaudited consolidated financial data include all adjustments, consisting of normal recurring adjustments, which VTEL considers necessary for a fair presentation of its financial position as of such dates and the results of operations and cash flows for such periods. The selected financial data should be read in conjunction with the consolidated financial statements of VTEL and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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THE RESTATEMENT OF THE CONSOLIDATED FINANCIAL INFORMATION COMBINES THE FINANCIAL INFORMATION OF VTEL AND CLI GIVING RETROACTIVE EFFECT TO THE MERGER AS IF THE TWO COMPANIES HAD OPERATED AS A SINGLE COMPANY FOR ALL PERIODS PRESENTED. HOWEVER, THE TWO COMPANIES OPERATED INDEPENDENTLY PRIOR TO THE MERGER THAT WAS CONSUMMATED IN MAY 1997 AND THE HISTORICAL CHANGES AND TRENDS IN THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THESE TWO COMPANIES RESULTED FROM INDEPENDENT ACTIVITIES.

	FOR THE YEARS ENDED DECEMBER 31,		FOR THE SEVEN MONTHS ENDED JULY 31,			FOR THE YEARS ENDED JULY 31,	
	1993	1994	1995	1995 UNAUDITED	1996	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)						
STATEMENT OF OPERATIONS DATA:							
Revenues	\$ 126,547	\$ 169,189	\$ 191,074	\$ 98,079	\$ 96,962	\$ 191,023	\$ 179,684
Gross margin	39,089	66,380	66,843	39,971	35,980	74,702	84,957
Net income (loss) from continuing operations	(21,518)	(4,816)	(17,301)	(4,335)	(18,507)	(44,271)	2,779
Net income (loss)	(12,817)	169	(53,843)	(3,811)	(18,507)	(52,054)	2,779

Net income (loss) per share from continuing operations	(1.51)	(0.27)	(0.90)	(0.24)	(0.87)	(2.10)	0.12
Net income (loss) per share	(0.90)	0.01	(2.81)	(0.21)	(0.87)	(2.45)	0.12
BALANCE SHEET DATA:							
Working capital	\$ 85,335	\$ 85,088	\$ 93,330	\$ 76,023	\$ 77,091	\$ 39,528	\$ 41,503
Total assets	170,469	178,086	223,061	182,082	175,092	131,135	129,289
Long-term liabilities	1,020	494	985	1,278	--	--	3,848
Stockholders' equity	117,595	124,185	139,512	126,739	122,238	76,765	81,258

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

On May 23, 1997, shareholders of VTEL and CLI approved the Merger of VTEL-Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of VTEL ("Merger Sub"), with and into CLI, pursuant to an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), with CLI becoming a direct wholly-owned subsidiary of VTEL. As a result of the Merger, (i) the outstanding shares of CLI's Common Stock, par value \$.001 per share ("CLI Common Stock"), were converted into the right to receive 0.46 shares of Common Stock of VTEL, par value \$.01 per share ("VTEL Common Stock"), per share of CLI Common Stock converted (or cash in lieu of fractional shares otherwise deliverable in respect thereof), and (ii) the outstanding shares of CLI Series C Preferred Stock, par value \$.001 per share ("CLI Preferred Stock"), were converted into the right to receive 3.15 shares of VTEL Common Stock per share of CLI Preferred Stock converted (or cash in lieu of fractional shares otherwise deliverable in respect thereof). The CLI shares were exchanged for a total of 8,424,741 shares of VTEL Common Stock. The acquisition was accounted for as a pooling of interests and accordingly, the consolidated financial information has been restated for all periods to include the accounts of both VTEL and CLI.

The restatement of the consolidated financial information combines the financial information of VTEL and CLI giving retroactive effect to the Merger as if the two companies had operated as a single company for all periods presented. However, the two companies operated independently prior to the Merger that was consummated in May 1997 and the historical changes and trends in the financial condition and results of operations of these two companies resulted from independent activities. Nonetheless, the following Management's Discussion and Analysis of Financial Condition and Results of Operations attempts to relate the activities which resulted in the changes in financial condition and results of operations of the combined company, taking into consideration that a trend or change in the historical results of the combined entity was caused by many events related to each individual company operating independently as competitors. The financial information presented on a historical restated basis

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is not indicative of the financial condition and results of operations that may have been achieved in the past or will be achieved in the future had the companies operated as a single entity for the periods presented. The following discussion of the consolidated operations and financial condition of the Company should be read in conjunction with the Company's consolidated financial statements and related notes thereto included elsewhere herein.

In May 1996, the Company changed its fiscal year end from December 31 to July 31. The accompanying financial information includes the results of operations and cash flows for the seven month transition period ended July 31, 1996 with comparative presentation of the unaudited results for the seven months ended July 31, 1995. Results of operations for the seven month periods ended July 31, 1996 and 1995 are not necessarily indicative of the operating results which would be expected for a full year.

RESULT OF OPERATIONS

The following table sets forth for the fiscal periods indicated the percentage of revenues represented by certain items in the Company's consolidated statement of operations:

FOR THE
YEAR ENDED

FOR THE SEVEN
MONTHS ENDED

FOR THE
YEARS ENDED

	DECEMBER 31, 1995	JULY 31, 1995 (UNAUDITED)	JULY 31, 1996	JULY 31, 1997	JULY 31, 1998
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin	35.0	40.8	37.1	39.1	47.3
Selling, general and administrative	32.7	32.0	40.1	34.2	36.1
Research and development	11.1	12.1	16.8	12.8	11.1
Total operating expenses	44.4	45.0	58.0	62.9	46.8
Other income, net	0.4	0.2	1.8	0.6	1.1
Net income (loss) from continuing operations	(9.1)	(4.4)	(19.1)	(23.2)	1.6
Net income (loss)	(28.2)%	(3.9)%	(19.1)%	(27.3)%	1.6%

FOR THE YEARS ENDED DECEMBER 31, 1995 AND JULY 31, 1997 AND 1998 AND THE SEVEN MONTHS ENDED JULY 31, 1995 AND 1996.

Revenues

The following table summarizes the Company's group digital visual communication and multipoint control unit sales activity:

	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE SEVEN MONTHS ENDED JULY 31, 1995 (Unaudited)	1996	FOR THE YEARS ENDED JULY 31, 1997	1998
Large-group digital visual communication systems	3,607	1,903	1,654	3,595	3,518
Small-group digital visual communication systems	334	201	69	690	632
Multipoint control units	223	113	81	213	140
Total units	4,164	2,217	1,804	4,498	4,290

Consolidated revenues decreased from \$191.1 million in fiscal 1995 to \$191.0 million in fiscal 1997 and to \$180.0 million in fiscal 1998. Consolidated revenues decreased from \$98.1 million for the seven months ended July 31, 1995 to \$97.0 million for the seven months ended July 31, 1996.

Revenues for the year ended December 31, 1995 included amounts generated from the broadcast products division which was sold by the Company's wholly-owned subsidiary, CLI, in June 1996. Revenues for the year ended July 31, 1997 were consistent with revenues for the year ended December 31, 1995 due to an increase in revenues generated by sales of digital visual communications systems and professional services which replaced the decline in revenues as a result of the sale of the broadcast products division.

Revenues for the year ended July 31, 1998 decreased in comparison with revenues for the year ended July 31, 1997 due to Merger transition issues. During the year ended July 31, 1998, the Company combined the sales forces of VTEL and CLI, migrated to a single product platform by eliminating the former CLI platform, and combined the management and operations of the two companies into a single organization. The Company has completed all Merger transition activities and is operating effectively as a single organization. The Company expects to be able to continue to improve operational efficiency and to increase revenues in the future.

Revenues decreased from the seven months ended July 31, 1995 to the seven months ended July 31, 1996 as a result of a trend of decreasing digital visual communication product revenues by the Company's wholly-owned subsidiary, CLI. The decrease in revenue was due to product transition issues and the distraction of the attention of CLI's management in an attempt to diversify the broadcast products division that ultimately was sold in June 1996.

The Company has experienced a trend of revenue growth in consolidated service and other revenues as a result of an increase in service and systems integration revenues generated from the assets acquired in the ICS Transaction in November 1995 (see Note 3 to the Consolidated Financial Statements) and an increase in the installed base of digital visual communication products resulting in a larger revenue base for services.

International sales as a percentage of total consolidated product revenues were 23%, 26% and 24% for the years ended December 31, 1995 and July 31, 1997 and 1998 and were 22% and 21% for the seven months ended July 31, 1995 and 1996. While the Company has been able to penetrate foreign markets such as Europe, China, the Far East and Latin America, the decline in international revenue as a percentage of total revenue during fiscal 1998 is the result of the economic downturn ongoing in the Far East.

One of the Company'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. The Company believes its foreign currency exposure to be relatively low as foreign sales are predominantly in U.S. dollars. The Company utilizes currency hedging programs that utilize foreign currency forward contracts on a limited basis and reviews the credit worthiness of its customers to mitigate foreign currency exchange and credit risk. There can be no assurance that the Company's foreign currency hedging program will effectively hedge foreign currency exchange risk.

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 primarily 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.

Gross margin

Gross margins were 35%, 39% and 47% for the years ended December 31, 1995 and July 31, 1997 and 1998 and were 41% and 37% for the seven months ended July 31, 1995 and 1996.

The Company's gross margin trend has been positively affected by changes in the Company's sales mix to higher margin products with more features and lower per unit manufacturing costs realized by the distribution of relatively fixed manufacturing overhead costs. This trend has been offset by the impact of lower average selling prices and a higher proportion of service and systems integration revenues, which generally carry a lower gross margin than the Company's digital visual communication products. The gross margin for the year ended December 31, 1995 reflects an \$11.0 million charge taken in November 1995 by the Company's subsidiary, CLI, to reduce the carrying amount of certain assets, primarily inventory and capitalized software related to a restructuring of its digital videoconferencing products division. During fiscal 1998, the products that were previously developed by the Company's wholly-owned subsidiary, CLI, represented a smaller proportion of total product revenue due to the transition of the Company's combined product offering to the Company's ESA-based products. The products of the Company's wholly-owned subsidiary, CLI,

generally have a lower gross margin than the ESA-based products. During the year ended July 31, 1997 the Company's restated combined revenues consisted of a higher proportion of revenues from CLI, which resulted in a lower gross margin on a combined basis. The higher proportion of product revenues from the ESA platform products resulted in a higher blended gross margin for the year ended July 31, 1998.

Gross margins declined from the seven months ended July 31, 1995 to the seven months ended July 31, 1996 as service and integration revenues became a larger proportion of total revenues during the seven months ended July 31, 1996 due to incremental revenues generated by the Company's systems integration and service operations which were acquired in November 1995. The Company's systems integration and service operations carry a lower gross margin percentage than its product revenues such that the Company's overall gross margin is lower. Although the systems integration and service revenues related to assets acquired in connection with the ICS Transaction generally carry a lower gross margin, the systems integration and service activities also generally carry lower operating expenses than the Company's other revenue sources.

The Company expects 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 digital visual communication 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 of \$64.8 million in fiscal 1998 decreased by 1% from \$65.4 million in fiscal 1997, which increased by 5% from \$62.5 million in fiscal 1995. Selling, general and administrative expenses were 33%, 34% and 36% of revenues for the years ended December 31, 1995 and July 31, 1997 and 1998.

Selling, general and administrative expenses increased from the year ended December 31, 1995 to the year ended July 31, 1997 despite consistent revenues during these periods. The increase in selling, general and administrative expenses is due to the incremental selling, general and administrative expenses associated with the Company's Professional Services Group which was acquired in connection with the ICS Transaction in November 1995. The selling, general and administrative expenses incurred by the Professional Services Group resulted in an increase of nearly 100% in professional services revenues from the year ended December 31, 1995 to the year ended July 31, 1997.

Selling, general and administrative expenses increased from the year ended July 31, 1997 to the year ended July 31, 1998 despite a decline in revenues during these periods. The increase was due to investments made by the

Company during the year ended July 31, 1998 related to marketing and branding campaigns which were designed to provide brand awareness for VTEL's products and to establish VTEL as an industry leader in digital visual communications. Additionally, Merger transition issues related to the combination of the sales forces of VTEL and CLI contributed to an increase in selling, general and administrative expenses without a proportionate increase in revenues. The Company has completed all Merger transition activities and its sales force is operating effectively as a single organization. Therefore, the Company expects to be able to generate higher revenue productivity in the future from the combined sales force.

Selling, general and administrative expenses increased from \$31.4 million for the seven months ended July 31, 1995 to \$38.8 million for the seven months ended July 31, 1996, an increase of 24%. Selling, general and administrative expenses were 32% and 40% of revenues for the seven months ended July 31, 1995 and 1996. Selling, general and administrative expenses increased from the seven months ended July 31, 1995 to the seven months ended July 31, 1996 due to the incremental selling, general and administrative expenses associated with the Professional Services Group acquired in connection with the

ICS Transaction in November 1995 and a \$1.7 million charge taken by the Company's wholly-owned subsidiary, CLI, during the seven months ended July 31, 1996 to restructure its videoconferencing business. The charges related primarily to severance and related costs associated with headcount reductions.

Research and development expense

Research and development expenses of \$19.9 million in fiscal 1998 decreased by 19% from \$24.5 million in fiscal 1997, which increased by 15% from \$21.3 million in 1995. Research and development expenses were 11%, 13% and 11% of revenues for the years ended December 31, 1995 and July 31, 1997 and 1998. The increase in research and development expenses from the year ended December 31, 1995 to the year ended July 31, 1997 is the result of higher software development costs capitalized during the year ended December 31, 1995. Subsequent to December 31, 1995, the Company's wholly-owned subsidiary, CLI, reduced its development emphasis on projects which required software capitalization resulting in a reduction of capitalized software development costs during the year ended July 31, 1997. Merger-related expenses recorded during the year ended July 31, 1997 included a \$3.2 million charge for the write-off of capitalized research and development cost incurred by CLI for products that were discontinued subsequent to the Merger.

The decrease in research and development expenses from the year ended July 31, 1997 to the year ended July 31, 1998 reflects the efficiencies realized by combining the research and development efforts of VTEL and CLI subsequent to the Merger. The Company migrated to a single product platform by eliminating CLI's product platform. The research and development capabilities of both companies were then focused on a single platform such that Company could make a larger investment in its ESA(TM) platform while reducing the overall research and development expenses of the combined companies. Additionally, during the year ended July 31, 1998, the Company capitalized \$0.98 million of software development costs related to new product developments resulting in a reduction in research and development expenses recorded during the year.

Research and development expenses increased from \$11.9 million for the seven months ended July 31, 1995 to \$16.3 million for the seven months ended July 31, 1996, an increase of 37%. Research and development expenses were 12% and 17% of revenues for the seven months ended July 31, 1995 and 1996. Research and development expenses increased from the seven months ended July 31, 1995 to the seven months ended July 31, 1996 as a result of the Company's efforts to develop its Leadership Conferencing(TM) and Team Conferencing(TM) systems which were introduced at the end of calendar 1995 and the beginning of calendar 1996, respectively. Research and development expenses also increased as a result of the reassignment of Company research and development personnel who had been involved with the Intel joint development projects in 1995 to the Company's other projects (see Note 9 to the Company's Consolidated Financial Statements). Additionally, research and development expenses increased as a result of the Company's wholly-owned subsidiary, CLI, shifting its development efforts from software development to hardware development during the seven months ended July 31, 1996, which resulted in less capitalization of development costs related to software development.

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent product introductions. New products are generally characterized by increased functionality and better picture quality at lower bandwidths and at reduced prices. The introduction of products, by either the Company or its competitors, embodying new technology and the emergence of new industry standards may render existing products obsolete and unmarketable. The Company's 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 the Company's ability to grow and to remain competitive. 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.

Merger and other expense

Merger and other expense decreased from \$29.4 million in fiscal 1997 to

a \$1.5 million credit to income in fiscal 1998. Merger and other expenses of \$29.4 million recorded during fiscal 1997 consisted of transaction expenses of \$5.7 million and restructuring and other expenses of \$23.7 million. Management determined that, based on favorable events that occurred during fiscal 1998 a reversal of certain Merger and other accruals totaling \$1.5 million should be recorded.

Interest income and expense

Interest income was \$1.8 million, \$2.7 million and \$1.2 million for the years ended December 31, 1995 and July 31, 1997 and 1998 and was \$0.7 million and \$1.9 million for the seven months ended July 31, 1995 and 1996. Changes in interest income are based on interest rates earned on invested cash and cash balances available for investment. In October 1995, the Company completed a secondary offering which generated net proceeds of approximately \$57.0 million. The increase in the cash balances of the Company resulted in the increases in interest income for the seven months ended July 31, 1996 and the year ended July 31, 1997. Similarly in October 1996, the Company's wholly-owned subsidiary, CLI, completed a private placement of preferred stock which generated net proceeds of approximately \$7.0 million. The resulting increase in cash balances caused interest income for fiscal 1997 to be higher as compared with the previous periods presented. The decrease in the interest income during fiscal 1998 is the result of the reduced cash balances due to Merger related expenditures incurred.

Interest expense was \$1.1 million, \$1.6 million and nil for the years ended December 31, 1995 and July 31, 1997 and 1998 and was \$0.7 million and \$0.4 million for the seven months ended July 31, 1995 and 1996. Interest expense relates almost entirely to the Company's wholly-owned subsidiary, CLI, which relied on lines of credit to fund working capital and capital investment requirements. Interest expense increased from the year ended December 31, 1995 to the year ended July 31, 1997 as a result of higher average borrowings at higher interest rates during the year ended July 31, 1997. The Company incurred less interest expense during the seven months ended July 31, 1996 in comparison with the seven months ended July 31, 1995 as a result of a decrease in average borrowings during the seven months ended July 31, 1996. No interest expense was incurred during fiscal 1998 as the Company repaid all outstanding debt prior to July 31, 1997.

Income taxes

The Company has experienced substantial changes in ownership as defined by the Internal Revenue Code. These changes result in annual limitations of the amount of net operating loss carryforward generated prior to each change which can be utilized to offset future taxable income. As a result of the ownership change at CLI at the date of the Merger, a portion of CLI's net operating loss carryforward generated prior to the Merger will never be available to offset future taxable income due to the effect of the annual limitation and the expiration of the related net operating losses. Therefore, the unavailable portion of the net operating loss carryforward is not considered in determining the deferred tax asset at July 31, 1998.

At July 31, 1998, the Company had total domestic net operating loss carryforwards of \$85.7 million (\$26.6 million and \$59.1 million for VTEL and CLI, respectively). The portions of these carryforwards available for utilization during fiscal 1999 (in consideration of the annual limitations) are \$52.7 million. Additional net operating

losses created prior to the changes in control of \$2,574 become available in each subsequent year and accumulate if not used until such net operating losses expire.

Due to the uncertainty surrounding the timing of realizing the benefits of its favorable tax attributes in future tax returns, the Company has placed a full valuation allowance against its net deferred tax asset. Accordingly, no deferred taxes have been recorded for the year ended December 31, 1995, for the seven months ended July 31, 1996 and for the years ended July 31, 1997 and 1998.

Discontinued operations

In November 1995, the Company's wholly-owned subsidiary, CLI, adopted a plan to discontinue operations of its broadcast products division and focus its efforts and resources in developing and marketing videoconferencing products. CLI subsequently developed a restructuring plan for its videoconferencing products division which resulted in adjustments that were recorded during the year ended December 31, 1995 related to the carrying amounts of certain assets, primarily inventories, capitalized software development costs and accounts receivable. During the seven months ended July 31, 1996, CLI also reduced its workforce and identified a number of offices that would be closed. Severance and other expenses totaling approximately \$1.7 million associated with these actions are reflected in the result of operations for the seven months ended July 31, 1996.

In June 1996, CLI completed the sale of certain assets of its broadcast products division. During the year ended July 31, 1997, CLI revised the amount of loss associated with disposing of the broadcast products division and recorded an additional charge of \$7.8 million, primarily due to additional at-risk receivables that were subsequently identified (see Note 6 to the Consolidated Financial Statements).

Net income (loss)

The Company generated net losses from continuing operations of \$17.3 and \$44.3 million for the years ended December 31, 1995 and July 31, 1997 and \$4.3 million and \$18.5 million for the seven months ended July 31, 1995 and 1996. In fiscal 1998, the Company recorded net income from continuing operations of \$2.8 million. The net loss incurred during the year ended December 31, 1995 reflects charges taken by CLI related to settlement of litigation and restructuring charges. A larger net loss was incurred for the year ended July 31, 1997 due to charges of \$29.4 million taken related to the Merger (see Note 1 to the Consolidated Financial Statements). The Company generated net income during fiscal 1998 as a result of a reduction of operating expenses which was greater than the decline in revenues and several nonrecurring events. The reduction of operating expenses was due to operating efficiencies gained by combining VTEL and CLI after the Merger, including the elimination of duplicate costs and focusing combined company resources on a single product platform and operating plan. Additionally, the Company generated income of approximately \$1.3 million (net of expenses) from a planned non-recurring real estate transaction which eliminated duplicate corporate headquarter facilities. During the year ended July 31, 1998, the Company capitalized approximately \$0.8 million of internal costs associated with the implementation of the Oracle(R) Enterprise Resource Planning System and \$0.98 million of software development costs. Due to the favorable resolution of certain Merger-related issues during the year ended July 31, 1998, the Company was able to record a net credit to income of approximately \$1.5 million due to the reversal of certain Merger and other accruals that were recorded as of July 31, 1997. As management had anticipated the additional income increase and operating expense reductions, the Company was able to take advantage of these benefits by investing in discretionary marketing and branding campaigns to provide brand awareness for VTEL's products and to establish VTEL as an industry leader in digital visual communications.

The increase in net losses incurred from the seven months ended July 31, 1995 to the seven months ended July 31, 1996 is the result of independent charges taken by both VTEL and its wholly-owned subsidiary, CLI, related to restructuring activities and the effect of CLI's decision to discontinue operations relating to its broadcast products division in November 1995.

Other factors affecting results of operations

The Company's future results of operations and financial condition could be impacted by the following factors, among others: trends in the videoconferencing market segment, introduction of new products by competitors, increased competition due to the entrance of other companies into the videoconferencing market segment - 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.

There can be no assurance that the present and potential customers of the Company will continue their current buying patterns without regard to the Merger, and any significant delay or reduction in orders could have an adverse effect on the near-term business and results of operations of the combined company.

Generally, the shares issued by the Company to consummate the Merger are freely tradable, subject to certain resale restrictions for affiliates pursuant to Rules 144 or 145 under the Securities Act. An aggregate of approximately 1.1 million of the shares issued in the Merger are beneficially owned by affiliates of CLI and therefore, subject to resale restrictions. However, the Company provided certain registration rights to the holders of such shares. The sale of a significant number of the foregoing shares could cause substantial fluctuations in the price of the Company's Common Stock over short time periods.

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 have 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 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.

Further, this Annual Report on Form 10-K contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that relate to future results or events and are based on the Company's current expectations. There are many factors that affect the Company's business and results of operations, all of which involve risks and uncertainties that could cause actual results to differ materially from those reflected in those forward-looking statements, including the risks discussed above and elsewhere herein.

Share repurchase program

During the seven months ended July 31, 1996, the Company adopted a share repurchase program pursuant to which the Company repurchased shares of its Common Stock in the open market. During fiscal 1997, the Company purchased 455,200 shares of its Common Stock for approximately \$3.7 million. All of the repurchased shares were reissued during fiscal 1997 to fulfill requirements for the Company's Common Stock. In February 1997, the Company terminated the stock repurchase program.

In August 1998, the Company announced its plan to repurchase up to 2,000,000 shares of VTEL Common Stock. As of October 12, 1998, the Company had repurchased approximately 465,000 shares of its Common Stock for approximately \$2.0 million. The repurchased shares will be used to fulfill requirements for the Company's stock including stock option exercises or stock issuances under business combination transactions.

Liquidity and capital resources

At July 31, 1998, the Company had working capital of \$41.5 million, including \$29.7 million in cash, cash equivalents and short-term investments. Cash provided by operating activities was \$8.8 million for the year ended December 31, 1995. Cash used by operating activities was \$15.2 million for the year ended July 31, 1997. Cash provided by operating activities was \$19.6 million for the year ended July 31, 1998. Cash used by operating activities was \$1.0 million and \$11.1 million for the seven months ended July 31, 1995 and 1996. Changes in cash from operating activities are primarily the result of the

net losses or income generated by the Company and changes in working capital, primarily increases and decreases in accounts receivable, inventories and accounts payable.

Cash used in investing activities was \$77.9 million for the year ended December 31, 1995 as compared to cash provided by investing activities of \$23.3 million for the year ended July 31, 1997. Cash used in investing activities during the 1995 period was the result of increased capital expenditures for property and equipment used to support the growth in the Company's operations, primarily sales and marketing and product development efforts, and the investment of the cash proceeds from the Company's secondary offering in November 1995 which netted approximately \$57.0 million less the cash used of approximately \$10.7 million to purchase the systems integration and service operations in connection with the ICS Transaction. During fiscal 1997, cash provided by investing activities was primarily due to the net sale of investments to finance the Company's operations during the period, which included large cash requirements associated with the Merger. Cash used in investing activities was \$10.6 million for the year ended July 31, 1998 and was primarily the result of expenditures related to leasehold improvements in Austin and Sunnyvale, the implementation of the Oracle(R) Enterprise Resource Planning System and purchases of equipment.

Cash used in investing activities was \$16.4 million for the seven months ended July 31, 1995 compared with cash provided by investing activities of \$1.2 million for the seven months ended July 31, 1996. Cash used in investing activities was primarily the result of capital expenditures. Capital expenditures were \$11.0 million and \$11.1 million for the seven months ended July 31, 1995 and 1996. Cash provided by investing activities during the seven months ended July 31, 1996 included the proceeds from the sale of assets related to discontinued operations of the Company's wholly-owned subsidiary, CLI.

Cash provided by financing activities was \$69.2 million for the year ended December 31, 1995 as compared to cash used by financing activities of \$5.1 million for the year ended July 31, 1997 and cash provided by financing activities of \$1.6 million for the year ended July 31, 1998. Cash used in financing activities during fiscal 1997 was primarily the result of the purchase of treasury stock by the Company and the repayment of debt by the Company's wholly-owned subsidiary, CLI, offset by the sale of preferred stock by CLI during the year ended July 31, 1997. Cash provided by financing activities for the year ended July 31, 1998 relates to the issuance of stock under the Company's stock option and stock purchase plans (see Note 8 to the Company's Consolidated Financial Statements).

Cash provided by financing was \$4.9 million for the seven months ended July 31, 1995 compared to cash used in financing activities of \$3.9 million for the seven months ended July 31, 1996. Cash provided by financing activities during the seven months ended July 31, 1995 was related to the sale of stock by the Company's wholly-owned subsidiary, CLI, which netted approximately \$4.9 million. Cash used in financing activities during the seven months ended July 31, 1996 was related to the reduction in borrowings of approximately \$4.4 million from cash generated from the sale of the broadcast products division in June 1996 by CLI.

The Company has a \$25.0 million revolving line of credit available with a banking syndicate. The Company has issued a letter of credit totaling \$1.2 million under its revolving line of credit as a lease deposit on one of its facilities. No amounts have been drawn under the syndicated line of credit. The Company's principal sources of liquidity at July 31, 1998 consist of \$29.7 million of cash, cash equivalents and short-term investments and amounts available under the Company's revolving line of credit.

Impact of Year 2000

Many computer systems experience problems handling dates beyond the year 1999. Therefore, some computer hardware and software will need to be modified prior to the Year 2000 in order to remain functional. The Company believes that its products are Year 2000 compliant. While the Company is not

currently aware of any Year 2000 compliance issues with its products, no assurances can be made that problems will not arise such as customer problems with other software programs, operating systems or hardware that disrupt their use of the Company's products. There can be no assurances that such disruption would not negatively impact costs and revenues in future years.

The Company has been assured by the vendor of its Enterprise Resource Planning System that the system is Year 2000 compliant. The Company began assessing Year 2000 issues and Year 2000 testing of its significant management information systems during fiscal 1998.

The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue can be mitigated. It is not anticipated that there will be a significant increase in costs as much of the Year 2000 activities will be a continuation of the on-going process to improve all the Company's systems. The Company has not estimated the total costs of Year 2000 compliance and related contingency planning as Year 2000 compliance assessments are still in process. However, the company does not anticipate that Year 2000 issues will result in material incremental costs to the Company. The Company plans to complete the Year 2000 project during fiscal 1999. However, if such modifications and conversions are not made, or are not completed in a timely manner, the Year 2000 issue could have a material impact on the operations of the Company. Specific factors that might cause a material impact include, but are not limited to, availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, failure by third parties to timely convert their systems, and similar uncertainties.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 will require the Company to report, in addition to net income, comprehensive income and its components including, as applicable, foreign currency items and unrealized gains and losses on certain investments in debt and equity securities. The Company is required to adopt SFAS No. 130 for its fiscal year ended July 31, 1999. The Company expects that the adoption of SFAS No. 130 will not have a material impact on its financial position or its results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about a company's operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Under SFAS No. 131, operating segments are to be determined consistent with the way management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company is required to adopt SFAS No. 131 for its fiscal year ended July 31, 1999. The Company expects that the adoption of SFAS No. 131 will not have a material impact on its financial position or its results of operations.

In June 1998, FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. The Company is required to adopt this standard in the first quarter of fiscal 2000. The Company expects that the adoption of SFAS No. 133 will not have a material impact on its financial position or its results of operations.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SoP) 97-2, "Software Revenue Recognition," which provides guidance for recognizing revenue on software sales such that certain amounts are deferred for future obligations such as software upgrades and product support. The Company will adopt SOP 97-2 effective August 1, 1998. The Company does not expect that the new pronouncement will have a material impact on its financial position or results of operations.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, issued Statement of Position 98-1 (SoP 98-1), "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," which requires the capitalization of certain internal costs related to the implementation of computer software obtained for internal use. In consideration of the Company's implementation of the Oracle Enterprise Resource Planning Software System, the Company early adopted SoP 98-1 during fiscal 1998. In accordance with SoP 98-1, the Company capitalized \$0.8 million of internal costs associated with the implementation of the Oracle Enterprise Resource Planning Software System during the year ended July 31, 1998.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of VTEL Corporation

In our opinion, based upon our audits and the report of other auditors, the consolidated financial statements listed in the accompanying index present

fairly, in all material respects, the financial position of VTEL Corporation and its subsidiaries at July 31, 1997 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1995, for the seven months ended July 31, 1996, and for each of the two years in the period ended July 31, 1998 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Compression Labs, Incorporated, which statements reflect total revenues of \$112,979,000 for the year ended December 31, 1995. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it related to the amounts included for Compression Labs, Incorporated, is based solely on the report of the other auditors. We conducted our audits of the consolidated financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Austin, Texas
September 22, 1998

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INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
of Compression Labs, Incorporated

We have audited the consolidated statements of operations, changes in stockholders' equity and of cash flows of Compression Labs, Incorporated and subsidiaries for the year ended December 31, 1995 (not presented herein). In connection with our audits of the aforementioned consolidated financial statements, we have also audited the financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of Compression Labs, Incorporated referred to above present fairly, in all material respects, the results of their operations and their cash flows for the year ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth herein.

KPMG Peat Marwick LLP

Mountain View, California
March 13, 1996

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VTEL CORPORATION

CONSOLIDATED BALANCE SHEET
 (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	JULY 31,	
	1997	1998
ASSETS		
Current assets:		
Cash and equivalents	\$ 4,757	\$ 15,191
Short-term investments	20,299	14,484
Accounts receivable, net of allowance for doubtful accounts of \$10,722 and \$9,447 at July 31, 1997 and 1998	43,707	40,527
Inventories	22,244	12,951
Prepaid expenses and other current assets	2,891	2,533
	-----	-----
Total current assets	93,898	85,686
Property and equipment, net	21,660	28,106
Intangible assets, net	12,768	11,812
Other assets	2,809	3,685
	-----	-----
	\$ 131,135	\$ 129,289
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 25,699	\$ 22,600
Accrued merger and other expenses	9,704	1,741
Accrued compensation and benefits	4,552	5,258
Other accrued liabilities	3,070	2,791
Deferred revenue	11,345	11,793
	-----	-----
Total current liabilities	54,370	44,183
Long-term liabilities	--	3,848
	-----	-----
Total liabilities	54,370	48,031
	-----	-----
Commitments and contingencies (Note 11)	--	--
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 authorized; none issued or outstanding	--	--
Common stock, \$.01 par value; 40,000,000 authorized; 22,873,000 and 23,227,000 issued and outstanding at July 31, 1997 and 1998	229	232
Additional paid-in capital	254,880	256,594
Accumulated deficit	(178,234)	(175,455)
Cumulative translation adjustment	5	(37)
Unearned compensation	(115)	(76)
	-----	-----
Total stockholders' equity	76,765	81,258
	-----	-----
	\$ 131,135	\$ 129,289
	=====	=====

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

VTEL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
 (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE YEAR ENDED DECEMBER 31 1995	FOR THE SEVEN MONTHS ENDED JULY 31, 1995 (UNAUDITED)		FOR THE YEARS ENDED JULY 31, 1997 1998	
		1995	1996	1997	1998
REVENUES:					
Products	\$ 169,455	\$ 89,207	\$ 74,098	\$ 150,791	\$ 134,775
Services and other	21,619	8,872	22,864	40,232	44,909
	-----	-----	-----	-----	-----
	191,074	98,079	96,962	191,023	179,684
	-----	-----	-----	-----	-----
COST OF SALES:					
Products	109,653	52,523	44,390	87,231	65,811
Services and other	14,578	5,585	16,592	29,090	28,916
	-----	-----	-----	-----	-----
	124,231	58,108	60,982	116,321	94,727
	-----	-----	-----	-----	-----
Gross margin	66,843	39,971	35,980	74,702	84,957
	-----	-----	-----	-----	-----
Selling, general and administrative	62,511	31,397	38,842	65,399	64,802
Research and development	21,283	11,878	16,274	24,460	19,892
Merger and other	897	897	553	29,397	(1,536)
Amortization of intangible assets	80	--	560	960	960
	-----	-----	-----	-----	-----
Total operating expenses	84,771	44,172	56,229	120,216	84,118
	-----	-----	-----	-----	-----
Income (loss) from operations	(17,928)	(4,201)	(20,249)	(45,514)	839
	-----	-----	-----	-----	-----
OTHER INCOME (EXPENSE):					
Interest income	1,802	699	1,901	2,736	1,242
Interest expense	(1,142)	(655)	(424)	(1,582)	(27)
Other	54	164	265	77	762
	-----	-----	-----	-----	-----
	714	208	1,742	1,231	1,977
	-----	-----	-----	-----	-----
Net income (loss) from continuing operations before benefit (provision) for income taxes	(17,214)	(3,993)	(18,507)	(44,283)	2,816
Benefit (provision) for income taxes	(87)	(342)	--	12	(37)
	-----	-----	-----	-----	-----
Net income (loss) from continuing operations	(17,301)	(4,335)	(18,507)	(44,271)	2,779
	-----	-----	-----	-----	-----
DISCONTINUED OPERATIONS:					
Net income (loss) from discontinued operations	(1,941)	524	--	(7,783)	--
Loss on disposal	(34,601)	--	--	--	--
	-----	-----	-----	-----	-----
Net income (loss) from discontinued operations	(36,542)	524	--	(7,783)	--
	-----	-----	-----	-----	-----
Net income (loss)	\$ (53,843)	\$ (3,811)	\$ (18,507)	\$ (52,054)	\$ 2,779
	=====	=====	=====	=====	=====
COMPUTATION OF NET INCOME (LOSS) PER SHARE:					
Net income (loss) from continuing operations	\$ (17,301)	\$ (4,335)	\$ (18,507)	\$ (44,271)	\$ 2,779
Deemed preferred stock dividend related to conversion discount	--	--	--	(2,527)	--
	-----	-----	-----	-----	-----
Adjusted net income (loss) from continuing operations	(17,301)	(4,335)	(18,507)	(46,798)	2,779
Net income (loss) from discontinued operations	(36,542)	524	--	(7,783)	--
	-----	-----	-----	-----	-----
Net income (loss) applicable to common stock	\$ (53,843)	\$ (3,811)	\$ (18,507)	\$ (54,581)	\$ 2,779
	=====	=====	=====	=====	=====
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE:					
Income (loss) from continuing operations	\$ (0.90)	\$ (0.24)	\$ (0.87)	\$ (2.10)	\$ 0.12
Income (loss) from discontinued operations	(1.91)	0.03	--	(0.35)	--
	-----	-----	-----	-----	-----
Net income (loss) per share	\$ (2.81)	\$ (0.21)	\$ (0.87)	\$ (2.45)	\$ 0.12
	=====	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	19,131	17,821	21,393	22,255	23,057
	=====	=====	=====	=====	=====
Diluted	19,131	17,821	21,393	22,255	23,458
	=====	=====	=====	=====	=====

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

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	OTHER	TOTAL STOCKHOLDERS' EQUITY
	NUMBER OF SHARES	AMOUNT				
BALANCE AT DECEMBER 31, 1994	16,759	\$ 168	\$ 175,235	\$ (51,363)	\$ 145	\$ 124,185
Proceeds from sale of stock	3,312	33	61,927	--	--	61,960
Proceeds from stock issued under employee plans	546	5	3,220	--	--	3,225
Exercise of stock warrants	15	--	249	--	--	249
Stock issued for acquired assets (Note 3)	260	3	3,721	--	--	3,724
Amortization of unearned compensation	--	--	--	--	21	21
Foreign currency translation adjustment	--	--	--	--	(9)	(9)
Net loss	--	--	--	(53,843)	--	(53,843)
BALANCE AT DECEMBER 31, 1995	20,892	209	244,352	(105,206)	157	139,512
Proceeds from stock issued under employee plans	178	2	1,237	--	--	1,239
Proceeds from exercise of stock warrants	428	4	(4)	--	--	--
Foreign currency translation adjustment	--	--	--	--	(6)	(6)
Net loss	--	--	--	(18,507)	--	(18,507)
BALANCE AT JULY 31, 1996	21,498	215	245,585	(123,713)	151	122,238
Proceeds from sale of stock	1,258	13	7,703	--	--	7,716
Proceeds from stock issued under employee plans	572	1	2,503	--	--	2,504
Purchase and issuance of treasury stock	(455)	--	(1,275)	(2,467)	--	(3,742)
Unearned compensation	--	--	364	--	(364)	--
Amortization of unearned compensation	--	--	--	--	249	249
Foreign currency translation adjustment	--	--	--	--	(146)	(146)
Net loss	--	--	--	(52,054)	--	(52,054)
BALANCE AT JULY 31, 1997	22,873	229	254,880	(178,234)	(110)	76,765
Proceeds from stock issued under employee plans	344	3	1,473	--	--	1,476
Common stock and warrants issued for acquisition	10	--	153	--	--	153
Unearned compensation	--	--	88	--	(88)	--
Amortization of unearned compensation	--	--	--	--	127	127
Foreign currency translation adjustment	--	--	--	--	(42)	(42)
Net income	--	--	--	2,779	--	2,779
BALANCE AT JULY 31, 1998	23,227	\$ 232	\$ 256,594	\$ (175,455)	\$ (113)	\$ 81,258

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

VTEL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
(AMOUNTS IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE SEVEN MONTHS ENDED JULY 31, 1995	1996	FOR THE YEARS ENDED JULY 31, 1997	1998
			(UNAUDITED)		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	\$ (53,843)	\$ (3,811)	\$ (18,507)	\$ (52,054)	\$ 2,779
Adjustments to reconcile net income (loss) to net cash from operations:					
Depreciation and amortization	20,898	7,858	8,294	12,667	8,870
Provision for doubtful accounts	40	8	18	4,145	(119)
Amortization of unearned compensation	21	11	--	249	127
Amortization of deferred gain	(100)	(57)	(56)	--	--
Foreign currency translation gain (loss)	40	(83)	(216)	(3)	112

(Increase) decrease in accounts receivable	(4,007)	(15,651)	10,324	106	3,299
(Increase) decrease in inventories	9,647	(725)	(7,367)	7,064	10,758
(Increase) decrease in prepaid expenses and other current assets	2,107	(76)	2,522	(492)	358
Increase (decrease) in accounts payable	7,430	263	(11,216)	5,005	(3,099)
Increase (decrease) in accrued expenses	16,156	3,973	(14,562)	6,535	(5,505)
(Decrease) in research and development advance	(190)	(190)	--	(5)	--
Increase (decrease) in deferred revenues	(912)	(1,098)	(1,378)	2,195	2,172
Increase (decrease) in accrued expenses, discontinued operations	11,503	8,614	21,016	(657)	--
Net cash provided by (used in) operating activities	8,790	(964)	(11,128)	(15,245)	19,752
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of short-term investments	(707,280)	(65,148)	(241,994)	(391,628)	(247,223)
Sales and maturities of short-term investments	664,545	68,327	253,671	419,636	253,038
Purchases of property and equipment	(16,759)	(11,027)	(11,139)	(18,781)	(15,835)
Sales of property and equipment	1,775	1,054	1,307	11,208	260
Cash paid for acquired assets (Note 3)	(10,684)	--	--	--	--
(Increase) decrease in capitalized software	(9,371)	(2,958)	(681)	3,561	(984)
(Increase) decrease in other assets	(103)	(6,662)	69	(745)	104
Net cash provided by (used in) investing activities	(77,877)	(16,414)	1,233	23,251	(10,640)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net proceeds from issuance of stock	65,434	6,255	1,014	8,044	1,476
Purchase of treasury stock	--	--	--	(3,742)	--
Proceeds from the sale of treasury stock	--	--	--	1,275	--
Principal payments under capital lease obligations	(844)	(436)	(549)	--	--
(Payments) borrowings under line of credit agreements	2,993	(2,801)	(2,766)	--	--
Collateralized borrowings (payments)	1,597	1,850	(1,589)	--	--
Repayment of short-term debt	--	--	--	(10,656)	--
Net cash provided by (used in) financing activities	69,180	4,868	(3,890)	(5,079)	1,476
Effect of translation exchange rates on cash	(49)	125	210	(143)	(154)
Net increase (decrease) in cash and equivalents	44	(12,385)	(13,575)	2,784	10,434
Cash and equivalents at beginning of period	15,504	15,504	15,548	1,973	4,757
Cash and equivalents at end of period	\$ 15,548	\$ 3,119	\$ 1,973	\$ 4,757	\$ 15,191
SUPPLEMENTAL CASH FLOW INFORMATION:					
Income taxes paid	\$ 74	\$ 27	\$ --	\$ --	\$ --
Interest paid	\$ 1,142	\$ 655	\$ 424	\$ 1,582	\$ --
Stock issued for acquired assets (Note 3)	\$ 3,724	\$ --	\$ --	\$ --	\$ 153
Note payable issued for acquired asset	\$ --	\$ --	\$ --	\$ --	\$ 837
Stock issued in lieu of repayment of research and development advance	\$ --	\$ --	\$ --	\$ 901	\$ --

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

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. THE COMPANY

VTEL Corporation ("VTEL" or the "Company") designs, manufactures, markets, services and supports integrated, multi-media digital visual communication systems which operate over private and switched digital communication networks. VTEL distributes its systems to a domestic and international marketplace through a reseller network and directly to end-user customers.

On May 23, 1997, shareholders of VTEL and Compression Labs, Incorporated, a Delaware corporation ("CLI"), approved the merger (the "Merger") of VTEL-Sub, Inc., a Delaware corporation and direct wholly-owned subsidiary of

VTEL ("Merger Sub"), with and into CLI, pursuant to an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), with CLI becoming a direct wholly-owned subsidiary of VTEL. As a result of the Merger, (a) the outstanding shares of CLI's Common Stock were converted into the right to receive 0.46 shares of Common Stock of VTEL for each share of CLI Common Stock converted (or cash in lieu of fractional shares otherwise deliverable in respect thereof), and (b) the outstanding shares of CLI Series C Preferred Stock were converted into the right to receive 3.15 shares of VTEL Common Stock for each share of CLI Preferred Stock converted (or cash in lieu of fractional shares otherwise deliverable in respect thereof). The CLI shares were exchanged for a total of 8,424,741 shares of VTEL Common Stock.

The acquisition was accounted for as a pooling of interests and accordingly, the consolidated financial statements have been restated for all periods to include the accounts of CLI. Revenues, net income (loss) from continuing operations and net income (loss) of the separate companies for the periods preceding the acquisition were as follows:

	VTEL -----	CLI -----	TOTAL -----
YEAR ENDED DECEMBER 31, 1995			
Revenues	\$ 78,095	\$ 112,979	\$ 191,074
Net income (loss) from continuing operations	3,739	(21,040)	(17,301)
Net income (loss)	3,739	(57,582)	(53,843)
SEVEN MONTHS ENDED JULY 31, 1996			
Revenues	\$ 50,109	\$ 46,853	\$ 96,962
Net loss from continuing operations	(9,899)	(8,608)	(18,507)
Net loss	(9,899)	(8,608)	(18,507)
YEAR ENDED JULY 31, 1997 *			
Revenues	\$ 124,438	\$ 66,585	\$ 191,023
Net loss from continuing operations **	556	(44,827)	(44,271)
Net loss	(508)	(51,546)	(52,054)

* Information for CLI is through the date of the Merger, May 23, 1997.

** Includes loss of \$29,397 related to the merger.

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In connection with the Merger, the Company recorded merger and other expenses of \$29,397 during the year ended July 31, 1997 as follows:

TRANSACTION EXPENSES:

Investment banking fees	\$ 2,391
Legal and accounting fees	1,600
Other	1,663

	5,654

RESTRUCTURING AND OTHER:

Asset impairments	12,469
Reserve for contingent liabilities	5,271
Severance and termination benefits	3,457

Other	2,546

	23,743

Total	\$ 29,397
	=====

Changes to accrued merger and other and the reserve for asset impairments during the year ended July 31, 1998 were as follows:

	BALANCE AT JULY 31, 1997	PAID IN FISCAL 1998	TRANSFERRED IN FISCAL 1998	WRITTEN-OFF IN FISCAL 1998	REVERSED IN FISCAL 1998	BALANCE AT JULY 31, 1998
	-----	-----	-----	-----	-----	-----
Asset impairments	\$ 5,617	\$ --	\$ 1,000	\$ (6,235) (1)	\$ --	\$ 382
	-----	-----	-----	-----	-----	-----
ACCRUED MERGER AND OTHER						
EXPENSES:						
Reserve for contingent liabilities	\$ 6,662	\$ (2,556)	\$ (1,086)	\$ --	\$ (1,536) (2)	\$ 1,484
Severance and termination						
Benefits	2,414	(2,243)	86	--	--	257
Other	628	(628)	--	--	--	--
	-----	-----	-----	-----	-----	-----
	\$ 9,704	\$ (5,427)	\$ (1,000)	\$ --	\$ (1,536)	\$ 1,741
	-----	-----	-----	-----	-----	-----

- (1) Represents final write-down of assets acquired in the Merger.
- (2) Based on favorable events which occurred during fiscal 1998, the Company recorded a credit to income of \$1.5 million related to the reversal of certain Merger and other accruals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of VTEL's wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant estimates made by management include the provision for doubtful accounts receivable, inventory write-downs for potentially excess or obsolete inventory, warranty reserves, the valuation allowance for the gross deferred tax asset, contingency reserves and the amortization period for intangible assets. Actual amounts could differ from the estimates made. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

In May 1996, VTEL changed its fiscal year end from December 31 to July 31. The accompanying consolidated financial statements include the results of operations and cash flows for the seven-month transition period ended July 31, 1996 with comparative presentation of the unaudited results for the seven months

ended July 31, 1995.

Revenue Recognition

Product revenues, recorded net of discounts, are recognized at the time a product is shipped or services are performed and the Company has no significant further obligations to the customer. Customer prepayments are deferred until product shipment has occurred or services have been rendered and there are no significant further obligations to the customer. Service revenues are recognized at the time the services are rendered and the Company has no significant further obligations to the customer. Revenues for extended warranty contracts are recorded over the contract period. The Company records an allowance to reduce sales revenue by an amount which reflects management's estimate of potential future sales returns, exchanges, customer stock rotations or price protection discounts.

Warranty Costs

The Company generally warrants its products against hardware defects for one year from the date of installation but not to exceed fifteen months from date of shipment. A warranty is provided for software defects for ninety days from the date of installation. The Company provides currently for the estimated costs which may be incurred in the future under the warranty program.

Software Development Costs

Costs incurred in connection with the development of software products are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Costs incurred prior to the establishment of technological feasibility are charged to research and development expense. Amortization of capitalized software begins upon initial product shipment. Software development costs are amortized (a) over the estimated life of the related product (generally thirty-six months), using the straight-line method or (b) based on the ratio of current revenues from the related products to total estimated revenues for such products, whichever is greater.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Company capitalized internal software development costs of \$9,276, \$1,622 and \$984 for the years ended December 31, 1995 and July 31, 1997 and 1998, respectively, and \$2,957 and \$563 for the seven months ended July 31, 1995 and 1996. Amortization of such costs was \$17,411, \$1,827 and \$50 for the years ended December 31, 1995 and July 31, 1997 and 1998, respectively, and \$1,996 and \$947 for the seven months ended July 31, 1995 and 1996, respectively. In connection with the Merger, the Company recorded an impairment charge of \$3,218 related to capitalized software development costs during the year ended July 31, 1997 due to the elimination of the product line to which the capitalized software development costs related.

Cash and Equivalents

Cash and equivalents include cash and investments in liquid money market accounts.

Short-term Investments

Short-term investments are carried at market value, which approximates cost, at the balance sheet date. Short-term investments consist of funds primarily invested in mortgage-backed securities guaranteed by the U.S. government, government securities and commercial paper. Investment securities generally have maturities of less than one year.

The Company accounts for investment securities under SFAS No. 115,

"Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires investment securities to be classified as held-to-maturity, trading or available-for-sale based on the characteristics of the securities and the activity in the investment portfolio. At July 31, 1997 and 1998, all investment securities are classified as available-for-sale. No unrealized gains or losses have been recorded as a separate component of equity for the current period or prior year as market values approximate cost due to the short-term nature of the investments.

Inventories

Inventories are stated at the lower of cost (determined under the first-in, first-out method) or market. Cost includes the acquisition of purchased components, parts and sub-assemblies, labor and overhead.

Property and Equipment

Property and equipment is recorded at cost. Internal support equipment consists of certain demonstration and development systems manufactured by the Company and is recorded at manufactured cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets, ranging from two to ten years, or over the lease term of the respective assets, as applicable. Repair and maintenance costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible Assets

During the year ended December 31, 1995, VTEL acquired certain assets and a service and support infrastructure related to an operating group of another company (see Note 3). The estimated value of the intangible assets is being amortized over a period of 15 years, which is the period over which the Company expects to be able to continue to effectively utilize the service and support infrastructure to support its resellers in the offering of broader services to users of digital visual communication equipment. In accordance with Accounting Principles Board Opinion ("APB") No. 17, "Intangible Assets," the Company periodically evaluates the amortization period associated with the acquired intangible assets based upon anticipated periods of future benefit, including factors such as loss of employees with key or unique knowledge, the Company's ability to continue to successfully utilize the specialized integration and process knowledge to provide integration and support services, and other relevant factors which could require revision of the estimate of the amortization period. Appropriate adjustments, if any, to the amortization period will be made prospectively based upon such periodic evaluation.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, assets and liabilities of the subsidiaries are translated at current rates of exchange at the balance sheet date. The resultant gains or losses from translation are included in a separate component of stockholders' equity. Income and expense from the subsidiaries are translated using monthly average exchange rates.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes," which requires the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Net Income (Loss) Per Share

During the fiscal year ended July 31, 1998, the Company adopted 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. All historical earnings per share data have been restated to conform to the current year presentation.

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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:

	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE SEVEN MONTHS ENDED JULY 31, 1995	1996	FOR THE YEARS ENDED JULY 31, 1997	1998
	-----	-----	-----	-----	-----
		(UNAUDITED)			
Weighted average shares					
Outstanding - basic	19,131	17,821	21,393	22,255	23,057
	-----	-----	-----	-----	-----
EFFECT OF DILUTIVE SECURITIES:					
Stock options	--	--	--	--	400
Warrants to purchase common stock	--	--	--	--	1
	-----	-----	-----	-----	-----
Dilutive potential common shares	--	--	--	--	401
	-----	-----	-----	-----	-----
Weighted average shares					
Outstanding - diluted	19,131	17,821	21,393	22,255	23,458
	=====	=====	=====	=====	=====
Antidilutive securities	3,880	4,001	4,435	3,648	1,764
	=====	=====	=====	=====	=====

Net loss applicable to common stock for the year ended July 31, 1997 is computed by increasing the net loss from continuing operations by \$2,527 which represents a deemed dividend related to the 20% conversion discount on Series C Preferred Stock measured at the date of original issuance.

Concentration of Credit Risk

The Company sells its products to various companies across several industries, including third-party resellers. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. The Company requires advanced payments or secured transactions when deemed necessary.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, including cash and equivalents, short-term investments and short-term trade receivables and payables, approximates fair value. The carrying amount of short-term investments approximates fair value because of the short maturity and nature of

these instruments. The Company places its cash in investment quality financial instruments and limits the amount invested in any one institution or in any type of instrument. The Company has not experienced any significant losses on its investments.

Long-lived Assets

The Company evaluates its long-lived assets and intangibles based on guidance provided by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used for long-lived assets and certain identifiable intangibles to be disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Employee Stock Plans

The Company determines the fair value of grants of stock, stock options and other equity instruments issued to employees in accordance with SFAS No. 123, "Accounting and Disclosure of Stock-Based Compensation." SFAS No. 123 encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options, and other equity instruments to employees based on their estimated fair market value on the date of grant. The Company has opted to continue to apply the existing accounting rules contained in APB No. 25, "Accounting for Stock Issued to Employees." As such, SFAS No. 123 has had no effect on the Company's financial position or results of operations.

The Company records unearned compensation related to stock options that are issued at exercise prices which are below the fair market value of the underlying stock on the measurement date. Such unearned compensation is amortized ratably over the vesting period of the related stock options.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 will require the Company to report, in addition to net income, comprehensive income and its components including, as applicable, foreign currency items and unrealized gains and losses on certain investments in debt and equity securities. The Company is required to adopt SFAS No. 130 for its fiscal year ended July 31, 1999. The Company expects that the adoption of SFAS No. 130 will not have a material impact on its financial position or its results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about a company's operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Under SFAS No. 131, operating segments are to be determined consistent with the way management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company is required to adopt SFAS No. 131 for its fiscal year ended July 31, 1999. The Company expects that the adoption of SFAS No. 131 will not have a material impact on its financial position or its results of operations.

In June 1998, FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. The Company is

required to adopt this standard in the first quarter of fiscal 2000. The Company expects that the adoption of SFAS No. 133 will not have a material impact on its financial position or its results of operations.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position (SoP) 97-2, "Software Revenue Recognition," which provides guidance for recognizing revenue on software sales such that certain amounts are deferred for future obligations such as software upgrades and product support. The Company will adopt SOP 97-2 effective August 1, 1998. The Company does not expect that the new pronouncement will have a material impact on its financial position or results of operations.

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VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, issued Statement of Position 98-1 (SoP 98-1), "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," which requires the capitalization of certain internal costs related to the implementation of computer software obtained for internal use. In consideration of the Company's implementation of the Oracle Enterprise Resource Planning Software System, the Company early adopted SoP 98-1 during fiscal 1998. In accordance with SoP 98-1, the Company capitalized \$808 of internal costs associated with the implementation of the Oracle Enterprise Resource Planning Software System during the year ended July 31, 1998.

Reclassifications

Certain amounts related to the year ended July 31, 1997 have been reclassified to conform to the current year presentation.

3. PURCHASE TRANSACTIONS

In November 1995, VTEL purchased certain assets and a service and support infrastructure related to the Integrated Communications Systems Group of another company (the "ICS Transaction"). The transaction resulted in VTEL acquiring certain tangible assets primarily consisting of inventories, prepaid expenses and fixed assets and assuming certain deferred revenues related to extended warranty service contracts. The acquired service and support infrastructure includes a trained workforce possessing specialized systems integration and process knowledge. The transaction will allow VTEL to enhance its ability to support its resellers' abilities to offer systems integration, installation and end-user support to the ultimate purchaser of its products, thereby allowing the resellers to more effectively provide an essential part of the services that are integral to the purchase of the Company's products.

VTEL completed the ICS Transaction with the payment of \$10,684 in cash, which includes \$142 of transaction expenses, and the issuance of 260,000 shares of VTEL's unregistered Common Stock with an estimated market value at the time of the transaction of \$3,723. The transaction was accounted for under the purchase method pursuant to which VTEL determined that approximately \$14,400 of the purchase price related to intangible assets which are primarily represented by the service and support infrastructure. Amortization of the intangible asset was \$80, \$560, \$960, \$960 for the year ended December 31, 1995, the seven months ended July 31, 1996 and the years ended July 31, 1997 and 1998, respectively.

As part of the Company's initiative to expand its international presence, the Company consummated the acquisition of certain of the assets of the videoconferencing division of one of its German resellers effective July 1, 1998. The consideration paid by the Company consisted of restricted stock, warrants, a note payable, and the assumption of certain payables and other liabilities. Subsequent to July 31, 1998, the Company completed the acquisition of one of its French resellers through a stock for stock transaction. The consideration paid by the Company consisted of restricted stock. The total consideration paid for both acquisitions was less than \$3 million.

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. INVENTORIES

Inventories consist of the following:

	JULY 31,	
	1997	1998
Raw materials	\$ 9,493	\$ 5,938
Work-in-process	4,143	517
Finished goods	7,490	5,833
Finished goods held for Evaluation and rental Agreements	1,118	663
	-----	-----
	\$ 22,244	\$ 12,951
	=====	=====

Finished goods held for evaluation and under rental agreements consists of completed digital visual communication systems used for demonstration and evaluation purposes, which are generally sold during the next year.

5. PROPERTY AND EQUIPMENT

Property and equipment is composed of the following:

	JULY 31,	
	1997	1998
Furniture, machinery and equipment	\$ 28,803	\$ 30,045
Internal support equipment	10,991	12,513
Customer service assets	11,752	15,263
Leasehold improvements	2,872	6,686
	-----	-----
	54,418	64,507
Less accumulated depreciation	(32,758)	(36,401)
	-----	-----
	\$ 21,660	\$ 28,106
	=====	=====

Depreciation and amortization expense relating to property and equipment was approximately \$20,818, \$8,379, \$12,991 and \$7,910 for the year ended December 31, 1995, the seven months ended July 31, 1996, and the years ended July 31, 1997 and 1998, respectively.

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. DISCONTINUED OPERATIONS

During November 1995, CLI adopted a strategic plan to discontinue operations of its broadcast products division. This division generally manufactured and sold broadcast video products to commercial end-users. The results for the division have been accounted for as discontinued operations in accordance with APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and the accompanying consolidated financial statements have been presented to reflect the discontinuation of the division.

On June 27, 1996, CLI completed the sale of certain assets of its broadcast products division to another company in exchange for \$12,500 in cash and the assumption of \$2,000 in liabilities. The purchaser assumed past warranty obligations associated with the product family covered by the sale. With the exception of the accounts receivable, CLI disposed of the remaining assets of the division to a separate buyer. During the year ended July 31, 1997, the Company recorded a provision for probable losses to fully reserve the remaining accounts receivable of the discontinued operations that were considered to be uncollectible. Such provision is reflected in the accompanying consolidated statement of operations in the net loss from discontinued operations.

Revenues from the discontinued division were approximately \$36,974 for the year ended December 31, 1995 and \$11,201 for the seven months ended July 31, 1996. No revenues from discontinued operations were recorded during the years ended July 31, 1997 and 1998.

7. LINES OF CREDIT

On December 4, 1997, the Company executed a credit agreement with a banking syndicate which established a \$25,000 revolving line of credit. Under the line of credit, the Company may borrow up to 80% of eligible accounts receivable. The credit agreement also provides that the Company may request the issuance of letters of credit up to a maximum of \$10,000 and foreign exchange contracts up to a maximum of \$10,000. Each of the aforementioned provisions are subject to certain limitations.

Any amounts outstanding under the credit agreement will bear interest at the prime rate (8.5 % at July 31, 1998) or, at the option of the Company, LIBOR plus a range of basis points (7.1% to 7.6% at July 31, 1998) based on the number of profitable quarters the Company has achieved at the time of the credit advance (LIBOR) option. All such advances and accrued interest under the credit agreement will be payable on the maturity date of December 3, 1999 unless the Company converts the revolving advances to a two-year term loan, which will bear interest at the prime rate or the LIBOR option rate and will be payable in equal monthly installments. The Company pays an annual commitment fee of 0.2% on its unused line of credit.

Any amounts outstanding under the credit agreement will be secured by the Company's inventory and accounts receivable. The credit agreement requires the Company to maintain certain financial ratios and other covenants. The Company has issued a letter of credit totaling \$1,200 under the line of credit as a lease deposit on one of its facilities. At July 31, 1998, the Company had no amounts drawn under the credit line.

8. STOCKHOLDERS' EQUITY

General

In October 1995, VTEL completed a secondary offering of its Common Stock which consisted of the sale of 3,000,000 shares of VTEL's Common Stock generating net proceeds to VTEL of approximately \$57,000.

In June 1995, Intel purchased 51,898 shares of VTEL's common stock for approximately \$396 pursuant to an agreement, since terminated, which enabled Intel to maintain its percentage ownership interest in VTEL. In October 1995, Intel delivered notice of its intent to exercise its warrant to purchase 1,199,124 shares of VTEL's Common Stock at an exercise price of \$11.50 per share under an agreement which modified the provisions of the common stock and Warrant Purchase Agreement (the "Stock Agreement") between VTEL and Intel. Pursuant to the modified agreement, Intel agreed to sell to VTEL concurrently with the exercise of the warrant, and VTEL agreed to purchase from Intel, 771,464 shares of VTEL's Common Stock at a price of \$17.875, the closing price of VTEL's Common Stock on the day immediately preceding the date in which Intel delivered notice of its intent to exercise the warrant. During the seven months ended July 31, 1996, VTEL completed the warrant exercise and related stock redemption transaction such that Intel increased its ownership of VTEL's Common Stock by 427,660 shares. The modified agreement also resulted in Intel agreeing to terminate certain of its rights specified in the Investor Rights Agreement between the Company and Intel. VTEL registered the shares acquired by Intel as provided under the Stock Agreement. In May 1997, VTEL issued 155,040 shares of Common Stock, at the fair market value, to Intel in lieu of repayment of the remaining \$901 advance under the Development Agreement (see Note 9 to the Consolidated Financial Statements) that was unused at that time.

In November 1995, VTEL issued 260,769 shares of its unregistered Common Stock in connection with the ICS Transaction (see Note 3).

Share Repurchase Program

During the seven months ended July 31, 1996, VTEL adopted a share repurchase program pursuant to which VTEL repurchased shares of its Common Stock in the open market. During the year ended July 31, 1997, VTEL repurchased 455,200 shares of its Common Stock for approximately \$3,700. In February 1997, VTEL terminated the stock repurchase program. All repurchased shares were issued from time to time prior to the CLI Merger in May 1997. VTEL applies the cost method of accounting for its treasury stock.

In August 1998, the Company announced its plan to repurchase up to 2,000,000 shares of VTEL Common Stock. As of October 12, 1998, the Company had repurchased approximately 465,000 shares of its common stock for approximately \$2,000.

CLI Redeemable Convertible Preferred Stock

On October 25, 1996, CLI completed a private placement of 350,000 shares of Class C Preferred Stock and stock warrants for the purchase of 375,000 shares of CLI Common Stock for approximately \$7,000, before certain issuance costs, pursuant to a purchase agreement with an institutional investor. The preferred stock was exchanged for 1,102,500 shares of VTEL Common Stock and both the number and exercise price of the warrants were converted into warrants for the purchase of VTEL Common Stock based on the exchange ratio of 0.46 in connection with the Merger. The converted warrants, totaling 172,500 VTEL shares, have an exercise price of \$12.39 and expire in October 2001.

Stock and Stock Option Plans

VTEL has three stock option plans, the 1989 Stock Option Plan (the "1989 Plan"), the 1996 Stock Option Plan (the "1996 Plan") and the 1992 Director Stock Option Plan (the "1992 Plan"). The 1989 Plan and the 1996 Plan both

provide for the issuance of non-qualified and incentive stock options to key employees, directors and consultants of the Company. Stock options are generally granted at the estimated fair market value at the time of grant, and the options vest ratably over 48 months and are generally exercisable for a period of ten years beginning with date of grant. The 1992 Plan provides for the issuance of stock options to nonemployee directors at the estimated fair market value at the time of grant. Such options vest ratably over 36 months and are exercisable for a period of ten years beginning with the date of the grant.

CLI had employee and director stock option plans prior to the merger with VTEL. On May 23, 1997, all options outstanding under these plans were converted into options for Common Stock of VTEL. Both the number of shares subject to option and the per share exercise price under each option were adjusted by the exchange ratio of 0.46.

The Company applies APB No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost is recognized for its stock option plans unless options are issued at exercise prices which are below the market price on the measurement date. Had compensation cost for the Company's stock option plans been determined based on the fair market value at the grant dates for awards under those plans consistent with the method provided by SFAS No. 123, the Company's net loss and net loss per share would have been reflected by the following pro forma amounts for the seven months ended July 31, 1996 and the years ended July 31, 1997 and 1998:

		FOR THE SEVEN MONTHS ENDED JULY 31, 1996		FOR THE YEARS ENDED JULY 31, 1997		1998	
Net income (loss)	As reported	\$ (18,507)	\$ (52,054)	\$ 2,779			
	Pro forma	\$ (20,638)	\$ (55,276)	\$ (1,589)			
Basic and diluted net income (loss) per common share	As reported	\$ (.87)	\$ (2.45)	\$ 0.12			
	Pro forma	\$ (.96)	\$ (2.60)	\$ (0.07)			

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants during the seven months ended July 31, 1996 and the years ended July 31, 1997 and 1998:

	FOR THE SEVEN MONTHS ENDED JULY 31, 1996		FOR THE YEARS ENDED JULY 31, 1997		1998
Dividend yield	--	--	--	--	--
Expected volatility	84.83%	92.31%	63.12%		
Risk-free rate of return	6.56%	5.90%	5.52%		
Expected life	4.94 years	5.12 years	5.65 years		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes activity under all Plans for the year ended December 31, 1995, the seven months ended July 31, 1996 and the years ended July 31, 1997 and 1998. This information includes stock options relating to CLI's stock option plans. Both the number of shares and the per share exercise price have been adjusted by the exchange ratio of 0.46.

	1995		1996		1997		1998	
	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the								
beginning of the year	1,638	\$ 3.97	1,879	\$ 8.80	2,187	\$ 9.40	3,648	9.42
Converted from CLI	--	--	--	--	1,798	17.43	--	--
Granted	701	17.37	449	10.99	2,098	6.44	896	6.43
Exercised	(371)	3.66	(77)	3.13	(324)	3.14	(186)	4.00
Canceled	(89)	8.88	(64)	10.39	(2,111)	14.58	(420)	7.55
Outstanding at the end of the year	1,879	\$ 8.80	2,187	\$ 9.40	3,648	\$ 9.42	3,938	\$ 8.65
Options exercisable at year end	1,851	\$ 8.74	2,165	\$ 9.40	3,402	\$ 9.20	3,710	\$ 8.42
Weighted average fair value of options granted during the year		\$ 12.07		\$ 7.77		\$ 3.42		\$ 4.12

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING WEIGHTED-AVERAGE			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT JULY 31, 1998	REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 1998	WEIGHTED-AVERAGE EXERCISE PRICE
\$0.30 - \$5.75	710,094	6.59 years	\$ 3.92	710,094	\$ 3.92
5.78 - 6.11	201,994	9.09	6.02	187,326	6.02
6.13 - 6.13	1,368,837	8.87	6.13	1,354,169	6.13
6.19 - 7.88	646,012	8.38	7.00	636,345	7.00
8.06 - 42.66	1,010,979	6.04	16.96	822,282	17.72
=====	=====	=====	=====	=====	=====
\$0.30 - \$42.66	3,937,916	7.66 years	\$ 8.65	3,710,216	\$ 8.42
=====	=====	=====	=====	=====	=====

Generally, options are exercisable immediately upon grant. However, stock issued upon exercise of a stock option is subject to repurchase by the Company at the exercise price until the option vesting period has elapsed. At July 31, 1998, options to purchase 1,852,530 shares were vested. At July 31, 1998, no unvested options had been exercised.

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Employee Stock Purchase Plan

On April 29, 1993, VTEL adopted an Employee Stock Purchase Plan ("Employee Plan") which enables all employees to acquire VTEL stock under the plan. The Employee Plan authorizes the issuance of up to 950,000 shares of VTEL's Common Stock. The Employee Plan allows participants to purchase shares of the Company's Common Stock at a price equal to the lesser of (a) 85% of the fair market value of the Common Stock on the date of the grant of the option or (b) 85% of the fair market value of the Common Stock at the time of exercise. Shares of Common Stock issued under the Employee Plan totaled 66,087, 37,121, 105,549 and 158,073 respectively, for the year ended December 31, 1995, the seven months ended July 31, 1996 and the years ended July 31, 1997 and 1998.

The fair value of the employees' purchase rights was estimated using the Black-Scholes model with the following assumptions for the seven months ended July 31, 1996 and the years ended July 31, 1997 and 1998:

	MONTHS ENDED JULY 31, 1996		YEAR ENDED JULY 31, 1997		YEAR ENDED JULY 31, 1998	
	SECTION 16 OFFICERS	OTHERS	SECTION 16 OFFICERS	OTHERS	SECTION 16 OFFICERS	OTHERS
Dividend yield	--	--	--	--	--	--
Expected volatility	95.78%	90.29%	82.89%	79.83%	52.10%	51.68%
Risk-free rate of return	5.18%	5.12%	5.31%	5.23%	5.40%	5.34%
Expected life (in years)	.50	.25	.50	.25	.50	.25
Weighted-average fair value of purchase rights granted	\$3.13	\$2.30	\$2.54	\$2.11	\$1.96	\$1.66

9. DEVELOPMENT AND LICENSE AGREEMENT

On October 22, 1993, VTEL entered into a Development and License Agreement (the "Development Agreement") with Intel Corporation ("Intel"), pursuant to which the companies agreed to engage in a series of development efforts with respect to video compression software as well as other video technology such as processes and designs. The agreement contains certain provisions for licensing agreements and royalties between the two companies for the use of the technology developed under the agreement.

The initial term of the Development Agreement has renewed until December 31, 1999 and will continue to automatically renew thereafter for successive terms of one year unless written notice is given by either party six months prior to the expiration of the initial term or any successor term.

VTEL was advanced \$3,000 under the agreement to be used for the initial reimbursements of research and development costs incurred by VTEL in performing the work specified in the Development Agreement. During the years ended December 31, 1995 and July 31, 1997, the Company reduced gross research and development expenses by approximately \$190 and \$5, respectively, for reimbursable research and development costs under the terms of the Development Agreement. No reductions of research and development expenses were recorded during the seven months ended July 31, 1996 and the year ended July 31, 1998 as a result of the Development Agreement. In May 1997, VTEL issued 155,040 shares of Common Stock, at the fair market value, to Intel in lieu of repayment of the remaining \$901 advance that was unused at that time. As of July 31, 1998, the Company had no research and development activities in process or planned related to the Development Agreement.

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VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. FEDERAL INCOME TAXES

Under the provisions of SFAS No. 109, the components of the net deferred tax amount are as follows:

	JULY 31,	
	1997	1998
DEFERRED TAX ASSETS:		
Net operating loss carryforwards	\$ 23,198	\$ 29,140
Research and development credit carryforwards	3,376	3,458
Minimum tax credit carryforwards	110	110
Inventory and warranty provisions	3,562	1,246
Charitable contributions	--	22
Compensation accruals	1,932	635
Depreciation	2,698	630
Deferred revenue	703	1,796
Accrued expenses	2,385	841
Accounts receivable	3,996	3,163
Other	281	558
	-----	-----

Gross deferred tax asset	42,241	41,599
	-----	-----
DEFERRED TAX LIABILITIES:		
Capitalized software	--	(274)
	-----	-----
Gross deferred tax liability	--	(274)
	-----	-----
Valuation allowance	(42,241)	(41,325)
	-----	-----
Net deferred tax asset	\$ --	\$ --
	=====	=====

The Company's net operating loss carryforwards expire in varying amounts from 1999 through 2013. Research and development tax credit carryforwards expire in varying amounts from 1998 through 2013. Minimum tax credit carryforwards do not expire and carry forward indefinitely. Net operating losses related to the Company's foreign subsidiary (totaling \$5,033) are available to offset future foreign taxable income.

The Company has experienced substantial changes in ownership as defined by the Internal Revenue Code. These changes result in annual limitations of the amount of net operating loss carryforward generated prior to each change which can be utilized to offset future taxable income. As a result of the ownership change at CLI at the date of the Merger, a portion of CLI's net operating loss carryforward generated prior to the Merger will never be available to offset future taxable income due to the effect of the annual limitation and the expiration of the related net operating losses. Therefore, the unavailable portion of the net operating loss carryforward is not considered in determining the deferred tax asset at July 31, 1998.

At July 31, 1998, the Company had total domestic net operating loss carryforwards of \$85,705 (\$26,592 and \$59,113 for VTEL and CLI, respectively). The portions of these carryforwards available for utilization during fiscal 1999 (in consideration of the annual limitations) are \$52,660. Additional net operating losses created prior to the changes in control of \$2,574 become available in each subsequent year and accumulate if not used until such net operating losses expire.

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VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Due to the uncertainty surrounding the timing of realizing the benefits of its favorable tax attributes in future tax returns, the Company has placed a valuation allowance against its net deferred tax asset. Accordingly, no deferred taxes have been recorded for the year ended December 31, 1995, for the seven months ended July 31, 1996 and for the years ended July 31, 1997 and 1998.

The tax provisions reflected in the accompanying consolidated financial statements is due primarily to federal alternative minimum taxes and state income taxes.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

VTEL leases furniture and equipment, manufacturing facilities and office space under noncancelable leases which expire at various dates through 2013. Certain leases obligate VTEL to pay property taxes, maintenance and repair costs.

Future minimum lease payments under all operating leases as of July 31, 1998

were as follows:

FISCAL YEAR ENDING:	
1999	\$ 7,430
2000	7,082
2001	6,771
2002	6,592
2003	6,315
Thereafter	21,377

	\$ 55,567
	=====

Total rent expense under all operating leases for the years ended December 31, 1995, for the seven months ended July 31, 1996, and for the years ended July 31, 1997 and 1998 was \$6,188, \$4,713, \$4,601 and \$4,301 respectively.

During the year ended July 31, 1998, the Company completed the planned elimination of duplicate headquarter facilities by terminating the lease for the former CLI headquarters. The landlord paid the Company a \$1,800 termination fee which is recorded (net of termination expenses) as Other Income in the accompanying Statement of Operations.

In connection with the acquisition of certain of the assets of the videoconferencing division of one of its German resellers, (see Note 3), the Company entered into a five year licensing agreement pursuant to which the Company will pay a license fee equal to 4% of the revenues generated by the acquired assets with a minimum annual fee of \$281 to \$393 and a maximum annual fee of \$786.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Contingencies

CLI is currently engaged in several legal proceedings relating to matters arising prior to the Merger. There can be no assurance that CLI's legal proceedings can be resolved favorably to CLI or VTEL. Such legal proceedings, if continued for an extended period of time, could have an adverse effect upon CLI's working capital and management's ability to concentrate on its business. The Company has recorded an estimate of the costs to defend and discharge the claims. Such amount is included in the charges recorded as contingent liabilities (see Note 1 to the Consolidated Financial Statements). In the opinion of management, such reserves should be sufficient to discharge the liabilities, if any. However, an unfavorable outcome in any one or several such legal proceedings could have a material adverse effect on CLI and hence, VTEL.

In a complaint filed on December 20, 1993 in the United States District Court in Dallas, Texas, Datapoint Corporation ("Datapoint") alleged that CLI had infringed two United States patents owned by Datapoint relating to video conferencing networks. The complaint sought a judgment of infringement, monetary damages, injunctive relief and attorneys' fees. CLI responded to the complaint by denying the material allegations of the complaint and asserting affirmative defenses. In July 1998, the United States District Court dismissed the civil action filed by Datapoint.

In June 1997, Keytech, S.A. ("Keytech") filed suit against CLI in the United States District Court in Tampa, Florida. Keytech was a distributor of satellite encoder and decoder products manufactured by a division of CLI which CLI sold in June 1996. Keytech has asserted that the equipment sold was defective and did not conform to contract specifications and express and implied warranties. Keytech has asserted damages in excess of \$20 million based on its

allegations of breach of contract, breach of warranties and fraud. CLI has filed an answer denying liability and has asserted cross-claims against Keytech for amounts due and unpaid for equipment sold by CLI to Keytech.

12. GEOGRAPHIC INFORMATION

The Company operates in one industry. Transfers between geographic areas are recorded at cost plus a markup. Information about the Company's operations in different geographic areas is as follows:

	FOR THE YEAR ENDED JULY 31, 1998			CONSOLIDATED
	UNITED STATES	EUROPE AND OTHER	ELIMINATIONS	
Sales to unaffiliated customers	\$ 163,264	\$ 16,420	\$ --	\$ 179,684
Transfer between geographic areas	9,616	--	(9,616)	--
Total sales	\$ 172,880	\$ 16,420	\$ (9,616)	\$ 179,684
Net income (loss) from continuing operations	\$ 2,155	\$ 530	\$ 94	\$ 2,779
Net income (loss)	\$ 2,155	\$ 530	\$ 94	\$ 2,779
Identifiable assets	\$ 132,914	\$ 9,871	\$ (13,496)	\$ 129,289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	FOR THE YEAR ENDED JULY 31, 1997			CONSOLIDATED
	UNITED STATES	EUROPE AND OTHER	ELIMINATIONS	
Sales to unaffiliated customers	\$ 180,811	\$ 10,212	\$ --	\$ 191,023
Transfer between geographic areas	12,612	--	(12,612)	--
Total sales	\$ 193,423	\$ 10,212	\$ (12,612)	\$ 191,023
Net loss from continuing operations	\$ (40,942)	\$ (3,144)	\$ (185)	\$ (44,271)
Net loss	\$ (48,725)	\$ (3,144)	\$ (185)	\$ (52,054)
Identifiable assets	\$ 139,051	\$ 8,008	\$ (15,924)	\$ 131,135

	FOR THE SEVEN MONTHS ENDED JULY 31, 1996			CONSOLIDATED
	UNITED STATES	EUROPE AND OTHER	ELIMINATIONS	
Sales to unaffiliated customers	\$ 93,728	\$ 3,234	\$ --	\$ 96,962
Transfer between geographic areas	2,383	--	(2,383)	--
Total sales	\$ 96,111	\$ 3,234	\$ (2,383)	\$ 96,962
Net loss	\$ (16,721)	\$ (1,834)	\$ 48	\$ (18,507)

Identifiable assets	\$ 179,799	\$ 3,131	\$ (7,838)	\$ 175,092
	=====	=====	=====	=====

	FOR THE YEAR ENDED DECEMBER 31, 1995			
	UNITED STATES	EUROPE AND OTHER	ELIMINATIONS	CONSOLIDATED
Sales to unaffiliated customers	\$ 184,471	\$ 6,603	\$ --	\$ 191,074
Transfer between geographic areas	3,475	--	(3,475)	--
	-----	-----	-----	-----
Total sales	\$ 187,946	\$ 6,603	\$ (3,475)	\$ 191,074
	=====	=====	=====	=====
Net loss from continuing operations	\$ (16,912)	\$ (520)	\$ 131	\$ (17,301)
	=====	=====	=====	=====
Net loss	\$ (53,454)	\$ (520)	\$ 131	\$ (53,843)
	=====	=====	=====	=====
Identifiable assets	\$ 219,616	\$ 3,445	\$ --	\$ 223,061
	=====	=====	=====	=====

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

In accordance with paragraph G(3) of the General Instructions to the Annual Report on Form 10-K, the information contained under the captions "Election of Directors" will be filed with the Company's Definitive Proxy Statement pursuant to Regulation 14A on or before November 28, 1998.

ITEM 11. EXECUTIVE COMPENSATION

In accordance with paragraph G(3) of the General Instructions to the Annual Report on Form 10-K, the information contained under the caption "Executive Compensation" will be filed with the Company's Definitive Proxy Statement pursuant to Regulation 14A on or before November 28, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

In accordance with paragraph G(3) of the General Instructions to the Annual Report on Form 10-K, the information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" will be filed with the Company's Definitive Proxy Statement pursuant to Regulation 14A on or before November 28, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In accordance with paragraph G(3) of the General Instructions to the Annual Report on Form 10-K, the information contained under the caption "Certain Relationships and Transactions" will be filed with the Company's Definitive Proxy Statement pursuant to the regulation 14A on or before November 28, 1998.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

EXHIBIT

- | NUMBER
----- | DOCUMENT DESCRIPTION
----- |
|-----------------|---|
| (a) (1) | The financial statements filed as part of this Report at Item 8 are listed in the Index to Financial Statements and Financial Statement Schedules on page 27 of this Report. |
| (a) (2) | The financial statement schedule filed as part of this Report at Item 8 is listed in the Index to Financial Statements and Financial Statement Schedules on page 27 of this Report. |
| (a) (3) | The following exhibits are filed with this Annual Report on Form 10-K: |

- | EXHIBIT
NUMBER
----- | DOCUMENT DESCRIPTION
----- |
|----------------------------|---|
| 2.1 | - Agreement and Plan of Merger and Reorganization dated as of January 6, 1997 by and among VTEL, VTEL-Sub, Inc. and CLI (incorporated by reference to the Exhibit 99.1 of VTEL's Report on Form 8-K dated January 6, 1997). |

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- | EXHIBIT
NUMBER
----- | DOCUMENT DESCRIPTION
----- |
|----------------------------|---|
| 3.1 | - Fourth Amended Restated Certificate of Incorporation (incorporated by reference the Exhibit 3.1 to the Company's quarterly report form 10-Q for the period ended June 30, 1993.) |
| 3.2 | - Amendment to Fourth Amended and Restated Certificate of Incorporation, as filed on May 27, 1997 with the Secretary of State of Delaware (incorporated by reference the Exhibit 3.1 to the Company's Annual Report on form 10-K for the period ended July 31, 1997.) |
| 3.3 | - Bylaws of the Company as adopted by the Board of Directors of the Company effective as of June 11, 1989 (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended). |
| 3.4 | - Amendment to Bylaws of the Company as adopted by the Board of Directors of the Company effective as of April 28, 1992 (incorporated by reference to Exhibit 19.1 to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 1992). |
| 3.5 | - Amendment to the Bylaws of the Company as adopted by the Board of Directors of the Company effective as of July 10, 1996 (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K dated July 10, 1996). |
| 4.1 | - Specimen Certificate for the Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended). |
| 4.2 | - Rights Agreement dated as of July 10, 1996 between VTEL Corporation and First National Bank of Boston, which includes the form of Certificate of Designations for Designating Series A Preferred Stock, \$.01 par value, the form of Rights Certificate, and the Summary of Rights to Purchase Series A Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 10, 1996). |
| 10.1 | - License Agreement, dated as of November 7, 1990, between Universite de Sherbrooke, as Licensor, and the Company, as Licensee (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended). |

- 10.2 - VideoTelecom Corp. 1989 Stock Option Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration on Form S-8, File No. 33-51822).
- 10.3 - Form of VideoTelecom Corp. Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).

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EXHIBIT NUMBER -----	DOCUMENT DESCRIPTION -----
10.4 -	Form of VideoTelecom Corp. Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
10.5 -	Distributor Agreement dated January 8, 1990, between US WEST Communications Services, Inc. and the Company (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
10.6 -	Purchase Agreement effective October 1, 1990, between GTE Service Corporation and the Company, as amended July 1, 1991 (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
10.7 -	Distribution Agreement, made and entered into November 1, 1991, by and between Microsoft Corporation and the Company (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
10.8 -	VideoTelecom Corp. 1992 Director Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration on Form S-8, File No. 33-51822).
10.9 -	VideoTelecom Corp. Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration on Form S-8, File No. 33-51822).
10.10 -	Lease agreement, executed by Waterford HP, Ltd. on June 14, 1994, as Landlord, and the Company, as Tenant, together with First Amendment of Lease Agreement between Waterford HP, Ltd., as Landlord, and the Company, as Tenant, dated November 2, 1994, Second Amendment of Lease Agreement between Waterford HP, Ltd., as Landlord, and the Company, as Tenant, dated February 1, 1995, and Net Profits Agreement, executed between Waterford HP, Ltd. on June 14, 1994 and the Company (incorporated by reference to Exhibit 10.17 to the Company's 1994 Annual Report on Form 10-K).
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10.12 -	Amendment to the VideoTelecom Corp. 1989 Stock Option Plan and the 1992 Director Stock Option Plan (the terms of which are incorporated by reference to the Company's 1996 Definitive Proxy Statement).

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10.15 -	Compression Labs, Incorporated 1980 Stock Option Plan - the ISO Plan (incorporated by reference to the Annual Report on Form 10-K of Compression Labs, Inc. for the year ended December 31, 1994).
10.16 -	Revised forms of Incentive Stock Option and Early Exercise Stock Purchase Agreement used in connection with the issuance and exercise of options under the ISO Plan (incorporated by reference to the Registration Statement on Form S-8 of Compression Labs, Inc. filed on June 6, 1994).
10.17 -	Consulting and separation agreement between Compression Labs, Incorporated and John E. Tyson dated February 16, 1996 (incorporated by reference to the Annual Report on Form 10-K of Compression Labs, Inc. for the year ended December 31, 1995).
10.18 -	Lease Agreement, dated January 30, 1998, between 2800 Industrial, Inc., Lessor and VTEL Corporation, Lessee (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the three months ended April 30, 1998).
10.19 -	First Amendment, dated March 11, 1998, to Lease Agreement dated January 30, 1998, between 2800 Industrial, Inc., Lessor and VTEL Corporation, Lessee (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the three months ended April 30, 1998).
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 10.21 (m) Stephen L. Von Rump
 10.21 (n) Judy A. Wallace

21.1 - List of Subsidiaries

23.1 - Consent of PricewaterhouseCoopers LLP.

23.2 - Consent of KPMG Peat Marwick LLP.

27.1 - Financial Data Schedule (filed electronically only)

- -----

(b) Reports on Form 8-K:

None

(c) See subitem 14(a)(3) above.

(d) See subitem 14(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ Rodney S. Bond

 Rodney S. Bond
 CHIEF FINANCIAL OFFICER,
 VICE PRESIDENT-FINANCE, TREASURER
 AND SECRETARY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature -----	Title -----	Date ----
/s/ Jerry S. Benson, Jr. ----- Jerry S. Benson, Jr.	Chief Executive Officer, President and Director (Principal Executive Officer)	October 22, 1998 -----
/s/ Rodney S. Bond ----- Rodney S. Bond	Chief Financial Officer, Vice President- Finance, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)	October 22, 1998 -----
/s/ Arthur G. Anderson ----- Arthur G. Anderson	Director	October 22, 1998 -----
/s/ Eric L. Jones ----- Eric L. Jones	Director	October 22, 1998 -----
/s/ Max Hopper ----- Max Hopper	Director	October 22, 1998 -----
/s/ Gordon Matthews ----- Gordon Matthews	Director	October 22, 1998 -----
/s/ F.H. (Dick) Moeller	Chairman of the Board	October 22, 1998

-----		-----	
	F.H. (Dick) Moeller		
/s/	Dick Snyder	Director	October 22, 1998
-----		-----	
	Dick Snyder		
/s/	T. Gary Trimm	Director	October 22, 1998
-----		-----	
	T. Gary Trimm		

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VTEL CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE II

	BALANCE AT BEGINNING OF PERIOD	PROVISION FOR DOUBTFUL ACCOUNTS RECEIVABLE	WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS RECEIVABLE	BALANCE AT END OF YEAR
	(IN THOUSANDS)			
Accounts receivable - Allowances for Doubtful accounts				
Year ended December 31, 1995	\$ 2,137	\$ 11,389	\$ (3,313)	\$ 10,213
Seven months ended July 31, 1996	10,213	(132)	(2,206)	7,875
Year ended July 31, 1997	7,875	6,086	(3,239)	10,722
Year ended July 31, 1998	10,722	(119)	(1,156)	9,447

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INDEX TO EXHIBITS

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
-----	-----
2.1	- Agreement and Plan of Merger and Reorganization dated as of January 6, 1997 by and among VTEL, VTEL-Sub, Inc. and CLI (incorporated by reference to the Exhibit 99.1 of VTEL's Report on Form 8-K dated January 6, 1997).
3.1	- Fourth Amended Restated Certificate of Incorporation (incorporated by reference the Exhibit 3.1 to the Company's quarterly report form 10-Q for the period ended June 30, 1993.)
3.2	- Amendment to Fourth Amended and Restated Certificate of Incorporation, as filed on May 27, 1997 with the Secretary of State of Delaware (incorporated by reference the Exhibit 3.1 to

the Company's Annual Report on form 10-K for the period ended July 31, 1997.)

- 3.3 - Bylaws of the Company as adopted by the Board of Directors of the Company effective as of June 11, 1989 (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 3.4 - Amendment to Bylaws of the Company as adopted by the Board of Directors of the Company effective as of April 28, 1992 (incorporated by reference to Exhibit 19.1 to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 1992).
- 3.5 - Amendment to the Bylaws of the Company as adopted by the Board of Directors of the Company effective as of July 10, 1996 (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K dated July 10, 1996).
- 4.1 - Specimen Certificate for the Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 4.2 - Rights Agreement dated as of July 10, 1996 between VTEL Corporation and First National Bank of Boston, which includes the form of Certificate of Designations for Designating Series A Preferred Stock, \$.01 par value, the form of Rights Certificate, and the Summary of Rights to Purchase Series A Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 10, 1996).
- 10.1 - License Agreement, dated as of November 7, 1990, between Universite de Sherbrooke, as Licensor, and the Company, as Licensee (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 10.2 - VideoTelecom Corp. 1989 Stock Option Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration on Form S-8, File No. 33-51822).
- 10.3 - Form of VideoTelecom Corp. Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).

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EXHIBIT
NUMBER

DOCUMENT DESCRIPTION

- 10.4 - Form of VideoTelecom Corp. Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 10.5 - Distributor Agreement dated January 8, 1990, between US WEST Communications Services, Inc. and the Company (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 10.6 - Purchase Agreement effective October 1, 1990, between GTE Service Corporation and the Company, as amended July 1, 1991 (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).
- 10.7 - Distribution Agreement, made and entered into November 1, 1991,

by and between Microsoft Corporation and the Company (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1, File No. 33-45876, as amended).

- 10.8 - VideoTelecom Corp. 1992 Director Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration on Form S-8, File No. 33-51822).
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- 27.1 - Financial Data Schedule (filed electronically only)

LOAN AND SECURITY AGREEMENT
 BY AND AMONG
 SILICON VALLEY BANK,
 TEXAS COMMERCE BANK NATIONAL ASSOCIATION
 AND
 VTEL CORPORATION
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LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT ("Agreement") is entered into as of December 4, 1997, by and among SILICON VALLEY BANK, a California-chartered bank on its own behalf ("SVB"), with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054 and with a loan production office located at 9442 Capital of Texas Highway North, Arboretum Plaza One, Suite 130, Austin, Texas 78759, TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a national banking association ("TCB") with an address of 712 Main Street, Houston, Texas 77002 and an office at 700 Lavaca, P.O. Box 550, Austin, Texas 78789-0001 (each of SVB in its capacity as a lender, but not as an agent, and TCB individually a "Lender" and collectively "Lenders"), VTEL CORPORATION, a Delaware corporation ("Borrower"), with its principal place of business at 108 Wild Basin Road, Austin, Texas 78746 and SVB, as Servicing Agent for the Lenders ("Servicing Agent").

R E C I T A L S

Borrower wishes to obtain credit from time to time from Lenders, and Lenders desire to extend credit to Borrower. This Agreement sets forth the terms on which Lenders will advance credit to Borrower, and Borrower will repay the amounts owing to Lenders.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" means a loan advance under the Committed Revolving Line.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, or any Person that controls or is controlled by or is under common control with such Person (whether by contract, ownership of voting securities or otherwise).

"Borrower's Books" means all of Borrower's books and records including, without limitation: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Borrowing Base" means an amount equal to eighty percent (80%) of Eligible Accounts, as determined with reference to the most recent Borrowing Base Certificate delivered by Borrower.

"Business Day" means (i) any day that is not a Saturday, Sunday, or other day on which banks in the State of Texas or the State of California are authorized or required to close, and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on any U.S. Dollar Advance which bears interest by reference to an interbank offering rate and any Advance made in a currency other than U.S. Dollars, any day which is a Business Day described in clause (i) and which is also a day on which commercial banks are open for international business (including dealings in the currency in which such Advance is denominated) in the location of the relevant interbank market and the place where such funds are to be paid or made available.

"Closing Date" means the date of this Agreement.

"Code" means the Uniform Commercial Code as in effect in the State of Texas from time to time.

"Collateral" means the property described on Exhibit A attached hereto.

"Commitment" means, with respect to each Lender and with respect to each credit facility hereunder, the amounts set forth in the Schedule and "Commitments" means, with respect to each Lender or each facility hereunder, as the case may be, all such amounts collectively, as each may be amended from time to time.

"Commitment Percentage" means, as to any Lender, for any credit facility hereunder, the percentage equivalent of such Lender's Commitment for such facility divided by the aggregate amount of all Commitments under such facility.

"Committed Revolving Line" means a credit extension of up to Twenty-Five Million and No/100 Dollars (\$25,000,000.00).

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business), co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Credit Extension" means each Advance, Letter of Credit (including all issued but undrawn and drawn but unreimbursed Letters of Credit), Term Loan, Exchange Contract, Foreign Exchange Reserve or any other extension of credit by Lenders for the benefit of Borrower hereunder.

"Current Assets" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current assets on the consolidated balance sheet of Borrower and its Subsidiaries as at such date.

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries, as at such date,

plus, to the extent not already included therein, all outstanding Credit Extensions made under this Agreement which according to GAAP would be considered current liabilities, including all Indebtedness that is payable upon demand or within one year from the date of determination thereof unless such Indebtedness is renewable or extendable at the option of Borrower or any Subsidiary to a date more than one year from the date of determination, but excluding Subordinated Debt.

"Debt Service Coverage Ratio" means, as to Borrower and its Subsidiaries on a consolidated basis and for any period, the ratio of (a) Net Income after taxes for such period, plus (b) the aggregate amount which was deducted for such period in determining Net Income in respect of interest, depreciation and amortization, to the total of (x) the current portion of long-term debt determined in accordance with GAAP plus (y) interest expenses related thereto.

"Eligible Accounts" means those Accounts that arise in the ordinary course of Borrower's business that comply with all of Borrower's representations and warranties to Servicing Agent and Lenders set forth in Section 5.4; provided, that standards of eligibility may be fixed and revised from time to time by Servicing Agent in its reasonable judgement upon notification thereof to Borrower in accordance with the provisions hereof. Unless otherwise agreed to by Servicing Agent, on behalf of all Lenders, in writing, Eligible Accounts shall not include the following:

(a) Accounts that the account debtor has failed to pay within ninety (90) days of invoice date;

(b) Accounts with respect to an account debtor, fifty percent (50%) of whose Accounts the account debtor has failed to pay within ninety (90) days of invoice date;

(c) Accounts with respect to an account debtor, including Affiliates, whose total obligations to Borrower exceed twenty-five percent (25%) of all Accounts, to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Servicing Agent and all Lenders;

(d) Accounts with respect to which the account debtor does not have its principal place of business in the United States, except for Eligible Foreign Accounts;

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(e) Accounts with respect to which the account debtor is (a) the United States government or any department, agency, or instrumentality thereof, or (b) a state or local governmental entity or any department, agency, or instrumentality thereof which requires compliance with such state's or local governmental entity's laws with respect to the assignment of claims or accounts receivable in order for Servicing Agent to obtain a valid, perfected, first-priority security interest in such account; provided, however, upon compliance with such laws and the valid assignment of such account, such account shall be an Eligible Account;

(f) Accounts which are the subject of any dispute or which could reasonably be deemed to result in set-off but only to the extent of the amount in dispute or subject to set-off;

(g) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, or other terms by reason of which the payment by the account debtor may be conditional sometimes referred to as "contra" accounts;

(h) Accounts with respect to which the account debtor is an Affiliate, officer, employee, or agent of Borrower;

(i) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Servicing Agent believes, in its sole discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business; and

(j) Accounts the collection of which Servicing Agent in good faith

reasonably determines after reasonable inquiry to be doubtful by reason of the account debtor's financial condition.

"Eligible Foreign Accounts" means Accounts with respect to which the account debtor does not have its principal place of business in the United States and that are: (1) covered by credit insurance in form and amount, and by an insurer satisfactory to Servicing Agent less the amount of any deductible(s) which may be or become owing thereon; or (2) supported by one or more letters of credit either advised or negotiated through Servicing Agent or in favor of Servicing Agent as beneficiary, in an amount and of a tenor, and issued by a financial institution, acceptable to Servicing Agent; or (3) that Lenders approve on a case-by-case basis.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"ERISA" means the Employment Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

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"Foreign Accounts" means Accounts with respect to which the account debtor does not have its principal place of business in the United States.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time.

"Guarantor" means any present or future guarantor of the Obligations.

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including, without limitation, reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations.

"Insolvency Proceeding" means any proceeding commenced by or against any Person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Inventory" means all present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above.

"Investment" means any beneficial ownership (including stock, partnership interest or other securities) of any Person, or any loan, advance or capital contribution to any Person.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Lenders' Expenses" means all reasonable costs or expenses (including reasonable attorneys' fees and expenses) incurred by the Servicing Agent, SVB, and TCB, or any one or more of them in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; and Servicing Agent's reasonable attorneys' fees and expenses incurred in amending, enforcing or defending the Loan Documents, (including fees and expenses of appeal or review, or those incurred in any Insolvency Proceeding) whether or not suit is brought; provided, however, the fees and expenses of Servicing Agent's or any Lender's attorneys incurred in connection with the preparation and negotiation of the Loan Documents and the initial closing hereunder shall be limited to Twenty Thousand and No/100 Dollars (\$20,000.00).

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"Letter of Credit" means a letter of credit or similar undertaking issued by Issuing Lender pursuant to Section 2.1.2.

"Letter of Credit Reserve" has the meaning set forth in Section 2.1.2.

"LIBOR Supplement" means the LIBOR Supplement to Agreement by and among Lenders, Borrower and Servicing Agent dated as of the date hereof.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes that may be executed by Borrower in favor of Servicing Agent or any Lender pursuant to this Agreement, and any other present or future agreement entered into by and among Borrower and/or for the benefit of all of the Lenders in connection with this Agreement, all as amended, extended or restated from time to time.

"Material Adverse Effect" means a material adverse effect on (i) the business operations or condition (financial or otherwise) of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents.

"Maximum Lawful Rate" means the maximum rate of interest and the term "Maximum Lawful Amount" means the maximum amount of interest that are permissible under applicable state or federal law for the type of loan evidenced by the Loan Documents. If the Maximum Lawful Rate is increased by statute or other governmental action subsequent to the date of this Agreement, then the new Maximum Lawful Rate shall be applicable to the payments provided for hereunder from the effective date thereof, unless otherwise prohibited by applicable law.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper.

"Net Income" means, as to Borrower and its Subsidiaries on a consolidated basis and for any period, the net income (or loss) after tax for such period without giving effect to any extraordinary gain or gains or loss or losses on the sale of non-current assets owned by Borrower and its Subsidiaries, as determined in accordance with GAAP. For purposes of the foregoing sentence and notwithstanding anything herein to the contrary, non-current assets shall not include, in any event, long term notes or receivables.

"Obligations" means all debt, principal, interest, Lenders' Expenses and other amounts owed to Lenders or Servicing Agent by Borrower pursuant to this Agreement or any other Loan Document, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that all of the Lenders or Servicing Agent may have obtained by assignment or otherwise.

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"Other Obligor" shall mean any entity or individual, including without limitation any Guarantor, who (i) is obligated to pay any Credit Extension, or (ii) otherwise is or becomes obligated to pay any Credit Extension (for example, as cosigner or guarantor), or (iii) has pledged property as security for payment of any Credit Extension.

"Payment Date" means the fifteenth (15th) calendar day of each month commencing on the first such date after the Closing Date and ending on the Revolving Maturity Date or, if Borrower elects to convert the Advances into the Term Loan, the Term Loan Maturity Date.

"Permitted Indebtedness" means:

- (a) Indebtedness of Borrower in favor of Lenders or Servicing Agent (but not SVB or TCB individually in its capacity as a lender) arising under this Agreement or any other Loan Document;
- (b) Indebtedness existing on the Closing Date and disclosed in the Schedule;
- (c) Subordinated Debt;
- (d) Indebtedness to trade creditors incurred in the ordinary course of business;
- (e) Indebtedness secured by Permitted Liens;
- (f) Capital lease obligations incurred in the ordinary course of business;
- (g) Letters of Credit entered into in the ordinary course of business;
- (h) Research and development funding advanced by third parties;
- (i) Indebtedness incurred pursuant to a Receivables Purchase Agreement between Borrower and RBC Trade Finance (USA) Inc. ("RBC") aggregating in excess of not more than Ten Million and No/100 Dollars (\$10,000,000.00) in connection with the RBC facility ("RBC Indebtedness"); and
- (j) Extensions of any of items (a) through (h) above, provided that with respect to the items set forth in (b) through (h) above, the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower.

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"Permitted Investment" means:

- (a) Investments existing on the Closing Date disclosed in the Schedule;
- (b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any State or any agency or instrumentality thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than two (2) years from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., (iii) certificates of deposit maturing no more than two (2) years from the date of investment therein issued by SVB or TCB and (iv) Investments consistent with Borrower's January 18, 1996 Cash Portfolio Investment Policy;
- (c) Other Investments aggregating in excess of not more than One Million and No/100 Dollars (\$1,000,000.00) at any one time; and
- (d) Investments by Borrower in any Subsidiary of Borrower.

"Permitted Liens" means the following:

- (a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;
- (b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and as to which adequate reserves are maintained on Borrower's Books in accordance with GAAP;
- (c) Liens (i) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or Indebtedness incurred solely for the purpose of financing the acquisition of such Equipment, or (ii) existing on such Equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment;
- (d) Liens incidental to the conduct of business or the ownership

of properties and assets (including warehousemen's and attorneys' liens and statutory landlords' liens) and deposits, pledges or Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, surety or appeal bonds or other Liens of like general nature incurred in the ordinary course of business and not in connection with the borrowing of money; provided in each case, the obligation secured is not overdue or, if overdue, (i) is being contested in good faith by appropriate actions or proceedings, (ii) adequate reserves therefor have been set-up on the financial statements of Borrower in accordance with GAAP and (iii) such Liens shall not cause interference in any material respect with the ordinary conduct of the business of Borrower;

(e) Presently existing Liens granted and created pursuant to the terms of the RBC Indebtedness; and

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(f) Liens incurred in connection with the extension, renewal or refinancing of the Indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the Indebtedness being extended, renewed or refinanced does not increase.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum, quoted in The Wall Street Journal, under the section "Money Rates" as the "Prime Rate", which may rate not be the lowest, best or most favorable rate of interest which SVB, TCB, or any other Lender may charge on loans to its customers. In the event that more than one prime rate is quoted in The Wall Street Journal, the highest quoted prime rate will be used as the Prime Rate. If The Wall Street Journal ceases publication or if it ceases quoting or publishing the "prime rate", Servicing Agent on behalf of Lenders will choose a new reference or index which is based upon comparable information (that is, an average of leading money center banks' prime rates).

"Quick Assets" means, as of any applicable date, the consolidated cash, cash equivalents, accounts receivable, and investments with maturities not to exceed two (2) years, of Borrower, all as determined in accordance with GAAP.

"Requisite Lenders" means, at any time, Lenders then holding at least sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the then aggregate unpaid principal amount of all Advances then outstanding or, if no Advances are then outstanding, Lenders then having at least sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the aggregate Commitments; provided, that in the event there shall be only two Lenders, both of such Lenders.

"Responsible Officer" means each of the Chief Executive Officer, the President, the Chief Financial Officer and the Assistant Treasurer of Borrower.

"Revolving Maturity Date" means December 3, 1999.

"Schedule" means the schedule of exceptions attached hereto, if any.

"Servicing Agent" means SVB, not in its individual capacity, but solely in its capacity as agent for certain loan servicing functions, on behalf of and for the benefit of Lenders, and any successor agent, all as may be requested by the Lenders, unanimously, from time to time.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Lenders and Servicing Agent on terms acceptable to Requisite Lenders and Servicing Agent (and identified as being such by Borrower and the Requisite Lenders).

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"Subsidiary" means with respect to any Person, any corporation, partnership, company, association, joint venture, or any other business entity of which more than fifty percent (50%) of the voting stock or other equity interests is owned or controlled, directly or indirectly, by such Person or one or more Affiliates of such Person.

"Tangible Net Worth" means as of any applicable date, the consolidated total assets of Borrower and its Subsidiaries minus, without duplication, (i) the sum of any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, patents, trade and service marks and names, copyrights and research and development expenses, except prepaid expenses, and (c) all reserves not already deducted from assets, and (ii) Total Liabilities.

"Term Loan" means a credit extension of up to Twenty-Five Million and No/100 Dollars (\$25,000,000.00), made pursuant to Section 2.1.4.

"Term Loan Maturity Date" means December 2, 2001.

"Total Liabilities" means as of any applicable date, any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP, be classified as liabilities on the consolidated balance sheet of Borrower, including in any event all Indebtedness, but specifically excluding Subordinated Debt.

1.2 Accounting and Other Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations and determinations made hereunder shall be made in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. The terms "including" and "includes" shall always be read as meaning "including (or includes) without limitation", when used herein or in any other Loan Document.

2. LOAN AND TERMS OF PAYMENT

2.1 Credit Extensions. In accordance with the terms hereof, Borrower promises to pay to Servicing Agent for the account of each Lender, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Servicing Agent and Lenders to Borrower hereunder. Borrower shall also pay interest on the unpaid principal amount of such Advances at rates and at times in accordance with the terms hereof.

2.1.1 Advances. (a) Subject to and upon the terms and conditions of this Agreement, and in reliance upon the representations and warranties of Borrower set forth herein, each Lender severally agrees to make its Commitment Percentage of Advances to Borrower up to the amount of the Committed Revolving Line; provided that the aggregate outstanding amount shall not exceed at any one time (i) the lesser of the Committed Revolving Line and the Borrowing Base, minus (ii) the then outstanding principal balance of all Credit Extensions; provided, that Credit Extensions to Borrower under the Committed Revolving Line of up to and including Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00) shall be made at any time and from time to time without reference to the Borrowing Base. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1.1 may be repaid and reborrowed at any time during the term of this Agreement.

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(b) Subject to Borrower's conversion option as set forth in Section 2.1.4, the Committed Revolving Line shall terminate on the Revolving Maturity Date, at which time all Advances under this Section 2.1.1 and other amounts due under this Agreement (except as otherwise expressly specified herein) shall be immediately due and payable.

(c) To evidence the Credit Extensions, Borrower shall execute and deliver to each Lender a note ("Revolving Note") in the form of Exhibit E attached hereto.

2.1.2 Letters of Credit.

(a) Subject to the terms and conditions of this Agreement, from the date hereof through the Business Day immediately prior to the Revolving Maturity Date, Lenders agree to issue or cause to be issued

Letters of Credit for the account of Borrower in an aggregate outstanding face amount not to exceed (i) the lesser of the Committed Revolving Line and the Borrowing Base minus (ii) the then outstanding principal balance of all Credit Extensions; provided that the face amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit and any Letter of Credit Reserve) shall not in any event exceed Ten Million and No/100 Dollars (\$10,000,000.00) in the aggregate at any time; provided further that Credit Extensions to Borrower under the Committed Revolving Line of up to and including Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00) shall be made at any time and from time to time without reference to the Borrowing Base. For purposes of this Agreement, the amount outstanding under a Letter of Credit shall include the face amount of such Letter of Credit, whether such Letter of Credit is issued but undrawn or drawn but unreimbursed, and any Letter of Credit Reserve relating thereto. Each Letter of Credit shall have an expiry date no later than the Revolving Maturity Date. All Letters of Credit shall be, in form and substance, acceptable to the Lender issuing the Letter of Credit (the "Issuing Lender") and the other Lenders and shall be subject to the terms and conditions of the Issuing Lender's form of standard application and letter of credit agreement, which shall provide, in addition to an administrative fee of not more than one-sixteenth of one percent (0.0625%) of the face amount of the Letter of Credit payable to Issuing Lender only, for a Letter of Credit fee of not more than four-tenths of one percent (0.40%) of the face amount of the Letter of Credit payable to Servicing Agent, on behalf of the Issuing Lender and the other Lenders, as more fully set forth in such Letter of Credit Agreement. Each Lender agrees that, in paying any drawing under a Letter of Credit, the Issuing Lender shall not have any responsibility to obtain any document (other than any document expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. NEITHER THE ISSUING LENDER NOR ANY OF ITS AFFILIATES, CORRESPONDENTS, PARTICIPANTS OR ASSIGNEES, NOR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS OR EMPLOYEES, SHALL BE LIABLE TO ANY OTHER LENDER FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN UNLESS SUCH ACTION OR OMISSION CONSTITUTES GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

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(b) The obligation of Borrower to immediately reimburse the Issuing Lender for drawings made under Letters of Credit shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, the letter of credit agreement and such Letters of Credit, under all circumstances whatsoever. BORROWER SHALL INDEMNIFY, DEFEND, PROTECT, AND HOLD SERVICING AGENT AND EACH LENDER HARMLESS FROM ANY AND ALL LOSS, COST, EXPENSE OR LIABILITY, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES, ARISING OUT OF OR IN CONNECTION WITH ANY LETTERS OF CREDIT, OTHER THAN SUCH LOSSES, COSTS, EXPENSES OR LIABILITIES BASED UPON OR ARISING OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE SERVICING AGENT OR SUCH LENDER.

(c) Borrower may request that Issuing Lender issue a Letter of Credit payable in a currency other than United States Dollars. If a demand for payment is made under any such Letter of Credit, the Issuing Lender shall notify Lenders and Lenders shall treat such demand as an Advance to Borrower of the equivalent of the amount thereof (plus cable charges) in United States currency at the then prevailing rate of exchange in Austin, Texas for sales of that other currency for cable transfer to the country of which it is the currency.

(d) Upon the issuance by any Lender of any Letter of Credit payable in a currency other than United States Dollars, such Lender shall create a reserve under the Committed Revolving Line for Letters of Credit ("Letter of Credit Reserve") against fluctuations in currency exchange rates, in an amount equal to ten percent (10%) of the face amount of such Letter of Credit. The amount of such reserve may be amended by Lender from time to time to account for fluctuations in the exchange rate. The availability of funds under the Committed Revolving Line shall be reduced by the amount of such reserve for so long as such Letter of Credit remains outstanding.

2.1.3 Foreign Exchange Contract; Foreign Exchange Settlements.

(a) Subject to the terms of this Agreement, Borrower may enter into foreign exchange contracts not to exceed in any event Ten Million

and No/100 Dollars (\$10,000,000.00) in the aggregate at any time ("Contract Limit"), pursuant to which Lenders shall sell to or purchase from Borrower foreign currency on a spot or future basis ("Exchange Contracts"). Borrower shall not request any Exchange Contracts at any time it is out of compliance with any of the provisions of this Agreement. All Exchange Contracts must provide for delivery of settlement on or before the Revolving Maturity Date. The amount available under the Committed Revolving Line at any time shall be reduced by the following amounts ("Foreign Exchange Reserve") on any given day (the "Determination Date"): (i) on all outstanding Exchange Contracts on which delivery is to be effected or settlement allowed more than two Business Days after the Determination Date, ten percent (10%) of the gross amount of the Exchange Contracts; plus (ii) on all outstanding Exchange Contracts on which delivery is to be effected or settlement allowed within two Business Days after the Determination Date, one hundred percent (100%) of the gross amount of the Exchange Contracts.

(b) Lender may, in its discretion, terminate the Exchange Contracts at any time (a) that an Event of Default occurs and is continuing or (b) that there is not sufficient availability under the Committed Revolving Line and Borrower does not have

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available funds in its bank account to satisfy the Foreign Exchange Reserve. If Lender terminates the Exchange Contracts, and without limitation of any applicable indemnities, Borrower agrees to reimburse Lender for any and all fees, costs and expenses relating thereto or arising in connection therewith.

(c) Borrower shall not permit the total gross amount of all Exchange Contracts on which delivery is to be effected and settlement allowed on any one (1) Business Day to be more than Two Million and No/100 Dollars (\$2,000,000.00) ("Settlement Limit") nor shall Borrower permit the total gross amount of all Exchange Contracts to which Borrower is a party, outstanding at any one time, to exceed the lesser of the (i) Contract Limit and (ii) lesser of (A) the Committed Revolving Line minus all outstanding Credit Extensions and (B) the Borrowing Base minus all outstanding Credit Extensions. Notwithstanding the above, however, the amount which may be settled on any one (1) Business Day may be increased above the Settlement Limit up to, but in no event to exceed, the amount of the Contract Limit under either of the following circumstances:

(i) if there is sufficient availability under the Committed Revolving Line in the amount of the Foreign Exchange Reserve as of each Determination Date, provided that Servicing Agent or Lenders in advance shall reserve the full amount of the Foreign Exchange Reserve against the Committed Revolving Line; or

(ii) if there is insufficient availability under the Committed Revolving Line, as to settlements on any one (1) Business Day, provided that Servicing Agent or Lenders, in their sole discretion, may: (A) verify good funds overseas prior to crediting Borrower's deposit account with Lender (in the case of Borrower's sale of foreign currency); or (B) debit Borrower's deposit account with Lender prior to delivering foreign currency overseas (in the case of Borrower's purchase of foreign currency).

(d) In the case of Borrower's purchase of foreign currency, Borrower in advance shall instruct Servicing Agent or Lenders upon settlement either to treat the settlement amount as an Advance under the Committed Revolving Line, or to debit Borrower's account for the amount settled.

(e) Borrower shall execute all standard form applications and agreements of Lender in connection with the Exchange Contracts and, without limiting any of the terms of such applications and agreements, Borrower will pay all standard fees and charges of Lender in connection with the Exchange Contracts.

(f) WITHOUT LIMITING ANY OF THE OTHER TERMS OF THIS AGREEMENT OR ANY SUCH STANDARD FORM APPLICATIONS AND AGREEMENT OF LENDERS OR SERVICING AGENT, BORROWER AGREES TO INDEMNIFY LENDERS AND SERVICING AGENT AND

HOLD THEM HARMLESS, FROM AND AGAINST ANY AND ALL CLAIMS, DEBTS, LIABILITIES, DEMANDS, OBLIGATIONS, ACTIONS, COSTS AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES OF COUNSEL OF LENDERS' CHOICE), OF EVERY NATURE AND DESCRIPTION WHICH IT MAY SUSTAIN OR INCUR, BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING

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TO ANY OF THE EXCHANGE CONTRACTS OR ANY TRANSACTIONS RELATING THERETO OR CONTEMPLATED THEREBY OTHER THAN SUCH LOSSES, COSTS, EXPENSES OR LIABILITIES BASED UPON OR ARISING OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE SERVICING AGENT OR SUCH LENDER.

2.1.4 Commitment to Make Term Loan.

(a) Provided that no Event of Default has occurred and is continuing, or would occur upon conversion of the Advances into the Term Loan, and upon payment in full of all accrued interest on all Advances then outstanding, Borrower may elect to convert, on the Revolving Maturity Date, the entire outstanding principal balance of the Advances into a term loan ("Term Loan") subject to the terms and conditions of this Section 2.1.4. The effective date of such conversion shall be the Revolving Maturity Date, after which Lenders shall have no further obligation to make any Credit Extensions to Borrower. Borrower shall notify Servicing Agent in writing at least thirty (30) days prior to the Revolving Maturity Date of its election to convert the principal amount of the Advances into a Term Loan. If Borrower elects to convert the Advances into a Term Loan on the Revolving Maturity Date, the Term Loan shall be payable as set forth below. The Term Loan and all repayments of principal with respect thereto shall be evidenced by notations made by the Servicing Agent in its books and records regarding the date, amount and maturity of the Term Loan, and the amount of each payment of principal made by Borrower with respect thereto; provided, the failure by the Servicing Agent to make such notation shall not limit or otherwise affect the obligations of Borrower with respect to repayments of principal or payments of interest on the Term Loan. The aggregate unpaid amount of the Term Loan set forth in the books and records of the Lenders shall, in the absence of manifest error, be presumptive evidence of the principal amount owing and unpaid under the Term Loan.

(b) The Term Loan shall bear interest at a rate equal to the Prime Rate or the rate specified in the LIBOR Supplement, subject to Section 2.3(b). All amounts due under the Term Loan shall be due and payable on the Term Loan Maturity Date. Commencing on the first Payment Date after the Revolving Maturity Date, Borrower shall pay, in addition to payment of all accrued and unpaid interest on the Term Loan, monthly installments of outstanding principal equal to 1/24th of the original principal amount of the Term Loan.

(c) The Term Loan shall be evidenced by a term note in favor of each Lender in the form of Exhibit F attached hereto ("Term Note").

2.2 Overadvances. If, at any time or for any reason, the amount of Obligations owed by Borrower pursuant to Section 2.1.1, 2.1.2 and 2.1.3 of this Agreement is greater than \$7,500,000.00 and is greater than the lesser of (i) the Committed Revolving Line and (ii) the Borrowing Base, Borrower shall immediately pay to Servicing Agent, in cash, the amount of such excess.

2.3 Interest Rates, Payments, and Calculations.

(a) LIBOR Option/Interest Rate. Except as set forth in Section 2.3(b), any and all Advances and amounts due under the Term Loan shall bear interest, on the average daily balance thereof, at a per annum rate equal to, at Borrower's option and subject to the terms hereof, the Prime Rate or the rate specified in the LIBOR Supplement.

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(b) Default Rate. All Obligations shall bear interest, from and after the occurrence of an Event of Default, at the "Default Interest Rate." The Default Interest Rate shall be the interest rate applicable immediately prior to the occurrence of the Event of Default plus five (5) percentage points

but in no event more than the Maximum Lawful Rate or at a rate that would cause the total interest contracted for, charged or received by Lenders to exceed the Maximum Lawful Amount.

(c) Payments. Interest hereunder shall be due and payable on each Payment Date. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

(d) Computation.

(i) Changes. In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased effective as of 12:01 a.m. on the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate.

(ii) Spreading of Interest. Because of the possibility of irregular periodic balances of principal, the fluctuating nature of the interest rate, or premature payment, the total interest that will accrue under this Agreement cannot be determined in advance. Lenders do not intend to contract for, charge or receive more than the Maximum Lawful Rate or Maximum Lawful Amount permitted by applicable state or federal law, and to prevent such an occurrence Lenders and Servicing Agent and Borrower agree that all amounts of interest, whenever contracted for, charged or received by Lenders or Servicing Agent, with respect to the loan of money evidenced by the Loan Documents, shall be spread, prorated or allocated over the full period of time the Obligations are unpaid, including the period of any renewal or extension thereof. If the maturity of the Obligations is accelerated for any reason whether as a result of a lawsuit or an Event of Default or otherwise prior to the full stated term, the total amount of interest contracted for, charged or received to the time of such demand shall be spread, prorated or allocated along with any interest thereafter accruing over the full period of time that the Obligations thereafter remain unpaid for the purpose of determining if such interest exceeds the Maximum Lawful Amount.

(iii) Excess Interest. At maturity (whether by acceleration or otherwise) or on earlier final payment of the Obligations, Lenders shall compute the total amount of interest that has been contracted for, charged or received by Lenders or payable by Borrower hereunder and compare such amount to the Maximum Lawful Amount that could have been contracted for, charged or received by Lenders. If such computation reflects that the total amount of interest that has been contracted for, charged or received by Lenders or payable by Borrower exceeds the Maximum Lawful Amount, then Lenders shall apply such excess to the reduction of the principal balance and not to the payment of interest; or if such excess interest exceeds the unpaid principal balance, such excess shall be refunded to Borrower. This provision

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concerning the crediting or refund of excess interest shall control and take precedence over all other agreements between Borrower and Lenders so that under no circumstances shall the total interest contracted for, charged or received by Lenders exceed the Maximum Lawful Amount.

(iv) Daily Computation of Interest. To the extent permitted by applicable law, the Lenders at their option may either (i) calculate the per diem interest rate or amount based on the actual number of days in the year (365 or 366, as the case may be), and charge that per diem interest rate or amount each day, or (ii) calculate the per diem interest rate or amount as if each year has only 360 days, and charge that per diem interest rate or amount each day for the actual number of days of the year (365 or 366 as the case may be). If the Loan Documents call for monthly payments, the Lenders at their option may determine the payment amount based on the assumption that each year has only 360 days and each month has 30 days. In no event shall Lenders compute the interest in a manner that would cause Lenders to contract for, charge or receive interest that

would exceed the Maximum Lawful Rate or the Maximum Lawful Amount. The foregoing notwithstanding, all Lenders shall calculate per diem interest in the same manner at all times, and in no event shall the method of daily computation of interest vary between or among any of the Lenders.

(v) Revolving Loan Accounts and Usury Ceiling. In no event shall Chapter 346 of the Texas Finance Code, as supplemented by the Texas Credit Title ("Texas Finance Code") (which regulates certain revolving loan accounts and revolving tri-party accounts) apply to this Agreement or Borrower's payment obligations hereunder. To the extent that Chapter 303 of the Texas Finance Code, is applicable to this Agreement, the "weekly ceiling" specified in such Chapter 303 is the applicable ceiling; provided that, if any applicable law permits greater interest, the law permitting the greatest interest shall apply.

(e) Borrowing Procedures. Whenever Borrower desires a Credit Extension, Borrower will notify Servicing Agent by facsimile transmission or telephone no later than 1:00 p.m. Central time, one (1) Business Day before the Business Day on which a Prime Rate Credit Extension is to be made and 2:00 p.m. Central Time on the Business Day that is three (3) Business Days prior to the Business Day a LIBOR Rate Credit Extension is to be made. Servicing Agent shall promptly deliver such notice to the Lenders. Each such notification shall be promptly confirmed by a Payment/Advance Form in substantially the form of Exhibit B hereto or a LIBOR Rate Advance Form as attached to the LIBOR Supplement. Servicing Agent is authorized to make Advances under this Agreement or under the LIBOR Supplement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer, or without instructions if in Servicing Agent's discretion such Advances are necessary to meet Obligations which have become due and remain unpaid. Servicing Agent and Lenders shall be entitled to rely on any telephonic notice given by a person whom Servicing Agent or Lenders reasonably believe to be a Responsible Officer or a designee thereof, and BORROWER SHALL INDEMNIFY AND HOLD SERVICING AGENT AND THE LENDERS HARMLESS FROM AND AGAINST ANY DAMAGES OR LOSS SUFFERED BY SERVICING AGENT OR EITHER LENDER AS A RESULT OF SUCH RELIANCE OTHER THAN SUCH LOSSES, COSTS, EXPENSES OR LIABILITIES BASED UPON OR ARISING OUT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE SERVICING AGENT OR SUCH LENDER.

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2.4 Crediting Payments. Prior to the occurrence of an Event of Default, Servicing Agent shall credit a wire transfer of funds, check or other item of payment paid by Borrower to Servicing Agent to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by Servicing Agent of any wire transfer of funds, check, or other item of payment, whether directed to Borrower's deposit account with Servicing Agent or to the Obligations or otherwise, shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment in respect of the Obligations unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Servicing Agent after 2:00 p.m. Central time shall be deemed to have been received by Servicing Agent as of the opening of business on the immediately following Business Day. Whenever any payment to Servicing Agent under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.5 Fees. Borrower shall pay to Servicing Agent the following:

(a) Facility Fee. On the fifteenth day of March, June, September, and December of each year after the date hereof through the Revolving Maturity Date, a fee equal to one-fifth of one percent (.20%) ("Fee") of the Committed Revolving Line minus the average daily balance of all outstanding Advances for the preceding fiscal quarter (i.e., Borrower's quarters ending in January, April, July, and October); provided the amount of such fee shall be decreased by One Thousand One Hundred Twenty-Five and No/100 Dollars (\$1,125.00) for each fiscal quarter from the date hereof through the Revolving Maturity Date to properly reflect Borrower's current credit with SVB of Nine Thousand and No/100 Dollars (\$9,000.00). Servicing Agent shall apportion the Fee between Lenders

to account for SVB's prior receipt of the foregoing monies from Borrower to insure that each Lender receives its full 0.20% fee. If the Revolving Maturity Date is not the last day of a fiscal quarter of Borrower, Borrower's first and final payment under this Section 2.5(a) shall be prorated accordingly.

(b) Financial Examination and Appraisal Fees. If the aggregate sum of Advances has exceeded Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00), or if an Event of Default has occurred, each Lender's customary fees and out-of-pocket expenses for Lenders' audits of Borrower's Accounts, and for each appraisal of Collateral and financial analysis and examination of Borrower performed from time to time by Servicing Agent or its agents or any Lender; provided, however, that the fees for the Lenders' audits of Borrower's Accounts prior to the occurrence of an Event of Default shall not exceed Two Thousand and No/100 Dollars (\$2,000.00) per annum without the prior approval of Borrower. Provided further, if no Event of Default exists, all such audits conducted by Lenders at Borrower's expense shall be performed by one (1) audit team and shall not be conducted more often than once each year.

(c) Lenders' Expenses. Upon demand from Servicing Agent, including, without limitation, upon the date hereof, all Lenders' Expenses incurred through the date hereof, including reasonable attorneys' fees and expenses (subject to the limitation set forth in Section 2.5(b) above), and, after the date hereof, all Lenders' Expenses, including reasonable attorneys' fees and expenses, as and when they become due.

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2.6 Additional Costs. In case any law, regulation, treaty or official directive or the interpretation or application thereof by any court or any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority (whether or not having the force of law):

(a) subjects Servicing Agent or any Lender to any tax with respect to payments of principal or interest or any other amounts payable hereunder by Borrower or otherwise with respect to the transactions contemplated hereby (except for taxes on the overall net income of Servicing Agent or such Lender imposed by the United States of America or any political subdivision thereof);

(b) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, Servicing Agent or any Lender; or

(c) imposes upon Servicing Agent or any Lender any other condition with respect to its performance under this Agreement,

and the result of any of the foregoing is to increase the cost to Servicing Agent or such Lender, reduce the income receivable by Servicing Agent or such Lender or impose any expense upon Servicing Agent or such Lender with respect to the Obligations, Servicing Agent or such Lender shall notify Borrower thereof. Borrower agrees to pay to Servicing Agent or such Lender the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by Servicing Agent or such Lender of a statement of the amount and setting forth Servicing Agent's or such Lender's calculation thereof, all in reasonable detail, provided, however, that notwithstanding anything herein to the contrary, (a) Borrower shall not be the only borrower of such Lender that is singled out from a group of similarly situated borrowers of such Lender subject to this type of provision and requested to pay such amounts and (b) Borrower shall not be liable for any such costs incurred by such Lender prior to the date of the notice given hereunder.

2.7 Term. Except as otherwise set forth herein, this Agreement shall become effective on the Closing Date and, subject to Section 14.6, shall continue in full force and effect for a term ending on the Revolving Maturity Date or, if Borrower elects to convert the Advances into a Term Loan pursuant to Section 2.1.4, the Term Loan Maturity Date. Notwithstanding the foregoing, pursuant to and subject to Section 9.1 below, Lenders shall have the right to terminate their obligation to make Credit Extensions under this Agreement immediately upon the occurrence and during the continuance of an Event of Default with notice thereof to Borrower provided however, if the Event of Default is an Insolvency Default, then the obligation to make Credit Extensions

shall automatically terminate without notice of any kind. Notwithstanding termination of this Agreement, Servicing Agent's lien on the Collateral shall remain in effect for so long as any Obligations are outstanding. Borrower shall have the right to terminate this Agreement without premium or penalty with notice to Servicing Agent if there are no outstanding Obligations owing to Servicing Agent or any Lender.

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3. CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension. The obligation of Lenders to make the initial Credit Extension is subject to the condition precedent that Lenders shall have received, in form and substance satisfactory to Lenders, the following:

- (a) this Agreement and the Revolving Notes, all duly executed by Borrower;
- (b) a certificate of the Secretary of Borrower with respect to certificate of incorporation, by-laws, incumbency and resolutions authorizing the execution and delivery of this Agreement and all other Loan Documents to be executed by Borrower;
- (c) UCC-1 financing statements covering the Collateral and in favor of Servicing Agent on behalf of and for the benefit of Lenders and UCC-3 termination statements or assignments in favor of Servicing Agent on behalf of and for the benefit of the Lenders from each Person that has a security interest in the Collateral or any part thereof;
- (d) insurance certificate;
- (e) payment of the fees and Lenders' Expenses then due specified in Section 2.5 hereof;
- (f) Certificate of Foreign Qualification (if applicable);
- (g) the LIBOR Supplement; and
- (h) such other documents, and completion of such other matters, as Lenders may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Credit Extensions. The obligation of Lenders to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

- (a) timely receipt by Servicing Agent of the Payment/Advance Form or the LIBOR Rate Advance Form as provided in Section 2.1;
- (b) satisfaction of the terms and conditions contained in the LIBOR Supplement;
- (c) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form or the LIBOR Rate Advance Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would result from such Credit Extension;

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- (d) receipt by Servicing Agent of a Subordination of Lien from each and every Person who leases real property to Borrower and at which location Borrower maintains Inventory with a value of Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000.00) or greater (but in any event at Borrower's locations in Austin, Texas, King of Prussia, Pennsylvania, and San Jose, California), or evidence satisfactory to Servicing Agent in its sole and absolute discretion of the waiver of such landlord's liens from such Person or Persons, upon the outstanding principal amount of all Advances exceeding Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00); and

(e) receipt by Servicing Agent upon (i) Servicing Agent's request and (ii) the approval of the holder of a Permitted Lien in such Foreign Accounts, if any, which approval shall be in such holder's sole discretion, of UCC-1 financing statements covering the Foreign Accounts and in favor of Servicing Agent on behalf of and for the benefit of Lenders; provided, that Lenders agree and acknowledge that Servicing Agent's Lien in any Foreign Accounts shall be junior and subordinate to any Permitted Lien therein and Servicing Agent agrees to execute such documentation as may be required, if any, to evidence such subordination. Upon the occurrence of (i) and (ii) above, such Foreign Accounts shall constitute part of the Collateral. Borrower agrees to cooperate and use commercially reasonable efforts to obtain the foregoing approval from such holder of a Permitted Lien.

The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in Section 3.2(c).

4. CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower grants and pledges to Servicing Agent on behalf of and for the benefit of Lenders a continuing security interest in all presently existing and hereafter acquired or arising Collateral and all proceeds thereof, in order to secure prompt payment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof. Notwithstanding termination of this Agreement, Servicing Agent's Lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

4.2 Delivery of Additional Documentation Required. Borrower shall from time to time execute and deliver to Servicing Agent, at the request of Servicing Agent or any Lender, all Negotiable Collateral, all financing statements and other documents that Servicing Agent or any Lender may reasonably request, in form satisfactory to Requisite Lenders, to perfect and continue perfected Servicing Agent's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 Right to Inspect. Upon the occurrence and during the continuance of an Event of Default, any Lender (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours, to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

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4.4 Single Loan. All of the Obligations of Borrower to Servicing Agent or Lenders arising under or in connection with this Agreement, or any of the Loan Documents, shall constitute one general obligation of Borrower and shall be secured by all of the Collateral.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and each Subsidiary is a corporation duly existing and in good standing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state in which the conduct of its business or its ownership of property requires that it be so qualified, except for states as to which failure to so qualify would not have a Material Adverse Effect.

5.2 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or By-laws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default

under any agreement to which it is a party or by which it is bound, which default could have a Material Adverse Effect.

5.3 No Prior Encumbrances. Borrower has good and indefeasible title to the Collateral, free and clear of Liens, except for Permitted Liens. Except as disclosed in the Schedule, Borrower has not acquired any part of the Collateral from an assignor outside the ordinary course of such assignor's business.

5.4 Bona Fide Eligible Accounts. The Eligible Accounts are bona fide existing obligations. The service or property giving rise to such Eligible Accounts has been performed or delivered to the account debtor or to the account debtor's agent for immediate shipment to and unconditional acceptance by the account debtor. Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor whose accounts are included in any Borrowing Base Certificate as an Eligible Account.

5.5 Merchantable Inventory. All Inventory is in all material respects of good and marketable quality, free from all material defects.

5.6 Name; Location of Chief Executive Office. Except as disclosed in the Schedule, Borrower has not done business and will not without at least thirty (30) days prior written notice to Servicing Agent do business under any name other than that specified on the signature page hereof or in the Schedule. The chief executive office of Borrower is located at the address indicated in Section 10 hereof.

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5.7 Litigation. Except as set forth in the Schedule, there are no actions or proceedings pending, or, to Borrower's knowledge, threatened by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision could result in damages or costs to Borrower of One Million and No/100 Dollars (\$1,000,000.00) or more or have a Material Adverse Effect.

5.8 No Material Adverse Change in Financial Statements. All consolidated financial statements related to Borrower and any Subsidiary that have been delivered by Borrower to Servicing Agent or any Lender fairly present in all material respects Borrower's consolidated financial condition as of the date thereof and Borrower's consolidated results of operations for the period then ended. There has not been a material adverse change in the consolidated financial condition of Borrower since the date of the most recent of such financial statements submitted to Lenders or Servicing Agent on or about the Closing Date.

5.9 Solvency. Borrower is solvent and able to pay its debts (including trade debts) as they mature.

5.10 Regulatory Compliance. Borrower and each Subsidiary has met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations G, T and U of the Board of Governors of the Federal Reserve System). Borrower has complied with all the provisions of the Federal Fair Labor Standards Act, the noncompliance with which would cause a Material Adverse Effect. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, violation of which could have a Material Adverse Effect.

5.11 Environmental Condition. None of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or

hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien, resulting in a Material Adverse Effect, arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the release, or other disposition of hazardous waste or hazardous substances into the environment.

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5.12 Taxes. Borrower and each Subsidiary has filed or caused to be filed all tax returns required to be filed on a timely basis except where failure to do so would not reasonably be expected to result in a Material Adverse Effect, and has paid, or has made adequate provision for the payment of, all taxes reflected therein in accordance with GAAP.

5.13 Subsidiaries. Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.14 Government Consents. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted, the failure of which to obtain would have a Material Adverse Effect on Borrower's financial condition, operations or business.

5.15 Full Disclosure. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Servicing Agent or any Lender contains any untrue statement of a fact or omits to state a fact necessary in order to make the statements contained in such certificates or statements not misleading, except which would not result in a Material Adverse Effect.

6. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, until payment in full of all outstanding Obligations, and for so long as Lenders may have any Commitment to make a Credit Extension hereunder, Borrower shall do all of the following:

6.1 Good Standing. Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in its jurisdiction of incorporation and maintain qualification in each jurisdiction in which the failure to so qualify could have a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain in force, to the extent consistent with prudent management of Borrower's business, all licenses, approvals and agreements, the loss of which could have a Material Adverse Effect. Notwithstanding the foregoing, (a) Borrower may dissolve a Subsidiary so long as the assets of the Subsidiary remain with Borrower or a wholly-owned Subsidiary of Borrower; and (b) any wholly-owned Subsidiary of Borrower may merge or consolidate with another wholly-owned Subsidiary of Borrower; and (c) any wholly-owned Subsidiary of Borrower may merge or consolidate with Borrower so long as Borrower is the surviving corporation.

6.2 Government Compliance. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which could have a Material Adverse Effect.

6.3 Financial Statements, Reports, Certificates. Borrower shall deliver to Servicing Agent and the Lenders: (a) as soon as available, but in any event within forty-five (45) days after the end of each of the first three fiscal quarters of Borrower, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during such period, in a form and certified by an officer of Borrower reasonably acceptable to Servicing Agent and Requisite Lenders; (b) as soon as available, but in any event within ninety (90) days after the end of Borrower's fiscal year, audited consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial

statements of an independent certified public accounting firm reasonably acceptable to

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Servicing Agent and Requisite Lenders; (c) within five (5) days of filing, copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt and all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission; (d) immediately upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could reasonably be expected to result in damages or costs to Borrower or any Subsidiary of One Million and No/100 Dollars (\$1,000,000.00) or more; and (e) such budgets, sales projections, operating plans or other financial information as Servicing Agent or Requisite Lenders may reasonably request from time to time.

If at any time the outstanding Credit Extensions are greater than Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00), then within twenty (20) days after the last day of each such month, Borrower shall deliver to Servicing Agent and Requisite Lenders a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of Exhibit C hereto, together with aged listings of accounts receivable and accounts payable.

Within forty-five (45) days after the last day of each of the first three fiscal quarters of Borrower, Borrower shall deliver to Servicing Agent and Requisite Lenders with the quarterly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of Exhibit D hereto.

The Requisite Lenders by and through their appointed examiner, shall have a right to audit Borrower's Accounts. Such audits shall be at Borrower's expense and may be conducted not more often than once every twelve months if Advances under the Committed Revolving Line have exceeded Seven Million Five Hundred Thousand and No/100 Dollars (\$7,500,000.00). Provided further, such audits shall be at Borrower's expense and may be conducted at any time if an Event of Default has occurred and is continuing.

6.4 Inventory; Returns. Borrower shall keep all Inventory in good and marketable condition, free from all material defects other than those which would not result in a Material Adverse Effect or for which adequate reserves have been provided for in accordance with GAAP. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower so long as in accordance with GAAP. Borrower shall promptly notify Servicing Agent of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than One Million and No/100 Dollars (\$1,000,000.00).

6.5 Taxes. Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Servicing Agent, on demand if an Event of Default has occurred and is continuing, appropriate certificates attesting to the payment or deposit thereof (provided that Borrower shall confirm such payment in connection with any compliance certificates regularly submitted hereunder); and Borrower will make, and

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will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request if an Event of Default has occurred and is continuing, furnish Servicing Agent with proof satisfactory to Servicing Agent and Lenders indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment does not result in a Material Adverse Effect or is (i) contested in good faith by appropriate proceedings and (ii) is reserved against (to the extent required by GAAP) by Borrower.

6.6 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Servicing Agent and Requisite Lenders. All such policies of insurance shall contain a lenders loss payable endorsement, in a form satisfactory to Servicing Agent and Requisite Lenders, showing Servicing Agent as an additional loss payee thereof and all liability insurance policies shall specify that the insurer must give at least fifteen (15) days notice to Servicing Agent before canceling its policy for any reason. At Servicing Agent's request, Borrower shall deliver to Servicing Agent certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Servicing Agent, be payable to Servicing Agent to be applied on account of the Obligations, unless the proceeds are payable for any damage or loss other than to Inventory.

6.7 Quick Ratio. Borrower shall maintain, as of the last day of each fiscal quarter, a ratio of Quick Assets to Current Liabilities less deferred maintenance revenue of at least 1.50 to 1.0.

6.8 Debt-Tangible Net Worth Ratio. Borrower shall maintain, as of the last day of each fiscal quarter, a ratio of Total Liabilities less deferred maintenance revenue to Tangible Net Worth plus Subordinated Debt of not more than 1.0 to 1.0.

6.9 Tangible Net Worth. Borrower shall maintain, as of the last day of each fiscal quarter, a Tangible Net Worth of not less than Fifty-Six Million One Hundred Eighty-Eight Thousand and No/100 Dollars (\$56,188,000.00), plus fifty percent (50%) of all year-to-date Net Income (without regard to net losses).

6.10 Profitability. Borrower shall have a positive Net Income as of the last day of each fiscal quarter for the first four fiscal quarters after the date of this Agreement; provided, Borrower may have an aggregate loss of up to Four Million and No/100 Dollars (\$4,000,000.00)

during such four fiscal quarter period so long as Borrower does not have a loss for two consecutive quarters. For the fifth through eighth fiscal quarters after the date hereof, Borrower may have a quarterly loss so long as such loss does not exceed the following amounts for the corresponding quarter:

Quarter Ending -----	Maximum Quarterly Loss -----
January 31, 1999	\$ 2,000,000.00
April 30, 1999	\$ 1,500,000.00
July 31, 1999	\$ 500,000.00
October 31, 1999	\$ 1.00

6.11 Debt-Service Coverage. The covenant set forth in this Section 6.11 shall apply only if Borrower elects to convert the Advances into a Term Loan pursuant to Section 2.1.4. As of the last day of the first fiscal quarter immediately succeeding the Revolving Maturity Date and continuing on the last day of each succeeding fiscal quarter through the Term Loan Maturity Date, Borrower shall have a Debt Service Coverage Ratio of no less than 1.50 to 1.0; provided, and notwithstanding anything herein to the contrary, (i) for the first fiscal quarter after the Revolving Maturity Date, Debt Service Coverage shall be based on Borrower's Net Income plus the aggregate amount which was deducted for such period in respect of interest, depreciation and amortization,

on an annualized basis for the preceding six month period, (ii) for the second fiscal quarter after the Revolving Maturity Date, Debt Service Coverage shall be based on Borrower's Net Income plus the aggregate amount which was deducted for such period in respect of interest, depreciation, and amortization, on an annualized basis for the preceding nine month period and (iii) for the third calendar quarter after the Revolving Maturity Date and each successive fiscal quarter through the Term Loan Maturity Date, Debt Service Coverage shall be based on Borrower's Net Income plus the aggregate amount which was deducted for such period in respect of interest, depreciation and amortization, on an annualized basis for the preceding twelve month period.

6.12 Further Assurances. At any time and from time to time, Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Servicing Agent or Requisite Lenders to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as any Credit Extension hereunder shall be available and until payment in full of the outstanding Obligations or for so long as Lenders may have any commitment to make any Credit Extensions, Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than Transfers: (i) of inventory in the ordinary course of business, (ii) of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (iii) that constitute payment of normal and usual operating expenses in the ordinary course of business; or (iv) of worn-out or obsolete Equipment; or (v) to RBC of Accounts with respect to which the account debtor does not have its principal place of business in the United States.

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7.2 Changes in Business, Ownership, Management, or Chief Executive Office. Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto). Borrower will not, without at least thirty (30) days prior written notification to Servicing Agent, relocate its chief executive office or add or relocate any business location where Borrower maintains Inventory with a value equal to or greater than Two Million Five Hundred Thousand and No/100 Dollars (2,500,000.00)

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person if (i) an Event of Default has occurred and is continuing or would exist after giving effect to such action or (ii) in connection with such action and if such action is consummated prior to December 4, 1998, the total of Indebtedness incurred by Borrower and cash paid by Borrower in connection therewith totals more than Five Million and No/100 Dollars (\$5,000,000.00) or (iii) in connection with such action and if such action is consummated prior to December 4, 1999, the total of Indebtedness incurred by Borrower and cash paid by Borrower in connection therewith totals more than an amount equal to ten percent (10%) of Borrower's then Tangible Net Worth as of the date of the consummation of such action.

7.4 Indebtedness. Subject to Section 7.3, create, incur, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with respect to any of the Collateral, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens.

7.6 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock of Borrower in excess of Six Million and No/100 Dollars

(\$6,000,000.00) in any fiscal year.

7.7 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction (exclusive of any employment arrangements with the officers of Borrower and exclusive of any of Borrower's benefit or compensation programs for officers and directors) with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

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7.9 Subordinated Debt. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except to the extent such payment is allowed under any Subordination Agreement entered into with Servicing Agent and Lenders of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt if such amendment would adversely affect the interests of Lenders.

7.10 Inventory. Store the Inventory with a bailee, warehouseman, or similar party unless Servicing Agent has received a pledge of any warehouse receipt covering such Inventory. Except for Inventory sold in the ordinary course of business and except for such other locations as Servicing Agent may approve in writing, Borrower shall keep the Inventory only at the locations set forth in the Schedule and such other locations of which Borrower gives Servicing Agent prior written notice and as to which Borrower signs and files a financing statement where needed to perfect Servicing Agent's security interest.

7.11 Compliance. Become an "investment company" or a company controlled by an "investment company", within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Advance for such purpose; fail to meet the minimum funding requirements of ERISA; permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, which violation could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Servicing Agent's Lien on the Collateral; or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay, within five (5) calendar days of when due, any of the Obligations.

8.2 Covenant Default.

(a) If Borrower fails to perform any obligation under Sections 6.3, 6.6, 6.7, 6.8, 6.9, 6.10 or 6.11 violates any of the covenants contained in Article 7 of this Agreement; provided however, Borrower shall have the following specific grace periods: (i) with respect to Form 10-Q reports to be provided under Section 6.3 above, five (5) days grace, (ii) with respect to Form 10-K reports to be provided under Section 6.3 above, fifteen (15) days grace, and (iii) with respect to proof of insurance or insurance policies required to be provided under Section 6.6 above, fifteen (15) days grace, or

(b) If Borrower fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower, Lenders and Servicing Agent related to this Agreement and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within thirty (30) days after the occurrence thereof (provided that no Credit Extensions will be required to be made during such cure period).

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8.3 Material Adverse Change. If there (i) occurs a Material Adverse Effect, or (ii) is a material impairment of the value or priority of Servicing Agent's security interest in the Collateral.

8.4 Attachment. If any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within thirty (30) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within thirty (30) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Credit Extensions will be required to be made during such cure period).

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8.5 Insolvency. If an Insolvency Proceeding is commenced by Borrower or if an Insolvency Proceeding is commenced against Borrower (in either case, an "Insolvency Default") and such Insolvency Proceeding commenced against Borrower is not dismissed or stayed within forty-five (45) days (provided that no Advances or Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding).

8.6 Other Agreements. If there is a default in any agreement to which Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of Five Million and No/100 Dollars (\$5,000,000.00) or that could have a Material Adverse Effect.

8.7 Subordinated Debt. Borrower or any Subsidiary makes any payment in respect of Subordinated Debt, except as permitted by Section 7.9 above.

8.8 Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least Eight Million and No/100 Dollars (\$8,000,000.00) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of thirty (30) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment).

8.9 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter in any warranty, representation, statement or report set forth herein or made to Servicing Agent or any Lender by Borrower or any officer or director of Borrower pursuant to this Agreement.

9. SERVICING AGENT'S AND LENDERS' RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Servicing Agent may, at its election, or shall, upon request of the Requisite Lenders, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 all Obligations shall become immediately due and payable without any action by Servicing Agent or Lenders);

(b) Cease advancing money or extending credit to or for the

benefit of Borrower under this Agreement or under any other agreement between or among Borrower or Servicing Agent or any Lender;

(c) With the continuation of an Event of Default for sixty (60) days or more, settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Servicing Agent, on behalf of the Requisite Lenders, reasonably considers advisable;

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(d) Without notice to or demand upon Borrower, make such payments and do such acts as Servicing Agent or Requisite Lenders consider necessary or reasonable to protect Servicing Agent's security interest in the Collateral. Borrower agrees to assemble the Collateral if Servicing Agent, on behalf of the Requisite Lenders so requires, and to make the Collateral available to Servicing Agent or Requisite Lenders as Servicing Agent or Requisite Lenders may designate. Borrower authorizes Servicing Agent, on behalf of each Lender, to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Requisite Lenders' determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's premises, Borrower hereby grants Servicing Agent, on behalf of and for the benefit of Lenders, a license to enter such premises and to occupy the same, without charge for up to one hundred twenty (120) days in order to exercise any of Lenders' rights or remedies provided herein, at law, in equity or otherwise, provided if Lenders cannot, after diligent attempts, enter and occupy such premises within the foregoing 120 day period, Lenders shall have such an additional reasonable period of time to do the same;

(e) Without notice to Borrower, set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by any Lender or Servicing Agent, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by any Lender or Servicing Agent;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Servicing Agent is hereby granted a non-exclusive, royalty-free license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, mask works, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Servicing Agent's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Servicing Agent's benefit;

(g) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Servicing Agent determines is commercially reasonable, and apply the proceeds thereof to the Obligations in whatever manner or order it deems appropriate;

(h) Servicing Agent or any Lender may credit bid and purchase at any public sale, or at any private sale as permitted by law; and

(i) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

9.2 Power of Attorney. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Servicing Agent on behalf of and for the benefit of Lenders (and any of Servicing Agent's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Servicing Agent's security interest in the Accounts;

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(b) endorse Borrower's name on any checks or other forms of payment or security that may come into Servicing Agent's or Lenders' possession relating to the Collateral or any part thereof; (c) sign Borrower's name on any invoice or bill

of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance relating to the Collateral or any part thereof; (e) settle and adjust disputes and claims respecting the Accounts directly with account debtors, for amounts and upon terms which Servicing Agent or Lenders determines to be reasonable; and (f) to file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Borrower where permitted by law; and provided Servicing Agent may exercise such power of attorney to sign the name of Borrower on any of the documents described in Section 4.2 regardless of whether an Event of Default has occurred. The appointment of Servicing Agent as Borrower's attorney in fact, and each and every one of Servicing Agent's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Lenders' obligation to provide Credit Extensions hereunder is terminated.

9.3 Accounts Collection. Upon the occurrence and during the continuance of an Event of Default, Servicing Agent may notify any Person owing funds to Borrower of Servicing Agent's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower on behalf of Servicing Agent, receive in trust all payments as Servicing Agent's and Lenders' trustee, and if requested or required by Servicing Agent, or Requisite Lenders, immediately deliver such payments to Servicing Agent in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Lenders' Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Servicing Agent or the Requisite Lenders may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves under the Committed Revolving Line as Servicing Agent or the Requisite Lenders deems necessary to protect Lenders from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as the Requisite Lenders deem prudent. Any amounts so paid or deposited by Servicing Agent or the Requisite Lenders shall constitute Lenders' Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by any Lender or Servicing Agent shall not constitute an agreement by such Lender or Servicing Agent to make similar payments in the future or a waiver by such Lender or Servicing Agent of any Event of Default under this Agreement.

9.5 Lenders' Liability for Collateral. So long as Lenders comply with reasonable banking practices, neither Lender shall in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever other than such losses, costs, expenses or liabilities based upon or arising out of the gross negligence or willful misconduct of the Servicing Agent or such Lender. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

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9.6 Remedies Cumulative. Lenders' rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Lenders shall have all other rights and remedies, not expressly set forth herein, and as provided under the Code, by law, or in equity. No exercise by Lenders of one right or remedy shall be deemed an election, and no waiver by Lenders of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Lenders shall constitute a waiver, election, or acquiescence by it. No waiver by Lenders shall be effective unless made in a written document signed on behalf of Lenders and Servicing Agent and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.7 Demand; Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, notice of intent to accelerate, notice of acceleration,

nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Lenders or Servicing Agent on which Borrower may in any way be liable.

10. NOTICES

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by facsimile to Borrower or Lenders or Servicing Agent, as the case may be, at its addresses set forth below:

If to Borrower: VTEL Corporation
108 Wild Basin Road
Austin, Texas 78746
Attn: Dianne Johnson,
Assistant Treasurer
Fax: 512/314-2862

If to Servicing Agent: Silicon Valley Bank
9442 Capital of Texas Highway North,
Suite 130
Austin, Texas 78759
Attn: Mr. J. Doug Mangum,
Senior Vice President
Fax: 512/343-4344

If to SVB: Silicon Valley Bank
9442 Capital of Texas Highway North,
Suite 130
Austin, Texas 78759
Attn: Mr. J. Doug Mangum,
Senior Vice President
Fax: 512/343-4344

If to TCB: Texas Commerce Bank National Association
700 Lavaca
Austin, Texas 78701
Attn: Mr. Ralph T. Beasley,
Vice President
Fax: 512/479-2211

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The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. NOTICES TO ONE LENDER SHALL NOT BE DEEMED NOTICE TO ANY OTHER LENDER.

11. CHOICE OF LAW AND VENUE

THE LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW AS IF PERFORMED ENTIRELY WITHIN THE STATE OF TEXAS BY TEXAS RESIDENTS. EACH OF BORROWER, SERVICING AGENT AND LENDERS HEREBY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF TRAVIS, STATE OF TEXAS.

12. Participation

12.1 Participation Interest. Any Lender may at any time sell to one or more commercial banks or other Persons not Affiliates of Borrower ("Participant") participating interests in any Credit Extensions, the Commitment of such Lender and the other interests of such Lender ("Original Lender") hereunder and under the other Loan Documents; provided, however, that (i) the Original Lender's obligations under this Agreement shall remain unchanged, (ii) the Original Lender shall remain solely responsible for the performance of such obligations, (iii) Borrower shall continue to deal solely and directly with the Original Lender in connection with the Original Lender's rights and obligations under the Agreement and the other Loan Documents, and (iv) no Lender shall transfer or grant any participating interest under which

the Participant shall have rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document.

12.2 No Obligation. Neither Lender shall have any obligation, implied or express, to assign, delegate, sell, offer to sell, purchase, offer to purchase or otherwise transfer in any way to any other party hereunder or any third party any participating interest hereunder or any or all of the Advances, the Commitments or the other rights and obligations of such Lender hereunder.

13. THE SERVICING AGENT

13.1 Appointment, Powers and Immunities.

13.1.1 Each Lender hereby appoints SVB as Servicing Agent hereunder and under the other Loan Documents and each Lender hereby irrevocably authorizes Servicing Agent to act hereunder and thereunder as Servicing Agent of such Lender. Servicing Agent agrees to act as such upon the express conditions contained in this Section 13. In performing its functions and duties under this Agreement and under the other Loan Documents, Servicing Agent shall act solely as Servicing Agent of Lenders and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for Borrower.

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13.1.2 Each Lender irrevocably authorizes Servicing Agent to take such actions on such Lender's behalf and to exercise such powers hereunder as are specifically delegated to Servicing Agent by the terms hereof, together with such powers as are reasonably incidental thereto. Servicing Agent shall have only those duties which are specified in this Agreement and it may perform such duties by or through its agents, representatives or employees. In performing its duties hereunder on behalf of Lenders, Servicing Agent shall exercise the same care which it would exercise in dealing with loans made for its own account, but it shall not be responsible to any Lender for the execution, effectiveness, genuineness, validity, enforceability, collectability or sufficiency of all or any of the Loan Documents, or for any representations, warranties, recitals or statements made herein or therein or made in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents furnished or delivered in connection herewith or therewith by Servicing Agent to any Lender or by or on behalf of Borrower to Servicing Agent or any Lender, or be required to ascertain or inquire as to the performance or observances of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Advances of amounts drawn under the Letters of Credit. Servicing Agent shall not be responsible for insuring the Collateral or for the payment of any taxes, assessments, charges or any other charges or liens of any nature whatsoever upon the Collateral or otherwise for the maintenance of the Collateral, except in the event Servicing Agent enters into possession of a part or all of the Collateral, in which event Servicing Agent shall preserve the part in its possession. Unless the officers of Servicing Agent acting in their capacity as officers of Servicing Agent on Borrower's account have actual knowledge thereof or have been notified in writing thereof by Lenders, Servicing Agent shall not be required to ascertain or inquire as to the existence or possible existence of any Event of Default. Neither Servicing Agent nor any of its officers, directors, employees, representatives or agents shall be liable to Lenders for any action taken or omitted hereunder or under any of the other Loan Documents or in connection herewith or therewith unless caused by its or their gross negligence or willful misconduct. No provision of this Agreement or of any other Loan Document shall be deemed to impose any duty or obligation on Servicing Agent to perform any act or to exercise any power in any jurisdiction in which it shall be illegal, or shall be deemed to impose any duty or obligation on Servicing Agent to perform any act or exercise any right or power if such performance or exercise (i) would subject Servicing Agent to a tax in a jurisdiction where it is not then subject to a tax or (ii) would require Servicing Agent to qualify to do business in any jurisdiction where it presently is not so qualified. Without prejudice to the generality of the foregoing, no Lender shall have any right of action whatsoever against Servicing Agent as a result of Servicing Agent acting or (where so instructed) refraining from acting under this Agreement or under any of the other Loan Documents in accordance with the instructions of Lenders. Servicing Agent shall be entitled to refrain from exercising any power, discretion or authority vested in it under this Agreement unless and until it

has obtained written instructions of Requisite Lenders. The agency hereby created shall in no way impair or affect any of the rights and powers of, or impose any duties or obligations upon Servicing Agent in its individual capacity.

13.2 Representations and Warranties: No Responsibility for Inspection. Each Lender represents and warrants that it has made its own independent investigation of the financial condition and affairs of Borrower in connection with the making of the Advances and issuance of the Letters of Credit hereunder and has made and shall continue to make its own appraisal of the creditworthiness of Borrower. Servicing Agent shall have no duty or

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responsibility either initially or on a continuing basis to make any such investigation or any such appraisal on behalf of Lenders or to provide any Lender with any credit or other information (other than information obtained under the provisions of this Agreement which Servicing Agent shall make available to each Lender upon request by such Lender) with respect thereto whether coming into its possession before the date hereof or any times or times thereafter and shall further have no responsibility with respect to the accuracy of or the completeness of the information provided to Lenders. With respect to its participation in the Advances and the Letters of Credit hereunder, Servicing Agent shall have the same rights and powers hereunder as any other Lender and may exercise the same rights and powers as though it were not performing the duties and functions delegated to it hereunder and the term "Lender" or "Lenders" or any similar term shall unless the context clearly indicates otherwise include Servicing Agent in its individual capacity. Servicing Agent and each of its affiliates may accept deposits from, lend money to and generally engage in any kind of business with Borrower as if it were not Servicing Agent.

13.3 Reliance by Servicing Agent.

13.3.1 Servicing Agent may consult, and any opinion or legal advice of such counsel who are not employees of Servicing Agent or Borrower or any Affiliate of Borrower shall be full and complete authorization and protection in respect of any action taken or suffered by Servicing Agent hereunder or under any other Loan Documents in accordance therewith. Servicing Agent shall have the right at any time to seek instructions concerning the administration of the Collateral from any court of competent jurisdiction.

13.3.2 Servicing Agent may rely, and shall be fully protected in acting, upon any resolution, statement, certificate, instrument, opinion, report, notice, request, consent, order, bond or other paper or document that it has no reason to believe to be other than genuine and to have been signed or presented by the proper party or parties or, in the case of cables, telecopies and telexes, to have been sent by the proper party or parties. In the absence of its gross negligence or willful misconduct, Servicing Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to Servicing Agent and conforming to the requirements of this Agreement or any of the other Loan Documents.

13.3.3 Servicing Agent shall not be under any obligation to exercise any of the rights or powers granted to Servicing Agent by this Agreement and the other Loan Documents at the request or direction of Lenders unless Servicing Agent shall have been provided by Lenders adequate security and indemnity against the costs, expenses and liabilities that may be incurred by it in compliance with such request or direction.

13.4 Delegation of Duties. Servicing Agent may execute any of the powers hereof and perform any duty hereunder either directly or by or through its agents or attorneys-in-fact. Servicing Agent shall be entitled to advice of counsel concerning all matters pertaining to such powers and duties. Servicing Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it without gross negligence or willful misconduct on the part of Servicing Agent.

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13.5 Right to Indemnity. EACH OF LENDERS SEVERALLY, BUT NOT JOINTLY, AGREES (A) TO INDEMNIFY AND HOLD SERVICING AGENT (AND ANY PERSON ACTING ON BEHALF OF SERVICING AGENT) HARMLESS FROM AND AGAINST AND (B) PROMPTLY ON RECEIPT BY EACH LENDER OF SERVICING AGENT'S STATEMENT, TO REIMBURSE SERVICING AGENT, ACCORDING TO SUCH LENDER'S PRO RATA SHARE OF THE AGGREGATE COMMITMENTS, TO THE EXTENT SERVICING AGENT SHALL NOT OTHERWISE HAVE BEEN REIMBURSED BY BORROWER ON ACCOUNT OF AND FOR, ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES (INCLUDING, WITHOUT LIMITATION, THE FEES AND DISBURSEMENTS OF COUNSEL AND OTHER ADVISORS) OR DISBURSEMENTS OF ANY KIND AND NATURE WHATSOEVER WITH RESPECT TO SERVICING AGENT'S PERFORMANCE OF ITS DUTIES UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS; PROVIDED, HOWEVER, THAT NO LENDER SHALL BE LIABLE FOR THE PAYMENT TO SERVICING AGENT OF ANY PORTION OF SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS RESULTING SOLELY FROM SERVICING AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. SUCH REIMBURSEMENT SHALL NOT IN ANY RESPECT RELEASE BORROWER FROM ANY LIABILITY OR OBLIGATION. IN ANY INDEMNITY FURNISHED TO SERVICING AGENT FOR ANY PURPOSE SHALL, IN THE OPINION OF SERVICING AGENT, BE INSUFFICIENT OR BECOME IMPAIRED, SERVICING AGENT MAY CALL FOR ADDITIONAL INDEMNITY AND CEASE, OR NOT COMMENCE, TO DO THE ACTS INDEMNIFIED AGAINST UNTIL SUCH ADDITIONAL INDEMNITY IS FURNISHED.

13.6 Resignation and Appointment of Successor Servicing Agent. Servicing Agent may resign at any time by giving thirty (30) days prior written notice thereof to Lenders and Borrower: provided, however, that the retiring Servicing Agent shall continue to serve until a successor Servicing Agent shall have been selected and approved pursuant to this Section 13.6. Upon any such notice, Servicing Agent shall have the right to appoint a successor Servicing Agent; provided, however, that if such successor shall not be a signatory to this Agreement, such appointment shall be subject to the consent of Requisite Lenders. At any time other than during the existence of an Event of Default, in each case, such appointment shall be subject to the prior consent of Borrower. Upon the acceptance of any appointment as an Servicing Agent hereunder by a successor Servicing Agent, such successor Servicing Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Servicing Agent, and the retiring Servicing Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Servicing Agent's resignation hereunder as Servicing Agent, the provisions of this Section 13 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Servicing Agent under this Agreement.

13.7 Conflicts. SVB and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, act as merchant banker in any transaction for, and generally engage in any kind of business with, Borrower and any person who may do business with or own securities of Borrower, all as if SVB were not Servicing Agent and without any duty to account therefor to Lenders or to disclose to Lenders confidential information which SVB may receive from Borrower in connection with such other activity or business.

13.8 No Obligations of Borrower. Nothing contained in this Section 13 shall be deemed to impose upon Borrower any obligation in respect of the due and punctual performance by Servicing Agent of its obligations to Lenders under any provision of this Agreement, and Borrower shall have no liability to Servicing Agent or any Lender in respect of

any failure by Servicing Agent or any Lender to perform any of their respective obligations to each other under this Agreement. Without limiting the generality of the foregoing sentence, where any provision of this Agreement relating to the payment of any amounts due and owing under the Loan Documents provides that such payments shall be made by Borrower to Servicing Agent for the account of Lenders, Borrower's obligations to Lenders in respect of such payments shall be deemed to be satisfied upon the making of such payments to Servicing Agent in the manner provided by this Agreement.

13.9 Amendments in Writing; Integration. This Agreement cannot be amended or terminated nor may any provision be waived except by a writing signed by the Requisite Lenders, Servicing Agent and Borrower. Any such waiver shall be effective only in the specific instance and for the specific purpose for which given. Notwithstanding the foregoing, no waiver, amendment or consent shall, unless in writing and signed by all Lenders, Servicing Agent

and Borrower, do any of the following:

13.9.1 increase or extend the Commitment of any Lender (or reinstate any Commitment terminated pursuant to this Agreement) or subject any Lender to any additional obligations;

13.9.2 postpone or delay any date fixed for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any Loan Document;

13.9.3 reduce the principal of, or the rate of interest specified herein on any Loan, or of any fees or other amounts payable hereunder or under any Loan Document;

13.9.4 change the percentage of the Commitments or of the aggregate unpaid principal amount of the Advances which shall be required for the Lenders or any of them to take any action hereunder;

13.9.5 amend the definition of Borrowing Base or Eligible Accounts;

13.9.6 amend this Section 13.9 or any other provision herein requiring the consent or other action of all Lenders; or

13.9.7 discharge any Guarantor of the Obligations, or release all or substantially all of any Collateral for the Obligations except as otherwise may be provided in the Loan Documents or except where the consent of the Requisite Lenders only is specifically provided for;

and, provided, further, that no amendment, waiver or consent shall, unless in writing and signed by Servicing Agent in addition to the Requisite Lenders, as the case may be, affect the rights or duties of Servicing Agent under this Agreement or any other Loan Document.

As between Borrower, on the one hand, the Lenders and Servicing Agent on the other hand, all prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

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14. GENERAL PROVISIONS

14.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without each Lender's prior written consent, which consent may be granted or withheld in Lender's sole discretion.

14.2 INDEMNIFICATION. BORROWER SHALL, INDEMNIFY, DEFEND, PROTECT AND HOLD HARMLESS SERVICING AGENT AND EACH LENDER AND EACH'S RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS AGAINST: (A) ALL OBLIGATIONS, DEMANDS, CLAIMS, AND LIABILITIES CLAIMED OR ASSERTED BY ANY OTHER PARTY IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THE LOAN DOCUMENTS; AND (B) ALL LOSSES OR LENDER'S EXPENSES INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEYS' FEES AND EXPENSES, IN ANY WAY SUFFERED, INCURRED, OR PAID BY SERVICING AGENT OR LENDER AS A RESULT OF OR IN ANY WAY ARISING OUT OF, FOLLOWING, OR CONSEQUENTIAL TO TRANSACTIONS BY AND AMONG LENDERS, SERVICING AGENT AND BORROWER WHETHER UNDER THE LOAN DOCUMENTS, OR OTHERWISE INCLUDING LENDER'S OR SERVICING AGENT'S NEGLIGENCE BUT EXCLUDING LOSSES CAUSED BY SERVICING AGENT OR LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

14.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

14.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision. If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired, or invalidated and this Agreement shall be construed as if

such invalid, void or unenforceable provision had never been contained herein.

14.5 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

14.6 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding. The obligations of Borrower to indemnify Lenders and Servicing Agent with respect to the expenses, damages, losses, costs and liabilities described in Section 14.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Lenders or Servicing Agent have run.

14.7 Confidentiality. In handling any confidential information of Borrower, Servicing Agent and each Lender shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement, except that

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disclosure of such information may be made (i) to the Subsidiaries or Affiliates of Servicing Agent and each Lender in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the loans, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulation, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Servicing Agent or Lender, and (v) as Servicing Agent or Lender may deem appropriate in connection with the exercise of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Servicing Agent or Lender when disclosed to Servicing Agent or Lender, provided Servicing Agent or Lender does not have actual knowledge that such third party is prohibited from disclosing such information, or becomes part of the public domain after disclosure to Servicing Agent or Lender through no fault of Servicing Agent or Lender; or (b) is disclosed to Servicing Agent or Lender by a third party, provided Servicing Agent or Lender does not have actual knowledge that such third party is prohibited from disclosing such information.

14.8 WAIVER OF JURY TRIAL. SERVICING AGENT, LENDERS AND BORROWER EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

14.9 NOTICE OF FINAL AGREEMENT. THIS AGREEMENT AND THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

VTEL CORPORATION

By:

Rodney S. Bond, Chief Financial Officer

SILICON VALLEY BANK,
AS SERVICING AGENT AND AS A LENDER

By:

J. Douglas Mangum, Senior Vice President

TEXAS COMMERCE BANK NATIONAL ASSOCIATION

By:

Ralph T. Beasley, Vice President

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SCHEDULE TO VTEL LOAN AND SECURITY AGREEMENT

COMMITTED REVOLVING LINE:

Lender	Commitment	Commitment Percentage
-----	-----	-----
Silicon Valley Bank	\$ 12,500,000.00	50%
Texas Commerce Bank National Association	\$ 12,500,000.00	50%

TERM LOAN:

Lender	Commitment	Commitment Percentage
-----	-----	-----
Silicon Valley Bank	\$ 12,500,000.00	50%
Texas Commerce Bank National Association	\$ 12,500,000.00	50%

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EXHIBIT A

The Collateral shall consist of all right, title and interest of Borrower in and to the following:

(a) All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing;

(b) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing; and

(c) Any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

Notwithstanding the foregoing, the Collateral shall not be deemed to include any accounts with respect to which the account debtor does not have its principal place of business in the United States.

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EXHIBIT B

LOAN PAYMENT/ADVANCE TELEPHONE REQUEST FORM
DEADLINE FOR SAME DAY PROCESSING IS 1:00 P.M., C.S.T.

TO: CENTRAL CLIENT SERVICE DIVISION DATE: _____

FAX#: (408) _____ TIME: _____

FROM: VTEL Corporation

BORROWER'S NAME

FROM: _____
AUTHORIZED SIGNER'S NAME

AUTHORIZED SIGNATURE

PHONE: _____

FROM ACCOUNT # _____ TO ACCOUNT # _____

REQUESTED TRANSACTION TYPE -----	REQUEST DOLLAR AMOUNT -----
PRINCIPAL INCREASE (ADVANCE)	\$ _____
PRINCIPAL PAYMENT (ONLY)	\$ _____
INTEREST PAYMENT (ONLY)	\$ _____
PRINCIPAL AND INTEREST (PAYMENT)	\$ _____

OTHER INSTRUCTIONS: _____

All representations and warranties of Borrower stated in the Loan and Security Agreement are true, correct and complete in all material respects as of the date of the telephone request for and Advance confirmed by this Advance Request; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

BANK USE ONLY:

TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

Authorized Requester

Authorized Signature (Bank)
Phone # _____

EXHIBIT C
BORROWING BASE CERTIFICATE

Borrower: VTEL Corporation

Lenders: Silicon Valley Bank
Texas Commerce Bank
National Association

Commitment Amount: \$25,000,000.00

ACCOUNTS RECEIVABLE

. Accounts Receivable Book Value as of	\$
-----	-----
. Additions (please explain on reverse)	\$
-----	-----
. TOTAL ACCOUNTS RECEIVABLE	\$

ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)

. Amounts over 90 days due	\$
-----	-----
. Balance of 50% over 90 day accounts	\$
-----	-----
. Concentration Limits	\$
-----	-----
. Foreign Accounts other than Eligible Foreign Accounts	\$
-----	-----
. Governmental Accounts	\$
-----	-----
. Offset or Disputed Accounts	\$
-----	-----
. Consignment/Contra Accounts	\$
-----	-----
. Intercompany/Employee Accounts	\$
-----	-----
. Other (please explain on reverse)	\$
-----	-----
. TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	\$
-----	-----
. Eligible Accounts (#3 minus #13)	\$
-----	-----
. LOAN VALUE OF ACCOUNTS (80% of #14)	\$
-----	-----

BALANCES

. Maximum Loan Amount	\$	25,000,000.00
-----	-----	-----
. Total Funds Available (Lesser of #16 or #15)	\$	
-----	-----	-----
. Aggregate outstanding Advances	\$	
-----	-----	-----
. Present balance owing on Letter of Credit not to exceed \$10,000,000.00	\$	
-----	-----	-----
. Foreign Exchange Reserve not to exceed \$10,000,000.00	\$	
-----	-----	-----
. RESERVE POSITION (#17 minus (#18 plus #19 plus #20))		
-----	-----	-----

The undersigned represents and warrants that the foregoing is true, complete and correct, and that the information reflected in this Borrowing Base Certificate complies with the representations and warranties set forth in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

BANK USE ONLY

RECEIVED BY: _____

DATE: _____

REVIEWED BY: _____

COMPLIANCE STATUS: YES / NO

By: _____

Authorized Signer

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EXHIBIT D
COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
TEXAS COMMERCE BANK NATIONAL ASSOCIATION

FROM: VTEL CORPORATION

The undersigned authorized officer of VTEL Corporation hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement by and among Lenders, Servicing Agent and Borrower (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below; and (ii) Borrower has made and has caused each Subsidiary to make due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required by law; and (iii) all representations and warranties of Borrower stated in the Agreement are true and correct in all material respects as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Officer expressly acknowledges that no borrowings may be requested by the Borrower at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that such compliance is determined not just at the date this certificate is delivered.

PLEASE INDICATE COMPLIANCE STATUS BY CIRCLING YES/NO UNDER "COMPLIES" COLUMN.

REPORTING COVENANT	REQUIRED	COMPLIES	
*Quarterly financial statements	Quarterly within 45 days	Yes	No
Annual (CPA Audited)	FYE within 90 days	Yes	No
10Q nad 10K	Within 5 days after filing with the SEC	Yes	No
*A/R & A/P Agings	Monthly within 20 days	Yes	No

FINANCIAL COVENANT	REQUIRED	ACTUAL	COMPLIES	
Maintain on a Quarterly Basis:				
Minimum Quick Ratio	1.50:1.0	_____:1.0	Yes	No
Minimum Debt Service	1.50:1.0	_____:1.0	Yes	No
Minimum Tangible Net Worth	\$ 56,188,000.00	\$ _____ plus 50% of Annual Net Income	Yes	No
Maximum Debt/Tangible Net Worth	1.0:1.0	_____:1.0	Yes	No
**Profitability	\$ _____	\$ _____	Yes	No
***Minimum Debt Service Coverage	1.50:1.0	_____:1.0		

* Not required if amount outstanding under Committed Revolving Line is equal to or less than \$7,500,000.00.

** See Section 6.10 of Loan and Security Agreement for quarterly loss

allowances.

*** Only applicable if Advances under Committed Revolving Line converted to Term Loan.

BANK USE ONLY
RECEIVED BY: _____
DATE: _____
REVIEWED BY: _____
COMPLIANCE STATUS: YES / NO

COMMENTS REGARDING EXCEPTIONS:

Sincerely,

Date: _____

SIGNATURE

TITLE

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EXHIBIT E

FORM OF REVOLVING NOTE

\$12,500,000 December _____, 1997

FOR VALUE RECEIVED, the undersigned, VTEL Corporation, a Delaware corporation ("Borrower"), promises to pay to the order of [Name of Lender] ("Bank"), at the offices of Silicon Valley Bank, as Servicing Agent (together with any successor as provided in the Loan Agreement (defined below) the "Servicing Agent") at _____, in lawful money of the United States of America, the aggregate unpaid principal amount of all advances ("Advances") made by Bank to Borrower under the terms of this Note, up to a maximum principal amount of Twelve Million Five-Hundred Thousand and No/100 Dollars (\$12,500,000.00). Borrower shall pay interest on the aggregate unpaid principal amount of such Advances, and payments of principal on the Committed Revolving Line, at the rates, in the amounts and in accordance with the terms of the Loan and Security Agreement and the LIBOR Supplement to Agreement, each of the foregoing by and among Borrower, Bank, [name of Lender] and Servicing Agent and of even date herewith, as amended from time to time (the "Loan Agreement" and the "LIBOR Supplement" respectively). The entire principal amount and all accrued and unpaid interest shall be due and payable on the Revolving Maturity Date. Capitalized terms used but not defined herein shall have the meaning given such term in the Loan Agreement.

Borrower irrevocably waives the right to direct the application of any and all payments at any time hereafter received by Servicing Agent or Bank from or on behalf of Borrower, and Borrower irrevocably agrees that Servicing Agent and Bank shall have the continuing exclusive right to apply any such and all such payments against the then due and owing obligations of Borrower as Servicing Agent or Bank may deem advisable in accordance with the terms of the Loan Agreement. In the absence of a specific determination by Servicing Agent or Bank with respect thereto, all payments shall be applied in the following order: (a) then due and payable fees and expenses; (b) then due and payable interest payments; and (c) then due and payable principal payments and optional prepayments.

Servicing Agent is hereby authorized by Borrower to endorse on Servicing Agent's books and records each Advance made by Bank under this Note and the amount of each payment or prepayment of principal of such Advance received by Servicing Agent; it being understood, however, that failure to make any such endorsement (or any errors in notation) shall not affect the obligations of Borrower with respect to Advances made hereunder, and payments of principal by Borrower shall be credited to Borrower notwithstanding the failure to make a notation (or any errors in notation) thereof on such books and records.

Borrower promises to pay Servicing Agent all reasonable out-of-pocket costs and expenses of collection of this Note and to pay all reasonable

attorneys' fees incurred in such collection on in any suit or action to collect this Note or in any appeal thereof. Borrower and each surety, guarantor, endorser and other party liable for payment of any sums of money payable on this Note jointly and severally waives presentment, demand for payment, protest, notice of protest, notice of dishonor, notice of nonpayment, and any and all other notices and demands in connection with the delivery, acceptance, performance, default or enforcement of this Note, as well as any applicable statute of limitations. No delay by Servicing Agent in exercising any power or right hereunder shall operate as a waiver of any power or right. Time is of the essence as to all obligations hereunder.

This Note is issued pursuant to the Loan Agreement, which, together with the LIBOR Supplement, shall govern the rights and obligations of Borrower with respect to all obligations hereunder.

Notwithstanding anything to the contrary contained herein, no provisions of this Note shall require the payment or permit the collection of interest in excess of the Maximum Lawful Amount. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided, in this Note or otherwise in connection with the transaction evidenced by the Loan Agreement, the provisions of this paragraph shall govern and prevail, and neither Borrower nor the sureties, guarantors, successors or assigns of Borrower shall be obligated to pay the excess amount of such interest, or any other excess sum paid for the use, forbearance or detention of sums loaned pursuant hereto. If for any reason interest in excess of the Maximum Lawful Amount shall be deemed charged, required or permitted by any court of competent jurisdiction, any such excess shall be applied as a payment and reduction of the principal of indebtedness evidenced by this Note; and, if the principal amount hereof has been paid in full, any remaining excess shall forthwith be paid to Borrower.

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THIS NOTE SHALL BE DEEMED TO BE MADE UNDER, AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY, THE LAWS OF THE STATE OF TEXAS, EXCLUDING ITS CONFLICTS OF LAWS PRINCIPLES.

VTEL CORPORATION

By: _____
Name: _____
Title: _____

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EXHIBIT F

FORM OF TERM NOTE

\$12,500,000 December ____, 1997

FOR VALUE RECEIVED, the undersigned, VTEL Corporation, a Delaware corporation ("Borrower"), promises to pay to the order of [Name of Lender] ("Bank"), at the offices of Silicon Valley Bank, as Servicing Agent (together with any successor as provided in the Loan Agreement (defined below) the "Servicing Agent") at _____, in lawful money of the United States of America, [the aggregate unpaid principal amount of the Term Loan made by Bank to Borrower up to a maximum principal amount of Twelve Million Five Hundred Thousand and No/100 Dollars (\$12,500,000.00)]. Borrower shall pay interest on the aggregate unpaid principal amount of the Term Loan, and payments of principal on the Term Loan, at the rates, in the amounts and in accordance with the terms of the Loan and Security Agreement by and among Borrower, Bank, [Name of Lender] and Servicing Agent of even date herewith, as amended from time to time ("Loan Agreement"). The entire principal amount and all accrued and unpaid interest shall be due and payable on the Term Loan Maturity Date. Capitalized terms used but not defined herein shall have the meaning given such term in the Loan Agreement.

Borrower irrevocably waives the right to direct the application of any and all payments at any time hereafter received by Servicing Agent or Bank from

or on behalf of Borrower, and Borrower irrevocably agrees that Servicing Agent and Bank shall have the continuing exclusive right to apply any such and all such payments against the then due and owing obligations of Borrower as Servicing agent or Bank may deem advisable in accordance with the terms of the Loan Agreement. In the absence of a specific determination by Servicing Agent or Bank with respect thereto, all payments shall be applied in the following order: (a) then due and payable fees and expenses; (b) then due and payable interest payments; and (c) then due and payable principal payments and optional prepayments.

Borrower promises to pay Servicing Agent all reasonable out-of-pocket costs and expenses of collection of this Note and to pay all reasonable attorneys' fees incurred in such collection on in any suit or action to collect this Note or in any appeal thereof. Borrower and each surety, guarantor, endorser and other party liable for payment of any sums of money payable on this Note jointly and severally waives presentment, demand for payment, protest, notice of protest, notice of dishonor, notice of nonpayment, and any and all other notices and demands in connection with the delivery, acceptance, performance, default or enforcement of this Note, as well as any applicable statute of limitations. No delay by Bank in exercising any power or right hereunder shall operate as a waiver of any power or right. Time is of the essence as to all obligations hereunder.

This Note is issued pursuant to the Loan Agreement, which shall govern the rights and obligations of Borrower with respect to all obligations hereunder.

Notwithstanding anything to the contrary contained herein, no provisions of this Note shall require the payment or permit the collection of interest in excess of the Maximum Lawful Amount. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided, in this Note or otherwise in connection with the transaction evidenced by the Loan Agreement, the provisions of this paragraph shall govern and prevail, and neither Borrower nor the sureties, guarantors, successors or assigns of Borrower shall be obligated to pay the excess amount of such interest, or any other excess sum paid for the use, forbearance or detention of sums loaned pursuant hereto. If for any reason interest in excess of the Maximum Lawful Amount shall be deemed charged, required or permitted by any court of competent jurisdiction, any such excess shall be applied as a payment and reduction of the principal of indebtedness evidenced by this Note; and, if the principal amount hereof has been paid in full, any remaining excess shall forthwith be paid to Borrower.

This Note shall be deemed to be made under, and shall be construed in accordance with and governed by, the laws of the State of Texas, excluding its conflicts of laws principles.

VTEL CORPORATION

By: _____
Name: _____
Title: _____

September 9, 1998

Mr. Jerry S. Benson, Jr.
President and COO
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Jerry,

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

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.

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September 9, 1998
Page 3

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;

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(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; or

(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.

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(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

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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 2.5 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

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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 6 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.

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(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

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"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.

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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,

Dick Moeller
Chairman & CEO
VTEL Corporation

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Agreed to this ____ day of _____, 1998.

Jerry S. Benson, Jr.

September 9, 1998

Mr. Rodney S. Bond.
Chief Financial Officer
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Rod,

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

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.

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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;

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(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; or

(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.

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(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

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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

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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).

(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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

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Agreed to this ____ day of _____, 1998.

- -----
Rodney S. Bond

September 9, 1998

Mr. Charles Denton
Vice President Global Sales Development
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Charles,

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

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.

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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;

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(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; or

(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.

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(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

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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 1.5 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

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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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Charles Denton

September 9, 1998

Mr. Dennis Egan
Vice President Service
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Dennis,

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

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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.

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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;

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(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; or

(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.

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(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

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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 1.5 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

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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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Dennis Egan

September 9, 1998

Mr. Vinay Goel
Vice President & General Manager
Personal & Workgroup Systems
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Vinay,

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.

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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.

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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;

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(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; or

(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.

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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

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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)

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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

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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

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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

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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,

Jerry S. Benson, Jr.
President and COO

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VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Vinay Goel

September 9, 1998

Mr. Frank Kaplan
Vice President Global Sales
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Frank,

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

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.

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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;

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(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; or

(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.

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(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

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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

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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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Frank Kaplan

September 9, 1998

Mr. Steven Keilen
Vice President & General Manager
Enterprise Systems
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Steven,

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.

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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.

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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;

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(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; or

(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.

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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

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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.

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(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

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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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Steven Keilen

September 9, 1998

Mr. Dick Moeller.
Chairman and CEO
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Dick,

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

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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.

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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;

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(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; or

(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.

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(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

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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 2.9 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

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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 6 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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President & COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Dick Moeller

September 9, 1998

Ms. Ly-Huong Pham
Chief Technology Officer &
Vice President, Engineering & Technology
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Ly,

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

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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.

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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;

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(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; or

(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,

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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

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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

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(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

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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

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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

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

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Agreed to this ____ day of _____, 1998.

- -----
Ly-Huong Pham

September 9, 1998

Mr. Barry Rumac
Vice President Corporate Communications
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Barry,

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

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.

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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;

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(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; or

(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.

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(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

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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 1.5 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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

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Agreed to this ____ day of _____, 1998.

- -----
Barry Rumac

September 9, 1998

Mr. Michael Steigerwald
Vice President & General Manager
Professional Services
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Michael,

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.

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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;

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(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; or

(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,

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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

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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)

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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

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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

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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

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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,

Jerry S. Benson, Jr.

President and COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Michael Steigerwald

September 9, 1998

Mr. Bob Swem
Vice President Operations
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Bob,

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

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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.

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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;

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(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; or

(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.

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(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

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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

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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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

Agreed to this ____ day of _____, 1998.

- -----
Bob Swem

September 9, 1998

Mr. Stephen L. Von Rump
Chief Marketing Officer
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

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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.

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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;

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(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; or

(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.

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(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

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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

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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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

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Agreed to this ____ day of _____, 1998.

- -----
Stephen L. Von Rump

September 9, 1998

Ms. Judy Wallace
Vice President Human Resources
VTEL Corporation
108 Wild Basin Road
Austin, TX 78746

Dear Judy,

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

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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.

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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;

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(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; or

(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.

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(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

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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 1.5 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

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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.

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(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

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"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.

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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,

Jerry S. Benson, Jr.
President and COO
VTEL Corporation

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Agreed to this ____ day of _____, 1998.

- -----
Judy Wallace

VTEL CORPORATION
LIST OF SUBSIDIARIES

SUBSIDIARY	LOCATION OF INCORPORATION
Compression Labs, Incorporated	Delaware
VTEL-ICS, Incorporated	Delaware
VTEL Australia Ltd. Pty.	Australia
CLI Belgium	Belgium
CLI Europe Ltd.	United Kingdom
VTEL Europe Ltd.	United Kingdom
VTEL Germany GmbH	Germany
VTEL Brazil LTDA	Brazil

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-65464, 33-65472 and 33-65478) of VTEL Corporation of our report dated September 22, 1998 appearing in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Austin, Texas
October 22, 1998

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements (Nos. 33-65464, 33-65472 and 33-65478) on Form S-8 of VTEL Corporation of our report dated March 13, 1996, relating to the consolidated statements of operations, stockholders' equity, and cash flows of Compression Labs, Incorporated for the year ended December 31, 1995, and the related financial statement schedule, which report appears in the July 31, 1998, annual report on Form 10-K of VTEL Corporation.

KMPG Peat Marwick LLP

Mountain View, California
October 22, 1998

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VTEL CORPORATION'S BALANCE SHEET AS OF JULY 31, 1998 AND INCOME STATEMENT FOR THE YEAR THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL PERIOD ENDING JULY 1, 1998.

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