SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended January 31, 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

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

At March 1, 1998 the registrant had outstanding 23,114,289 shares of its Common Stock, $0.01 par value.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VTEL Corporation
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	January 31, 1998 (Unaudited)	July 31, 1997
ASSETS		
Current assets:		
Cash and equivalents	$ 6,252	$ 4,757
Short-term investments	13,718	20,299
Accounts receivable, net of allowance for doubtful accounts of $10,662 and $11,735 at January 31, 1998 and July 31, 1997	37,754	43,707
Inventories	18,248	22,244
Prepaid expenses and other current assets	3,017	2,891
Total current assets	78,989	93,898

Property and equipment, net	23,884	21,660
Intangible assets, net	12,288	12,768
Other assets	3,213	2,809
	$ 118,374	$ 131,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,872	$ 25,699
Accrued merger and other expenses	5,547	9,704
Accrued compensation and benefits	4,325	4,552
Other accrued liabilities	2,642	3,070
Deferred revenue	12,833	11,345
Total current liabilities	40,219	54,370
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 authorized; none issued or outstanding	-	-
Common stock, $.01 par value; 40,000,000 authorized; 23,063,000 and 22,873,000 issued and outstanding at January 31, 1998 and July 31, 1997	230	229
Additional paid-in capital	255,822	254,880
Accumulated deficit	(177,846)	(178,234)
Cumulative translation adjustment	(10)	5
Unearned compensation	(41)	(115)
Total stockholders' equity	78,155	76,765
	$ 118,374	$ 131,135

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

VTEL Corporation
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(Amounts in thousands, except per share amounts)

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	1998	1997	1998	1997
Revenues:				
Products	$ 32,091	$ 40,568	$ 66,403	$ 79,679
Services and other	10,661	10,542	20,578	21,197
	42,752	51,110	86,981	100,876
Cost of sales:				
Products	15,429	23,492	33,207	45,876
Services and other	6,893	8,237	13,372	15,506
	22,322	31,729	46,579	61,382
Gross margin	20,430	19,381	40,402	39,494
Selling, general and administrative	15,185	17,893	29,706	33,594
Research and development	4,843	6,058	9,969	12,176
Amortization of intangible assets	240	240	480	480
Total operating expenses	20,268	24,191	40,155	46,250
Income (loss) from operations	162	(4,810)	247	(6,756)
Other income (expense):				
Interest income	248	589	469	1,201
Interest expense and other	(137)	(746)	(311)	(1,073)

	111	(157)	158	128
Income (loss) from continuing operations before benefit (provision) for income taxes	273	(4,967)	405	(6,628)
Benefit (provision) for income taxes	(5)	31	(17)	12
Income (loss) from continuing operations	268	(4,936)	388	(6,616)
Loss from discontinued operations	-	(6,698)	-	(6,698)
Net income (loss)	$ 268	$ (11,634)	$ 388	$ (13,314)
Basic income (loss) per share:				
Continuing operations	$ 0.01	$ (0.16)	$ 0.02	$ (0.22)
Discontinued operations	-	(0.22)	-	(0.00)
Net income (loss) per share	$ 0.01	$ (0.38)	$ 0.02	$ (0.44)
Diluted income (loss) per share:				
Continuing operations	$ 0.01	$ (0.16)	$ 0.02	$ (0.22)
Discontinued operations	-	(0.22)	-	(0.22)
Net income (loss) per share	$ 0.01	$ (0.38)	$ 0.02	$ (0.44)
Weighted average shares outstanding:				
Basic	23,042	30,485	22,957	30,356
Diluted	23,510	30,485	23,483	30,356

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

VTEL Corporation

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	For the Six Months Ended January 31, 1998	1997
Cash flows from operating activities:		
Net income (loss)	$ 388	$ (13,314)
Adjustments to reconcile net income (loss) to net cash from operations:		
Depreciation and amortization	4,175	6,423
Provision for doubtful accounts	100	72
Amortization of unearned compensation	74	-
Foreign currency translation (gain) loss	72	(33)
(Increase) decrease in accounts receivable	5,853	(3,325)
Decrease in inventories	3,996	7,726
Increase in prepaid expenses and other current assets	(126)	(191)
Decrease in accounts payable	(10,825)	(2,215)
Increase (decrease) in accrued expenses	(4,812)	160
Increase in deferred revenues	1,488	2,506
Decrease in accrued expenses, discontinued operations	-	(557)
Net cash provided by (used in) operating activities	383	(2,748)
Cash flows from investing activities:		
Net short-term investment activity	6,581	7,094
Net purchase of property and equipment	(5,919)	(5,421)
Increase in other assets	(404)	(804)
Net cash provided by investing activities	258	869
Cash flows from financing activities:		
Repayments under line of credit agreements	-	(2,425)
Net proceeds from issuance of stock	941	8,236
Purchase of treasury stock	-	(3,742)
Sale of treasury stock	-	280
Net cash provided by financing activities	941	2,349
Effect of translation exchange rates on cash	(87)	(124)
Net increase in cash and equivalents	1,495	346

Cash and equivalents at beginning of period	4,757	1,973
Cash and equivalents at end of period	$ 6,252	$ 2,319

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

VTEL Corporation
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

VTEL Corporation ("VTEL" or the "Company") designs, manufactures, markets and supports multi-media digital visual communication systems. The Company's systems integrate traditional video and audio conferencing with additional functions, including the sharing of PC software applications and the transmission of high-resolution images and facsimiles. Through the use of the Company's multi-media digital visual communication systems, users are able to replicate more closely the impact and effectiveness of face-to-face meetings, education and training classes and certain medical consultations.

The Company's systems are built upon a system platform which is based on industry-standard, PC-compatible open hardware and software architecture. By leveraging this open architecture design, the Company is able to integrate into the videoconference PC-compatible hardware and software applications which allow users to customize the systems to meet their unique needs. The PC-architecture also 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. Also complementing this open architecture is the Company's compliance with emerging industry standards. The Company's open architecture and compliance with data and telecommunications standards permit the incorporation of new functions through software upgrades, thereby extending the useful life of the user's investment.

The Company primarily distributes its systems to a domestic and international marketplace through third party resellers. The Company's headquarters and production facilities are in Austin, Texas.

Note 1 - General and Basis of Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accordingly, do not include all information and footnotes required under generally accepted accounting principles for complete financial statements. In the opinion of management, these interim financial statements contain all adjustments, consisting of only normal, recurring adjustments, necessary for a fair presentation of the financial position of the Company as of January 31, 1998 and the results of the Company's operations and its cash flows for the three month period and six month period ended January 31, 1998. The results for interim periods are not necessarily indicative of results for a full fiscal year.

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. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements (including the notes thereto) contained in the Company's 1997 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 12, 1997.

Note 2 - Inventories

Inventories consist of the following:

	January 31, 1998	July 31, 1997
	(Dollars in thousands)	
Raw materials	$ 8,447	$ 9,493
Work in process	1,032	4,143
Finished goods	7,865	7,490
Finished goods held for evaluation and rental and loan agreements	904	1,118
	$ 18,248	$ 22,244

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

Note 3 - Net Income (Loss) Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." The new standard, which is effective for financial statements issued for periods ending after December 31, 1997, establishes standards for computing and presenting earnings per share (EPS) and requires restatement of all prior period EPS data presented upon adoption. The Company has implemented this standard in the second quarter of fiscal 1998. The implementation of SFAS No. 128 results in the presentation of a basic EPS presented in the consolidated financial statements as well as a diluted EPS for the periods presented.

Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) by the weighted average number of common shares and common share equivalents (if dilutive) outstanding for the period. Stock options and warrants are the only dilutive potential shares that the Company has outstanding for all periods presented. All prior years' earnings per share data in this report have been recalculated to reflect the provisions of SFAS No. 128.

At January 31, 1998, options and warrants to acquire 1.9 million shares of common stock were not included in the computations of diluted earnings per share because the effect of including the options and warrants would have been anti-dilutive. At January 31, 1997, options and warrants to acquire 4.1 million shares of common stock were not included in the computations of diluted earnings per share because the effect of including the options and warrants would have been anti-dilutive.

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

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.

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 the three and six months ended January 31, 1998. However, the two companies operated independently prior to the Merger, 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 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 historically as a single entity.

The following review of the Company's financial position and results of operations for the three and six month periods ended January 31, 1998 and 1997 should be read in conjunction with the Company's 1997 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 12, 1997.

Results of Operations

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

	For the three months ended January 31,		For the six months ended January 31,	
	1998	1997	1998	1997
Revenues	100%	100%	100%	100%
Gross margin	48	38	46	39
Selling, general and administrative	36	35	34	33
Research and development	11	12	11	12
Total operating expenses	47	47	46	46
Other expense, net	-	-	-	-
Net income (loss) from continuing operations	1	(10)	-	(7)
Net income (loss) from discontinued operations	-	(13)	-	(7)
Net income (loss)	1%	(23)%	-%	(13)%

Three and Six Months Ended January 31, 1998 and 1997

Revenues. Revenues for the quarter ended January 31, 1998 decreased to $42.8 million from $51.1 million in the quarter ended January 31, 1997, a decrease of $8.3 million or 16%. Revenues for the six months ended January 31, 1998 decreased to $87.0 million from $100.9 million for the six months ended January 31, 1997, a decrease of $13.9 million or 14%. The decrease in revenues is the result of a decrease in the total number of unit sales of the Company's systems primarily led by a decline in the sale of the products of the Company's wholly-owned subsidiary, CLI, during the three and six month periods ended January 31, 1998 as a result of the transition by the combined Company to the sale of the Company's Enterprise System Architecture((ESA)-based products.

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

	For the three months ended			For six months ended
	July 31, 1997	October 31, 1997	January 31, 1998	January 31, 1998
Large group digital visual communication systems	699	751	583	1,334
Small group digital visual communication systems	175	75	140	215
MCU II(- second-generation mMultipoint control units	43	16	42	58
Total systems	917	842	765	1,607

International sales contributed approximately 25% and 23%, respectively, of product revenues for the three and six months ended January 31, 1998 as compared to 24% of product revenues for the three and six months ended January 31, 1997.

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

Company's strategy of distributing its products through resellers. Because expense levels are based on the Company's expectations as to future revenues, the Company's expense base is relatively fixed in the short term. If revenue levels are below expectations, operating results may be materially and adversely affected and net income is likely to be disproportionately adversely affected. In addition, the Company's quarterly and annual results may fluctuate as a result of many factors, including price reductions, delays in the introduction of new products, delays in purchase decisions due to new product announcements by the Company or its competitors, cancellations or delays of orders, interruptions or delays in supplies of key components, changes in reseller base, customer base, business or product mix and seasonal patterns and other shifts of capital spending by customers. There can be no assurance that the Company will be able to increase or even maintain its current level of revenues on a quarterly or annual basis in the future. Due to all of the foregoing factors, it is possible that in one or more future quarters the Company's operating results will be below the expectations of public securities market analysts. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

Gross margin. Gross margin as a percentage of total revenues was 48% and 46%, respectively, for the three and six months ended January 31, 1998, an increase from the gross margin as a percentage for revenues of 38% and 39%, respectively, for the three and six months ended January 31, 1997. During the three months and six months ended January 31, 1998, the products that were previously developed by the Company's wholly-owned subsidiary, CLI, represented a smaller proportion of total product revenues 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 three months and six months ended January 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 products revenues from the ESA platform products resulted in a higher blended gross margin.

Although the Company expects gross margins to remain consistent during fiscal 1998, it continues to expect gross margin pressures due to price competitiveness in the industry, shifts in the product sales mix and anticipated offerings of new products which may carry a lower gross margin. The Company expects that overall price competitiveness in the industry will continue to become more intense as users of videoconferencing systems attempt to balance performance, functionality and cost. The Company's gross margin is subject to fluctuation based on pricing, production costs and sales mix.

Selling, general and administrative. Selling, general and administrative expenses decreased by $2.7 million, or 15%, from $17.9 million for the quarter ended January 31, 1997 to $15.2 million for the quarter ended January 31, 1998. Selling, general and administrative expenses decreased by $3.9 million, or 12%, from $33.6 million for the six months ended January 31, 1997 to $29.7 million for the six months ended January 31, 1998. Selling, general and administrative expenses as a percentage of revenues were 35% and 36% for the three months ended January 31, 1997 and 1998, respectively, and were 33% and 34% for the six months ended January 31, 1997 and 1998, respectively. Selling, general and administrative expenses as a percentage of revenues were slightly higher during the three and six month periods ended January 31, 1998 in comparison with the three and six month periods ended January 31, 1997 due to a larger percentage decrease in revenues than the decrease in selling, general and administrative expenses, partially due to expenditures made during the three months ended January 31, 1998 to develop product brand recognition. The Company is directing marketing spending from its prior marketing strategy to its current strategy which is focused on company and product branding. Revenues may be affected during the transition period in which the Company is implementing the branding campaign such that the expected increase in revenues from the new marketing strategy may not coincide with potential changes in revenues due to the decline in marketing spending under the former marketing strategy. The result could be a decline in revenues during the transition period.

Research and development. Research and development expenses decreased by $1.3 million, or 21%, from $6.1 million for the quarter ended January 31, 1997 to $4.8 million for the quarter ended January 31, 1998. Research and development expenses decreased by $2.2 million, or 18%, from $12.2 million for the six months ended January 31, 1997 to $10.0 million for the six months ended January 31, 1998. Research and development expenses as a percentage of revenues were 12% and 11% for the three months ended January 31, 1997 and 1998, respectively, and were 11% and 12%, respectively, for each of the six months ended January 31, 1998 and 1997. The decrease in the amount of research and development expenses is due to the combination of VTEL and its wholly-owned subsidiary, CLI, subsequent to the Merger such that the Company is focusing its research and development activities on a single product platform, the ESA platform. The Company was able to reduce total research and development expenses by limiting its development efforts to the development of its family of products on a single product platform while still investing a higher amount in research and development activities related to its ESA platform. The Company has redirected a portion of the research and development expenses related to the products

developed by its wholly-owned subsidiary, CLI, to the ESA platform thereby leveraging the development activities of both companies. The Company experienced a decline in revenues during the three and six months ended January 31, 1998 compared with the three and six months ended January 31, 1997 which resulted in research and development expenses as a percentage of revenues remaining consistent during these periods despite a decline in the amount of research and development expenses incurred during the three and six months ended January 31, 1998.

Although the percentage of revenues invested by the Company in research and development may vary from period to period, the Company is committed to investing in its research and development programs. Future research and development expenses are expected to increase as revenues increase. These expenditures will be largely devoted to improving the Company's system user interface and the development of the next generation product platform.

Other income, net. Other income, net increased by $0.27 million, or 169%, from a net expense of $0.16 million for the quarter ended January 31, 1997 to income of $0.11 million for the quarter ended January 31, 1998. Other income, net increased by $0.03 million, or 23%, from $0.13 million for the six months ended January 31, 1997 to $0.16 million for the six months ended January 31, 1998.

The change in other income, net is attributable to a decrease in interest expense related to a decrease of the debt of the Company's wholly-owned subsidiary, CLI, subsequent to the Merger, slightly offset by lower interest income earned during the three and six months ended January 31, 1998 on the Company's cash and investment balances as a result of a decrease in such balances due to the planned cash requirements associated with the combination of VTEL and CLI subsequent to the Merger.

Net income (loss). The Company generated net income of $0.3 million, or $0.01 per share, during the quarter ended January 31, 1998 compared to a net loss of $11.6 million, or $0.38 per share, during the quarter ended January 31, 1997. The Company generated net income of $0.4 million, or $0.02 per share, during the six months ended January 31, 1998 compared to a net loss of $13.3 million, or $0.22 per share, during the six months ended January 31, 1997. During the quarter ended January 31, 1997, the Company's wholly-owned subsidiary, CLI, incurred a net loss on a stand-alone basis of $12.4 million, including a $6.7 million loss from discontinued operations, and VTEL generated net income on a stand-alone basis of $0.8 million, which resulted in a restated combined net loss of $11.6 million. During the six months ended January 31, 1997, the Company's wholly-owned subsidiary, CLI, incurred a net loss on a stand-alone basis of $15.1 million, including a $6.7 million loss from discontinued operations, and VTEL generated net income on a stand-alone basis of $1.8 million, which resulted in a combined net loss of $13.3 million. Subsequent to the Merger, VTEL's management reduced the operating expenses of the combined company by eliminating duplicate operating costs and leveraging the research and development and selling, general and administrative expenses of the two companies such that these expenses were focused on a single company development platform and sales and marketing strategy. The result was a reduction in the combined costs incurred by the two companies, which were investing amounts in implementing two corporate strategies when the companies operated as competitors, and an increase in the amount of funds available to invest in a single company plan. Additionally, the Company has been able to improve gross margins by transitioning the combined Company to the sale of the Company's higher gross margin ESA-based products.

Improvement in the Company's financial performance during the remainder of fiscal year 1998 will depend on the Company's ability to increase revenues

through growth in the Company's distribution channels, introduce its new products which should generate revenue growth, and control the growth of operating expenses. There can be no assurances that the Company will be successful in achieving these objectives.

Liquidity and Capital Resources

At January 31, 1998, the Company had working capital of $38.8 million, including $20.0 million in cash, cash equivalents and short-term investments. Cash provided by operating activities was $0.38 million for the six months ended January 31, 1998 and primarily results from decreases in inventories and accounts receivable and an increase in deferred revenues, offset by a decrease in accounts payable and accrued liabilities. The reduction in accounts payable and accrued liabilities includes amounts for Merger and other expenses which were accrued at July 31, 1997. Cash used in operating activities was $2.7 million for the six months ended January 31, 1997, primarily due to a net loss of $13.3 million coupled with an increase in accounts receivable and a decrease in accounts payable, offset by a decrease in inventories and an increase in deferred revenues.

Net cash provided by investing activities during the six months ended January 31, 1998 was $0.26 million and primarily resulted from cash generated by a reduction in short-term investments of $6.6 million offset by an increase in net property and equipment of $5.9 million. Cash provided by investing activities during the six months ended January 31, 1997 was $0.87 million and primarily resulted from cash generated by a reduction of short-term investments of $7.1 million offset by an increase in net property and equipment of $5.4 million.

Cash flows provided by financing activities during the six months ended January 31, 1998 were $0.97 million and related to sales of stock under the Company's employee stock plans. Cash flows provided by financing activities during the six months ended January 31, 1997 were $2.3 million and related primarily to sale of approximately $7.0 million of preferred stock by the Company's wholly-owned subsidiary, CLI, the sale of stock under employee stock purchase plans totaling approximately $1.2 million, the repayment of borrowings made by the Company's wholly-owned subsidiary, CLI, totaling approximately $2.4 million and the purchase of treasury stock totaling $3.7 million.

At January 31, 1998, the Company had a $25.0 million revolving line of credit 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 January 31, 1998 consist of $20.0 million of cash, cash equivalents and short-term investments and amounts available under the Company's revolving line of credit. The Company believes that existing cash and cash equivalent balances, short-term investments, cash generated from sales of products and services and its revolving lines of credit will be sufficient to meet the Company's cash and capital requirements for at least the next 12 months.

General

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

The Company's future results of operations and financial condition could be impacted by the following factors, among others: trends in the videoconferencing market, introduction of new products by competitors, increased competition due to the entrance of other companies into the videoconferencing market - especially more established companies with greater resources than those of the Company, delay in the introduction of higher performance products, market acceptance of new products introduced by the Company, price competition, interruption of the supply of low-cost products from third-party manufacturers, changes in general economic conditions in any of the countries in which the Company does business, adverse legal disputes and delays in purchases relating to federal government procurement.

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

Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results

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

PART II -- OTHER INFORMATION

Item 1. 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. The Company had recorded an estimate of the costs to defend and discharge the

claims prior to the quarter ended January 31, 1998 and such contingent liabilities are reflected as accrued expenses at January 31, 1998. In the opinion of management, such reserves should be sufficient to discharge the liabilities, if any. However, an unexpected 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 seeks 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. Discovery has commenced in the case. On September 27, 1995, CLI filed a motion to construe the scope of the patent claims at issue in the litigation so as to elucidate whether Datapoint could assert that CLI is infringing the patents in suit. In April 1996, a Special Master submitted a report which did not recommend that the Court adopt CLI's position set forth in the motion. The case is expected to be set for trial in the fall of 1998. CLI is vigorously defending the claims.

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.

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

On December 18, 1997, an annual meeting of the stockholders was held whereby shareholders voted on the following proposals:

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

Nominee	For	Withheld	Broker Non-votes

F.H. (Dick) Moeller	18,166,894	825,227	-
Jerry S. Benson, Jr.	18,182,120	810,001	-
Eric L. Jones	18,169,998	822,123	-
Gordon H. Matthews	18,171,920	820,201	-
Max D. Hopper	18,182,643	809,478	-
T. Gary Trimm	18,171,808	820,313	-
Arthur G. Anderson	18,214,108	778,013	-
Richard Snyder	18,215,781	776,340	-

2. Proposal to approve an amendment to the Company's Employee Stock Purchase Plan (the "ESPP") to increase the number of shares of the Company's Common Stock issuable under the ESPP upon the exercise of stock options granted pursuant to the ESPP from 450,000 to 950,000 shares. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain	Broker Non-votes
17,700,695	881,493	98,350	311,583

3. Proposal to approve an amendment of the Company's 1992 Director Stock Option Plan (the "Director Plan") to increase the number of shares of the Company's Common Stock issuable under the Director Plan upon the exercise of stock options granted pursuant to the Director Plan from 100,000 to 150,000 shares. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain	Broker Non-votes
16,132,391	2,774,372	115,358	-

4. Proposal to ratify the Board of Directors' appointment of Price Waterhouse LLP, independent accountants, as the Company's independent auditors for the year ending July 31, 1998. The stockholders voted to approve the proposal by the following vote:

For	Against	Abstain	Broker Non-votes
18,785,755	116,173	90,193	-

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

SIGNATURES

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

VTEL CORPORATION

March 16, 1998	By:	/s/ Rodney S. Bond ---------------------------------- Rodney S. Bond Vice President-Finance (Chief Financial Officer and Principal Accounting Officer)

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This Schedule contains summary financial information extracted from VTEL Corporation's Balance Sheet & Income Statement for the six months ended January 31, 1998, and is qualified in its entirety by reference to such Quarterly Report on Form 10-Q filing.
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