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, 2001

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 20,970,317 shares of the registrant's Common Stock held by nonaffiliates on October 10, 2001 was approximately $48,441,432. 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 10, 2001 there were 24,776,975 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 2001 Annual Meeting are incorporated by reference into Part III.

GENERAL

VTEL Corporation, doing business as Forgent Corporation, ("Forgent," "Company," we or our) was founded in 1985 and has been a developer and early pioneer of the videoconferencing equipment industry with the innovation of utilizing an open PC architecture for videoconferencing endpoints. Integration of the functionality and applications of a personal computer with

videoconferencing hardware provided a videoconference platform that included the ability to use a broad range of PC applications, as well as simultaneous access to the Internet. The Company has manufactured and installed more than 30,000 videoconferencing endpoints worldwide and provides service for more than 9,000 of these endpoints, as well as other endpoints, currently under maintenance agreements.

In August 2000, the Company, then known as VTEL, announced its plans to shift its strategy by enacting a new business charter and creating two business units, Products and Solutions, to focus on distinctive core competencies. Our Products unit is focused on building and selling videoconferencing endpoints while our Solutions unit is focused on providing services and software for all available enterprise systems. The Company's vast experience in the industry indicated that videoconferencing would not reach the broad-based market appeal necessary for overall growth of the Company's business through the production of videoconferencing endpoints alone. This situation is further demonstrated by the decline in the average selling price of videoconferencing endpoints over the past several years while the videoconferencing industry as a whole has remained relatively flat in terms of revenue growth during the same periods.

Management has decided to focus our efforts on our Solutions business and to exit our Products business. Therefore, we announced in May 2001 that the Company intended to sell its Products business unit and rename the remaining Solutions business unit as Forgent Corporation, subject to the execution and consummation of a sale agreement and shareholder approval. The Company executed the sale agreement in early October 2001 and is intending to submit the sale of the Products business to our shareholders at our 2001 annual meeting. To facilitate the change, special attention is being paid to improving the interoperability of all the components in a broadband video network, to expanding the Company's current interoperability labs to create a center of excellence for standards testing and integration and to developing and introducing enterprise videoconferencing software that provides a high level of manageability, reliability and ease-of-use for existing and new enterprise systems. We believe we must provide network software and services that will support the vast amount of visual communication applications that are becoming possible with increased bandwidth. Furthermore, the development and expansion of our consulting and services competencies will ultimately transform the majority of our revenue base to a software and solutions centric provider. We feel that refocusing our efforts will provide the greatest opportunity for long-term success for Forgent and its shareholders. Our new name reflects our desire to forge a new vision and direction for the industry as well as a new business model that is designed to provide potential increased growth in shareholder value.

INDUSTRY BACKGROUND

Videoconferencing first became available on a commercial basis in the early 1980's. A wide range of uses quickly emerged ranging from business and professional meetings, education and training classes, to technical and medical consultations. Customers typically make use of this innovative technology to reduce operating costs, improve customer service, reduce cycle times, and improve intra- or inter-company communications. The industry has primarily evolved around the production of the various compression/decompression (or Codec) devices as each manufacturer has developed its own proprietary software that compresses and decompresses signal for transmission of video, audio and data signals between two or more locations over a network connection. VTEL products, in particular, have been characterized by the innovation of placing the Codec within a standard PC using an open architecture as opposed to operating the Codec on a proprietary operating system. By incorporating a PC into the videoconferencing endpoint, VTEL products allow for the inclusion of software applications such as PowerPoint(TM) presentations, spreadsheets and the ability to use whiteboard annotations during a videoconference as well as other applications.

Over the years, few companies manufactured videoconferencing endpoints, which fall into two distinct categories: (1) the room or group videoconferencing products tailored for targeted markets with specific application needs and (2) the set-top products for the individuals who require strictly video and audio communications during a call. During this same time, the proliferation of the broadband network has augmented the appeal of

videoconferencing, thereby increasing the demand for the set-top or appliance type products. While the unit volumes of these products have increased dramatically, the average selling price of set-top products is significantly less than that of a room system. The result is that the total revenue of the videoconferencing endpoint market has remained relatively flat despite the increased unit volume. Although usage of videoconferencing systems is on the rise, limitations still exist with respect to managing these types of networks. The need for enterprise software and services that assist users in managing their videoconferencing systems, ensuring reliability of the video network and applications, as well as ease of use, is the primary reason the industry has not enjoyed the growth of other hardware industries such as the PC.

We believe that while the demand in the industry will continue to be directed toward set-top videoconferencing, technological developments will reduce the endpoint to a software application with minimal additional hardware attached to the PC. We also believe that our experience in providing solutions and software for specific customer needs makes Forgent uniquely positioned to address these limitations. The key to our future in this evolving industry will be based on our ability to develop software and offer services and solutions that can be successfully delivered to the end users as visual communications become easier to use and the associated networks more manageable and more reliable.

CORPORATE STRATEGY

As VTEL we were known as a leader in the design, manufacture and sale of videoconferencing hardware and software with thousands of satisfied customers around the world. As the industry has evolved into one with increased price competition for endpoint products, the Company has shifted its focus from manufacturing videoconferencing endpoints to providing the tools to visually enable Internet Protocol ("IP") and ISDN networks. Forgent's corporate strategy includes managing this transition in its business model with a view towards generating profitable results from operations as quickly as possible. This process, which began in August 2000, has included the restructuring and refocusing of our core operations, the divestiture of all non-core operations, the development of strategic relationships with network providers and vendors of visual communication software and the creation of a visual management software platform. Although such a strategy involves certain risks, we believe our years of expertise, customer relationships and existing software and hardware product offerings can be leveraged for future financial success.

Internet Protocol networks that connect large businesses and organizations continue to expand and the steady growth of fiber optic or "broadband" cable lines to serve these networks, create a new environment for visual communications - video over IP. Thus, our new business model involves continued execution of the following strategies:

- developing industry-wide interoperability tools to ensure that all video network hardware and software are compatible regardless of manufacturer;
- designing back-office, enterprise software products to establish the standard for video over IP and ISDN;
- integrating entire video networks using existing IP and ISDN enterprise networks and our software;
- serving as an industry consultant and expert on video over IP and ISDN;
- managing video networks;
- providing multi-vendor services and support;
- fulfilling multi-vendor endpoint and network product requirements, including integrated systems.

In addition, the current economic downturn and world and US political situation caused by the events of September 11, 2001 have increased attention on the videoconferencing industry as a means for corporations to reduce travel expenses, to alleviate safety concerns and to still receive the benefit from face-to-face communication. Early industry figures show the volume of video over today's networks have increased 70% since the September 11th tragedy. The world situation has changed fundamental business processes and has provided an intensified urgency and need for Forgent to prove its services expertise by

progressing our Video Network Platform ("Forgent VNP") software from beta version to production-level software in the 2002 fiscal year. Forgent VNP is designed to allow system administrators to manage complex heterogeneous video networks from remote locations. Through strong industry partnerships, successful feedback from our beta-testing, and other marketing strategies, Forgent VNP is gaining widespread attention and if successfully adopted, we believe it can be the catalyst for moving video from an infant industry into a mission critical application. We believe the face of modern business

communication has changed forever and human interaction over video will supplant the need many for face-to-face business transactions.

We anticipate revenue to originate from the sale of product elements such as software, systems and network integration, network consulting services and endpoint and network maintenance, as well as equipment sales. As Forgent we will generate additional revenue through value added services and our enterprise software while selling the hardware of many companies.

PROFESSIONAL SERVICES AND SOFTWARE

A key strategy in our business plan to become a services and software provider for visually enabling broadband networks lies in our existing expertise as a provider of video systems integration and maintenance services. Since the announcement of the Company's new charter, we have determined the greatest growth and profit opportunities in the videoconferencing industry lie in improving industry wide multi-vendor platform interoperability and in the integration and management of video conferencing networks, all of which are core competencies of the Forgent team. Therefore, we announced in May 2001 that the Company intended to sell its Products business unit and rename the remaining Solutions business unit as Forgent Corporation, subject to the execution and consummation of a sale agreement and shareholder approval. The Company executed the sale agreement in early October 2001 and is intending to submit the sale of the Products business to our shareholders at our 2001 annual meeting. If the transaction is consummated as anticipated, we will exit from the Products business and focus on building and growing our Solutions business. As the Forgent Corporation, we will increase our focus on providing advanced video services for enterprise communications, enterprise software that improves video network management and reliability and interoperability standards throughout the industry. We will leverage our service and software expertise in the deployment and management of videoconferencing endpoints by continuing to actively market our ability to integrate, install and service a wide offering of third-party products, including the products of companies that were traditional competitors when our focus was hardware.

Our service group currently supports more than 9,000 endpoint systems around the world under maintenance agreements. These endpoints include current VTEL products, legacy products, network products for which the Company acted as a reseller and a growing base of our traditional competitors' products. We will continue to actively pursue additional support and maintenance contracts for all hardware products as well as other products that emerge in the broadband visual communications industry. Through service and maintenance offerings, we will augment our experience and knowledge of the multiple endpoints available within the industry, thus positioning Forgent as the industry expert in visual communication solutions. As such, we are expanding our service offering to include all of the following: network consulting, interoperability testing, total call management, 24x7 hotline support, emergency on-site support, resident engineering services, video integrations services, and training.

The service group has also developed a worldwide reputation as a visual communications solutions provider. We have successfully integrated systems into boardrooms and auditoriums for our corporate customers as well as classrooms in primary schools, colleges and universities by providing solutions for customers requiring multiple voice activated cameras, custom user-interface and other customized requirements. The experience gained by addressing these needs further positions Forgent as the focal point and leader in visually enabling existing and emerging network infrastructures.

In addition to software that provides manageability, reliability and ease-of-use, the videoconferencing industry has needed a "hardware agnostic" source for interoperability testing. Forgent is meeting this need through the

creation of an industry exclusive interoperability lab that allows for real-world testing of video networking technology regardless of brand. In our labs, we can test any major technology brands to ensure they that work, and more importantly, that they work together. Our labs can test everything from personal and group communications products to peripheral components and network technology, which guarantee our customers receive the full value of their video network investments.

During the fiscal year ended July 31, 2001, Forgent designed Video Network Platform ("Forgent VNP"), an enterprise-class server software to manage today's complex heterogeneous video networks. For the first time, enterprises have a tool they can use to proactively measure and improve their end-to-end video quality of service.

Forgent VNP gives enterprises control over video networks by applying the power of traditional network management tools to video, thus making video usage as reliable as telephone and computer usage. Operating across traditional ISDN networks (H.320) as well as IP networks (H.323), Forgent VNP is the first vendor neutral management software that can manage any brand name endpoints, gateways, gatekeepers, bridges, MCUs, as well as traditional network attached devices such as desktops, servers, printers, IP phones, etc. With features including comprehensive real-time displays, detailed location and status of video infrastructure, an event notification system that provides real-time alerts, powerful diagnostic tools that identify and help isolate video network problems, scheduling, reporting, and automated call launching, Forgent VNP finds, monitors, and identifies video related devices on the network so they can be managed through business rules. Forgent VNP is compatible and interoperable with existing enterprise management frameworks, including Hewlett-Packard's OpenView(R). Network Node Manager, and is designed to accommodate additional endpoints as well as future network protocols, thus protecting a customer's current video investments while smoothing the transition to next-generation technologies. Beta testing for Forgent VNP started in September 2001 with global companies in a variety of industries such as finance/banking, oil and gas, pharmaceutical, government, education and diverse multi-nationals. After several weeks of testing, the video, telecommunications, and IT groups of these companies are all providing positive feedback on the software and its capabilities. The testing will be extended to international customers later this year through Forgent's strategic partnership with Mobile Video Communication AG, the largest German supplier of video, audio, and data conferencing solutions, as well as to other customers. System testing will continue with enhancements being made to the software based on customer feedback. Currently, potential customers are approaching Forgent and requesting proposals for the hardware and software installations for Forgent VNP, although they have not participated in the beta program. Forgent VNP is planned and on target to go into production by the end of the calendar year 2001.

INTERNET STRATEGY

During the year ended July 31, 2000, the Company established two entities within its combined organizational structure to leverage its expertise in visual communications and to pursue business strategies over the Internet. OnScreen24(TM) developed and marketed visual communication tools for the Internet and ArticuLearn(TM) was an e-learning portal provider for commercial and educational businesses that delivered learning content in a Web environment. During fiscal year 2001, management determined that these strategies were not consistent with the Company's shifted focus on video network software and services. Therefore, the Company ceased further investment in these non-core operations. OnScreen24's operations were folded back into the core operations as of January 31, 2001, and ArticuLearn's operations were terminated as of June 30, 2001.

DISTRIBUTION STRATEGY

Forgent primarily delivers its capabilities directly to the end-user customers. These services will generally involve larger customers that already have sophisticated visual communication networks in place, but require more sophisticated involvement to support the sale, installation, operation and maintenance of the network. As we intend to offer a broader range of visual communication products, we also expect to develop a broader range of customers, especially as broadband networks become available and affordable to small

businesses. VNP will be marketed with a direct sales force, separate from the sales force from our services organization. By building alliances with strategic partners, we plan to leverage their existing channels to directly reach our customers.

COMPETITION

While there are several manufacturers of videoconferencing endpoints, very few companies are dedicated to developing a business by providing services and software around video communications over Local Area Networks ("LANs"), Wide Area Networks ("WANs"), and Metropolitan Area Networks ("MANs"). Although big network providers sell videoconferencing equipment along with the network they are installing, they do not usually provide post-installation services such as product services and training. Furthermore, today's network management tools do not provide carriers with in depth information about video devices (endpoints, gateways, gatekeepers, Multicontrol Units ("MCUs"), bridges, etc. In addition, these networks are typically proprietary in nature and are not open to other hardware or software vendors, limiting the customers in their usability. Similarly, videoconferencing manufacturers may offer a small amount of proprietary device level software to be used on their

products but do not usually provide a complete view of the entire network infrastructure showing all the network touch points. Other potential competition comes from a few start-up companies that are attempting to develop software that supports video over broadband networks. However, these companies are typically working with proprietary software and do not have the level of industry experience that Forgent brings to the market.

The traditional network management systems vendors like Hewlett Packard, Sun Microsystems, and others have traditionally focused on managing devices and are moving to manage system level applications. At the same time, enterprise systems management vendors like IBM Tivoli, BMC Patrol, and Computer Associates Unicenter, who have traditionally focused on managing system level applications, are migrating to cover device level management as well. However, both groups, while interested in covering the widest breadth of device types, do not have the same depth of understanding of video as Forgent and today have no mechanism to discover, to monitor, to diagnose, or to report on video application or device level issues. Forgent is pursuing the addition of several new partnerships to expand the utilization of video, thereby making it a business critical application. Therefore, Forgent's goal is to ensure dependable video communications by combining professional services with network management tools to deliver ease of use, reliability, and manageability for video communications through interoperability standards.

While we believe that by embarking on this business strategy that we are focusing on a niche that is being ignored by the industry, there can be no assurances that this strategy will be successful. Furthermore, if this strategy is successful it is likely that other companies will attempt to duplicate this business model. We do believe that, like the PC industry, which saw exceptional growth after the introduction of network management software, the combination of software and services provided by Forgent could have a similar affect on the videoconferencing industry.

MARKETING

Forgent has developed a comprehensive marketing/communications plan designed to establish credibility and trust, as well as brand recognition, for the Company as well as its software and services. This program integrates media relations, industry analyst relations, investor relations and other corporate communications activities to ensure a consistent and accurate flow of information to and from our key stakeholders and target audiences. Early efforts have been focused on developing clear and concise methods of communicating with shareholders, customers, prospects, trade and technical media and influencers, and the business media. Forgent's corporate Web site will play an important role in providing audiences with the most up-to-date and accurate information available on our people, services, software, success, trends and issues the Company faces.

PATENTS AND TRADEMARKS

The United States Patent and Trademark Office has issued the Company more than 35 patents covering a broad range of interest including, but not limited to, videoconferencing, data compression, and video mail. The Company currently has in excess of 38 patent applications in similar fields of interest that are filed but not yet issued by the U.S. Patent and Trademark Office. Seven of these patent applications, related to the new technology of video end-point management, were filed in the fourth quarter of fiscal 2001 and we are on track to complete filing on ten more patent applications by the end of the first quarter in fiscal 2002. We intend to file more patents to protect our intellectual property and anticipate an average of five filed patents to be issued per quarter to Forgent by the U.S. Patent and Trademark Office, starting in the near future. There can be no assurance that the pending patents will be issued or that issued patents can be defended successfully. With the successful sale of the products division, Forgent will own the rights to all patents.

The Company's Strategic Patent Program, headed by the leadership of Chief Intellectual Property Officer, Gordon Matthews, stimulates the creation of the Company's intellectual property. Mr. Matthews, a board member since 1994 as well as a named inventor on more than 35 U.S. and foreign patents, directs the program to manage the Company's portfolio of patents, to lead an internal patent committee representing all functions in the Company, to empower all employees to develop intellectual property, and to reward those employees who generate the ideas. In addition to the Strategic Patent Program, Forgent is also initiating an active program for licensing its intellectual property.

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

EMPLOYEES

With the announcement of the New Charter on August 23, 2000, we also announced the restructuring of our organization, which involved the termination of approximately 200 employees or 34% of our workforce. As we further defined our business strategy during fiscal 2001, we identified certain elements that did not contribute our core competencies and therefore restructured our Company in August 2001, which involved the termination of approximately 65 employees or 17% of our workforce.

As a result of the August 2001 restructuring, we employed 312 employees as follows:

FUNCTION	NUMBER OF EMPLOYEES
Sales and marketing	74
Research and development	66
Service, support and Systems integration	96
Manufacturing	37
Finance and administration	39
Total	312

Once the sale of the Products business unit is completed, Forgent will employ approximately 200 employees. Despite the workforce reductions, we believe that we retained the appropriate employees to fully implement our business strategy and that our current employee relations are good. None of our employees are represented by a labor union.

Forgent'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. We use incentives, including competitive compensation and stock option plans, to attract and retain well-qualified employees and generally do not have employment agreements with key management personnel or technical employees. Our future success is dependent upon our ability to effectively attract, retain, train, motivate and manage our employees. However, there can be no assurance that we will continue to attract and retain personnel with the requisite capabilities and experience. The loss of one or more of our key management or technical personnel could have a material and adverse effect on our business and operating results.

EXECUTIVE OFFICERS

Our executive officers are as follows:

RICHARD N. SNYDER, age 56, joined the Company's Board of Directors in December of 1997 and became Chairman of the Board in March 2000. In June 2001 Mr. Snyder was named the Company's Chief Executive Officer. Mr. Snyder has over twenty-five years of senior management experience including Group General Manager at Hewlett-Packard, Senior Vice President and General Manager at Dell Computer, and Senior Vice President of Worldwide Sales, Marketing, Service and Support for Compaq Computer. Mr. Snyder received a Masters in Business Administration from Saint Mary's College and a Bachelor of Science from Southern Illinois University.

JAY C. PETERSON, age 44, joined the Company in September 1995 as manager of Corporate Planning and has served as Chief Financial Officer and Vice President of Finance since May 2000. Prior to joining the Company, Mr. Peterson performed as Assistant Controller with the Dell Direct Channel that generated $1 billion in annual sales at Dell Computer Corporation and held various financial positions during his 11 years with IBM Corporation. Mr. Peterson holds a Masters in Business Administration and a Bachelor of Arts in Economics from the University of Wisconsin.

KENNETH A. KALINOSKI, age 40, joined the Company in February 2001 as Vice-President - Development and also currently serves as Chief Technology Officer, responsible for all aspects of technology for the company. Mr. Kalinoski's 18-year career has focused on client/server and communications technology. Most recently, he was the founder and Vice-President of Development at Netpliance and was responsible for delivering the first information appliance to the consumer marketplace. Mr. Kalinoski held multiple management positions, including director of AIX Development, at IBM Corporation, where he was responsible for several multimedia and network management programs. Mr. Kalinoski received a Masters in Computer Engineering from State University of New York, a Bachelor of Science from Wilkes University and currently holds five patents.

DENNIS M. EGAN, age 48, 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. Mr. Egan holds a Master in Business Administration from Widener University and a Bachelor of Science from Villanova University.

BOB R. SWEM, age 64, 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.

ITEM 2. PROPERTIES

Forgent's headquarters, product development, and sales and marketing facility leases approximately 139,000 square feet in Austin, Texas under a lease which expires in March 2013. During fiscal 1999, we reduced the workforce of the Company and as a result were able to sublet approximately 15,000 square feet during the later part of fiscal 1999 and the first quarter of fiscal 2000. In fiscal 2001, we subleased an additional 26,000 square feet in order to consolidate space and take advantage of a favorable real estate market in the

Austin area. Forgent's Professional Services group occupies a facility of approximately 41,000 square feet in the Philadelphia, Pennsylvania vicinity which is leased through June 2006. We believe that the facilities in Texas and Pennsylvania are adequate to meet our 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 also occupies approximately 60,000 square feet of a facility that is situated in a light industrial area in Austin, Texas where our manufacturing, training and spare parts depot are located. As part of the sale agreement of the Products unit, Forgent will assign this lease to the new company, VTEL Product, who will assume all obligations under the existing lease.

Forgent leased 52,500 square feet in Sunnyvale, California under a lease that expired in April 2008. This property housed some of our research and development group as well as our OnScreen24 operations. During fiscal 2001, Forgent reached an agreement with the landlord and sold its equity interest in the real estate lease. Forgent is no longer liable for the remaining lease payments.

ITEM 3. LEGAL PROCEEDINGS

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

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

None

PART II.

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

MARKET INFORMATION

Since April 7, 1992, VTEL's Common Stock has been traded in the NASDAQ-National Market System under the symbol "VTEL". Starting June 1, 2001, the Company's Common Stock has been traded under the symbol "FORG." The following table sets forth the range of high and low intra-day prices for each fiscal quarter of 2000 and 2001:

	FISCAL YEAR 2000		FISCAL YEAR 2001	
	HIGH	LOW	HIGH	LOW
1st Quarter	$ 3.75	$3.06	$ 3.63	$1.59
2nd Quarter	$ 5.72	$2.63	$ 2.25	$0.72
3rd Quarter	$10.63	$3.88	$ 1.69	$0.72
4th Quarter	$ 4.94	$3.06	$ 1.51	$0.89

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.

On October 15, 2001, Forgent's common stock closed at $2.88 on the NASDAQ. At that date there were approximately 17,791 stockholders of record of the common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth consolidated financial data for Forgent as of the dates and for the periods indicated. All such data reflects the merger

with Compression Labs, Inc. ("CLI") on May 23, 1997, which was accounted for as a pooling of interests. The restatement of the consolidated financial information combines the financial information of Forgent and CLI giving retroactive effect to the merger as if the two companies had operated as a single company for fiscal year 1997 presented, although the two companies operated independently prior to the merger.

The selected consolidated balance sheet data as of July 31, 2000 and 2001 and the selected consolidated operations data for the years ended July 31, 1999, 2000, and 2001 have been derived from the audited consolidated financial statements of Forgent included elsewhere in this Report. The selected consolidated balance sheet data as of July 31, 1997, 1998 and 1999 and the selected consolidated operations data for the year ended July 31, 1997 and 1998 have been derived from the audited consolidated financial statements of Forgent not included in this Report.

The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" the consolidated financial statements of Forgent and the notes to those statements included elsewhere in this Report. The information set forth below is not necessarily indicative of the results of future operations.

	FOR THE YEARS ENDED JULY 31,				
	1997(a)	1998(b)	1999(c)	2000(d)	2001(e)
	In thousands, except per share amounts				
STATEMENT OF OPERATIONS DATA:					
Service revenues	$ 28,198	$ 28,733	$ 29,698	$ 27,217	$ 25,368
Integration and other revenues	12,034	16,176	16,384	18,009	12,801
Gross margin	11,142	15,993	16,885	12,917	8,301
(Loss) income from continuing operations	(8,540)	1,161	(3,499)	20,125	(14,504)
Loss from discontinued operations	(43,514)	1,618	(12,066)	(17,828)	(16,916)
Net (loss) income	(52,054)	2,779	(15,565)	2,297	(32,540)
(LOSS) INCOME PER COMMON SHARE					
Basic (loss) income from continuing operations	(0.39)	0.05	(0.15)	0.82	(0.58)
Diluted (loss) income from continuing operations	(0.39)	0.05	(0.15)	0.80	(0.58)
Basic (loss) income from discontinued operations	(1.96)	0.07	(0.51)	(0.73)	(0.68)
Diluted (loss) income from discontinued operations	(1.96)	0.07	(0.51)	(0.71)	(0.68)
Net (loss) income, basic and diluted	(2.45)	0.12	(0.66)	.09	(1.31)
BALANCE SHEET DATA:					
Working capital	$ 19,300	$ 30,378	$ 15,180	$ 37,498	$ 13,791
Total assets	130,741	128,895	123,697	123,139	69,340
Long-term liabilities	--	3,848	15,930	4,665	3,034
Stockholders' equity	76,765	81,258	68,019	82,661	41,622

(a) Net loss for the year ended July 31, 1997 includes merger and other expenses totaling $29.4 million related to the merger between VTEL and CLI.

(b) Net income for the year ended July 31, 1998 includes the reversal of $1.5 million of merger and other expenses and a gain from a non-recurring real estate transaction of $1.3 million.

(c) Net loss for the year ended July 31, 1999 includes expense for restructuring totaling $3.1 million.

(d) Net income for the year ended July 31, 2000 includes a non-recurring gain of $44.5 million and an expense for the write-down of impaired assets of $14.1 million.

(e) Net loss for the year ended July 31, 2001 includes an expense of $4.0 million for the impairment of certain assets and transaction expenses in anticipation of a segment sale and expenses for restructuring totaling $1.7 million.

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

RESULT OF OPERATIONS

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

	FOR THE YEARS ENDED JULY 31,		
	1999	2000	2001
Services revenues	64.4%	60.2%	66.5%
Integration and other revenues	35.6	39.8	33.5
Gross margin	36.6	28.6	21.7
Selling, general and administrative	39.7	42.4	51.5
Research and development	0.0	18.7	19.5
Total operating expenses	44.5	80.6	77.6
Other income, net	0.1	97.9	17.0
(Loss) income from continuing operations	(7.6)	44.5	(38.0)
(Loss) income from discontinued operations	(26.2)	(39.4)	(44.3)
Net (loss) income	(33.8)%	5.1%	(85.3)%

FOR THE YEARS ENDED JULY 31, 1999, 2000, AND 2001.

Revenues

Consolidated revenue was $46.1 million in fiscal 1999, $45.2 million in fiscal 2000, and $38.2 million in fiscal 2001. The decline was $0.9 million from 1999 to 2000 and $7.1 million from 2000 to 2001. This is a decrease of 1.9% for 2000 and 15.6% for 2001. Consolidated revenue represents the combined revenues of Forgent's, formerly VTEL Solution's, business, which provides network consulting, installation, training, and maintenance services as well as custom videoconferencing integration solutions, and multi-vendor products. Consolidated revenues do not include any revenues from our discontinued Products business, which engages in the manufacture and sale of endpoint systems (see Note 17, in the accompanying financial statements).

Service revenue was $29.7 million in fiscal 1999, $27.2 million in fiscal 2000, and $25.4 million in fiscal 2001. The decline was $2.5 million from 1999 to 2000 and $1.8 million from 2000 to 2001. This is a decrease of 8.4% for 2000 and 6.8% for 2001. Service represents 64.4%, 60.2%, and 66.5% of total revenues for the years ended July 31, 1999, 2000 and 2001, respectively. Despite significant declining product revenues from our discontinued operations, revenue streams from network consulting, installation, training and maintenance contracts have been relatively stable, which reflects our customers' confidence in the quality of our service performance. Customers' confidence is confirmed further by the renewal of their maintenance contracts. During the last two quarters of fiscal 2001 we achieved significant increases in our service bookings, which will lead to future service revenues. As Forgent demonstrates its expertise in providing visual communications solutions using a wider array of visual communications products, we believe our service bookings will continue to increase through customers' renewals and new contracts.

Revenue from integration solutions and other was $16.4 million, $18.0 million, and $12.8 million in fiscal 1999, 2000, and 2001, respectively. The increase was $1.6 million from 1999 to 2000 and the decrease was $5.2 million from 2000 to 2001. This is an increase of 9.9% for 2000 and a decrease of 28.9% for 2001. Integration solutions and other represent 35.6%, 39.8% and 33.5% of total revenues for the years ended July 31, 1999, 2000, and 2001, respectively. Although we experienced an increase in integration and other revenues in fiscal 2000, integration and other revenues were down in fiscal 2001 primarily due to a change in business strategy. In previous fiscal years, VTEL derived approximately half of its integration revenue from sales through its channels. Under the new charter as announced in August 2000, VTEL Solutions sold integrated solutions directly to the marketplace while VTEL Products continued selling existing integrated systems, also referred to as pre-designed systems, via the channels. The cycle time for selling new integrated solutions was significantly longer than selling existing integrated systems and the direct sales did not replace the channel sales as quickly as anticipated, which led to

the decline in integrated revenues in fiscal 2001. As "Forgent," the Company will return to its channel partners, leading with visual communications services instead of videoconferencing products. These services will include integrated solutions and focus on all available visual communications products, not only VTEL products. Forgent will be channel-focused with select direct sales targeted in certain geographic marketplaces that do not have any dominant channels. Additionally, during the year ended July 31, 2001, Forgent created the Multi-Vendor Partners Program(TM) ("MVP"), which allows the Company to market and distribute a variety of third-party manufactured equipment to optimize connectivity in a variety of network environments. The Company recognized $1.5 million in product revenue that was generated from MVP during fiscal 2001.

Gross margin

Consolidated gross margins were $16.9 million in fiscal 1999, $12.9 million in fiscal 2000, and $8.3 million in fiscal 2001. The decline was $4.0 million from 1999 to 2000 and $4.6 million from 2000 to 2001. This is a decrease of 23.5% for 2000 and 35.7% for 2001. Consolidated gross margin percentages were 37% for fiscal 1999, 29% for fiscal 2000, and 22% for fiscal 2001.

The Company's margins are primarily generated from service revenues. Since the costs associated with our service and maintenance business is relatively fixed, the gross margins are directly affected by the level of revenue generated from new and renewed service contracts. As Forgent, we offer our service capabilities to a broader range of third-party visual communications products, which is resulting in increased service bookings. Therefore, we anticipate that as our service revenues grow, our margins will strengthen. However, there can be no assurance our sales levels will increase. Additionally, we have successfully restructured our business in August 2001 (see Note 18, in the accompanying financial statements) in order to minimize these relatively fixed costs, which cost reductions were designed to improve our margins.

As well as being subject to relatively fixed costs, gross margins from integration revenues are also subject to product mix shifts based on the types of integration solutions we produce. During fiscal 2001 margins from integrated revenues decreased primarily due to the decrease in the overall integration revenues in addition to reduced pre-designed systems sales and increased sales of customized systems at lower margins. The decline in integration margins during fiscal 2000 was attributable to a higher percentage of larger custom integration projects that generated higher revenues yet lower gross margins.

Despite declining gross margins, Forgent has resized its infrastructure in fiscal 2002 to more closely match projected revenue levels. Additionally, the integration business acts as a conduit to deliver service maintenance contracts on the visual communications solutions we deliver. Since service revenues do not carry the associated cost of sales that product sales do, and since we have restructured our business, we believe a predominately service-based business model has the potential to provide greater overall profitability.

Selling, general and administrative

Selling, general and administrative expenses were $18.3 million in fiscal 1999, $19.2 million in fiscal 2000, and $19.7 million in fiscal 2001. The increase was $0.9 million from 1999 to 2000 and $0.5 million from 2000 to 2001. This is an increase of 4.8% for 2000 and 2.5% for 2001. Selling, general and administrative expenses were 39.7%, 42.4% and 51.5% of revenues for the years ended July 31, 1999, 2000, and 2001, respectively.

Although total selling, general and administrative ("SG&A") expenses have remained relatively flat during the past three fiscal years, SG&A expenses related to Forgent's operations have actually decreased each year. The SG&A expenses incurred by the Internet subsidiaries, which were folded back into the core operations during fiscal 2001, were $2.0 million and $2.8 million for the fiscal years ended July 31, 2000 and 2001, respectively. Without the effect of the Internet ventures, total SG&A expenses decreased $1.1 million, or 5.9%, from 1999 to 2000 and $0.4 million, or 2.1%, from 2000 to 2001. SG&A as a percentage of revenues increased each year although total SG&A expenses remained relatively constant against a declining level of revenues.

During our years of significant revenue growth, our sales and marketing infrastructure was designed to support a growing business. Although we took

measures to reduce costs during fiscal 1999 (see "Restructuring Activities"), we had projected that our revenue levels would increase and therefore continued certain strategies in anticipation of further growth. In efforts to find efficiencies and to significantly reduce our administrative costs as a percent of expected revenues, we reexamined our overall staffing needs and restructured our operations in August 2001. We will record a one-time charge of approximately $0.8 million in the first quarter of fiscal 2002 for the restructuring. Additionally, we are replacing our Enterprise Reporting Platform ("ERP"), which includes the Company's accounting system. The combination of the restructuring and the replacement of the ERP will further reduce our annual administrative expenses by approximately $7.8 million. This savings will be offset by approximately $1.6 million as we expense the remaining value of the current accounting system over a short expected life. As we move into fiscal 2002, any expense not directly supporting the generation of revenues for Forgent remains under close scrutiny in order to prevent any unnecessary costs. Despite the cost reducing measures that we are undertaking, there can be no assurance that we will be able reduce costs enough to become profitable.

Research and development

Research and development expenses were $0.0 million in fiscal 1999, $8.5 million in fiscal 2000, and $7.4 million in fiscal 2001. The increase was $8.5 million from 1999 to 2000 and the decrease was $1.0 million from 2000 to 2001. This is an increase of 100.0% for 2000 and a decrease of 12.0% for 2001. Research and development expenses were 0.0%, 18.7%, and 19.5% of revenues for the years ended July 31, 1999, 2000, and 2001 respectively.

During the year ended July 31, 2000, Forgent created two subsidiaries focused on the development and delivery of visual communication products and services over the Internet. In January of 2000, we announced the formation of OnScreen24 which was comprised primarily of Forgent research and development engineers who developed visual communication delivery products for use over the Internet, including products such as video mail as well as the further development of our web streaming product line, Turbocast(TM), which utilizes the technology acquired in our acquisition of Vosaic during fiscal 1999. In March of 2000, we announced the formation of ArticuLearn, which created and managed custom e-learning portals that enable organizations to create, deliver and manage their learning content directly online. In addition, ArticuLearn offered various professional services to assist

organizations in the production of their web-based learning content. During the years ended July 31, 2000 and July 31, 2001, the Company's two Internet subsidiaries incurred $8.5 million and $5.1 million in research and development expenses, respectively. Due to the weakening environment for start-up businesses and related tightening of the venture capital marketplace, the Company absorbed its OnScreen24 operations back into the operations of its core business and terminated ArticuLearn during fiscal 2001.

Without the effects of the Internet ventures, the Company incurred $2.3 million in research and development expenses during fiscal 2001 and no research and development expenses during fiscal 2000 or fiscal 1999. These expenses, which represent 6.1% of revenue in fiscal 2001, are related to the development of a network management software and are net of $0.6 million capitalized in fiscal 2001. Software development costs are capitalized after a product is determined to be technologically feasible and is in the process of being developed for market. At the time the product is released, the capitalized software is amortized over the estimated economic life of the related projects. The research and development costs capitalized during fiscal 2001 relates to efforts on designing Forgent's Video Network Platform ("Forgent VNP"), an enterprise-class server software that allows enterprises control over video networks. Efforts on Forgent VNP will continue to be capitalized until the end of this calendar year when the product is scheduled to be released to the market.

Our ability to successfully develop software solutions to visually enable broadband networks will be a significant factor in Forgent's success. As we develop our research and development strategy, we anticipate additional costs associated with the recruiting and retention of engineering professionals adept at broadband technologies. We will attempt to maintain research and development expenses at reasonable levels in terms of percentage of revenue. However, we

believe our ultimate future success is based primarily on our commitment to the new business strategy and the success of Forgent VNP.

Write-down of Impaired Assets

During fiscal year 2001 management implemented a strategy to divest all non-core operations to focus the business strategy to management software and services. Therefore, the Company folded its OnScreen24 subsidiary's operations back into the core business. OnScreen24 primarily operated from our property in Sunnyvale, California. During the third fiscal quarter the Company sold its equity interest in the real estate lease for $500,000 and recorded a related $1.1 million impairment for the leasehold improvements at the Sunnyvale facility. The $1.1 milllion impairment in fiscal 2001 was all related to continuing operations.

As a result of the New Charter announced in August 2000, we reviewed certain long-lived assets including property, plant and equipment, goodwill and other intangibles and capitalized software, to evaluate the recoverability of these assets pursuant to Statement of Financial Accounting Standard ("SFAS") No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The evaluation indicated that the future undiscounted cash flows related to certain long-lived assets were below the carrying value of the assets associated with their future operations. Further, the closure of certain foreign offices and the termination of the software capitalization projects resulted in the identification of only minimal future cash flows. During the fourth quarter of fiscal 2000, we adjusted the long-lived assets associated with our manufacturing operations and the long-lived assets related to the foreign operations and capitalized software. We calculated the fair value for the long-lived assets based on anticipated future cash flows discounted at a rate commensurate with the risk involved, which resulted in a non-cash impairment charge of $14.1 million. This impairment loss was recorded on the consolidated statement of operations as follows:

	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS (in thousands)	TOTAL IMPAIRMENT
Capitalized Software	$ 5,120	$ 664	$ 5,784
Property, plant and equipment	1,909	3,983	5,892
Intangible Assets	332	1,908	2,240
Other	--	156	156
	$ 7,361	$ 6,711	$ 14,072

The remaining useful lives of certain assets were shortened and thus, depreciation and amortization for these assets were slightly higher in subsequent fiscal years.

Amortization of Intangibles

Amortization expenses were $1.3 million in fiscal 1999, $1.4 million in fiscal 2000, and $1.4 million in fiscal 2001. The expenses relate to the amortization of goodwill resulting from certain acquisitions. In March 1999, the Company acquired substantially all of the assets of Vosaic LLP, an Internet video software and technology company, which included technology presently being incorporated into Forgent's VNP product. In November 1995, the Company acquired certain assets and a specified work force of the Integrated Communications Systems Group ("ICS") of Peirce-Phelps, Inc., which has developed into the Forgent services business. The Company acquired certain assets of the videoconferencing division of one of its German resellers in July 1998. The goodwill related to the German acquisition was fully amortized during fiscal 2001.

Effective August 1, 2001, the Company chose early adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles Assets," which recognizes that since goodwill and certain intangible

assets may have indefinite useful lives, these assets are no longer required to be amortized but are to be evaluated at least annually for impairment. The Company anticipates an annual expense reduction of $1.3 million from adoption of SFAS No. 142.

Restructuring Activities

In November 1998, management adopted a restructuring plan that was intended to match the size and complexity of the organization with our planned business approach and recorded a charge of $0.9 million in fiscal 1999. The plan included the involuntary reduction of employees from all departments and was effective immediately for most employees upon announcement. We also made the decision to reduce our operating costs by exiting other activities and reducing related overhead costs. All of the termination benefits were paid and closure costs were incurred by October 31, 1999.

Non-Recurring Events

On March 3, 2000 the Company settled a lawsuit pending in the 126th Judicial District Court in Travis County, Texas in which VTEL had previously initiated against five former employees who left VTEL in September 1996 to form Via Video Communications, Inc. ("Via Video"). Via Video was subsequently acquired by Polycom, Inc. Pursuant to the settlement agreement, the former employees of VTEL paid $2.5 million in cash and delivered to VTEL 300,800 shares of common stock of Polycom, Inc. in settlement of the claims asserted by VTEL. These shares were sold during fiscal 2000 for $33.7 million, net of settlement costs. The parties agreed to dismiss all claims and counterclaims and third party claims in the lawsuit, ending the litigation. Separately, VTEL voluntarily dismissed Polycom, Inc. and Via Video from the case without consideration.

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

Interest income and expense

Interest income was $0.8 million in fiscal 1999, $1.2 million in fiscal 2000, and $1.2 million in fiscal 2001. The increase was $0.4 million from 1999 to 2000 and $0.04 million from 2000 to 2001. This is an increase of 50% for 2000 and 0% for 2001. Interest income was 1.7%, 2.6%, and 3.2% of revenues for the years ended July 31, 1999, 2000, and 2001.

Changes in interest income are based on interest rates earned on invested cash and cash balances available for investment. The slight increase in interest income during fiscal 2001 is due primarily to a higher average cash balance held for investment in fiscal 2001 than in fiscal 2000. The increase in interest income during fiscal 2000 is the result of an increase in the cash balance due to income from non-recurring events.

Income taxes

As of July 31, 2001, Forgent had federal net operating loss carryforwards of $139.6 million, research and development credit carryforwards of $5.8 million, and alternative minimum tax credit carryforwards of $0.3 million. The net operating loss and credit carryforwards will expire in varying amounts from 2002 through 2021, if not utilized. Minimum tax credit carryforwards do not expire and carry forward indefinitely. Net operating losses related to our foreign subsidiaries of $5.3 million are available to offset future foreign taxable income. However, significant permanent limitations may apply to the use of these losses based upon laws of the foreign tax jurisdictions.

As a result of various acquisitions completed in prior years, utilization of our net operating losses and credit carryforwards may be subject

to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses before utilization. Also, due to the uncertainty surrounding the timing of realizing the benefits of its favorable tax attributes in future tax returns, we have placed a valuation allowance against our net deferred tax asset. Accordingly, no deferred tax benefits have been recorded for the tax years ended July 31, 1999, 2000, and 2001. The valuation allowance increased by $11.2 million during the year ended July 31, 2001.

Loss from discontinued operations, net of income taxes

In May 2001, the Company adopted a formal plan to sell the operations and certain assets of its VTEL Products business unit, including the VTEL name. Accordingly, the Products business has been accounted for and presented as discontinued operations in the consolidated financial statements. Loss from discontinued operations was $12.1 million in fiscal 1999, $17.8 million in fiscal 2000, and $16.9 million in fiscal 2001. Loss from discontinued operations was 26.2%, 39.4% and 44.3% of revenues for the years ended July 31, 1999, 2000, and 2001, respectively. In October 2001, Forgent signed a definitive agreement to sell the Products business unit to a management team led by one of the Company's executive officers, Bob Swem (see Note 18, in the accompanying financial statements).

Loss on disposal, net of income taxes

In preparation of the sale of the Products business unit, Forgent recorded a $1.1 million loss on disposal as of July 31, 2001. The loss is primarily related to legal and consulting fees associated with the sale.

Net income (loss)

Net loss was $15.6 million in fiscal 1999; net income was $2.3 million in fiscal 2000; and net loss was $32.5 million in fiscal 2001. The increase was $17.9 million from 1999 to 2000 and the decrease was $34.8 million. Net (loss) income was (33.8%), 5.1%, and (85.3%) of revenues for the years ended July 31, 1999, 2000, and 2001, respectively.

During the fiscal 2001 we have taken steps to eliminate both unprofitable and non-strategic investments and have established a new business strategy to grow the visual communication solutions business. These steps include terminating our Internet ventures, which incurred $16.4 million and $9.5 million in net losses for the years ended July 31, 2000 and 2001, respectively. Additionally, we have resized our infrastructure to more closely match our projected revenue and we signed a definitive purchase agreement to sell our Products business unit, subject to shareholders' approval in the second fiscal quarter of 2002. Therefore, in fiscal 2002 as cost reduction efforts are realized and sales from Forgent VNP are achieved, the Company is poised for future profitability. Leveraging off the strengths of our existing services, integration and development teams to offer visual communication solutions for the emerging broadband marketplace, we believe we are focused on the strategy to return to profitability. However, there is no assurance that our new business strategy will be successful or profitable.

Other factors affecting results of operations

Forgent's future results of operations and financial condition could be impacted by many factors, but our ability to implement our new strategy is critical to our future success. Factors that could affect our success are other competitors entering the same market, technical problems in delivering video solutions over broadband networks, and slow adoption to videoconferencing over broadband networks. Due to these factors and others noted elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operations, our 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

Forgent's Common Stock in any given period. Also, we participate in a highly dynamic industry that often contributes to the volatility of Forgent's Common Stock price.

Liquidity and capital resources

Cash provided by operating activities was $2.3 million in fiscal 1999; cash provided by operating activities was $52.1 million in fiscal 2000; and cash used in operating activities was $4.9 million in fiscal 2001. The increase was $49.8 million from 1999 to 2000 and the decrease was $57.0 million from 2000 to 2001. At July 31, 2001, we had working capital of $13.8 million, including $22.0 million in cash, cash equivalents and short-term investments. Changes in cash from operating activities are primarily the result of the net losses or income generated and changes in working capital, primarily increases and decreases in accounts receivable, accounts payable, and deferred revenues. The OnScreen24 and ArticuLearn operations required significant funding from the Company. The liquidation of both these subsidiaries, as well as the completion of the Company's restructuring efforts, will improve the cash requirements from operations. The Company eliminated its cash burn during the fourth quarter of fiscal 2001 and management believes the Company is in the position to generate cash from operations in fiscal 2002. Included in net income for fiscal 2000 was the favorable settlement of litigation in which the Company received $44.5 million in cash and securities (see "Non-recurring events").

Cash provided by investing activities was $0.5 million in fiscal 1999; cash used in investing activities was $32.3 million in fiscal 2000; and cash provided by investing activities was $21.9 million in fiscal 2001. During the year ended July 31, 2001, the Company owned common stock shares of Accord Networks ("Accord"), a networking equipment manufacturer, which were converted to Polycom, Inc. ("Polycom") common stock shares as a result of Polycom's acquisition of Accord. The cash provided by investing activities in fiscal 2001 was primarily due to the proceeds received from the sale of the Polycom and Accord shares and other short-term investments. During fiscal 2000, the cash used in investing activities was primarily from the investment of cash received from the settlement of litigation (see "Non-recurring events"). Investments were also made in additional property and equipment and capitalized research and development. During fiscal 1999, the cash used in investing activities was spent primarily to complete the acquisition of property and equipment and to capitalize the costs associated with the research and development of our visual communication software. These expenditures were partially offset by the net sale and maturity of short-term investments.

Cash provided by financing activities was $8.0 million in fiscal 1999; cash used in financing activities was $11.0 million in fiscal 2000; and cash used in financing activities was $0.6 million in fiscal 2001. Cash used in financing activities during fiscal 2001 primarily relates to the Company settling its remaining notes payable. As of July 31, 2001, the Company did not have any outstanding debt. Cash used in financing activities for the year ended July 31, 2000 relates to the repayment of cash borrowed under the line of credit and payment on notes payable. Cash provided by financing activities for the year ended July 31, 1999 relates to borrowings under our line of credit and was offset by the purchase of treasury stock and payments on notes payable.

During fiscal 1999 we initiated a stock repurchase program and repurchased 526,000 shares of the Company's Common Stock for $2.3 million. The repurchased shares were used to fulfill requirements for the Company's stock including stock option exercises or stock issuances under business combination transactions. In April 2001 we announced a stock repurchase program to purchase up to two million shares of the Company's stock. During fiscal 2001 the Company repurchased 87,400 shares for $0.1 million, including fees. We anticipate repurchasing additional shares during fiscal 2002, depending on the Company's cash position, market conditions and other factors.

Forgent's principal sources of liquidity at July 31, 2001 consist of $22.0 million of cash, cash equivalents

and short-term investments, and the ability to generate cash from operations. The $22.0 million includes $1.7 million in stock of Polycom, a networking equipment manufacturer. We have recorded the related unrealized gain of $1.5 million as part of other comprehensive income and included the asset as part of short-term investments on our Consolidated Balance Sheet at July 31, 2001. The

76,625 shares of Polycom were sold during the first quarter of fiscal 2002 under a cash flow hedge and resulted in a cash inflow of $1.8 million. Our capital budget for fiscal 2001 was $3.0 million, which was not fully utilized as we reduced capital expenditures. Our capital budget for fiscal 2002 is $2.0 million, which will be used principally to invest in development tools, sales and marketing demonstration equipment, and on going operational requirements.

In March 2000, we repaid the outstanding balance on our line of credit with a banking syndicate. At July 31, 2001, we did not have a line of credit in place. Based on the Company's strong cash position, management does not anticipate acquiring any additional lines of credit in the near future.

Legal Matters

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

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Since the standard recognizes goodwill and certain intangible assets may have indefinite useful lives, these assets are no longer required to be amortized but are evaluated at least annually for impairment. Intangible assets with finite useful lives will continue to be amortized over their useful lives, but without constraint of an arbitrary ceiling. Effective August 1, 2001, the Company chose early adoption of SFAS No. 142 and anticipates an annual expense reduction of $1.3 million.

On August 31, 2000 the Company adopted 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 on the Consolidated Balance Sheet with changes in fair value recorded in the Consolidated Statement of Operations.

The accounting for changes in fair value of a derivative depends upon whether it has been designated in a hedging relationship and, further, on the type of hedging relationship pursuant to SFAS No. 133. Changes in the fair value of derivatives not designated in a hedging relationship are recognized each period in earnings. Hedging relationships are established pursuant to the Company's risk management policies, and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. If a derivative ceases to be a highly effective hedge, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative is recognized in earnings each period. For derivatives designated as hedges of the variability of cash flows related to a recognized asset or liability (cash flow hedges), the effective portion of the change in fair value of the derivatives is reported in other comprehensive income and reclassified into earnings in the period in which the hedged items affect earnings. Gains or losses deferred in accumulated other comprehensive income associated with terminated derivatives remain in accumulated other comprehensive income until the hedged items affect earnings. Forecasted transactions designated as the hedged items in cash flow hedges are regularly evaluated to assess that they continue to be probable of occurring, and if the forecasted transactions are no longer probable of occurring, any gain or loss deferred in accumulated other comprehensive income is recognized in earnings currently.

During fiscal 2001 the Company utilized forward currency exchange contracts to reduce the exposure to fluctuations in foreign currency exchange rates related to the European Euro and the Australian Dollar. The changes in these contracts are reflected in the Consolidated Statement of Operations. The Company also utilized derivatives designated as cash flow hedges to ensure a minimum level of cashflows as related to its investment in the Polycom stock. The amount of ineffectiveness with respect to these cash flow hedges was not material. These hedges were recorded at fair value on the Consolidated

Balance Sheet, under the caption short-term investments and will result in a $1.7 million reclass from other comprehensive income to earnings in first quarter fiscal 2002.

In December 1999, the SEC staff issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101, as amended by SAB 101A and SAB 101B, outlines the basic criteria that must be met to recognize revenue and presents guidance for disclosures related to revenue recognition policies. Forgent adopted SAB 101 during the fourth quarter of fiscal 2001. The adoption of SAB 101 did not have a material impact on our revenue recognition policies.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", which further clarifies APB Opinion No. 25, "Accounting for Stock Issued to Employees". This Interpretation clarifies (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. This Interpretation did not have a material effect on our results of operations or financial position.

Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results

Certain portions of this report contain forward-looking statements that reflect the Company's current expectations regarding future results of operations, economic performance, financial condition and achievements. Whenever possible, Forgent attempted to identify these forward-looking statements with the words "believes," "estimates," "plans," "expects," "anticipates" and other similar expressions. These statements reflect management's current plans and expectations that rely on a number of assumptions and estimates that are subject to risks and uncertainties including, but not limited to our ability to execute the business strategy as outlined above, rapid changes in technology, unexpected changes in customer order patterns or order mix, the intensity of competition, economic conditions, the cost and availability of certain key components, pricing pressures, interest rates fluctuations, changes in the capital markets, litigation involving intellectual property, changes in tax and other laws and governmental rules applicable to Forgent's business and other risks indicated in Forgent's filings with the Securities and Exchange Commission. These risks and uncertainties are beyond the Company's control, and in many cases, management cannot predict all of the risks and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We identify our principal market risks as interest rate risk related to short-term investments and the market value of our Polycom investment (see Liquidity and capital resources). Interest rate exposure with regard to our investments is minor due to the short-term nature of our investments. We previously invested in Accord Networks ("Accord") an Israeli-based manufacturer of networking equipment. In June of 2000, Accord filed an initial public offering on the NASDAQ stock exchange in which VTEL was apportioned 1.3 million shares. In February 2001, Accord was acquired by Polycom and VTEL's investment in Accord converted to 399,000 shares of Polycom. The company sold 246,000 shares and then entered into a cash flow hedge to ensure a minimum level of cash flow from the 153,000 remaining shares. These hedges settled in July and October 2001, resulting in net cash flows of $1.8 and $1.8 million, respectively.

Foreign Exchange Risk

Our objective in managing our exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rate changes. Accordingly, we historically utilized forward contracts to hedge our foreign currency exposure on firm commitments. The principal currencies hedged during fiscal years 1999, 2000 and 2001 were the Euro and Australian dollar. The amount of unrealized gain or (loss) related to these contracts was ($18,000), $38,000 and $0 for fiscal years 1999, 2000 and 2001, respectively. As of July 31, 2001 the Company held no foreign currency contracts.

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Schedules other than those listed above have been omitted since they are either not required, not applicable or the information is otherwise included

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and
Stockholders of VTEL Corporation

We have audited the accompanying consolidated balance sheets of VTEL Corporation as of July 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the fiscal years then ended. Our audits also included the financial statement schedule as of and for the fiscal years ended July 31, 2001 and 2000 listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of VTEL Corporation at July 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule as of and for the fiscal years ended July 31, 2001 and 2000, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Austin, Texas
September 18, 2001

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of VTEL Corporation

In our opinion, the consolidated statements of operations, changes in stockholders' equity and of cash flows for the year ended July 31, 1999 (listed in the accompanying index) present fairly, in all material respects, the results of operations and cash flows of VTEL Corporation and its subsidiaries for the year ended July 31, 1999, in conformity with accounting principles generally accepted in the United States of America. 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 conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, 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 audit provides a reasonable basis for our opinion. We have not audited the consolidated financial statements of VTEL Corporation for any period subsequent to July 31, 1999.

PricewaterhouseCoopers LLP

Austin, Texas
September 24, 1999

VTEL CORPORATION

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share data)

	JULY 31, 2000	JULY 31, 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 6,868	$ 15,848
Short-term investments	39,742	6,128
Accounts receivable, net of allowance for doubtful accounts of $888 and $1,089 at July 31, 2000 and July 31, 2001, respectively	23,368	13,820
Inventories	1,530	1,324
Prepaid expenses and other current assets	1,803	1,355
Total current assets	73,311	38,475
Property and equipment, net	16,677	9,500
Intangible assets, net	11,994	10,617

Capitalized software	2,381	2,998
Other assets	1,022	616
Net assets from discontinued operations	17,754	7,134
	$ 123,139	$ 69,340
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,957	$ 9,594
Accrued compensation and benefits	4,379	3,636
Other accrued liabilities	3,981	2,652
Notes payable, current portion	610	--
Deferred revenue	11,886	8,802
Total current liabilities	35,813	24,684
Long-term liabilities:		
Other long-term obligations	4,665	3,034
Total long-term liabilities	4,665	3,034
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000 authorized; none issued or outstanding	--	--
Common stock, $.01 par value; 40,000 authorized; 24,847 and 24,889 issued at July 31, 2000 and July 31, 2001, respectively	248	249
Treasury stock	--	(108)
Additional paid-in capital	261,712	261,713
Accumulated deficit	(189,368)	(221,908)
Unearned compensation	(4)	--
Accumulated other comprehensive income	10,073	1,676
Total stockholders' equity	82,661	41,622
	$ 123,139	$ 69,340

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

VTEL CORPORATION

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

	FOR THE YEARS ENDED JULY 31,		
	1999	2000	2001
REVENUES:			
Services	$ 29,698	$ 27,217	$ 25,368
Integration and other	16,384	18,009	12,801
TOTAL REVENUES	46,082	45,226	38,169
COST OF SALES:			
Services	18,438	18,697	18,702
Integration and other	10,759	13,612	11,166
TOTAL COST OF SALES	29,197	32,309	29,868

GROSS MARGIN	16,885	12,917	8,301
OPERATING EXPENSES:			
Selling, general and administrative	18,296	19,175	19,652
Research and development	--	8,456	7,439
Write-down of impaired assets	--	7,361	1,147
Amortization of intangible assets	1,271	1,443	1,376
Restructuring expense	936	--	--
TOTAL OPERATING EXPENSES	20,503	36,435	29,614
LOSS FROM OPERATIONS	(3,618)	(23,518)	(21,313)
OTHER INCOME (EXPENSES):			
Interest income	792	1,186	1,222
Non-recurring events	--	44,501	--
Gain on investment	--	--	6,514
Loss on disposal of assets	--	--	(1,453)
Interest expense and other	(723)	(1,431)	222
TOTAL OTHER INCOME (EXPENSES)	69	44,256	6,505
(Loss) income before income taxes	(3,549)	20,738	(14,808)
Benefit (provision) for income taxes	50	(613)	304
(LOSS) INCOME FROM CONTINUING OPERATIONS	(3,499)	20,125	(14,504)
Loss from discontinued operations, net of income taxes	(12,066)	(17,828)	(16,916)
Loss on disposal, net of income taxes	--	--	(1,120)
NET (LOSS) INCOME	$(15,565)	$ 2,297	$(32,540)
Basic (loss) income per share	$ (0.66)	$ 0.09	$ (1.31)
Diluted (loss) income per share	$ (0.66)	$ 0.09	$ (1.31)
Weighted average shares outstanding:			
Basic	23,509	24,530	24,878
Diluted	23,509	25,044	24,878

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

VTEL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in thousands)

	COMMON STOCK						
	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	UNEARNED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT JULY 31, 1998	23,227	$ 232	$ 256,594	$ (175,455)	$ (76)	$ (37)	$ 81,258
Proceeds from stock issued under employee plans	47	1	103	--	--	--	104
Purchase of treasury stock	(526)	--	(2,265)	--	--	--	(2,265)

Issuance of treasury stock under employee plans	357	--	1,438	(645)	--	--	793
Treasury stock issued for acquisition	169	--	826	--	--	--	826
Common stock issued for acquisitions	1,149	11	2,596	--	--	--	2,607
Warrants issued in legal settlement (Note 13)	--	--	52	--	--	--	52
Stock subscriptions receivable	--	--	150	--	(150)	--	--
Unearned compensation	--	--	563	--	(563)	--	--
Amortization of unearned compensation	--	--	--	--	254	--	254
Net loss	--	--	--	(15,565)	--	--	--
Foreign currency translation adjustment	--	--	--	--	--	(45)	--
Comprehensive Loss	--	--	--	--	--	--	(15,610)
BALANCE AT JULY 31, 1999	24,423	244	260,057	(191,665)	(535)	(82)	68,019
Proceeds from stock issued under employee plans	592	6	2,234				2,240
Receipts from stock subscriptions receivable					150		150
Forfeiture of stock held in escrow	(150)	(2)	(324)				(326)
Amortization of unearned compensation					126		126
Forfeiture of unearned compensation	(18)		(255)		255		--
Net income				2,297			--
Change in unrealized gain/loss on available-for-sale securities						10,003	--
Foreign currency translation adjustment						152	--
Comprehensive Income							12,452
BALANCE AT JULY 31, 2000	24,847	248	261,712	(189,368)	(4)	10,073	82,661
Proceeds from stock issued under employee plans	131	1	174				175
Purchase of Treasury Stock	(87)		(108)				(108)
Net shares received in settlement	(2)		(173)				(173)
Amortization of unearned compensation					4		4
Net Shares received in settlement							
Net income				(32,540)			
Change in unrealized gain/loss on available-for-sale securities						(8,462)	
Foreign currency translation adjustment						65	
Comprehensive Income							(40,937)
BALANCE AT JULY 31, 2001	24,889	$ 249	$ 261,605	$ (221,908)	$ --	$ 1,676	$ 41,622

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

VTEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	FOR THE YEARS ENDED JULY 31,		
	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income from continuing operations	$ (3,499)	$ 20,125	$ (14,504)
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,855	9,721	8,624
Impairment of long-lived assets	--	7,361	--
Provision for doubtful accounts	436	474	468
Amortization of unearned compensation	254	126	4
Foreign currency translation gain	88	267	46
(Gain) loss on sale of fixed assets	(132)	271	2,600
Changes in operating assets and liabilities:			
Accounts receivable	2,206	14,449	9,080
Inventories	536	673	206
Prepaid expenses and other current assets	220	410	448
Accounts payable	(5,539)	(3,418)	(5,364)

Accrued expenses and other long term obligations	(2,967)	551	(2,535)
Deferred revenue	(178)	1,045	(4,009)
Net cash provided by (used in) operating activities	2,280	52,055	(4,936)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of short-term investments	(150,828)	(199,748)	(98,510)
Sales and maturities of short-term investments	161,004	175,048	123,663
Purchases of property and equipment	(6,993)	(3,888)	(2,763)
Sales of property and equipment	1,441	--	56
Cash paid for acquired assets	(231)	--	
(Issuance) collection of notes receivable	(750)	84	(16)
Increase in capitalized software	(3,064)	(3,945)	(617)
(Increase) decrease in other assets	(67)	132	81
Net cash provided by (used in) investing activities	512	(32,317)	21,894
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of stock	104	2,240	175
Purchase of treasury stock	(2,265)	--	(108)
Proceeds from the sale of treasury stock	793	--	--
Borrowings under line of credit agreements	11,200	--	--
Payments on line of credit agreements	--	(11,200)	--
Payments on notes payable	(1,835)	(2,178)	(1,500)
Proceeds from notes payable	--	--	852
Receipts from stock subscription receivable	--	150	--
Net cash provided by (used in) financing activities	7,997	(10,988)	(581)
CASH FLOWS FROM DISCONTINUED OPERATIONS:			
Net cash used in discontinued operations	(18,042)	(9,572)	(7,416)
Effect of translation exchange rates on cash	(133)	(115)	19
Net (decrease) increase in cash and equivalents	(7,386)	(937)	8,980
Cash and equivalents at beginning of period	15,191	7,805	6,868
Cash and equivalents at end of period	$ 7,805	$ 6,868	$ 15,848
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 775	$ 954	$ 134
Income taxes paid	--	434	129
Non-cash transactions			
Stock issued for acquired assets	3,433	--	--
Notes payable issued for acquired asset	4,373	--	--
Issuance of stock warrants and note in legal settlement	302	--	--
Issuance of restricted stock to employees	563	--	--
Net shares received in settlement	--	--	(173)

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

VTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share data)

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1. THE COMPANY

VTEL Corporation, doing business as Forgent Corporation (Forgent, the Company, we or our), visually enables broadband networks through our existing expertise by providing top-rate services to the visual communications industry, regardless of brand, and by developing neutral network management software for rich media networks. Forgent's services and software are designed to improve industry wide multi-vendor platform interoperability as well as improve video

network management and reliability standards throughout the industry.

On August 23, 2000, the Company announced a new business charter that is intended to shift its core business model from the manufacture of videoconferencing endpoints to a provider of premier enterprise solutions and services for visually enabling broadband networks. The Company's vast experience in the industry indicated that videoconferencing would not reach the broad-based market appeal necessary for overall growth through the production of videoconferencing endpoints alone. We will leverage our service and software expertise in the deployment and management of videoconferencing endpoints by continuing to actively market our ability to integrate, install and service a wide offering of third-party products, including the products of companies that were traditional competitors when our focus was hardware.

Management has decided to focus our efforts on our Solutions business and to exit our Products business. Therefore, we announced in May 2001 that the Company intended to sell its Products business unit and rename the remaining Solutions business unit as Forgent Corporation, subject to the execution and consummation of a sale agreement and shareholder approval. The Company executed the sale agreement in early October 2001 and is intending to submit the sale of the Products business to our shareholders at our 2001 annual meeting. To facilitate the change, special attention is being paid to improving the interoperability of all the components in a broadband video network, to expanding the Company's current interoperability labs to create a center of excellence for standards testing and integration and to developing and introducing enterprise videoconferencing software that provides a high level of manageability, reliability and ease-of-use for existing and new enterprise systems. We believe we must provide network software and services that will support the vast amount of visual communication applications that are becoming possible with increased bandwidth. Furthermore, the development and expansion of our consulting and services competencies is focused upon ultimately transforming the majority of our revenue base from endpoint products to a software and solutions centric provider. We feel that refocusing our efforts will provide the greatest opportunity for long-term success for Forgent and its shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Forgent's wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 loss from discontinued operations, 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, lives of fixed assets, the amortization period for intangible assets and the determination of the fair value of its long-lived 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.

Revenue Recognition

Service and integration 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. Customer prepayments are deferred until services have been rendered and there are no significant further obligations to the customer. In general, the Company recognizes revenue when persuasive evidence of an arrangement exists, service delivery has occurred, fee is fixed or determinable, and collectibility is probable.

Warranty Costs

Forgent generally warrants against software defects for ninety days from the date of installation. Additionally, the Company guarantees its products against hardware defects for one year from the date of installation, but not to exceed fifteen months from date of shipment. 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 over the estimated life of the related product (generally thirty months), using the straight-line method.

The Company capitalized internal software development costs of $3,064, $3,945, and $617 for the years ended July 31, 1999, 2000, and 2001, respectively. No amortization of such costs was recorded for the years ended July 31, 1999, 2000, and 2001, respectively. In addition, during the year ended July 31, 2000 management made the decision to discontinue further development efforts and abandoned certain projects previously capitalized. The resulting charge of $5,120 was included in the write-down of impaired assets during the year ended July 31, 2000 (see Note 13).

Cash and Equivalents

Cash and equivalents include cash and investments in highly liquid investments with an original maturity of three months or less when purchased.

Short-term Investments

Short-term investments are carried at market value. Short-term investments consist of funds primarily invested in mortgage-backed securities guaranteed by the U.S. government, government securities, commercial paper, and equity securities, and all mature within one year of July 31, 2000 and 2001. The carrying amounts of the Company's short-term investments at July 31, 2000 and 2001 are as follows:

	2000		2001	
	COST	MARKET VALUE	COST	MARKET VALUE
Corporate obligations	$ 27,719	$ 27,719	$ 4,445	$ 4,445
Equity securities	731	10,734	142	1,683
Other	1,289	1,289	--	--
	$ 29,739	$ 39,742	$ 4,587	$ 6,128

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, 2000 and 2001, all investment securities are classified as available-for-sale. The Company specifically identifies its short-term investments and uses the cost of the investments as the basis for recording unrealized gains and losses as part of other comprehensive income on the Consolidated Balance Sheet and for recording realized gains and losses as part of other income and expense on the Consolidated Statements of Operations. Gross unrealized gains on available-for-sale securities were $10.0 million and $1.5 million at July 31, 2000 and 2001, respectively. The Company realized $6.5 million in gains during fiscal 2001, and had $1.9 million in unrealized losses as of July 31, 2001.

Inventories

Inventories are stated at the lower of cost (weighted average cost which approximates 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 is video teleconferencing equipment used internally for purposes such as sales and marketing demonstrations, Company meetings, testing, troubleshooting customer problems, and engineering, 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, over the lease term, or over the life of the improvement of the respective assets, as applicable. Repair and maintenance costs are expensed as incurred. The Company periodically reviews the estimated economic lives of property and equipment and makes adjustments according to the latest information available.

Intangible Assets

Intangible assets include the goodwill that resulted from various acquisitions by the Company (see Note 4). Amortization periods for the intangible assets associated with these acquisitions range from 8 to 15 years. Appropriate adjustments, if any, to the intangible assets will be based upon such periodic evaluation. Accumulated amortization of intangibles was $3.8 million, $5.2 million and $6.2 million at July 31, 1999, 2000, and 2001, respectively.

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.

In order to manage the Company's exposure to foreign currency exchange rate fluctuations related to the European Euro and the Australian Dollar, management utilized forward currency exchange contracts. Since these forward contracts were used to hedge foreign currency exposures, the net cash amounts paid or received on the

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contracts were accrued and recognized as an adjustment to currency translation adjustments in the statement of operations. Management ceased utilizing forward currency exchange contracts effective July 31, 2001.

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.

Concentration of Credit Risk

The Company sells its services 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 fair value of the Company's foreign currency forward contracts at July 31, 2000 were based on quoted market rates. 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 (see Note 13).

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 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Since the standard recognizes goodwill and certain intangible assets may have indefinite useful lives, these assets are no longer required to be amortized

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but are evaluated at least annually for impairment. Intangible assets with finite useful lives will continue to be amortized over their useful lives, but without constraint of an arbitrary ceiling. Effective August 1, 2001, the Company chose early adoption of SFAS No. 142 and anticipates an annual expense reduction of $1.3 million.

On August 31, 2000 the Company adopted 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 on the Consolidated Balance Sheet with changes in fair value recorded in the Consolidated Statement of Operations.

The accounting for changes in fair value of a derivative depends upon whether it has been designated in a hedging relationship and, further, on the type of hedging relationship pursuant to SFAS No. 133. Changes in the fair value of derivatives not designated in a hedging relationship are recognized each period in earnings. Hedging relationships are established pursuant to the Company's risk management policies, and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. If a derivative ceases to be a highly effective hedge, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative is recognized in earnings each period. For derivatives designated as hedges of the variability of cash flows related to a recognized asset or liability (cash flow hedges), the effective portion of the change in fair value of the derivatives is reported in other comprehensive income and reclassified into earnings in the period in which the hedged items affect earnings. Gains or losses deferred in accumulated other comprehensive income associated with terminated derivatives remain in accumulated other comprehensive income until the hedged items affect earnings. Forecasted transactions designated as the hedged items in cash flow hedges are regularly evaluated to assess that they continue to be probable of occurring, and if the forecasted transactions are no longer probable of occurring, any gain or loss deferred in accumulated other comprehensive income is recognized in earnings currently.

During fiscal 2001 the Company utilized forward currency exchange contracts to reduce the exposure to fluctuations in foreign currency exchange rates related to the European Euro and the Australian Dollar. The changes in these contracts are reflected in the Consolidated Statement of Operations. The Company also utilized derivatives designated as cash flow hedges to ensure a minimum level of cashflows as related to its investment in the Polycom stock. The amount of ineffectiveness with respect to these cash flow hedges was not material. These hedges were recorded at fair value on the Consolidated Balance Sheet, under the caption short-term investments and will result in a $1,674 reclass from other comprehensive income to earnings in first quarter fiscal 2002.

In December 1999, the SEC staff issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101, as amended by SAB 101A and SAB 101B, outlines the basic criteria that must be met to recognize revenue and presents guidance for disclosures related to revenue recognition policies. Forgent adopted SAB 101 during the fourth quarter of fiscal 2001. The adoption of SAB 101 did not have a material impact on our revenue recognition policies.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", which further clarifies APB Opinion No. 25, "Accounting for Stock Issued to Employees". This Interpretation clarifies (a) the definition of employee for purposes of applying Opinion 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. This Interpretation did not have a material effect on our results of operations or financial position.

3. NON-RECURRING EVENTS

On March 3, 2000 the Company settled a lawsuit pending in the 126th Judicial District Court in Travis County, Texas, which VTEL had previously initiated against five former employees who left VTEL in September 1996 to form Via Video Communications, Inc. ("Via Video"). Via Video was subsequently acquired by Polycom, Inc.

Pursuant to the settlement agreement, the former employees of VTEL paid $2.5 million in cash and delivered to VTEL 301 shares of common stock of Polycom, Inc. in settlement of the claims asserted by VTEL. These shares were sold during fiscal 2000 for $33.7 million, net of settlement costs. The parties agreed to dismiss all claims and counterclaims and third party claims in the lawsuit, ending the litigation. Separately, VTEL voluntarily dismissed Polycom, Inc. and Via Video from the case without consideration.

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

4. ACQUISITIONS

On March 9, 1999, the Company acquired substantially all of the assets of Vosaic LLC, an Internet video software and technology company for $3,200 in cash, stock and warrants. The transaction was accounted for as a purchase of assets. The acquisition involved the issuance of 1,149 shares (equivalent to approximately 5% of the outstanding shares of the Company's stock as of March 9, 1999). The common shares were registered with the Securities Exchange Commission on May 14, 1999. Of these shares, 200 were to be held in escrow and an additional, 350 warrants were to remain unearned pending the completion of certain obligations by Vosaic. During fiscal 2000, the Company and Vosaic entered into a settlement agreement pursuant to which 90 of the escrowed shares were released to Vosaic and 110 shares and all of the warrants were cancelled.

5. INVENTORIES

Inventories consist of the following:

	JULY 31, 2000	JULY 31, 2001
Raw materials	$1,238	$ 720
Work-in-process	67	442
Finished goods	11	--
Finished goods held for evaluation, rental, loan agreements, etc	214	162
	$1,530	$1,324

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

6. PROPERTY AND EQUIPMENT

Property and equipment and related depreciable lives are composed of

the following:

	JULY 31, 2000	2001
Furniture, machinery and equipment, 2-10 years	$ 21,100	$ 11,822
Internal support equipment, 2-4 years	5,478	1,140
Customer service assets, 4-8 years	9,578	3,738
Leasehold improvements, lease term or Life of the improvement	7,741	5,340
	43,897	22,040
Less accumulated depreciation	(27,220)	(12,540)
	$ 16,677	$ 9,500

Capital leases of $1,140 and $575 for the years ended July 31, 2000 and 2001, respectively, are included in the "Leasehold improvements, lease term, or life of the improvement" amounts above. The amortization of the capital leases is recorded as depreciation expense on the Consolidated Statement of Operations. Depreciation and amortization expense relating to property and equipment was approximately $8,999, $4,060 and $5,354 for the years ended July 31, 1999, 2000 and 2001, respectively.

7. RESTRUCTURING ACTIVITIES

On August 23, 2000, the Company announced a new business charter and the restructuring of its organization. The new business charter was intended to execute a change in business strategy that leverages Forgent's services and systems integration capabilities in order to become the industry leader in providing visual communication solutions over broadband enterprise networks. The restructuring involved the involuntary termination of approximately 200 employees globally, or 34% of the Company's workforce and the consolidation of leased office space in its Austin, Texas headquarters, as well as in Sunnyvale, California and other remote facilities. These workforce reductions and consolidations of office space reduced costs and focused resources on efforts to support the new business strategy. The Company completed all terminations by January 31, 2001. During fiscal 2001, the Company recorded a restructuring charge of $1,708, all of which is included in the loss from discontinued operations.

8. NOTES PAYABLE

Notes payable at July 31, 2000 consist of the following:

	2000
Notes payable to the vendor of the Company's Enterprise Resource Planning System in quarterly and annual installments through October 2000, bearing interest at rates ranging from 7.22% to 8.50%	$ 304
Other	306
	610
Less: current maturities	(610)

Long-term notes payable	$ --

During fiscal 2001, the Company paid its remaining notes payable and at July 31, 2001, the Company did not have any notes payable.

9. LINE OF CREDIT

In March 2000, the Company repaid the outstanding balance on its line of credit with a banking syndicate. At July 31, 2001, the Company did not have a line of credit in place and does not expect to obtain a new line of credit in fiscal 2002.

10. STOCKHOLDERS' EQUITY

Share Repurchase Program

During fiscal 1999, the Company initiated a stock repurchase program and repurchased 526 shares of its Common Stock for $2,265. The repurchased shares have been used to fulfill requirements for stock option exercises or stock issuances under business combination transactions.

During fiscal 2001, the Company repurchased an additional 87 shares of its Common Stock for $108. These purchased shares remained in treasury as of the end of fiscal 2001.

Stock Subscriptions Receivable

During fiscal 1999, the Company loaned certain employees of the Company amounts to either purchase shares of the Company's stock on the open market, exercise options or participate in the employee stock purchase program. Receivables with recourse totaling $150 related to the exercise of options and the participation of the employee stock purchase program were classified as a reduction of additional paid-in capital at July 31, 1999 and were repaid during the year ended July 31, 2000.

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 employees and consultants of the Company. Stock options are generally granted at the fair market value at the time of grant, and the options generally vest ratably over 48 months and are exercisable for a period of ten years beginning with date of grant. Effective June 1999, the 1989 Plan expired whereby the Company can no longer grant options under the Plan, however, options previously granted remain outstanding. The 1992 Plan provides for the issuance of stock options to nonemployee directors at the 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.

The Company applies APB No. 25 and related interpretations in accounting for its stock option plans for grants to employees. Accordingly, no compensation cost is recognized for its stock option plans unless options are issued at exercise prices that 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 income (loss) per share would have been reflected by the following pro forma amounts for the years ended July 31, 1999, 2000 and 2001:

		1999	2000	2001
Net income (loss)	As reported	$(15,565)	$ 2,297	$(32,540)
	Pro forma	$(20,023)	$(1,930)	$(35,471)
Basic and diluted net income (loss) per common share	As reported	$ (0.66)	$ 0.09	$ (1.31)
	Pro forma	$ (0.85)	$ (0.08)	$ (1.43)

The pro forma effect on net income (loss) for 2001, 2000 and 1999 is not representative of the pro forma effect on net income (loss) in future years because it does not take into consideration pro forma compensation expense related to grants issued prior to 1996.

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 the years ended July 31, 1999, 2000 and 2001:

	1999	2000	2001
Dividend yield	--	--	--
Expected volatility	67.67%	70.86%	73.57%
Risk-free rate of return	6.14%	6.13%	4.95%
Expected life	6.26 years	7.36 years	7.41 years

The following table summarizes activity under all Plans for the years ended July 31, 1999, 2000 and 2001.

	1999		2000		2001	
	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	3,938	$ 8.65	4,548	$ 7.11	3,999	$ 5.39
Granted	1,818	3.40	1,436	4.47	1,527	1.29
Exercised	(134)	2.34	(437)	4.40	(3)	1.10
Canceled	(1,074)	7.05	(1,548)	9.89	(1,910)	3.88
Outstanding at the End of the year	4,548	$ 7.11	3,999	$ 5.39	3,613	$ 4.45
Options exercisable at Year end	4,457	$ 7.04	3,945	$ 5.41	3,563	$ 4.47
Weighted average fair value of options granted during the year		$ 2.48		$ 3.28		$ 0.95

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JULY 31, 2001	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 2001	WEIGHTED-AVERAGE EXERCISE PRICE

$ 0.30 - $ 1.29	1,198	9.85 years	$ 1.19	1,188	$1.19
1.34 - 4.38	898	7.21	2.84	858	2.83
4.46 - 6.25	849	6.88	5.57	849	5.57
6.38 - 20.56	668	3.40	11.03	668	11.03
$ 0.30 - $20.56	613		$ 4.45	3,563	$4.47

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, 2001, options to purchase 1,775 shares were vested. At July 31, 2001, no unvested options had been exercised.

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 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. Common Stock issued under the Employee Plan totaled 203 shares, 155 shares, and 103 shares respectively, for the years ended July 31, 1999, 2000 and 2001.

Restricted Stock Plan

On December 17, 1998, the Company adopted a restricted stock plan (the "1998 Plan"). The 1998 Plan authorizes the issuance of up to 1,000 shares of VTEL's Common Stock to be used to reward, incent and retain employees. Shares of restricted stock issued under the 1998 Plan were 80 for the year ended July 31, 1999. No shares were issued under the 1998 Plan in fiscal 2000 or 2001.

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11. DEFINED CONTRIBUTION PLAN

The Company sponsors a defined contribution 401(k) plan that is available to substantially all employees. The plan may be amended or terminated at any time by the Board of Directors. The Company, although not required to, has provided matching contributions to the plan of $83 for the year ended July 31, 2001 and $176 for a portion of the year ended July 31, 2000. No matching contributions were made in fiscal 1999. These contributions were recorded as expense in the consolidated statement of operations.

12. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per common share for the years ended July 31, 1999, 2000 and 2001:

	1999	2000	2001
Weighted average shares outstanding - basic	23,509	24,530	24,878
Effect of dilutive stock options	--	514	--

Weighted average shares Outstanding - diluted	23,509	25,044	24,878
Antidilutive securities	4,457	2,576	3,613
Basic (loss) income earnings per share - from continuing operations	$ (.15)	$ .82	$ (.58)
Basic (loss) income earnings per share - from discontinued operations	(.51)	(.73)	(.73)
Basic (loss) income earnings per share - total	(0.66)	0.09	(1.31)
Diluted (loss) income earnings per share - from continuing operations	$ (.15)	$ .80	$ (.58)
Diluted (loss) income earnings per share - from discontinued operations	(.51)	(.71)	(.73)
Diluted (loss) income earnings per share - total	(.66)	.09	(1.31)

13. WRITE-DOWN OF IMPAIRED ASSETS

During fiscal year 2001 management implemented a strategy to divest all non-core operations to focus on returning to profitability. Therefore, the Company folded its OnScreen24 subsidiary's operations back into the core business. OnScreen24 primarily operated from our property in Sunnyvale, California. During the third fiscal quarter the Company sold its equity interest in the real estate lease for $500 and recorded a related $1.1 million impairment for the leasehold improvements at the Sunnyvale facility. The $1.1 million impairment in fiscal 2001 was all related to continuing operations.

As a result of the New Charter announced in August 2000, we reviewed certain long-lived assets including property, plant and equipment, goodwill and other intangibles and capitalized software, to evaluate the recoverability of these assets pursuant to Statement of Financial Accounting Standard ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The evaluation indicated that the future undiscounted cash flows related to certain long-lived assets were below the carrying value of the assets associated with their future operations. Further, the closure of certain foreign offices and the termination of the software capitalization projects resulted in the identification of only minimal future cash flows. During the fourth quarter of fiscal 2000, we adjusted the long-lived assets associated with our manufacturing operations and the long-lived assets related to the foreign operations and capitalized software. We calculated the fair value for the long-lived assets based on anticipated future cash flows discounted at a rate commensurate with the risk involved, which resulted in a non-cash impairment charge of $14.1 million. This impairment loss was recorded on the consolidated statement of operations as follows:

	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL IMPAIRMENT
Capitalized Software	$ 5,120	$ 664	$ 5,784
Property, plant and equipment	1,909	3,983	5,892
Intangible Assets	332	1,908	2,240
Other	--	156	156
	$ 7,361	$ 6,711	$ 14,072

The remaining useful lives of certain assets were shortened and thus, depreciation and amortization for these assets will be higher in subsequent fiscal years.

14. FEDERAL INCOME TAXES

The components of the provision (benefit) for income taxes attributable to continuing operations are as follows for the years ended July 31, 1999, 2000 and 2001:

	1999	2000	2001
Current:			
Federal	$ --	$ 416	$ (257)
State	(50)	197	(47)
Total current	(50)	613	(304)
Deferred:			
Federal	--	--	--
State	--	--	--
Total deferred	--	--	--
	$ (50)	$ 613	$ (304)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes at July 31, 2000 and 2001 are as follows:

	2000	2001
DEFERRED TAX ASSETS:		
Net operating loss carryforwards	$ 35,447	$ 51,628
Research and development credit carryforwards	5,403	5,802
Minimum tax credit carryforwards	525	286
Inventory and warranty provisions	1,359	651
Charitable contributions	52	56
Compensation accruals	309	415
Deferred revenue	882	555
Allowance for receivables	191	272
Impaired assets	4,378	246
Other	400	105
	48,946	60,016
DEFERRED TAX LIABILITIES:		
Capitalized software	(199)	(9)
Accumulated depreciation	(974)	(1,055)
	(1,173)	(1,064)
Net deferred tax assets	47,773	58,952
Valuation allowance	(47,773)	(58,952)
	$ --	$ --

At July 31, 2001, the Company had federal net operating loss carryforwards of $139,535, research and development credit carryforwards of $5,802, and alternative minimum tax credit carryforwards of $286. The net operating loss and credit carryforwards will expire in varying amounts from 2002 through 2021, if not utilized.

Minimum tax credit carryforwards do not expire and carry forward indefinitely. Net operating losses related to the Company's foreign subsidiaries of $5,331 are available to offset future foreign taxable income. However, significant permanent limitations may apply to the use of these losses based upon laws of the foreign tax jurisdictions.

As a result of various acquisitions performed by the Company in prior years, utilization of the net operating losses and credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses before utilization. Also, 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 tax benefits have been recorded for the tax years ended July 31, 1999, 2000, and 2001. The valuation allowance increased by $11,180 during the year ended July 31, 2001.

The Company's provision (benefit) for income taxes differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 34% to income before income taxes for the years ended July 31, 1999, 2000 and 2001 primarily as a result of the following:

	1999	2000	2001
Computed at statutory rate	$ (5,309)	$ 989	$(11,167)
State taxes, net of federal benefit	(50)	130	(824)
Foreign losses not benefited	1,022	2,298	813
Permanent items	158	134	93
R&D credit generated	(921)	(1,023)	(399)
Change in state tax rate	--	(3,313)	--
Change in valuation allowance	5,050	1,398	11,180
	$ (50)	$ 613	$ (304)

15. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Forgent leases furniture and equipment, manufacturing facilities and office space under non-cancelable leases that expire at various dates through 2013. Certain leases obligate Forgent to pay property taxes, maintenance and insurance. Additionally, the Company also has several capital leases for computer and office equipment.

Future minimum lease payments under all operating and capital leases as of July 31, 2001 were as follows:

FISCAL YEAR ENDING:	OPERATING	CAPITAL

2002	$ 6,508	$ 745
2003	5,508	451
2004	4,920	20
2005	4,470	
2006	4,028	
Thereafter	22,629	
TOTAL	$ 48,063	$ 1,215
Less amount representing interest		195
Net present value of future minimum lease payments		1,020
Less current portion of capital lease obligations		629
		$ 391

The current portion of the capital lease obligations is included in other accrued liabilities on the Consolidated Balance Sheet.

Included in the minimum lease payments are the lease payments for the Company's manufacturing facility in Austin, Texas. As part of the sale agreement of the Products unit, Forgent will assign this lease to the new

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company, VTEL Product, who will assume all obligations under the existing lease. This lease assignment will save the Company approximately $1,750 in future lease payments.

Total rent expense under all operating leases for the years ended July 31, 1999, 2000 and 2001 was $6,858, $7,983, and $6,221, respectively. During the years ended July 31, 2000, and 2001, the Company received $785, and $920, respectively, in rent income under sub-leasing arrangements. No rental income was received during the year ended July 31, 1999. These amounts offset against rental expense in the consolidated statement of operations. At July 31, 2001, future minimum lease payments receivable under non-cancelable sub-lease arrangements totaled $1,384 for all future years.

Contingencies

The Company is the defendant or plaintiff in various actions that arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse affect on the Company's financial condition, results of operation or cash flows.

16. SEGMENT INFORMATION

The Company manages its business primarily along the lines of three reportable segments: Products, Solutions, and Internet Ventures. The Products segment designs and manufactures multi-media visual communication products to customers primarily through a network of resellers, and to a lesser extent directly to end-users and was accounted for as discontinued operations for the three fiscal years ending July 31, 1999, 2000, and 2001 (see Note 17). The Solutions segment designs and installs custom integrated visual communication systems primarily in meetings spaces of large corporations, and provides a wide variety of support services to customers, including equipment from numerous vendors. The Internet Ventures included OnScreen24(TM), which delivered and marketed visual communication tools for the Internet and ArticuLearn(TM), an e-learning portal provider for commercial and educational businesses that deliver learning content in a Web environment. OnScreen24's operations were folded back into the core businesses as of January 31, 2001 and ArticuLearn's operations were terminated as of June 30, 2001. The accounting policies of the

segments are the same as those described in Note 2.

The Company evaluates the performance as well as the financial results of its segments. Included in the segment operating income (loss) is an allocation of certain corporate operating expenses. The Company does not identify assets or capital expenditures by reportable segments. Additionally, the Chief Executive Officer and Chief Financial Officer do not evaluate the business groups based on these criteria. The prior years' segment information has been restated to present the Company's reportable segments as they are currently defined under management's revised business strategy.

The table below presents segment information about revenue from unaffiliated customers, gross margins, and operating income (loss) for each of the three years ended July 31, 2001:

	SOLUTIONS	INTERNET VENTURES	TOTAL
FOR THE YEAR ENDING JULY 31, 2001			
Revenues from unaffiliated customers	$ 38,067	$ 102	$ 38,169
Gross margin	8,574	(273)	8,301
Operating loss	(11,820)	(9,493)	(21,313)
FOR THE YEAR ENDING JULY 31, 2000			
Revenues from unaffiliated customers	45,226	--	45,226
Gross margin	12,917	--	12,917
Operating income (loss)	(7,111)	(16,407)	(23,518)
FOR THE YEAR ENDING JULY 31, 1999			
Revenues from unaffiliated customers	46,082	--	46,082
Gross margin	16,885	--	16,885
Operating income (loss)	(3,618)	--	(3,618)

Revenue and long-lived assets related to operations in the United States and foreign countries for the three fiscal years ended July 31, 2001 are presented below. Revenues generated between foreign geographic locations have historically been insignificant.

	For the Years Ended July 31,		
	1999	2000	2001
Revenue from unaffiliated customers:			
United States	$ 44,529	$ 43,070	$ 36,751
Foreign	1,553	2,156	1,418
Long-lived assets at the end of year:			
United States	$ 52,556	$ 31,711	$ 17,479
Foreign	3,258	756	242

17. DISCONTINUED OPERATIONS

In May 2001, the Company announced its plan to sell its Products business unit and rename the remaining Solutions business unit as Forgent

Corporation, subject to the execution and consummation of a sale agreement and shareholder approval. The Company executed the sale agreement in early October 2001 and is intending to submit the sale of the Products business to our shareholders at our 2001 annual meeting. Therefore, the Company has presented the Products business unit as discontinued operations on the consolidated financial statements. For the year ended July 31, 2001, the Company recorded an estimated loss of $2.9 million for the net assets to be sold and a $1.1 million loss, which is primarily related to legal and consulting fees associated with the sale.

The operating results of the Products segment for the fiscal years ended July 31, 1999, 2000, and 2001 were as follows:

	1999	2000	2001
Revenues from unaffiliated customers	105,520	89,085	47,422
Operating income (loss)	(12,066)	(17,828)	(16,916)

The net assets from discontinued operations presented on the Consolidated Balance Sheets were as follows:

	2000	2001
Current assets	$ 13,203	$ 6,377
Non-Current assets	4,945	1,123
Current liabilities	(394)	(366)
	$ 17,754	$ 7,134

18. SUBSEQUENT EVENTS

In August 2001, the Company restructured its organization, which involved the termination of approximately 65 employees or 17% of our workforce. The restructuring is the result of eliminating certain business elements that did not contribute to our core competencies as well as efforts to increase efficiencies and to significantly reduce our administrative costs. We will record a one-time charge of approximately $0.8 million in the first quarter of fiscal 2002 for the restructuring.

On October 2, 2001, Forgent announced that it had signed a definitive agreement to sell the operations and certain assets of its VTEL Products business unit, including the VTEL name, in order to devote its energies and resources to the development of Forgent's services and software business. The transaction is subject to certain regulatory filings, approval of the Company's shareholders, and other customary conditions, including receipt by the buyer of sufficient financing for the purchase. If the sale is completed, under the agreement, the Company will receive cash of $0.5 million, a 90-day note for $2.0 million, a 5-year note for $5.0 million and a 19.9% equity interest in the new company. VTEL Products will receive certain assets including inventory and equipment. The sale is anticipated to be finalized by the end of the second fiscal quarter in fiscal year 2002. Once the sale of the Products business unit is finalized, Forgent will employ approximately 200 employees.

19. QUARTERLY INFORMATION (UNAUDITED)

The following tables contain selected unaudited consolidated statement of operations and earnings per share data for each quarter of fiscal year 2000 and 2001.

	FOR THE THREE MONTHS ENDED			
	OCT. 31, 2000	JAN 31, 2001	APRIL 30, 2001	JULY 31, 2001
Total revenues	$ 10,445	$ 10,170	$ 8,630	$ 8,924
Gross margin from continuing operations	2,660	2,378	1,463	1,800
Gross margin from discontinued operations	4,585	4,084	3,775	3,901
Net income loss	$(13,789)	$ (6,307)	$ (4,580)	$ (7,864)
Basic loss per share	$ (0.56)	$ (0.25)	$ (0.18)	$ (0.32)
Diluted loss per share	$ (0.56)	$ (0.25)	$ (0.18)	$ (0.32)

	FOR THE THREE MONTHS ENDED			
	OCT. 31, 1999	JAN 31, 2000	APRIL 30, 2000	JULY 31, 2000
Total revenues	$ 10,691	$ 11,129	$ 10,430	$ 12,976
Gross margin from continuing operations	3,266	3,296	2,497	3,858
Gross margin from discontinued operations	9,857	10,930	7,872	5,703
Net income (loss)	$ (5,343)	$ (3,970)	$ 35,141	$(23,531)
Basic (loss) income per share	$ (0.22)	$ (0.16)	$ 1.43	$ (0.95)
Diluted (loss) income per share	$ (0.22)	$ (0.16)	$ 1.36	$ (0.95)

20. RELATED PARTY TRANSACTIONS

In October 2000, the Company entered into an agreement with Strategic Management, Inc. ("SMI") to assist the Company in developing a plan to establish the Company's video conferencing business as an independent, self-sustaining unit, and to assist the Company in assessing strategic alternatives for this business unit as part of the Company's previously disclosed efforts to restructure its business around its video network consulting services business. Pursuant to this engagement, the Company agreed to pay SMI an hourly rate for services rendered, up to a maximum of $60. In addition, the engagement provides additional contingent compensation to SMI if there should be consummated a transaction involving the Company's video conferencing business, including, if the business unit is sold, a fee equal to 7% of the consideration received by

the Company, with a minimum fee upon a sale of $750, and if new investors invest in the business, a fee equal to 7% of the cash proceeds received by the Company. Gary Trimm, a director of the Company, is a principal and officer of SMI. The engagement was approved by the disinterested directors of the Company. As of July 31, 2001, the Company had accrued $840 and paid $69 related to this contract.

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

Form 8-K dated April 6, 2000 reporting the resignation of PricewaterhouseCoopers LLP as the Company's independent auditors is hereby incorporated by reference.

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, 2001.

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, 2001.

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, 2001.

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, 2001.

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 24 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 24 of this Report.
(a)(3)	The following exhibits are filed with this Annual Report on Form 10-K:

EXHIBIT NUMBER	DOCUMENT DESCRIPTION

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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 Licenser, 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).

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
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).
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).
10.11 -	Subscription Agreement dated June 14, 1995 by and between VTEL Corporation, Accord Video Telecommunications, Ltd., Nizanim Fund (1993) Ltd., the "Star Entities", Manakin Investments BV, Messrs. Gideon Rosenfeld and Sigi Gavish, and Eduardo Shoval (incorporated by reference to Exhibit 10.19 to the Company's 1995 Annual Report on Form 10-K. The schedules referred to in the agreement have been omitted but will be furnished to the Securities and Exchange Commission upon request).

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10.13 -	The VTEL Corporation 1996 Stock Option Plan (the terms of which are incorporated by reference to the Company's 1995 Definitive Proxy Statement).
10.14 -	Amendment to the VTEL Corporation 1996 Stock Option Plan (the terms of which are incorporated by reference to the Company's Joint Proxy Statement filed on April 24, 1997).
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).
10.20 -	The VTEL Corporation 1998 Restricted Stock Plan (the terms of which are incorporated by reference to the Company's 1998 Definitive Proxy Statement).
10.21 -	Loan and Security Agreement, dated May 5, 1999, between Silicon Valley Bank and Comerica Bank-Texas, as Creditors, and the Company, as Borrower.

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
10.22 -	Change-in-Control Agreements with members of senior management of the Company (incorporated by reference to exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended July 31, 1998)
10.22(a)	Stephen L. Von Rump
10.22(b)	Rodney S. Bond
10.22(c)	Dennis M. Egan
10.22(d)	Vinay Goel
10.22(e)	Steve F. Keilen
10.22(f)	F.H. (Dick) Moeller
10.22(g)	Ly-Huong T. Pham
10.22(h)	Michael J. Steigerwald
10.22(i)	Bob R. Swem
10.22(j)	Judy A. Wallace
10.23	Change-in Control Agreements with members of senior management of the Company (incorporated by reference to exhibit 10.1 to the Company's Annual Report on Form 10-Q for the quarter ended January 31, 2000)
10.23(a)	Brian C. Sullivan,
10.23(b)	Stephen Cox
10.23(c)	Stephen Von Rump (amended)
21.1 -	List of Subsidiaries
23.1 -	Consent of Ernst & Young LLP.

23.2 - Consent of PricewaterhouseCoopers LLP.

27.1 - Financial Data Schedule (filed electronically only)

(b) Reports on Form 8-K:

None have been filed during the quarter ended July 31, 2000

(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/ Jay C. Peterson

Jay C. Peterson
CHIEF FINANCIAL OFFICER

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/ Dick N. Snyder Dick N. Snyder	Chief Executive Officer Chairman of the Board (Principal Executive Officer)	October 29, 2001
/s/ Jay C. Peterson Jay C. Peterson	Chief Financial Officer Vice President- Finance and Treasurer (Principal Financial Officer and Principal Accounting Officer)	October 29, 2001
/s/ Kathleen A. Cote Kathleen A. Cote	Director	October 29, 2001
/s/ Gordon H. Matthews Gordon H. Matthews	Director	October 29, 2001
/s/ F.H. (Dick) Moeller F.H. (Dick) Moeller	Director	October 29, 2001
/s/ T. Gary Trimm T. Gary Trimm	Director	October 29, 2001
/s/ James H. Wells James H. Wells	Director	October 29, 2001

VTEL CORPORATION

VALUATION AND QUALIFYING ACCOUNTS
SCHEDULE II

	BALANCE AT BEGINNING OF YEAR	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 July 31, 1999	$ 9,447	$ 436	$ (8,660)	$ 1,223
Year ended July 31, 2000	1,223	474	(809)	888
Year ended July 31, 2001	888	468	(267)	1,089

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).

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21.1 -	List of Subsidiaries
23.1 -	Consent of Ernst & Young LLP.
23.2 -	Consent of PricewaterhouseCoopers LLP.
27.1 -	Financial Data Schedule (filed electronically only)

EXHIBIT 21.1

VTEL Corporation
List of Subsidiaries

Exhibit 21.1

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 France S.A.	France
VTEL Brazil LTDA	Brazil
VTEL Telecommunication Equipment (China) Co. Ltd	Peoples Republic of China

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of various employee benefit plans of VTEL Corporation (Form S-8 Nos. 333-77733, 333,44533, 333-48885, 333-28499, 333-51822, 333-64212, 333-65472, 333-65464, 333-95754 and 333-65478) of our report dated September 18, 2001 with respect to the consolidated financial statements and schedule of VTEL Corporation included in its Annual Report (Form 10-K) for the year ended July 31, 2001, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Austin, Texas
October 29, 2001

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-65472, 33-51822, 33-65464, 33-65478, 33-95754, 333-28499, 333-44533, 333-48885, 333-77733, and 333-64212) of VTEL Corporation of our report dated September 24, 1999 appearing in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Austin, Texas
October 29, 2001