

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1996

Commission file number 0-20008

VTEL CORPORATION

A DELAWARE CORPORATION

IRS EMPLOYER ID NO. 74-2415696

108 WILD BASIN ROAD
AUSTIN, TEXAS 78746

(512) 314-2700

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

At August 1, 1996 the registrant had outstanding 14,301,999 shares of its Common Stock, \$0.01 par value.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VTEL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

	JUNE 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,860,000	\$ 2,910,000
Short-term investments	53,542,000	59,984,000
Accounts receivable, net of allowance for doubtful accounts of \$262,000 and \$185,000 at June 30, 1996 and December 31, 1995	22,829,000	18,875,000
Inventories	12,381,000	9,731,000
Prepaid expenses and other current assets	1,477,000	1,041,000
Total current assets	92,089,000	92,541,000
Property and equipment, net	13,222,000	9,650,000
Intangible assets, net	13,808,000	14,285,000
Other assets	1,576,000	1,832,000

	\$120,695,000	\$118,308,000
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 11,934,000	\$ 5,150,000
Accrued compensation and benefits	1,605,000	1,752,000
Accrued warranty expense	843,000	1,061,000
Other accrued liabilities	1,559,000	1,351,000
Research and development advance	906,000	906,000
Deferred revenue	4,032,000	4,250,000
	-----	-----
Total current liabilities	20,879,000	14,470,000

Stockholders' equity:

Preferred stock, \$.01 par value; 10,000,000 authorized; none issued or outstanding		
Common stock, \$.01 par value; 25,000,000 authorized; 14,282,000 and 13,766,000 issued and outstanding at June 30, 1996 and December 31, 1995	143,000	138,000
Additional paid-in capital	124,107,000	123,712,000
Accumulated deficit	(24,471,000)	(20,169,000)
Cumulative translation adjustment	37,000	157,000
	-----	-----
Total stockholders' equity	99,816,000	103,838,000
	-----	-----
	\$120,695,000	\$118,308,000
	=====	=====

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

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VTEL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	1996	1995	1996	1995
Revenues	\$24,292,000	\$18,310,000	\$47,223,000	\$33,499,000
Cost of sales	14,459,000	8,519,000	28,081,000	15,725,000
	-----	-----	-----	-----
Gross margin	9,833,000	9,791,000	19,142,000	17,774,000
	-----	-----	-----	-----
Selling general and administrative	8,941,000	5,776,000	17,368,000	11,121,000
Research and development	3,790,000	2,838,000	7,446,000	5,505,000
Amortization of intangible assets	240,000	--	480,000	--
	-----	-----	-----	-----
Total operating expenses	12,971,000	8,614,000	25,294,000	16,626,000
	-----	-----	-----	-----
Income (loss) from operations	(3,138,000)	1,177,000	(6,152,000)	1,148,000
	-----	-----	-----	-----
Other income, net	810,000	245,000	1,850,000	746,000
	-----	-----	-----	-----
Net income (loss) before provision for income taxes	(2,328,000)	1,422,000	(4,302,000)	1,894,000
Provision for income taxes	--	(37,000)	--	(55,000)
	-----	-----	-----	-----
Net income (loss)	\$ (2,328,000)	\$ 1,385,000	\$ (4,302,000)	\$ 1,839,000
	=====	=====	=====	=====
Net income (loss) per share	\$ (0.16)	\$ 0.13	\$ (0.30)	\$ 0.17
	-----	-----	-----	-----
Weighted average shares outstanding	14,246,000	11,073,000	14,228,000	11,047,000
	=====	=====	=====	=====

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

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supports integrated, multi-media videoconferencing systems which operate over private and switched digital communication networks. The Company distributes its systems to a domestic and international marketplace primarily through third parties.

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

NOTE 1 - GENERAL AND BASIS OF FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and accordingly, do not include all information and footnotes required under generally accepted accounting principles for complete financial statements. In the opinion of management, these interim financial statements contain all adjustments, consisting of only normal, recurring adjustments, necessary for a fair presentation of the financial position of the Company as of June 30, 1996 and the results of the Company's operations and its cash flows for the three and six month periods ended June 30, 1996. The results for interim periods are not necessarily indicative of results for a full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements (including the notes thereto) contained in the Company's 1995 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 1996.

NOTE 2 - INVENTORIES

Inventories consist of the following:

	JUNE 30, 1996	DECEMBER 31, 1995
Raw materials	\$ 6,129,000	\$6,074,000
Work in process	685,000	161,000
Finished goods	4,933,000	2,895,000
Finished goods held for evaluation	634,000	601,000
	-----	-----
	\$ 12,381,000	\$9,731,000
	=====	=====

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

NOTE 3 - NET INCOME (LOSS) PER SHARE

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

NOTE 4 - CHANGE IN FISCAL YEAR

On May 23, 1996, the Company's Board of Directors approved a change in the Company's fiscal year end from December 31 to July 31. The transition period resulting from the change in fiscal year will be reported on the Company's Annual Report on Form 10-K for the transition period ended July 31, 1996.

NOTE 5 - RESTRUCTURING CHARGE

Subsequent to June 30, 1996, the Company finalized its plan to realign its resources into Customer Business Units. These Business Units will provide the framework for moving decision making closer to the customer and for responding to customer requirements quickly. The realignment of resources

will result in the Company recording a charge subsequent to June 30, 1996 of approximately \$750,000 related to restructuring costs that the Company will incur in adjusting its business operations and resources such that the Company will be able to effectively implement its Customer Business Unit model.

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

The discussion in this document contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those projected in the forward-looking statements throughout this document.

The following review of the Company's financial position and results of operations for the three and six month periods ended June 30, 1996 and 1995 should be read in conjunction with the Company's 1995 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 1996.

RESULTS OF OPERATIONS

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

	FOR THE THREE MONTHS ENDED JUNE 30, 1996		FOR THE SIX MONTHS ENDED JUNE 30, 1995	
Revenues	100%	100%	100%	100%
Gross margin	41	53	41	53
Selling, general and administrative	37	32	37	33
Research and development	16	15	16	16
Total operating expenses	53	47	54	50
Other income, net	3	1	4	2
Net income (loss)	(10)%	8%	(9)%	5%

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THREE AND SIX MONTHS ENDED JUNE 30, 1996 AND 1995

Revenues. Revenues for the second quarter of 1996 increased by \$5,982,000, or 33%, from \$18,310,000 in the second quarter of 1995 to \$24,292,000 in the second quarter of 1996. Revenues for the six months ended June 30, 1996 increased by \$13,724,000, or 41%, from \$33,499,000 for the six months ended June 30, 1995 to \$47,223,000 for the six months ended June 30, 1996.

The increases in revenues for the three and six months ended June 30, 1996 as compared to the three and six months ended June 30, 1995 is primarily due to additional videoconferencing-related revenues generated by the Company's systems integration and service operations which were acquired in the fourth quarter of 1995.

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

	FOR THE THREE MONTHS ENDED JUNE 30, 1996		FOR THE SIX MONTHS ENDED JUNE 30, 1995	
Large group conferencing systems	403	296	757	577
Small group conferencing systems	27	117	55	209

Multipoint control units	24	33	47	61
	----	----	----	----
Total units	454	446	859	847
	=====	=====	=====	=====

The increase in sales of the Company's large group conferencing systems during the three and six months ended June 30, 1996 in comparison with the three and six months ended June 30, 1995 is due to the introduction of the MediaMax-based Leadership Conferencing systems during the fourth quarter of 1995 and the Lynx-based Team Conferencing Model 2000 systems during the first quarter of 1996. Sales of these two new products represented approximately 84% and 65%, respectively, of large group conferencing revenues for the three and six months ended June 30, 1996. The decrease in sales of the Company's small group conferencing systems during the three and six months ended June 30, 1996 in comparison with the three and six months ended June 30, 1995 is due to the reduction of sales of the S-Max-based conferencing systems due to more competitive products being released by the Company's competitors. The Company's announcement in late June 1996 of the Lynx-based Team Conferencing Model 1000 system is positioned to regain market presence in the small group system segment.

The average selling price for a group system sold in the second quarter of 1996 was \$37,000 compared to \$41,000 in the second quarter of 1995. The decrease in the average selling price is primarily attributable to the increase in shipments during the second quarter of 1996 of the Lynx-based Team Conferencing systems which generally carry a lower average selling price than the Company's MediaMax-based products.

Desktop system products represented approximately 3% and 1%, respectively, of product sales for the three months ended June 30, 1996 and 1995 and 4% and 1%, respectively, of product sales for the six months ended June 30, 1996 and 1995.

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International sales contributed approximately 16% and 17%, respectively, of product revenues for the second quarter of 1996 and 1995 and 17% and 19%, respectively, of product revenues for the six months ended June 30, 1996 and 1995.

While the Company strives for consistent revenue growth, there can be no assurance that consistent revenue growth or profitability can be achieved. The Company's expense levels are based, in part, on its expectations as to future revenue levels, which are difficult to predict, partly due to the Company's strategy of distributing its products through resellers. Historically, a significant portion of the Company's shipments have been made in the last month of each quarter. As a result, a shortfall in revenue compared to expectations may not evidence itself until late in the quarter. If revenue levels are below expectations, operating results may be materially and adversely affected. In addition, the Company's quarterly and annual results may fluctuate as a result of many factors, including price reductions, delays in the introduction of new products, delays in purchase decisions due to new product announcements by the Company or its competitors, cancellations or delays of orders, interruptions or delays in supplies of key components, changes in reseller base, customer base, business or product mix and seasonal patterns and other shifts of capital spending by customers.

Gross margin. Gross margin as a percentage of total revenue was 41% for the three and six months ended June 30, 1996 compared to 53% for the three and six months ended June 30, 1995. A portion of the decrease in gross margin results from a shift in the sales mix such that product revenues represented a smaller percentage of total revenues for the three and six months ended June 30, 1996 due to the incremental revenues generated by the Company's systems integration and service operations which were acquired in the fourth quarter of 1995. The Company's systems integration and service operations carry a lower gross margin percentage than its product revenues such that the Company's overall gross margin is lower. Additionally, the Company experienced a shift in its product sales mix such that sales of its multipoint control units, which generally carry higher gross margins, represented a smaller percentage of the Company's total product revenues. Also contributing to the Company's lower gross margin during the second

quarter of 1996 was higher per unit manufacturing costs due to lower than expected manufacturing throughput which resulted in the Company spreading relatively fixed manufacturing costs over fewer units produced. The Company also increased inventory reserves during the second quarter of 1996 to reserve for potential inventory issues related to its product transitions. The increase in inventory reserves had the effect of lowering the Company's gross margins in the second quarter of 1996.

As discussed above, the Company anticipates that product gross margins will continue to be lower than those generated in 1995. The Company expects that overall price competitiveness in the industry will continue to become more intense as users of videoconferencing systems attempt to balance performance, functionality and cost. The Company's gross margin is subject to fluctuation based on pricing, production costs and sales mix.

Selling, general and administrative. Selling, general and administrative expenses increased by \$3,165,000, or 55%, from \$5,776,000 in the second quarter of 1995 to \$8,941,000 in the second quarter of 1996. Selling, general and administrative expenses increased by \$6,247,000, or 56%, from \$11,121,000 for the six months ended June 30, 1995 to \$17,368,000 for the six months ended June 30, 1996. Selling, general and administrative expenses as a percentage of revenues were 37% and 32% for the three months ended June 30, 1996 and 1995, respectively, and were 37% and 33% for the six months ended June 30, 1996 and 1995, respectively.

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The increase in selling, general and administrative expenses is due to growth in the Company's revenues and operating activities and due to the incremental selling, general and administrative expenses incurred during the three and six months ended June 30, 1996 which relate to the Company's systems integration and service operations which were acquired in the fourth quarter of 1995.

Research and development. Research and development expenses increased by \$952,000, or 34%, from \$2,838,000 in the second quarter of 1995 to \$3,790,000 in the second quarter of 1996. Research and development expenses increased by \$1,940,000, or 35%, from \$5,505,000 for the six months ended June 30, 1995 to \$7,446,000 for the six months ended June 30, 1996. Research and development expenses as a percentage of revenues were 16% and 15% for the three months ended June 30, 1996 and 1995, respectively, and were 16% and 16% for the six months ended June 30, 1996 and 1995, respectively.

Research and development expenses increased during the three and six months ended June 30, 1996 in comparison with the same periods in 1995 primarily due to the Company's efforts related to the development of its new products which were introduced in the fourth quarter of 1995 and the first and second quarters of 1996. Additionally, the increase in research and development expenses resulted from the reassignment during 1995 of Company research and development personnel who had been involved with the Intel joint development projects to the Company's other projects.

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

During the third quarter of 1993, the Company entered into a Development and License Agreement ("Development Agreement") with Intel Corporation ("Intel"). As a part of this Development Agreement, Intel agreed to advance the Company \$3 million of funds in order to enable the Company to jointly research and develop videoconferencing products with Intel. Of the \$3 million advance, \$906,000 remains at March 31, 1996 for future development projects. As of June 30, 1996, the Company had no research and development activities in process or planned related to the Development Agreement.

Consistent with many companies in the technology industry, the Company's business model is characterized by a very high degree of operating leverage. The Company's expense levels are based, in significant part, on the Company's expectations as to future revenues and are therefore relatively fixed in the short term. If revenue levels fall below expectations, net income is likely to be disproportionately adversely affected. There can be no assurance that

the Company will be able to increase or even maintain its current level of revenues on a quarterly or annual basis in the future. Due to all of the foregoing factors, it is possible that in one or more future quarters the Company's operating results will be below the expectations of public securities market analysts. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

Subsequent to June 30, 1996, the Company finalized its plan to realign its resources into Customer Business Units. These Customer Business Units will provide the framework for moving decision making closer to the customer and for responding to customer requirements quickly. The realignment of resources will result in the Company recording a charge subsequent to June 30, 1996 of approximately \$750,000 related to restructuring costs that the Company will incur in adjusting its business operations and resources such that the Company will be able to effectively implement its Customer Business Unit model.

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Other income, net. Other income, net increased by \$565,000, or 231%, from \$245,000 in the second quarter of 1995 to \$810,000 in the second quarter of 1996. Other income, net increased by \$1,104,000, or 148%, from \$746,000 for the six months ended June 30, 1995 to \$1,850,000 for the six months ended June 30, 1996. The increase in other income, net is primarily attributable to interest income earned during the three and six months ended June 30, 1996 on the Company's cash and investment balances. This increase was a result of the completion of a secondary offering in the fourth quarter of 1995, which netted approximately \$57,000,000 to the Company.

Net income (loss). The Company generated a net loss of \$2,328,000, or \$.16 per share, during the second quarter of 1996 compared to net income of \$1,385,000, or \$.13 per share, during the second quarter of 1995. The Company generated a net loss of \$4,302,000, or \$.30 per share, during the six months ended June 30, 1996 compared to net income of 1,839,000, or \$.17 per share, during the six months ended June 30, 1995.

The net loss incurred during the three and six months ended June 30, 1996 was the result of lower gross margins generated by the Company and incremental operating expenses related to the growth in the Company's operations, revenues and systems integration and service operations, which were acquired in the fourth quarter of 1995. The net income in the three and six months ended June 30, 1995 was the result of revenues increasing at a faster rate than operating expenses and of higher gross margins generated by the Company.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting and Disclosure of Stock-Based Compensation." SFAS No. 123 introduces a fair-value based method of accounting for stock-based compensation. It 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. Companies that choose not to adopt the new rules will continue to apply the existing accounting rules contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." If the fair value accounting rules are not adopted, SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if the new method had been adopted. SFAS No. 123 is effective for fiscal years beginning after December 15, 1995. The Company has elected not to adopt the new fair value accounting rules provided by SFAS No. 123. As such, SFAS No. 123 will not have any effect on the Company's financial position or results of operations.

On May 23, 1996, the Company's Board of Directors approved a change in the Company's fiscal year end from December 31 to July 31. The transition period resulting from the change in fiscal year will be reported on the Company's Annual Report on Form 10-K for the transition period ended July 31, 1996.

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1996, the Company had working capital of \$71,210,000, including \$55,402,000 in cash, cash equivalents and short-term investments. The primary uses of cash during the six months ended June 30, 1996 and 1995 were to purchase property and equipment and leasehold improvements and to fund working capital needs required to support the Company's growth. Cash used in operating activities was \$1,529,000 for the six months ended June 30, 1996, primarily due to an increase in accounts receivable and inventories, partially offset by an increase in accounts payable. Cash provided by operating activities was \$299,000 for the six months ended June 30, 1995 and was primarily the result of the net income generated by the Company during the period.

Cash flows from investing activities were the result of capital expenditures of \$6,631,000 and \$3,873,000 for the six months ended June 30, 1996 and 1995, respectively. The increase in capital expenditures is primarily related to increases in demonstration and support videoconferencing systems acquired during the period. Cash was provided by investing activities related to short-term investments as such investments are periodically utilized to provide cash needed to support the Company's growth.

Cash flows from financing activities were the result of stock issuances generating \$356,000 and \$1,086,000 for the six months ended June 30, 1996 and 1995, respectively, which relate to stock sold under the Company's Employee Stock Purchase Plan (the "Purchase Plan"). Fluctuations in purchases of stock under the Purchase Plan are attributable to changes in the Company's stock price.

At June 30, 1996, the Company had a \$10,000,000 revolving line of credit available with a financial institution. No amounts have been drawn or are outstanding under the line of credit. The Company's principal sources of liquidity at June 30, 1996 consist of \$55,402,000 of cash, cash equivalents and short-term investments and amounts available under the Company's revolving line of credit. The Company believes that existing cash and cash equivalent balances, short-term investments and cash generated from product sales and its revolving line of credit will be sufficient to meet the Company's cash and capital requirements for at least the next 12 months.

GENERAL

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

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

Due to the factors noted above and elsewhere in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company's past earnings and stock price has been, and future earnings and stock price potentially may be subject to significant volatility, particularly on a quarterly basis. Past financial performance should not be considered a reliable indicator of future performance, and investors are cautioned in using historical trends to anticipate results or trends in future periods. Any shortfall in revenue or earnings from the levels

anticipated by securities analysts could have an immediate and significant effect on the trading price of the Company's Common Stock in any given period. Also, the Company participates in a highly dynamic industry which often contributes to the volatility of the Company's Common Stock price.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

The annual meeting of stockholders was duly convened on May 23, 1996. At the meeting, the following nominees were elected directors by the stockholders by the following vote:

NOMINEE	FOR	WITHHELD	BROKER NON-VOTES
F.H. (Dick) Moeller	12,929,084	121,015	-
Max D. Hopper	12,924,286	125,813	-
John V. Jagers	12,926,111	123,988	-
Eric L. Jones	12,928,236	121,863	-
Gordon H. Matthews	12,923,686	126,413	-

The stockholders voted to approve the proposal to adopt the VTEL Corporation 1996 Stock Option Plan by the following vote:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
10,679,902	1,258,406	100,067	1,011,724

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The stockholders ratified the Board of Directors' appointment of Price Waterhouse, independent accountants, as the Company's independent auditors for the year ending December 31, 1996 by the following vote:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
12,941,461	69,928	38,710	-

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

The following Reports on Form 8-K have been filed:

ITEM REPORTED	DATE FILED
Change in Fiscal Year	May 23, 1996

* * *

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SIGNATURES

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

VTEL CORPORATION

August 9, 1996

By: /s/ Rodney S. Bond

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

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<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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