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 April 30, 2000

Commission file number 0-20008

VTEL Corporation

A Delaware Corporation IRS Employer ID No. 74-2415696

108 Wild Basin Road
Austin, Texas 78746

(512) 437-2700

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

At June 2, 2000 the registrant had outstanding 24,954,499 shares of its Common Stock, $0.01 par value.

VTEL CORPORATION

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

	April 30, 2000 (Unaudited)	July 31, 1999
ASSETS		
Current assets:		
Cash and equivalents	$ 3,455	$ 7,805
Short-term investments	36,504	4,308
Accounts receivable, net of allowance for doubtful accounts of $2,108 and $1,318 at April 30, 2000 and July 31, 1999	25,983	38,291
Inventories	14,488	15,553
Prepaid expenses and other current assets	2,319	2,320
Total current assets	82,749	68,277
Property and equipment, net	26,317	29,704
Intangible assets, net	14,554	15,841
Capitalized software	10,465	7,351
Other assets	1,600	2,168
	$ 135,685	$ 123,341
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,371	$ 18,375
Borrowings under revolving line of credit	-	-

Accrued merger and other expenses	-	-
Accrued compensation and benefits	4,332	4,916
Other accrued liabilities	4,607	3,555
Notes payable, current portion	1,306	2,234
Deferred revenue	11,982	11,062
Total current liabilities	35,598	40,142
Long-term liabilities:		
Borrowings under revolving line of credit	-	11,200
Notes payable	250	554
Other long-term obligations	4,487	4,176
Total long-term liabilities	4,737	15,930
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, $.01 par value; 40,000,000 authorized; 24,940,000 and 24,423,000 issued at April 30, 2000 and July 31, 1999	249	244
Additional paid-in capital	261,551	260,057
Accumulated deficit	(165,838)	(191,665)
Unearned compensation	(70)	(385)
Stock subscriptions receivable	(606)	(900)
Accumulated other comprehensive income (loss)	64	(82)
Total stockholders' equity	95,350	67,269
	$ 135,685	$ 123,341

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

VTEL CORPORATION

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

	For the Three Months Ended April 30, (Unaudited)		For the Nine Months Ended April 30,	
	2000	1999	2000	1999
Revenues:				
Products	$ 21,010	$ 25,133	$ 71,518	$ 77,407
Services and other	10,430	10,983	32,250	33,404
	31,440	36,116	103,768	110,811
Cost of sales:				
Products	13,138	12,037	42,859	39,800
Services and other	7,933	6,362	23,190	21,195
	21,071	18,399	66,049	60,995
Gross margin	10,369	17,717	37,719	49,816
Operating expenses:				
Selling, general and administrative	14,086	13,254	41,673	47,673
Research and development	4,392	4,427	12,074	14,301
Amortization of intangible assets	336	379	1,078	890

Restructuring expense	-	203	-	3,118
Total operating expenses	18,814	18,263	54,825	65,982
Loss from operations	(8,445)	(546)	(17,106)	(16,166)
Other income (expense):				
Interest income	424	165	633	701
Non-recurring events	44,501	-	44,501	-
Interest expense and other	(469)	(193)	(1,331)	(492)
	44,456	(28)	43,803	209
Income (loss) before provision for income taxes	36,011	(574)	26,697	(15,957)
Provision for income taxes	(870)	-	(870)	-
Net income (loss)	$ 35,141	$ (574)	$ 25,827	$ (15,957)
Basic income (loss) per share:	$ 1.43	$ (0.02)	$ 1.06	$ (0.69)
Diluted income (loss) per share:	$ 1.36	$ (0.02)	$ 1.03	$ (0.69)
Weighted average shares outstanding:				
Basic	24,620	23,734	24,436	23,264
Diluted	25,765	23,734	24,955	23,264

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

CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in thousands)

	For the Nine Months Ended April 30, (Unaudited) 2000	1999
Cash flows from operating activities:		
Net income (loss)	$ 25,827	$(15,957)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	9,478	9,103
Provision for doubtful accounts	1,046	323
Amortization of unearned compensation	147	212
Loss (gain) on sale of fixed assets	166	(104)
Foreign currency translation loss	188	69
Decrease in accounts receivable	11,262	6,844
Decrease (increase) in inventories	1,065	(1,743)
Decrease (increase) in prepaid expenses and other current assets	1	(14)
Decrease in accounts payable	(5,004)	(8,146)
Increase (decrease) in accrued expenses	476	(1,086)
Increase in deferred revenues	1,149	445
Net cash provided by (used in) operating activities	45,801	(10,054)

Cash flows from investing activities:		
Net short-term investment activity	(32,196)	6,512
Net purchase of property and equipment	(3,596)	(5,576)
Collection (issuance) of notes receivable	87	(947)
Increase in capitalized software	(4,170)	(4,677)
Acquisition	-	(231)
Decrease (increase) in other assets	36	(195)
Net cash used in investing activities	(39,839)	(5,114)
Cash flows from financing activities:		
(Payments) borrowings under line of credit	(11,200)	11,200
Payments on notes payable	(1,363)	(1,539)
Issuance of notes payable	265	-
Net proceeds from issuance of stock	2,028	(42)
Purchase of treasury stock	-	(2,265)

Sale of treasury stock	-	688
Net cash (used in) provided by financing activities	(10,270)	8,044
Effect of translation exchange rates on cash	(42)	(255)
Decrease in cash and equivalents	(4,350)	(7,379)
Cash and equivalents at beginning of period	7,805	15,191
Cash and equivalents at end of period	$ 3,455	$ 7,812

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

VTEL CORPORATION

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

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 accounting principals generally accepted in the United States for complete financial statements. In the opinion of management, these interim financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the financial position of VTEL as of April 30, 2000 and July 31, 1999, the results of our operations for the three and nine month periods ended April 30, 2000 and 1999 and cash flows for the nine month period ended April 30, 2000 and 1999. The results for interim periods are not necessarily indicative of results for a full fiscal year.

Note 2 - Inventories

Inventories consist of the following (amounts in thousands):

	April 30, 2000	July 31, 1999

Raw materials	$ 6,365	$ 8,595
Work in process	1,025	1,504
Finished goods	5,958	4,637
Finished goods held for evaluation and rental and loan agreements	1,140	817
	$ 14,488	$ 15,553

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

Note 3 - Net Income (Loss) Per Share

VTEL reports earnings per share under SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive shares outstanding.

The calculation of the number of weighted average shares outstanding for basic and dilutive earnings (loss) per share for each of the periods presented is as follows (amounts in thousands):

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2000	1999	2000	1999
Weighted average shares Outstanding - basic	24,620	23,734	24,436	23,264
Effect of dilutive securities:				
Stock options	1,087	-	480	-
Stock warrants	58	-	39	-
Dilutive potential common shares	1,145	-	519	-
Weighted average shares Outstanding - diluted	25,765	23,734	24,955	23,264
Antidilutive securities	570	4,052	2,460	4,657

Note 4 - Restructuring Charge

In November 1998, we adopted a restructuring plan which resulted in the reduction of 138 employees during the nine months ended April 30, 1999. While terminations were effective immediately for most employees upon announcement all employees terminated in the restructuring had left by the end of the third fiscal quarter of 1999. We also made the decision to reduce operating costs by exiting other activities and reducing the related overhead costs. These activities include the closure or consolidation of certain field sales offices, and our Sunnyvale, California spare parts depot and technical assistance center. As a result of the restructuring, we recorded a restructuring charge of $3.1

million during the nine months ended April 30, 1999. All restructuring efforts had been completed by the end of the 1999 fiscal year.

Note 5 - Comprehensive Income (Loss)

Our comprehensive income (loss) is comprised of net income, foreign currency translation adjustments and unrealized gains and losses on marketable securities held as available-for-sale investments.

Comprehensive income for the three and nine months ended April 30, 2000 was $35.2 million and $26.0 million, respectively, and comprehensive loss for the three and nine months ended April 30, was ($0.8) million and ($16.1) million, respectively, including the impact of other accumulated comprehensive loss.

Note 6 - Line of Credit

On March 10, 2000, VTEL repaid all amounts drawn on the line of credit that was in place with a banking syndicate. At April 30, 2000, we did not have a line of credit in place. The letter of credit totaling $1.2 million that had been issued under the line of credit as a lease deposit on one of our facilities has now been collateralized with a certificate of deposit. We expect to obtain an alternative line of credit in the near term.

Note 7 - Non-Recurring Events

On March 3, 2000 VTEL 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 the Company 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 have paid $2.5 million in cash and have 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 the three months ended April 30, 2000 for $34.2 million. The parties have agreed to dismissal of 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, VTEL granted non-exclusive licenses to Polycom, Inc. ("Polycom") to use three of its patented technologies, and Polycom paid a one time fee to VTEL of $8.3 million 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 will have access to specified distinctive technologies of the other for use in their product offerings.

The cash and the value of the shares received from these non-recurring events are reported net of legal fees totaling $0.5 million in the consolidated statement of operations.

Note 8 - Acquisition

On March 9, 1999, the Company completed the acquisition of substantially all of the assets of Vosaic LLP, an Internet video software and technology company for $3.2 million in cash, stock and warrants. The transaction has been accounted for as a purchase of assets. The acquisition involved the issuance of 1,149,000 shares (equivalent to approximately 5% of the outstanding shares of the Company's stock as of March 9, 1999).

Note 9 - Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition," which outlines the basic criteria that must be met to recognize revenue and provide guidance for presentation of revenue and for disclosure related to revenue recognition policies in financial statements filed with the Securities and Exchange Commission. As required by this SAB, we will adopt the Securities Exchange Commission requirements beginning with our first quarter of fiscal 2001. We are in the process of evaluating the impact of the SAB on our financial position and results of operations.

Note 10 - Segment Information

In 1999, VTEL adopted SFAS 131, "Disclosure about Segments and an Enterprise and Related Information". VTEL manages its business primarily on a products, services and internet ventures basis. Our reportable segments are Products, Services/Other and Internet Ventures. The Products segment provides multi-media visual communication (commonly referred to as video teleconferencing) products to customers primarily through a network of resellers, and to a lesser extent directly to end-users. The Services/Other segment provides custom integrated systems, installations and product support services to customers. The Internet Ventures are business units established to focus on delivering visual communications products and services for the World Wide Web. In addition to our operating segments, we incur various corporate overhead related charges that are reflected separately in the table below. The accounting policies of the segments are the same as those of VTEL.

The table below presents segment information about revenue from unaffiliated customers, depreciation and net income (loss) for the three and nine month periods ended April 30, 2000 and 1999:

	Products	Services/ Other	Internet Ventures	Corporate/ Other	Total
For the three-month period ending April 30, 2000					
Revenues from unaffiliated customers	$ 21,010	$ 10,430	$ -	$ -	$ 31,440
Depreciation and amortization	35	265	101	3,079	3,480
Net income (loss)	7,872	2,498	(2,504)	27,275	35,141
For the three-month period ending April 30, 1999					
Revenues from unaffiliated customers	$ 25,133	$ 10,983	$ -	$ -	$ 36,116
Depreciation and amortization	77	260	-	2,933	3,270
Net income (loss)	13,096	4,621	-	(18,291)	(574)
For the nine-month period ending April 30, 2000					
Revenues from unaffiliated customers	$ 71,518	$ 32,250	$ -	$ -	$ 103,768
Depreciation and amortization	205	867	225	8,181	9,478
Net income (loss)	28,659	9,060	(6,394)	(5,498)	25,827
For the nine-month period ending April 30, 1999					
Revenues from unaffiliated customers	$ 77,407	$ 33,404	$ -	$ -	$ 110,811
Depreciation and amortization	168	608	-	8,327	9,103
Net income (loss)	37,607	12,209	-	(65,773)	(15,957)

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

The following review of VTEL's financial position as of April 30, 2000 and 1999 and for the three months and nine months ended April 30, 2000 and 1999 should be read in conjunction with our 1999 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 5, 1999.

Results of Operations

The following table provides the percentage of revenues represented by certain items in VTEL's Condensed Consolidated Statement of Operations:

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2000	1999	2000	1999
Revenues	100%	100%	100%	100%
Gross margin	33	49	36	45
Selling, general and administrative	45	37	40	43
Research and development	14	12	12	13
Restructuring expense	0	1	0	3
Total operating expenses	60	51	53	60
Net income (loss)	112	(2)	25	(15)

Three and Nine Months Ended April 30, 2000 and 1999

Revenues. Revenue for the quarter ended April 30, 2000 decreased by $ 4.7 million, or 13%, to $31.4 million from $36.1 million for the quarter ended April 30, 1999. Revenues for the nine months ended April 30, 2000 decreased to $103.8 million from $110.8 million for the nine months ended April 30, 1999, a decrease of $7.04 million, or 6%. The comparible three month decline is the result of a reduction in industry demand for higher end video conferencing products. The decline over the comparable nine month periods ended April 30, 2000 and 1999 can be attributed to a slower than anticipated conversion by our customers to our new product line, Galaxy(TM), which was introduced near the end of the first fiscal quarter of 2000. Despite the slow conversion, the pace of Galaxy(TM) sales continues to grow quarter over quarter. In addition, the videoconferencing industry continues to experience competition from low-end appliance type products that has had the effect of driving average sales prices downward. During the quarter ended April 30, 2000, VTEL further addressed the lower-end competition with the introduction of the Galaxy(TM) MiniTower, a sub $10,000 PC-based videoconferencing solution that utilizes H.323 Internet Protocol (IP) Vtouch(TM) software (see Introduction of New Product Lines and Services).

Unit sales of our core products Galaxy(TM) and ESA(TM) (Enterprise Series Architecture, our prior generation flagship product line) increased 3% and 27% for the three and nine months ended April 30, 2000 as compared to the same periods in fiscal 1999. The declining revenue levels over these same periods reflect the shift in product mix to units with lower average sales prices. Our market analysis indicates that the demand for high end video conferencing solutions is focused on relatively narrow market sectors such as education and state and federal government, while the corporate video conferencing market has migrated toward appliance type products. We continue to excel in the primary and secondary education and government sectors where we are

perceived to be gaining market share. We believe that the desk top videoconferencing solution currently addressed by appliance type products by our competitors will ultimately be replaced with Internet solutions using videoconferencing software. This will be accomplished with the proliferation of high speed, broad band Internet Protocol (IP) networks that are currently being deployed within the United States and abroad. We expect to continue our focus on bringing videoconferencing solutions to our targeted markets while we develop videoconferencing solutions for the Internet.

We expect the transition to the Galaxy(TM) product line to continue for several quarters due to the size of the install base of the ESA(TM) product line and the desire by our customers to install additional endpoints that are familiar. Approximately 75% of our product sales are from existing customers. A new, more innovative user interface software (Vtouch(TM)) and the additional functionality of H.323 IP networking capability distinguish the Galaxy(TM) product line.

For the three and nine month periods ended April 30, 2000, service revenue, as a percent of total revenues was 33% and 31%, respectively. Less than 10% of service revenue relates to installation of our products and the balance of service revenue relates to maintenance contracts on videoconferencing units previously sold. Service and other revenue declined by $0.6 million and $1.2 million in the three and nine months ended April 30, 2000 compared to the three and nine months ended April 30, 1999. This decline reflects, in part, the decline in product sales over the past year.

International sales represented approximately 17% and 19% respectively, of product revenues for the three months and nine months ended April 30, 2000 compared to 23% and 23% for both the three months and nine months ended April 30, 1999. These revenue percentages represent export sales from our domestic operations, as well as sales from our foreign subsidiaries that are installed in foreign locations.

VTEL primarily sells its products through resellers. For the three months and nine months ended April 30, 2000 reseller sales were 79% and 74% of product sales, respectively. For the three months and nine months ended April 30, 1999 reseller sales were 74% and 80% respectively. All other sales of our products are made directly to the end user customer.

One of VTEL's initiatives is to grow revenues from non-U.S. markets. Non-U.S. operations are subject to certain risks inherent in conducting business abroad including price and currency exchange fluctuations and restrictive government actions. We believe our foreign currency exposure to be relatively low as foreign sales are predominantly settled in U.S. dollars. We use currency-hedging programs that utilize foreign currency forward contracts on a limited basis and review the credit worthiness of our customers to mitigate foreign currency exchange and credit risk. There can be no assurance that our foreign currency-hedging program will effectively hedge foreign currency exchange risk.

While we strive for revenue growth, there can be no assurance that revenue growth or profitability can be achieved. Consistent with many companies in the technology industry, our business model is characterized by a very high degree of operating leverage. Our expense levels are based, in part, on our expectations as to future revenue levels, which are difficult to predict partly due to VTEL's strategy of distributing its products primarily through resellers. Because expense levels are based on our expectations as to future revenues, our expense base is relatively fixed in the short term. If revenue levels are below expectations, operating results may be materially and adversely affected and net income is likely to be disproportionately adversely affected.

In addition, our 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 VTEL or its competitors, cancellations or delays of orders, interruptions or delays in supplies of key components, changes in reseller base, customer base, business or product mix and seasonal patterns and other shifts of capital spending by customers. There can be no assurance that we will be able to increase or even maintain our current level of revenues on a quarterly or annual basis in the future.

Gross margin. Gross margin as a percentage of total revenues was 33% and 36% for the three and nine months ended April 30, 2000, respectively, a decrease from the gross margin as a percentage of revenues of 49% and 45%, for the three and nine months ended April 30, 1999. The decrease in gross margin percentage for the three and nine month periods ended April 30, 2000 was the result of a shift by our customers towards the purchase of lower margin products. Additionally, product margins were affected unfavorably by inventory write-downs taken on non-core product lines in the three and nine months ended April 30, 2000 that were $0.6 million per quarter greater than the comparable periods.

We believe the shift to smaller group systems will reflect continued transition to visual communications systems that function within an IP network environment. As such, we anticipate that lower gross margins will be offset by stronger unit sales once IP networks proliferate. We expect gross margin pressures due to price competitiveness in the industry, shifts in the product sales mix and anticipated offerings of new products, which may carry a lower gross margin. We expect that overall price competitiveness in the industry will continue to become more intense as users of visual communication systems attempt to balance performance, functionality and cost. Our 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 $0.8 million, or 6%, to $14.1 million for the quarter ended April 30, 2000 from $13.2 million for the quarter ended April 30, 1999. Selling, general and administrative expenses decreased by $6.3 million, or 13%, to $41.7 million for the nine months ended April 30, 2000 from $47.7 million for the nine months ended April 30, 1999. Selling, general and administrative expenses as a percentage of revenues were 45% and 37% for the three months ended April 30, 2000 and 1999, respectively, and were 40% and 43% for the nine months ended April 30, 2000 and 1999, respectively. The overall decline for the comparative nine month periods reflects the higher expense levels present during the nine months ended April 30, 1999, prior to the restructuring efforts. Selling, general and administrative expenses for the three months ended April 30, 2000 were higher as compared to the three months ended April 30, 1999 due to additional administrative expenses related to our internet ventures. VTEL believes that it must continue to reduce our selling, general and administrative expenses as a percent of revenues in order to become profitable.

Research and development. Research and development expenses were relatively stable at $4.4 million for the quarters ended April 30, 2000 and 1999. Research and development expenses decreased by $2.2 million, or 16%, to $12.1 million for the nine months ended April 30, 2000 as compared to $14.3 million for the nine months ended April 30, 1999. Research and development expenses as a percentage of revenues were 14% and 12% for the three months ended April 30, 2000 and 1999, respectively, and were 12% and 13%, respectively, for the nine months ended April 30, 2000 and 1999. Capitalized software development costs totaled $1.0 million and $1.7 million for the three months ended April 30, 2000 and 1999 respectively, and $4.2 and $4.7 million for the nine months ended April 30, 2000 and 1999 respectively.

Overall research and development expenditures (including capitalized costs) decreased during the three and nine months ended April 30, 2000 in comparison with the three and nine months ended April 30, 1999. This reduction reflects in part the completion of the development of our new product line, Galaxy(TM), but it also reflects planned reductions in research and development spending in order to maintain a spending level that is consistent with our cash flow expectations. The effort to reduce spending levels was initiated as part of the restructuring activities that took place in fiscal 1999.

New products are generally characterized by increased functionality and better picture quality at lower bandwidths and often at reduced prices. The introduction of products, by either VTEL or its competitors, embodying new technology and the emergence of new industry standards may render existing products obsolete and unmarketable. Our ability to successfully develop and introduce on a timely basis new and enhanced products that embody new technology, anticipate and incorporate evolving industry standards and achieve levels of functionality and prices acceptable to the market will be a significant factor in VTEL's ability to grow and to remain competitive. Although the percentage of revenues invested in research and development may vary from period to period, VTEL is committed to investing in its research and development programs.

Net income (loss). VTEL generated net income of $35.1 million, or $1.36 per fully diluted share, during the quarter ended April 30, 2000 compared to net loss of $0.6 million or $.02 per share, during the quarter ended April 30, 1999. VTEL generated net income of $25.8 million, or $1.03 per share during the nine months ended April 30, 2000 compared to net loss of $16.0 million, or $.69 per share during the nine months ended April 30, 1999. VTEL generated net income for the three and nine month periods ended April 30, 2000 as a result of a litigation settlement agreement and a non-exclusive licensing agreement that was reached during the three months ended April 30, 2000 (see "Non-Recurring Events"). VTEL received cash of $10.8 million and shares that were sold during the quarter ended April 30, 2000 for $34.2 million. Legal fees of $0.5 million were netted against reported non-recurring events.

We continued to sustain losses from operations in fiscal 2000. Losses from operations are the result of declining revenue against costs that remain relatively fixed as we have focused part of our resources on future business development. Approximately $6.4 million of the total operating loss for the nine months ended April 30, 2000 is made up of VTEL's continued investment in our Internet businesses. That investment is a key element in our strategy to provide the foundation for future growth and additional value for our shareholders. The cash received as a result of the favorable non-recurring events gives us the ability to continue to pursue these strategies.

There can be no assurance that we will generate net income at lower revenue levels or that our Internet businesses will prove successful. Current operational planning for the interim has been to incur operational losses to the extent we maintained positive cash flow. If revenues decline by more than we expect or if the product mix shifts to lower margin products then we could incur further substantial losses in the future and may have to consider additional restructuring measures in future quarters which may have a material adverse affect on VTEL's financial position and results of operations.

Restructuring Activities

In November 1998, the VTEL adopted a restructuring plan which resulted in the reduction of 138 employees during the nine months ended April 30, 1999. While terminations were effective immediately for most employees upon announcement, all employees terminated in the restructuring had left VTEL by the end of the third fiscal quarter of 1999. We also made the decision to reduce operating costs by exiting other activities and reducing the related overhead costs. These activities include the closure or consolidation of certain field sales offices and our Sunnyvale, California spare parts depot and technical assistance center. As a result of the restructuring, we recorded a restructuring charge of $3.1 million during the nine months ended April 30, 1999. All restructuring efforts had been completed by the end of the 1999 fiscal year.

Non-Recurring Events

On March 3, 2000 VTEL 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 the 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 have 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. When the shares were received on March 3, 2000, the market value of the shares was $39.1 million. These shares were sold during the three months ended April 30, 2000 for $34.2 million. The parties have agreed to dismissal of 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, VTEL granted non-exclusive licenses to Polycom, Inc.("Polycom") to use three of its patented technologies, and Polycom paid a one time fee to VTEL of $8.3 million 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 will have access to specified distinctive technologies of the other for use in their product offerings.

Introduction of New Product Lines and Services

VTEL continually strives to introduce the latest technology in digital visual communications. In October 1999, we introduced our new product line of

Galaxy(TM) visual communication systems. The enhanced software included in the Galaxy(TM) line can accommodate and support customer migration to Internet Protocol networks easily because these endpoints can operate on either ISDN (H.320) or IP (H.323) type network and move from one network architecture to another on a call by call basis through simple software commands. For many customers that previously purchased VTEL products, the migration to Internet Protocol network functionally can be accomplished through software upgrades to existing products. During the three months ended April 30, 2000, we expanded this product line with the introduction of the Galaxy(TM) MiniTower, a sub $10,000 PC-based videoconferencing solution that utilizes H.323 Internet Protocol (IP) Vtouch(TM) software. This product addresses the competition experienced in the video conferencing industry from the low-end appliance-like video conferencing products while offering high-end functionality and the ability to upgrade further peripherals such as dual monitors and secondary cameras.

On January 24, 2000, we announced the formation of Onscreen24(TM), a business unit established by VTEL to focus exclusively on delivering high-impact, visual communications products and services for the World Wide Web. Onscreen24's strategy is to leverage new products, partnerships and acquisitions with existing VTEL assets - technical innovations, software and customer base - that will enable Web-based service providers and portals to deploy media-rich solutions for high-impact communication experiences. Initially focused on business-to-business commerce, Onscreen24(TM) will visually enable communications applications and platforms, making them more unique and enjoyable for the user and thereby more productive and profitable for businesses engaging in E-commerce. Through this strategy, Onscreen24(TM) expects to introduce Video Commerce(R), the abilities to conduct business through electronic visual communications over the internet, to Internet customers. Onscreen24's initial objective will focus on market penetration and acceptance of its products in two key areas - Internet infrastructure providers and early adopters of media-rich solutions, specifically online advertising, E-learning and customer relationship management.

Quarterly Revenue Cycle

Historically, a significant percentage of our sales occur in the last few weeks of the quarter. By compressing most of our shipments into a short period of time at the end of each quarter, we will incur overtime costs, sharply increase our inventory levels in anticipation of this demand and deplete or exhaust our backlog of customer orders. Our sales cycle is difficult to predict and manage. It is possible that management's estimates of product demand will be inaccurate and as a result we could experience a rise in inventory levels and a decline in expected revenue levels in any given quarter. Management's estimates of future product revenue are derived from our analysis of market conditions and reports from our sales force of customer leads and prospective interest. Backlog of customer product orders cannot be relied upon to forecast future revenue levels. Because of the short cycle time between customer order and shipment, it is also possible that unanticipated delays from our vendors can disrupt shipments and adversely affect the results in a given quarter. This is

especially an issue due to our reliance on a limited number of highly specialized suppliers. The above factors represent uncertainties that can have a material adverse effect on our financial position and results of operations.

Liquidity and Capital Resources

At April 30, 2000, VTEL had working capital of $47.2 million, including $40.0 million in cash, cash equivalents and short-term investments. Cash provided by operating activities was $45.8 million for the nine months ended April 30, 2000 and primarily resulted from net income including cash received from non-recurring events totaling $44.5 million and a decrease in accounts receivable, which was partially offset by a decrease in accounts payable. Cash used in operating activities was $10.1 million for the nine months ended April 30, 1999 and primarily resulted from the net operating loss, an increase in inventories and a decrease in accounts payable. These uses were partially offset by the decrease in accounts receivable.

Net cash used in investing activities during the nine months ended April 30, 2000 was $39.8 million and primarily resulted from an increase in short-term investments as we were able to convert the shares and cash received from the non-recurring events into other short-term investments. We also invested in net property and equipment and capitalized software development costs. Net cash used in investing activities during the nine months ended April 30, 1999 was $5.1 million and primarily resulted from increases in net property and equipment and an increase in capitalized software.

Cash used in financing activities during the nine months ended April 30, 2000 was $10.3 million as we paid off $11.2 million advanced by our lenders under a line of credit. Cash provided by financing activities during the nine months ended April 30, 1999 was $8.0 million and related primarily to $11.2 million drawn on our revolving line of credit.

As of March 10, 2000, the Company had repaid all amounts drawn on the line of credit that was in place with a banking syndicate. At April 30, 2000, we did not have a line of credit in place. The letter of credit totaling $1.2 million that had been issued under the line of credit as a lease deposit on one of our facilities has now been collateralized with a certificate of deposit. The Company expects to obtain an alternative line of credit in the near term.

VTEL's principal sources of liquidity at April 30, 2000 consisted of $40.0 million of cash, cash equivalents and short-term investments and the ability to generate cash from operations. In addition, VTEL may be able to monatize certain long-term assets that have significant potential value or secure additional equity infusions in the private marketplace.

Legal Matters

VTEL 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 our financial condition or results of operations.

General

The markets for our 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 we attempt 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.

VTEL'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 ours, delay in the introduction of higher performance products, market acceptance of new products we introduce, 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 we do 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, VTEL'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 our common stock in any given period. Also, we participate in a highly dynamic industry, which often contributes to the volatility of our common stock price.

Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe our foreign currency exposure to be relatively low as foreign sales are predominantly in U.S. dollars. We use currency hedging programs that utilize foreign currency forward contracts on a limited basis and review the credit worthiness of our customers to mitigate foreign currency exchange and credit risk. For additional Quantitative and Qualitative Disclosures about Market Risk reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended July 31, 1999.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

VTEL 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 our financial condition or results of operations.

On March 6, 2000 VTEL filed a Current Report on Form 8K reporting the termination of a pending legal proceeding. Reference is made to such report and to Note 7 - Litigation Settlement in the unaudited financial statements contained herein, for information relating to the disposition of the pending claim.

Item 2.

None

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

None

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 are incorporated by reference to Forms 8-K filed as follows

Form 8-K dated March 6, 2000 reporting the settlement of the Via Video Communications, Inc litigation referred to in Note 7.

Form 8-K dated March 6, 2000 reporting the license agreement with Polycom, Inc. referred to in Note 7.

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

Form 8-K dated April 27, 2000 reporting the appointment Ernst & Young LLP as the Company's new independent auditors for fiscal 2000.

* * *

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

April 14, 2000

By: /s/ Stephen L. Von Rump

Stephen L. Von Rump
Chief Executive Officer

By: /s/ Jay C. Peterson

Jay C. Peterson
Vice President-Finance
(Principal Accounting Officer)

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