8X8 INC /DE/

FORM 10-K
(Annual Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED MARCH 31, 1998

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

COMMISSION FILE NUMBER: 333-15627

8X8, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	77-0142404
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

2445 MISSION COLLEGE BLVD.
SANTA CLARA, CA 95054
(408) 727-1885
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: COMMON STOCK, PAR VALUE $.001 PER SHARE

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 filers 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. [ ]

Based on the closing sale price of the Registrant's common stock on the NASDAQ National Market System on May 1, 1998, the aggregate market value of the voting stock held by non-affiliates of the Registrant was $74,091,785.44. Shares of the Registrant's common stock held by each officer and director and by each person who owns 5% or more of the Registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's common stock outstanding as of May 1, 1998 was 15,293,614.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT	LOCATION IN FORM 10-K
Proxy Statement for the 1998 Annual Meeting of Stockholders to be held on June 15, 1998	Part III

8X8, INC.

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This Report on Form 10-K contains forward-looking statements, including but not limited to those specifically identified as such, that involve risks and uncertainties. The statements contained in this Report on Form 10-K that are not purely historical are forward-looking statements, including without limitation statements regarding the Company's expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this Report on Form 10-K are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth below under the headings "Manufacturing," Competition" and "Factors That May Affect Future Results" and elsewhere in this Report on Form 10-K.

PART I

ITEM 1. BUSINESS

8x8, Inc. ("8x8" or the "Company") designs, develops and markets highly integrated, proprietary video communication semiconductors and associated software to original equipment manufacturers (OEMs) of corporate video communication systems. To address new opportunities, the Company has leveraged its strengths in semiconductor design and related software to develop and market low cost video communication systems (hereinafter referred to as its "VideoCommunicators"). The Company began shipping the first product in its planned family of VideoCommunicator products, ViaTV videophone model VC100, in February 1997. Subsequently, the Company introduced the VC105, an upgraded VC100, and added three new models, the VC50, VC55 and VC150, to the ViaTV product line. The Company also has introduced versions of its ViaTV videophones designed for European and Asian markets.

The Company's video communication semiconductors combine a reduced instruction set computer (RISC) microprocessor, a digital signal processor (DSP), specialized video processing circuitry, static random access memory (SRAM) and proprietary software on a single chip. The Company's semiconductors perform the real time compression and decompression (codec) of video and audio information and establish and maintain network connections in a manner consistent with international standards for video telephony. These semiconductors are designed to provide video communication over a broad range of network types including standard analog telephone lines (commonly known as plain old telephone service or POTS), integrated services digital networks (ISDN), local area networks (LAN) and digital subscriber lines (DSL). Customers for the Company's video communication semiconductors include Mitsubishi, PictureTel, Siemens, Sony, Tandberg, VideoServer, VCON and Vtel.

The Company's VideoCommunicators are based on its proprietary semiconductor, software and systems technology. The ViaTV videophones are designed to be compliant with the H.324 international standard for video telephony over POTS and to be compatible with personal computer (PC) and non-PC based systems that adhere to the H.324 standard. The ViaTV videophones are designed to communicate with full duplex audio and video rates of up to 15 frames per second.

The VC105 ViaTV product connects to a television set and a standard touch-tone telephone adding video to an otherwise normal telephone call, without the need for a PC. The VC50 and VC55 are designed without a camera and utilize an external camera device such as a camcorder or digital still camera in addition to a television and a touch-tone telephone. In addition to video communication capability, the VC55 includes an internet web browser developed by PlanetWeb, Inc. The VC150 includes a built-in liquid crystal display (LCD) and camera, thus requiring only the addition of a touch-tone telephone to permit video communication.

INDUSTRY BACKGROUND

The continued expansion of the video communication market is dependent on several factors including system cost, network bandwidth, the acceptance of video telephony standards and compression technologies. Decreases in system costs will expand the number of potential consumers and applications for video communication systems. Increases in available bandwidth improve the data carrying capacity of networks, while improvements in compression technologies utilize a given bandwidth more efficiently. Increased bandwidth and better compression both permit the transmission of higher quality audio and video. Finally, video telephony standards are key to widespread adoption as they are designed to permit the interoperability between systems offered by different vendors. The cost of video communication systems has decreased dramatically since the introduction of the first video communication systems several decades ago. Currently, corporate room video communication systems that operate over ISDN and LAN networks are available for less than $10,000, while desktop ISDN and POTS videophones are sold for less than $2,000.

Videophones that operate over POTS with the addition of a display screen and a telephone, such as the Company's VC105 product, are now available for less than $500. As a result, the market for video communication, formerly primarily limited to the corporate boardroom, has expanded, with increasing corporate applications as well as greater usage by small businesses and within the home.

Since the first video communication products were introduced in the late 1970's, users have faced a tradeoff between the cost and availability of network bandwidth and the quality of video images that can be transmitted over the network. High capacity connections, such as T1/E1 (1.5/2.0 megabits per second (Mbps) and ISDN (128 kilobits per second (Kbps)) provide greater bandwidth, but are significantly more costly and less available than analog POTS lines. The POTS network now offers one-way data transmission rates of up to 56.6 Kbps but remains limited to rates of up to 33.6 Kbps for the symmetrical data transmission required for video communication. A number of technologies have been deployed or are under development which aim to increase the bandwidth available from existing copper telephone lines. These include faster POTS modems and residential ISDN, DSL and cable transmission service.

The challenge faced by developers of video communication systems has been to provide the best possible image quality through the efficient compression of video and audio data for transmission over available network bandwidth. Because video images contain a large amount of information, video communication systems must compress the video and audio data to fit the available network bandwidth while attempting to maintain the quality and synchronization of audio and video. For example, a digitized normal television signal contains approximately 160 Mbps of information, which must be compressed by a factor of over 6000 to 1 to permit symmetrical transmission over POTS at a rate of 25 Kbps. A video bandwidth of 25 Kbps is typical in a 33.6 Kbps POTS connection, allowing for audio, data and control overhead. The quality of transmitted video images is a function of network bandwidth and the sophistication of the hardware and software used to compress and decompress the data. By using sophisticated compression algorithms and advanced DSP semiconductors, such as the Company's video communication semiconductors, video communication system manufacturers can achieve improved video quality over all network types, including POTS.

The proliferation of video communication equipment has been influenced by the adoption of international video telephony standards. If complied with, the standards permit interoperability between systems offered by different vendors. Increased usage of video communication in the corporate market has been facilitated by the adoption of the H.320 standard, which defined the video telephony protocols used by systems connected over ISDN. The adoption of H.320 enabled interoperability between systems from different vendors, encouraged new market entrants, and contributed to significantly lower system pricing and an increased installed base. The Company believes that the H.320 standard expanded the market for business video communication systems over ISDN. Similarly, the H.324 standard for video telephony over POTS may result in expanded home use of videophones.* Other standards, such as H.323, are being developed for communication over packet-based networks, such as LANs and DSL and cable networks.

Until recently, nearly all video communication products have been targeted at corporate users with access to high bandwidth connections such as T1/E1 and ISDN. However, the vast majority of consumers continue

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to have limited access to bandwidth beyond that provided by standard analog POTS lines. The Company believes that significant demand exists for inexpensive videophone products that would allow users to transmit video images with audio over normal telephone lines.* In addition, the Company believes that, as higher bandwidth infrastructure, whether ISDN, DSL or cable networks, becomes more available, a market for inexpensive videophones that operate over such networks will develop.*

As a result of the availability of 33.6 Kbps POTS transmission rates, video compression advances and the adoption of the H.324 standard, low cost POTS videophones have been developed by the Company and a number of other suppliers. These products may be introduced in a variety of product configurations and physical forms (i.e., "form factors"), including those based on telephones and using a television for display, such as the VC105, or using an LCD for display, such as the VC150, and those based on the PC. An increasing number of PCs are being shipped with pre-installed H.324 compliant software. Significant sales of such H.324 products, if achieved, may increase the usefulness of and demand for additional H.324 compliant videophones by providing potential videophone purchasers with other parties to call.*

8X8 STRATEGY

Key elements of the Company's strategy include:

- Expand Upon Core Technology. The Company intends to further develop each element of its video communication technology, including semiconductor, software and systems technology. Certain of the Company's ongoing development efforts are targeted at reducing overall system costs through integration of additional functions onto the Company's semiconductors.* At the same time, the Company is continuously developing technology to improve video and audio quality at varying bandwidths, add video communication features and ensure compliance with all current and emerging video telephony standards to encourage proliferation of the Company's and its OEM customers' system products.*

- Broaden and Enhance VideoCommunicator Family. The Company is currently selling four models of the ViaTV videophone, all of which currently operate over POTS and have been introduced since the beginning of 1997. In addition to the introduction of these products, the Company also has made available software upgrades to its installed base, adding features such as pan/tilt/zoom, snapshot mode, auto-answer and picture and audio quality enhancements. The Company plans to extend its VideoCommunicator product line in the future by developing products in new form factors and with new features.* The Company further intends to differentiate its current products in the future by adding features and providing further picture and audio quality enhancements.*

- Extend Marketing Channels. The Company currently sells its video communication semiconductor and software products to OEMs and distributors. The Company sells its VideoCommunicators to OEMs, retail stores, distributors and directly to end-users. The Company's semiconductor and system products are sold in a number of countries throughout North America, Asia and Europe. The Company continues to work to broaden the marketing and distribution of its products.*

- Enhance and Increase Capabilities Over Network Infrastructures. The Company's semiconductor, software and systems technologies currently enable, to varying degrees, video communication over the POTS, ISDN, LAN, DSL and cable networks. The Company's current VideoCommunicator products operate on the POTS network. The Company intends to further enhance the capabilities to permit operation of the products of its OEM customers and its VideoCommunicators on additional networks, including those listed above and those that may emerge in the future.*

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PRODUCTS

VideoCommunicator Products

The Company develops, markets and sells its VideoCommunicator products and a variety of video communication semiconductors and related software and reference boards. The table below describes the Company's VideoCommunicator products:

PRODUCT	DESCRIPTION	FEATURES
ViaTV Model VC50 Modular Videophone	H.324 modular videophone with built-in 33.6 Kbps modem requiring connection to a television, a digital video camera and a touch-tone telephone.	- 3 camera inputs - Accessory port input
ViaTV Model VC55 Modular Videophone	H.324 modular videophone with built-in 33.6 Kbps modem requiring connection to a television, a digital video camera and a touch-tone telephone; internet access device with email.	- 3 camera inputs - Accessory port input - Web browsing - Email
ViaTV Model VC105 Set-top Videophone	H.324 set-top videophone/built-in 33.6 Kbps modem requiring connection to a television and touch-tone phone.	- Built-in video camera - Accessory port input
ViaTV Model VC150 Desktop Videophone	H.324 videophone requiring connection to a touch-tone telephone.	- Built-in video camera - Built-in 4" LCD display - Accessory port input

The Company's VideoCommunicators, the VC50, VC55, VC105 and VC150 models, all connect to a standard touch-tone telephone and add video to an otherwise normal telephone call, without the need for a PC. These ViaTV videophones are designed to be compliant with the H.324 international standard for video telephony over POTS and to be compatible with PC and non-PC based systems that adhere to the H.324 standard. In addition, the ViaTV videophones are designed to communicate with full duplex audio and video rates of up to 15 frames per second. The ViaTV products, which are based on the Company's proprietary semiconductor and software technology, include a V.34 modem and display video on the display screen in several sizes, as well as in a simultaneous remote and self-view mode. Additional features include caller ID, electronic pan/tilt/zoom, snapshot mode, video privacy mode and an auto-answer feature with an optional security password. The ViaTV videophones are controlled through the touch-tone keypad of the user's telephone and menu driven instructions that appear on the video display screen.

The VC50, VC55 and VC105 require the use of a television as the display, while the VC150 includes a built-in four-inch LCD video display. Further, while the VC105 and VC150 each contain a built-in video camera, the VC50 and VC55 are designed to be connected to a camcorder, digital snapshot camera or other composite video source. Particular aspects of each product are as follows:

- VC50 Modular Videophone. The VC50 Modular Videophone requires the use of a television as a display. In addition, because the VC50 model does not include a built-in video camera, it requires connection to a composite video source, such as a camcorder, a digital camera or a video cassette recorder. The VC50 videophone has three separate video inputs so that it can be connected to multiple cameras, which may be remotely selected for viewing. As a result of this and the auto-answer feature present in all ViaTV products, the VC50 model is appropriate for security and monitoring applications. The accessory port of the VC50 unit also permits attachment of various peripheral devices, such as a wireless keyboard that transmits text on the display screen along with video. The VC50 product may be connected to high performance digital video and document cameras as well as full-duplex speakerphones to create a room based, corporate video communication system.

- VC55 Modular Videophone. Similar to the VC50 Modular Videophone, the VC55 model also has internet and email capabilities enabled by software developed by PlanetWeb, Inc. internet browsing and email may be accomplished by the use of the telephone keypad and a pop-up screen keyboard or with the use of the optional wireless keyboard. The VC50 and VC55 Modular Videophones were both introduced in September 1997.

- VC105 Set-top Videophone. The VC105 Set-top Videophone is a successor to the Company's initial VideoCommunicator product, the VC100, which was first sold in February 1997. While the VC105 model does require the use of a television as a display, it contains a built-in digital video camera. Thus, it is a simple to install and use videophone, targeted primarily for home and small-business video communication use.

- VC150 Desktop Videophone. The VC150 Desktop Videophone, which the Company first shipped in March 1998, contains a built-in digital camera and a built-in four-inch LCD display. As a result, it merely requires connection to a touch-tone telephone. Thus, it is suited for desktop or countertop use in a home or business environment.

The Company offers a number of accessories for use with its ViaTV videophones, including wireless keyboards and cameras for use with the VC50 and VC55 models and an international travel kit for use with the ViaTV products. Currently, the Company is developing additional accessories for its ViaTV products, including a full-duplex speakerphone.*

The Company plans to extend its VideoCommunicator product line in the future by developing products in new form factors and products that are designed to comply with emerging video telephony standards.* The Company further intends to differentiate its products by adding features and providing further picture and audio quality enhancements.* See "Research and Development."

The Company is dependent on continual and successful development and introduction of new products. See "Factors That May Affect Future Results -- Rapid Technological Change; Dependence on New Product Introduction" and "Factors That May Affect Future Results -- Compliance with Regulations and Industry Standards."

Video Communication Semiconductors

The Company's video communication semiconductors are based on the Company's proprietary architecture. This architecture combines, on a single chip, a custom RISC microprocessor, a high performance DSP core, specialized video processing circuitry, static random access memory and proprietary software, which together perform the core processing functions required by video communication and other digital video applications.

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The table below describes the Company's video communication semiconductors and their applications:

PRODUCT	DESCRIPTION	APPLICATIONS
Video Communications Processor (VCP)	H.320 compression semiconductor for ISDN video communication systems; or H.323 Semiconductor for LAN video conferencing systems or internet phone calls.	- PC ISDN video communication add-in boards - ISDN group video communication systems - LAN video communication systems - Internet phone calls
Low bit-rate Videophone Processor (LVP)	H.324 compression semiconductor for POTS video communication systems Compression semiconductor for video capture and encoding systems	- Consumer video telephones for POTS - PC videophone add-in boards for POTS - Cameras with embedded compression - Video capture PC add-in boards
Video to PCI Interface Chip (VPIC)	Interface chip which connects the VCP/LVP devices to the PCI Bus	- PC (POTS, ISDN or LAN-based) video communication boards
VCPex	Recently announced successor to the VCP and LVP	- See VCP and LVP applications above

- VCP -- Video Communications Processor. The Company's VCP is an integrated video communication semiconductor, which allows OEMs to develop video communication systems based on the H.320 standard for ISDN video communication or on the H.323 standard for LAN video communication or internet phone calls. In recent quarters, the VCP accounted for the majority of the Company's semiconductor product sales. The Company's proprietary RISC and DSP technology allows a single VCP semiconductor to output up to 30 frames per second of H.320 based video over an ISDN line. The VCP includes video processing circuitry that compresses and decompresses video images. Systems designed using multiple VCPs are capable of providing full-duplex video quality approaching that of a television. The VCP can reside on PC add-in cards or non-PC based corporate conference room systems.

- LVP -- Low bit-rate Videophone Processor. The LVP semiconductor is designed to support H.324 based videophones using standard POTS phone lines. Systems based on the LVP benefit from the same RISC and DSP technology found in the Company's VCP product, and are designed to deliver video at up to 15 frames per second over a standard POTS telephone line. The LVP can be designed into systems in a variety of form factors, including non-PC based systems that utilize a telephone and either a television or LCD display. The LVP can also be designed into PC videophone add-in boards and used for multimedia compression applications which require high processing power to compress high bandwidth digital video, such as cameras with embedded compression, PC add-in boards for video capture and editing and CD-ROM title development. The LVP is the core video communication semiconductor inside the Company's ViaTV products.

- VPIC -- Video to PCI Interface Chip. The VPIC is a companion semiconductor to the Company's video communication semiconductors. The VPIC provides a direct interface between the Company's compression semiconductors and the high speed PCI expansion bus found in PCs. By providing a direct path into the PC's graphic display memory, the VPIC allows PC board designers to improve the performance and quality of their designs based on the Company's video communication semiconductors.

- VCPex. The Company recently announced the introduction of its VCPex semiconductor, which is the successor to its VCP and LVP semiconductors. The VCPex provides greater functionality and operates at greater speeds than the VCP and LVP.

The Company intends to design future generations of its video communication semiconductors to allow the development of video communication systems with price/performance improvements.* See "Research and Development."

Application Software

The Company sells its semiconductors with its proprietary application specific software to address the unique system requirements of various international video telephony standards. This software, which is a combination of microcode assembly and C firmware, enables the Company's proprietary semiconductor architecture to implement multiple compression standards such as H.320, H.323, H.324 and MPEG. In many cases, by enhancing its application software, the Company can improve the quality of transmitted video images, address emerging standards and add user features to its existing video communication semiconductors. Certain of the Company's video communication software may be ported to other platforms such as PCs or embedded controllers. The Company supplies an Application Programmers Interface (API) with its software to allow limited customization through an external microprocessor or host controller. The Company also sells licenses for the source code for its software to customers who wish to modify the software by adding their own features and controls. Development kits are also licensed to customers allowing them to write, compile and develop software for the Company's proprietary semiconductor architecture.

Reference Boards and Designs

The Company provides a range of printed circuit boards and designs as reference boards or reference designs to its customers that serve as examples for targeted applications. Each reference board and reference design is provided with schematics, complete documentation, video processor software and board-level software diagnostics. This allows the customer to leverage the Company's systems design expertise. These reference boards and reference designs enable customers to more quickly introduce new products and improve the Company's technical support capabilities. Examples of the Company's reference board designs include the DVC9-I, which is designed for H.320 systems based on the VCP, and the DVC9-P, which is designed for H.324 systems based on the LVP. The Company also recently announced its DVC10 reference board design based on its VCPex semiconductor for use with H.320, H.323 and H.324 systems. Each of the Company's reference boards and reference designs specifies the use of one of the Company's video communication semiconductors on the board or within the design.

TECHNOLOGY

The Company has developed the following technologies:

Semiconductor Architecture

The Company's video communication semiconductors share a common architecture that enables implementation of video communication applications in a highly efficient manner. In such an application, a video communication terminal must compress and transmit audio and video data while simultaneously receiving and decompressing video data from a remote source. The Company's semiconductor architecture integrates two core processors that run in parallel:
a 32-bit RISC microprocessor and a 64-bit Single Instruction Multiple Data (SIMD) DSP.

The Company's VCP and LVP semiconductors currently in production are manufactured using 0.5 micron, 3-layer metal complementary metal oxide semiconductor (CMOS) process technology, while the VCPex is based on 0.35 micron, 4-layer metal CMOS process technology. The VCP and LVP operate at 5 volts, while the VCPex operates at 3.3 volts.

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The Company's RISC processor core uses a proprietary instruction set specifically designed for video communication applications. The RISC core in the VCP and LVP operates at frequencies up to 36 MHz, while the VCPex RISC core operates at 40 MHz. The RISC core controls the overall chip operation and manages the input/output interface through a variety of specialized ports which connect the chip directly to external host, audio and network subsystems. This core is programmable in the C programming language and allows customers to add their own features and functionality to the device software provided by the Company. The RISC core accesses 32-bit instructions and data through a bus that interfaces to external static random access memory (SRAM).

The Company's DSP core is a SIMD processor that implements computationally intensive video, audio and graphics processing routines as well as certain digital communications protocols. The DSP core in the VCP and LVP operates at frequencies up to 72 MHz, while the VCPex DSP core operates at 80 MHz. The DSP core is programmable with a proprietary instruction set consisting of variable-length 32-bit and 64-bit microcode instructions that provide the flexibility to improve algorithm performance, enhance video and audio quality and maintain compliance with changing digital video standards. The DSP core accesses their instructions through an internal bus that interfaces to 8 kilobytes of on-chip SRAM and 8 kilobytes of on-chip read-only memory (ROM) that is preprogrammed with video and audio processing subroutines.

The RISC and DSP cores combine to provide an efficient and flexible architecture that can be reconfigured through a change of application software. This flexibility allows the architecture to implement the fundamental processing steps that form the basis of H.320, H.323 and H.324 (together, H.32x) standards- based video communication systems.

The Company's semiconductors contain hardware-accelerated video pre- and post-processing capabilities that enhance video quality and provide an interface to various video capture and display devices. These capabilities include filtering, scaling, noise reduction and interlacing.

The Company's semiconductors contain interfaces to the external devices that comprise a typical video communication system. These interfaces include a digital video port, digital audio port, a programmable serial port (for communication via a synchronous digital interface) and a host port (for communication with a PC or microcontroller). In addition, the semiconductors contain memory bus interfaces to external SRAM for access to stored RISC instruction and data and to external dynamic random access memory (DRAM) for access to stored video and graphics data.

Application Software

The Company has developed a broad range of application software that runs on the Company's semiconductor products. The Company's application software allows the use of its semiconductors in systems that conform with various international video telephony standards. By refining its software, the Company can enhance picture quality, address new standards and add significant user features. In addition, certain of the Company's customers have licensed source code to which they add proprietary features, custom interfaces and, in some cases, algorithm improvements. See "Licensing and Development Arrangements."

The Company's software can be categorized as follows:

- Control protocols that run on the RISC and manage user control, call negotiation, call progress and mixing and separation of audio, video and other data.

- Audio and video codec routines that run on the DSP.

- Digital communication protocols that interface to external communications networks such as POTS and ISDN.

- Development tools such as compilers, assemblers and debuggers that allow the Company and customers to write new applications and modify existing applications.

Algorithm Expertise

The Company has devoted significant resources to develop video and audio codec algorithms to meet international video telephony standards. While the H.32x standards clearly specify the syntax requirements of a standards-compliant decoder, and thus what constitutes a valid H.32x bitstream, they do not specify the methods by which an H.32x encoder generates such a bitstream. The flexibility of the Company's video communication semiconductor architecture allows the Company to apply its core algorithm expertise to develop products for a variety of video communication applications.

The Company's algorithm expertise enables the following:

- Video Coding Efficiency and Video Quality. The Company's proprietary motion search, mode decision and rate buffer control algorithms enhance video quality for H.32x video communication applications.

- Integrated Control of Real-Time Systems. Video communication systems are inherently complex due to the convergence of video, audio and control information. The Company's proprietary semiconductor architecture and interrupt-driven control software manage these varying data streams in concert thereby reducing the complexity of the external system design. In addition, the Company's single-chip control of audio and video data in certain applications provides for audio/video synchronization and low end-to-end latency.

- Robustness to Varying Network Conditions. Video communication systems must interface to networks with transmission characteristics that vary over time. These characteristics can cause network bandwidth to change and can result in the loss or corruption of transmitted information. The Company has developed control algorithms that adapt to changes in network bandwidth and that recover from the loss or corruption of data in a way that reduces negative perceptual effects on the user.

System Design

The Company has developed expertise in integrating its semiconductors and software with peripheral components to produce complete video communication systems. The Company's system technology consists of modular subsystems that can be rearranged to interface to various networks (such as POTS, ISDN and LAN) and to interface to various video capture and display devices.

CUSTOMERS AND MARKETING

The Company markets its semiconductors and associated software through its own direct sales force as well as through distributors. The Company sells its VCP semiconductors and related software and reference designs primarily to OEMs of ISDN office video communication systems that use the H.320 standard, including PictureTel, Siemens, Sony, VideoServer, VCON and Vtel. The Company sells its LVP semiconductors and related software and reference board designs to OEMs of POTS video communication systems for the consumer market using the H.324 standard, such as Kyushu Matsushita Electric Co., Ltd. (KME), Leadtek, Sony and Truedox.

The Company markets its VideoCommunicators through retail channels such as Best Buy, CompUSA, Fry's Electronics, J & R Computer World, OfficeMax and Staples; catalogs such as Hammacher Schlemmer and MicroWarehouse; and distributors such as D&H, IngramMicro and Wynit. The Company also sells its VideoCommunicators through a direct marketing effort utilizing a combination of advertising and toll-free telemarketing in the United States and the United Kingdom. In conjunction with the Company's distributors and resellers, the ViaTV products are sold in a number of countries throughout North America, Europe and Asia. The Company's VideoCommunicators sales efforts are supported by co-marketing relationships with third parties such as EFA Corporation, GTE and AT&T.

The Company's direct sales force supports domestic and international sales and operates from the Company's headquarters in Santa Clara, California and a European office in London. As of March 31, 1998, the Company employed 35 persons in sales and marketing. These persons provide account support for direct, OEM, distributor and retail channel customers of the Company's products. In addition, these persons staff the Company's telemarketing and end user customer support efforts for its VideoCommunicator products. The Company's sales and marketing personnel typically provide support to its OEM, distributor and retail channel customers through sales literature, periodic training, customer symposia, pre-sales support and joint sales calls. The Company utilizes several marketing programs to support the sale and distribution of its products, including participation in industry trade shows and conferences. The Company also publishes technical articles, distributes sales and product literature and has an active public relations plan to encourage coverage of the Company's products and technology by the media. In relation to its ViaTV products, the Company also utilizes advertising in print media and on television and radio, in some cases in conjunction with its OEM, distributor and retail channel customers.

Historically, a significant portion of the Company's sales has been to relatively few customers, although the composition of these customers has varied. Revenues from the Company's ten largest customers in the years ended March 31, 1998, 1997 and 1996 accounted for approximately 61%, 61% and 65%, respectively, of its total revenues. During these periods the Company had three customers that accounted for 10% or more of total revenues: 3Com accounted for 20% during the year ended March 31, 1998; ASCII, the Company's former distributor in Japan, accounted for 13% during the year ended March 31, 1997; and ESS Technology accounted for 24% during the year ended March 31, 1996. In addition, the Company has recently been, and will continue in the foreseeable future to be, dependent on the video communication industry. The loss of, or any reduction in orders from, a significant customer, or any general decline in the market for video communication products, could have a material adverse effect on the Company's business and operating results. See "Factors That May Affect Future Results -- Product Concentration; Potential Loss of Semiconductor Sales; Dependence on Video Communication Industry" and "Factors That May Affect Future Results -- Dependence on Key Customers."

Sales to customers outside of the United States represented 47%, 54% and 49% of total revenues in the fiscal years ended March 31, 1998, 1997 and 1996, respectively. Specifically, sales to customers in the Asia Pacific region represented 25%, 33% and 32% of the Company's total revenues for the years ended March 31, 1998, 1997 and 1996, respectively, while sales to customers in Europe represented 22%, 21% and 17% of the Company's total revenues for the same periods, respectively. Such reliance on foreign customers involves a number of risks. See "Factors That May Affect Future Results -- International Operations."

As a result of consumer preferences, marketplace conditions and the limits of video communications over the POTS infrastructure, a significant market for the ViaTV videophones and the Company's OEM customers products for POTS may not develop. See "Factors That May Affect Future Results -- Uncertainty of Market Acceptance; Limits of Existing Technology."

MANUFACTURING

The Company outsources the manufacture of its VideoCommunicators and semiconductors to subcontract manufacturers and independent foundries. The Company's VideoCommunicator subcontract manufacturers include EFA Corporation in Taiwan, Flash Electronics in Fremont, California and Vtech Communications in Hong Kong, while its semiconductor manufacturers include Taiwan Semiconductor Manufacturing Corporation and UMC in Taiwan. The company also relies on Amkor Electronics in South Korea for packaging and testing of its semiconductors. The Company does not have long term purchase agreements with its subcontract manufacturers or its component suppliers. There can be no assurance that the Company's contract manufacturers will be able or willing to reliably manufacture the Company's products, or that the Company's component suppliers will be able or willing to reliably supply components for the Company's products, in volumes, on a cost effective basis or in a timely manner. The Company may experience difficulties due to its reliance on independent subcontract manufacturers, semiconductor foundries and component suppliers that could have a material adverse effect on the Company's business and operating results.

In addition, from time to time the Company may issue non-cancelable purchase orders to its third-party manufacturers for raw materials used in its VideoCommunicator products to ensure availability for long lead-time items or to take advantage of favorable pricing terms. If the Company should experience decreased demand for its VideoCommunicator products, the Company would still be required to take delivery of and make payment for such raw materials. In the event of a significant decrease in VideoCommunicator product demand, such purchase commitments could have a material adverse effect on the Company's business and operating results. The Company's reliance on foreign subcontract manufacturers involves a number of risks. See "Factors That May Affect Future Results -- International Operations."

RESEARCH AND DEVELOPMENT

As of March 31, 1998, the Company had 55 employees engaged in research and development. Research and development expenses in the years ended March 31, 1998, 1997 and 1996 were $12.3 million, $10.5 million and $7.7 million, respectively. The Company's development of new products and the enhancement of existing products is essential to its success.* Accordingly, the Company anticipates that research and developments expenses will continue to increase in the foreseeable future.* However, such expenses may fluctuate from quarter to quarter depending on a wide range of factors, including the status of and prospects for various development projects.*

The Company's current and future research and development efforts relating primarily to video communication semiconductors have and will continue to focus on the Company's next generations of these products.* Areas of emphasis will include an enhanced version of its video communication semiconductor architecture intended to provide higher performance, enhanced functionality and further integration of certain essential system functions.* This integration is designed to permit improved system price/performance.* Future software developments may focus on emerging video telephony standards, picture quality enhancements and additional features supporting both the Company's systems products and its OEM customer products.*

Research and development efforts relating to the Company's VideoCommunicators are directed towards the addition of features and picture and audio quality enhancements.* To expand its family of VideoCommunicators, the Company is developing new form factors and products that are designed to comply with emerging video telephony standards.*

If the Company is unable to develop and introduce new or enhanced products in a timely manner, or if such new or enhanced products do not achieve sufficient market acceptance, it would have a material adverse effect on the Company's business and operating results. See "Factors That May Affect Future Results -- Uncertainty of Market Acceptance; Limits of Existing Technology" and "Factors That May Affect Future Results -- Rapid Technological Change; Dependence on New Product Introduction."

LICENSING AND DEVELOPMENT ARRANGEMENTS

The Company has entered into licensing and development arrangements with other companies to promote the design, development, manufacture and sale of the Company's products. The Company intends to continue to license its semiconductor, software and systems technology to other companies, many of which are current or potential competitors of the Company. Such arrangements may enable these companies to use the Company's technology to produce products that compete with the Company's VideoCommunicators. See "Competition." The Company's most significant licenses are with 3Com and KME.

On May 5, 1997, the Company entered into a license agreement with 3Com. Pursuant to the agreement, the Company has granted to 3Com, for an initial license fee plus certain royalties, a license to make, use and sell systems and products containing the Company's proprietary technology relating to its VideoCommunicators and its PC-related video communication products. As a result, 3Com has a license to substantially all of the Company's technology underlying its VideoCommunicators. 3Com is prohibited under the agreement

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* This statement is a forward looking statement reflecting current expectations. There can be no assurance that the Company's actual future performance will meet the Company's current expectations. See "Manufacturing" commencing on page 10, "Competition" on page 13 and "Factors That May Affect Future Results" commencing on page 14 for a discussion of certain factors that could affect future performance.

from selling the Company's semiconductors on the open market. Both parties have also agreed to license to each other any enhancements to the technology which are developed by either party, unless 3Com elects to discontinue sharing at any time or the Company elects to discontinue sharing (which it may do at any time following June 30, 2000). Any enhancements or other technology developed by 3Com cannot be sublicensed by the Company or incorporated into semiconductors which the Company sells on the open market in component form, but can be incorporated into semiconductors that the Company uses in the VideoComunicators. Pursuant to the Company's agreement with 3Com, the Company was prohibited, until May 5, 1998, from licensing the technology to others, except in limited circumstances.

The KME agreement provides to KME, for a license fee previously paid in full to the Company, all of the source code and object code of the H.324 software for 8x8's LVP semiconductor product and related development software, as well as certain board schematics (the "H.324 Technology"), and grants KME a perpetual, nonexclusive, nonassignable worldwide license to make, use or sell products with the H.324 Technology. Under this arrangement, KME also has a nonassignable option, upon payment of additional consideration, to obtain the Company's LVP and VCP semiconductor technology for use only on systems assembled by KME or its affiliates, which would include any entity controlled directly or indirectly by Matsushita. As a result, KME has a license to substantially all of the Company's technology underlying its VideoCommunicators. In addition, KME must pay to the Company a royalty for any LVP or VCP semiconductor it manufactures or any product wherein KME uses any part of the LVP or VCP semiconductor technology. Both parties agree to license to the other party, at no charge, any enhancements to the H.324 Technology or the LVP or VCP semiconductor made by either party, until such time as KME decides to discontinue sharing of enhancements.

The Company has licensed portions of its semiconductor, software and systems technology to others. The Company has licensed the right to manufacture certain of its video communication semiconductors, subject to payment of royalties, to several video communication systems manufacturers. In addition, the Company has licensed portions of its video communication semiconductor technology to ESS Technology. Of these licensees, ESS Technology may sell semiconductors based on the licensed technology to third parties, while the other licensees are limited to sale of such semiconductors as part of video communication systems or sub-systems. The obligation of ESS Technology to pay royalties to the Company with regard to the sale of semiconductors based on the licensed technology, will expire in October 2000, or earlier, if the Company exercises its right to a royalty-free license to certain technology of ESS Technology. In order to encourage the use of its semiconductors, the Company has licensed portions of its systems technology and software object code for its semiconductors to virtually all of its semiconductor customers. Moreover, many of the Company's OEM customers have licensed portions of the source code to its software for its semiconductors. In addition to KME and 3Com, a number of video communication system manufacturers have licensed substantial portions of the Company's source code.

In the years ended March 31, 1998, 1997 and 1996, technology licensing revenues (all of which were nonrecurring) were $14.5 million, $3.9 million and $9.0 million, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There can be no assurance that the Company will receive such licensing revenues in the future. See "Factors That May Affect Future Results -- No Assurance of Future License and Other Revenues."

In addition to licensing its technology to others, the Company from time to time will take a license to others' technology. For example, the web browser software running on the VC55 was developed by, and is licensed from, PlanetWeb, Inc. The Company has in the past licensed and in the future expects to continuing licensing its technology to others, many of whom are located or may be located abroad. There are no assurances that such licensees will protect the Company's technology from misappropriation. Also, the Company's reliance on licensing technology from third parties subjects the Company to certain risks. See "Factors That May Effect Future Results -- Dependence on Proprietary Technology; Reliance on Third Party Licenses."

COMPETITION

The Company competes with both independent manufacturers of video communication semiconductors and with the introduction of its VideoCommunicator products now competes with manufacturers of video communication products targeted at the consumer market. The markets for the Company's products are characterized by intense competition, declining average selling prices and rapid technological change.

The competitive factors in the market for the Company's VideoCommunicators include audio and video quality, phone line connectivity at high transmission rates, ability to connect and maintain stable connections, ease of use, price, access to enabling technologies, product design, time-to-market, adherence to industry standards, interoperability, strength of distribution channels, customer support, reliability and brand name. The Company expects intense competition for its VideoCommunicators from:

- Large consumer electronics manufacturers. The Company will face intense competition from many well known, established suppliers of consumer electronics products, which may include Lucent Technologies, Matsushita, Philips, Samsung and Sony. The Company does face competition from 3Com. Many of these potential competitors sell television and telephone products into which they may integrate video communication systems, thereby eliminating a consumer's need to purchase a separate video communication system, such as the Company's ViaTV product.

- Personal computer system and software manufacturers. Potential customers for the Company's VideoCommunicators may elect instead to buy PCs equipped with video communication capabilities, which are currently available. As a result, the Company faces or may face competition from Intel; PC system manufacturers such as Apple, Compaq, Dell, IBM and Sony; PC software suppliers such as Microsoft and Netscape; and PC add-on component suppliers.

- Existing manufacturers of corporate video communication equipment. Manufacturers of more expensive corporate video communication systems have continually reduced the cost of their products and may enter the market for lower cost consumer video communication products. Potential competitors include PictureTel, Polycom, Sony, Tandberg, VCON and Vtel.

- Emerging suppliers of internet appliances. Potential customers for the Company's VideoCommunicators may elect instead to buy standalone internet access terminals which may provide some or all of the functionality of the Company's products. Consumer products for television-based internet access have been announced or introduced by companies such as Microsoft, Philips and Sony.

C-Phone, Leadtek, 3Com and Truedox are among the companies selling low cost videophones. Many other companies have announced the development of low cost videophones. The Company expects that additional companies will introduce products that compete with the VideoCommunicators in the future. Certain manufacturers or potential manufacturers of low cost videophones have licensed or purchased, or may license or purchase, the Company's technology and semiconductors in order to do so. KME and 3Com in particular have licensed substantially all of the technology underlying the VideoCommunicators, and may use such technology to introduce products that compete with the VideoCommunicators. Each of Leadtek and Truedox license the Company's technology and purchase the Company's video communication semiconductors. The Company aggressively licenses its semiconductor, software and systems technology and sells its semiconductor and system products to third parties. Thus, it is likely that additional of the Company's OEM customers will become competitors with respect to the Company's VideoCommunicator business. Other competitors may purchase video communication semiconductor and related technology from other suppliers.

The principal competitive factors in the market for video communication semiconductors include product definition, product design, system integration, chip size, functionality, time-to-market, adherence to industry standards, price and reliability. The Company has a number of competitors in this market including Analog Devices, Chromatic Research, Lucent Technologies, Motorola, Philips, Texas Instruments and Winbond Electronics. Potential competitors include ESS Technology, which has licensed certain of the Company's video communication semiconductor technology, and Rockwell Semiconductor Systems. Certain of the Company's competitors for video communication semiconductors maintain their own semiconductor foundries and may therefore benefit from certain capacity, cost and technical advantages. In addition, the presence of the Company in the video communication systems business may result in certain customers or potential customers perceiving the Company as a competitor or potential competitor, which may be used by other semiconductor manufacturers to their advantage.

The Company's reliance on developing vertically integrated technology, comprising systems, circuit boards, software and semiconductors, places a significant strain on the Company and its research and development resources. Competitors that focus on one aspect of technology, such as systems or semiconductors, may have a considerable advantage over the Company. In addition, many of the Company's current and potential competitors have longer operating histories, are substantially larger, and have greater financial, manufacturing, marketing, technical and other resources. Many also have greater name recognition and a larger installed base of products than the Company. Competition in the Company's markets may result in significant price reductions. As a result of their greater resources, many current and potential competitors may be better able than the Company to initiate and withstand significant price competition or downturns in the economy. There can be no assurance that the Company will be able to continue to compete effectively, and any failure to do so would have a material adverse effect on the Company's business and operating results.

EMPLOYEES

As of March 31, 1998, the Company employed a total of 136 people, including 25 in manufacturing operations, 55 in research and development, 35 in sales and marketing and 21 in general and administrative capacities. The Company also employs a number of temporary employees and consultants on a contract basis.

The Company's future success will depend, in part, upon its ability to attract and retain qualified personnel. Competition for qualified personnel in the electronics and communications industries is intense, particularly in the San Francisco Bay area where the Company is located. There can be no assurance that the Company will be successful in retaining its key employees or that it will be able to attract skilled personnel as the Company grows. See "Factors That May Affect Future Results -- Management of Growth and Change; Dependence on Key Personnel."

FACTORS THAT MAY AFFECT FUTURE RESULTS

The following factors as well as the factors discussed above under the headings "Competition" and "Manufacturing" should be considered in conjunction with the information in this Report on Form 10-K.

HISTORY OF LOSSES; UNCERTAINTY OF FUTURE PROFITABILITY

The Company recorded operating losses in three of the four quarters in fiscal 1998 and recorded operating losses of $13.6 million and $4.1 million in the years ended March 31, 1997 and 1996, respectively. The Company would not have been profitable in fiscal 1998 had it not received nonrecurring license and other revenues. Revenues fluctuated from $28.8 million in fiscal 1996 to $19.1 million in fiscal 1997 to $49.8 million in fiscal 1998. In view of the Company's historical operating losses, there can be no assurance that the Company will be able to sustain profitability on either an annual or quarterly basis.

NO ASSURANCE OF FUTURE LICENSE AND OTHER REVENUES

The Company has in the past received substantial revenues from licensing of technology. License and other revenues, all of which were nonrecurring, were $14.5 million, $3.9 million and $9.0 million in the fiscal years ended March 31, 1998, 1997 and 1996, respectively. There can be no assurance that the Company will receive revenues from licensing of its technology in the future, which could have a material adverse effect on the Company's business and operating results.

POTENTIAL FLUCTUATIONS IN FUTURE OPERATING RESULTS

The Company's historical operating results have fluctuated significantly and will likely continue to fluctuate in the future. On an annual and a quarterly basis there are a number of factors that may affect the operating results of the Company, many of which are outside the Company's control. These include, but are not limited to: changes in market demand, the timing of customer orders, competitive market conditions, lengthy sales cycles, regulatory approval cycles, new product introductions by the Company or its competitors, market acceptance of new or existing products, the cost and availability of components, the mix of the Company's customer base and sales channels, the mix of products sold, the management of inventory and the accuracy of the reporting of sell-through by resellers of the Company's products, the level of international sales, continued compliance with industry standards and general economic conditions.

The Company's gross margin is affected by a number of factors including product mix, the recognition of license and other revenues for which there may be no or little corresponding cost of revenues, product pricing, the allocation between international and domestic sales, the percentage of direct sales and sales to resellers, and manufacturing and component costs. The markets for the Company's products are characterized by falling average selling prices. The Company expects that, as a result of competitive pressures and other factors, gross profit as a percentage of revenue for the Company's semiconductor products will likely decrease for the foreseeable future. In addition, the gross margins for the Company's VideoComunicators are, and will continue to be, substantially lower than the gross margins for its semiconductors. Thus, the growth of the Company's VideoCommunicator business has reduced overall product gross profit as a percentage of revenue. Continued growth of the Company's VideoCommunicator business relative to its semiconductor business will result in a further reduction in product gross profit as a percentage of revenue.

If the Company cannot adequately compensate for falling average selling prices with lower costs of sales, its gross margins will be reduced and there may be a material adverse effect on the Company's business and operating results. In the event that the Company encounters significant price competition in the markets for its products, the Company could be at a significant disadvantage compared to its competitors, many of which have substantially greater resources, and therefore may be better able to withstand an extended period of downward pricing pressure.

Variations in timing of sales may cause significant fluctuations in future operating results. In addition, because a significant portion of the Company's business, including sales of its VideoCommunicator products, may be derived from orders placed by a limited number of large customers, including OEM customers, the timing of such orders can also cause significant fluctuations in the Company's operating results. For example, 3Com, which purchased approximately 34% of videophone systems sold by the Company in the year ended March 31, 1998, has not ordered additional products from the Company since delivery of its purchases in the quarter ended December 31, 1998. Anticipated orders from customers may fail to materialize. Delivery schedules may be deferred or canceled for a number of reasons, including changes in specific customer requirements or international economic conditions. The adverse impact of a shortfall in the Company's revenues may be magnified by the Company's inability to adjust spending to compensate for such shortfall. Announcements by the Company or its competitors of new products and technologies could cause customers to defer purchases of the Company's existing products, which would also have a material adverse effect on the Company's business and operating results.

The Company's products have lead times of up to four months, and are built to forecasts that are necessarily imperfect, particularly given the early stage of the videophone market. Because of the Company's practice of building its products to necessarily imprecise forecasts, it is likely that, from time to time, the Company will have either excess or insufficient product inventory. This risk is heightened because of the need for and presence of significant VideoCommunicator inventory in retail distribution. Further, because retailers and other distributors may have significant quantities of VideoCommunicator inventory on hand and generally have contractual rights to price protection if the Company decreases the selling price, in the event of a significant price decrease, the Company's cost of such inventory may exceed the Company's actual selling price. Excess inventory levels will subject the Company to the risk of inventory obsolescence and the risk that the Company's selling prices may drop below the Company's inventory costs, while insufficient levels of inventory may negatively affect relations with customers. Any of these factors could have a material adverse effect on the Company's operating results and business.

The Company's introduction of VideoCommunicators has resulted in substantially different patterns in operating results. For example, during fiscal 1998, the Company's operating results were subject to increased seasonality with sales higher during the Company's third fiscal quarter, corresponding to the Christmas shopping season. In addition, the Company is spending substantial additional amounts on advertising, support of the retail channel, toll-free marketing and customer support. There can be no assurance that revenues adequate to justify such spending will result. The Company's shift to sale of VideoCommunicators has resulted in higher levels of product inventory and product returns, the necessity of granting price protection to resellers, more lengthy receivable collection cycles and higher warranty costs, which may have a material adverse effect on the Company's business and operating results.

As a result of these and other factors, it is likely that in some future period the Company's operating results will be below the expectations of securities analysts or investors, which would likely result in a significant reduction in the market price for the Company's common stock.

DEPENDENCE ON KEY CUSTOMERS

Historically, a significant portion of the Company's sales has been to relatively few customers, although the composition of these customers has varied. Revenues from the Company's ten largest customers in the years ended March 31, 1998, 1997 and 1996 accounted for approximately 61%, 61% and 65%, respectively, of total revenues. During these periods the Company had three customers that accounted for ten percent or more of total revenues. 3Com accounted for 20% of total revenues during the year ended March 31, 1998; ASCII, the Company's former distributor in Japan, accounted for 13% of total revenues during the year ended March 31, 1997; and ESS Technology accounted for 24% of total revenues during the year ended March 31, 1996. Substantially all the Company's product sales have been made, and are expected to be made, on a purchase order basis. None of the Company's customers has entered into a long-term agreement requiring it to purchase the Company's products. Further, all of the Company's license and other revenues are nonrecurring.

UNCERTAINTY OF MARKET ACCEPTANCE; LIMITS OF EXISTING TECHNOLOGY

Previous efforts to sell consumer videophones have been unsuccessful and there can be no assurance that the market for such products will develop. The current installed base of H.324 compliant videophones, which are compatible with the Company's ViaTV videophones, is quite limited, providing few parties for a purchaser of a single videophone to call. In addition, many consumers may not wish to be seen during a telephone call. The Company has no reliable data to suggest that there will be significant customer demand for such products, including the Company's VideoCommunicators and products offered by certain of the Company's OEM customers.

The Company's current ViaTV product line as well as products made by the Company's OEM customers for use on POTS, is not capable of delivering video data at rates of 24 frames per second. Below this data rate, the human eye can detect degradation of video quality. Further, POTS infrastructure varies widely in configuration and integrity, which can result in decreased rates of transmission and difficulties in establishing and maintaining connections. Actual or perceived technical difficulties or insufficient video quality related to video communication on POTS could impede market acceptance and have a material adverse effect on the Company's business and results of operations.

RAPID TECHNOLOGICAL CHANGE; DEPENDENCE ON NEW PRODUCT INTRODUCTION

The video communication semiconductor and video communication markets are characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully, the Company must continue to design, develop, manufacture and sell new and enhanced products that provide increasingly higher levels of performance and reliability and lower cost, take advantage of technological advancements and changes, and respond to new customer requirements. The Company's success in designing, developing, manufacturing and selling such products will depend on a variety of factors, including the identification of market demand for new products, product selection, timely implementation of product design and development, product performance, cost- effectiveness of products under development, effective manufacturing processes and the success of promotional efforts.

The Company plans to introduce additional VideoCommunicators and video communication semiconductors. The development of new products or enhancements to existing products involves technical and other risks, which the Company may not fully understand. In addition, new product introductions or enhancements to products may decrease demand for existing products resulting in higher than expected product returns and/or excess inventory of existing products. The Company has in the past experienced delays in the development of new products and the enhancement of existing products, and such delays will likely occur in the future.

If the Company is unable, due to resource constraints or technological or other reasons, to develop and introduce new or enhanced products in a timely manner, if such new or enhanced products do not achieve sufficient market acceptance or if such new product introductions decrease demand for existing products, it would have a material adverse effect on the Company's business and operating results.

DEPENDENCE ON PROPRIETARY TECHNOLOGY; RELIANCE ON THIRD PARTY LICENSES

The Company relies in part on trademark, copyright and trade secret law to protect its intellectual property in the United States and abroad. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright law, which afford only limited protection. The Company also relies in part on patent law to protect its intellectual property in the United States and abroad. The Company currently holds four United States patents, including patents relating to video compression and memory architecture technology, and has a number of United States and foreign patent applications pending. There can be no assurance that any such patent applications will result in an issued patent. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad (where effective intellectual property protection may be unavailable or limited) will be adequate or that competitors will not independently develop technologies that are similar or superior to the Company's technology, duplicate the Company's technology or design around any patent of the Company. The Company has in the past licensed and in the future expects to continuing licensing its technology to others, many of whom are located or may be located abroad. There are no assurances that such licensees will protect the Company's technology from misappropriation. Moreover, litigation may be necessary in the future to enforce the Company's intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and resources and could have a material adverse effect on the Company's business and operating results.

There has been substantial litigation in the semiconductor, electronics and related industries regarding intellectual property rights, and there can be no assurance that third parties will not claim infringement by the Company of their intellectual property rights. The Company's broad range of technology, including systems, digital and analog circuits, software and semiconductors, increases the likelihood that third parties may claim infringement by the Company of their intellectual property rights. If the Company were found to be infringing on the intellectual property rights of any third party, the Company could be subject to liabilities for such infringement, which could be material, and the Company could be required to refrain from using, manufacturing or selling certain products or using certain processes, either of which could have a material adverse effect on the Company's business and operating results.

The Company relies upon certain technology, including hardware and software, licensed from third parties. The loss of, or inability to maintain, existing licenses could have a material adverse effect on the Company's business and operating results.

COMPLIANCE WITH REGULATIONS AND INDUSTRY STANDARDS

The Company must comply with certain rules and regulations of the Federal Communications Commission regarding electromagnetic radiation and standards established by Underwriters Laboratories as well as similar regulations and standards applicable in other countries. The failure of the Company's products to comply, or delays in compliance, with the various existing and evolving government regulations and industry standards could delay or interrupt volume production of VideoCommunicators, which would have a material adverse effect on the Company's business and operating results.

INTERNATIONAL OPERATIONS

Sales to customers outside of the United States represented 47%, 54% and 49% of total revenues in the fiscal years ended March 31, 1998, 1997 and 1996, respectively. Specifically, sales to customers in the Asia Pacific region represented 25%, 33% and 32% of the Company's total revenues for the years ended March 31, 1998, 1997 and 1996, respectively, while sales to customers in Europe represented 22%, 21% and 17% of the Company's total revenues for the same periods, respectively.

International sales of the Company's semiconductors will continue to represent a substantial portion of the Company's product revenues for the foreseeable future. In addition, substantially all of the Company's current products are, and substantially all of the Company's future products will be, manufactured, assembled and tested by independent third parties in foreign countries. International sales and manufacturing are subject to a number of risks, including general economic conditions in regions such as Asia, changes in foreign government regulations and telecommunications standards, export license requirements, tariffs and taxes, other trade barriers, fluctuations in currency exchange rates, difficulty in collecting accounts receivable and difficulty in staffing and managing foreign operations. The Company is also subject to geopolitical risks, such as political, social and economic instability, potential hostilities and changes in diplomatic and trade relationships, in connection with its international operations. A significant decline in demand from foreign markets, such as may result from the current economic conditions in the Asia Pacific region, could have a material adverse effect on the Company's business and operating results.

MANAGEMENT OF GROWTH AND CHANGE; DEPENDENCE ON KEY PERSONNEL

The development and marketing of the Company's VideoCommunicators will continue to place a significant strain on the Company's limited personnel, management and other resources, particularly in light of the Company's limited experience in developing, manufacturing, marketing and selling consumer products. The Company's ability to manage any future growth effectively will require it to successfully attract, train, motivate, retain and manage employees, particularly key engineering and managerial personnel, to effectively integrate new employees into its operations and to continue to improve its operational, financial and management systems. The Company's failure to manage its growth and changes in its business effectively and to attract and retain key personnel could have a material adverse effect on the Company's business and operating results.

Further, the Company is highly dependent on the continued service of and its ability to attract and retain qualified technical, marketing, sales and managerial personnel. The competition for such personnel is intense, particularly in the San Francisco Bay area where the Company is located. The loss of any such person or the failure to recruit additional key technical and sales personnel in a timely manner would have a material adverse effect on the Company's business and operating results. There can be no assurance that the Company will be able to continue to attract and retain the qualified personnel necessary for the development of its business. The Company currently does not have employment contracts with any of its employees and does not maintain key person life insurance policies on any of its employees.

PRODUCT CONCENTRATION; DEPENDENCE ON VIDEO COMMUNICATION INDUSTRY

Sales of video communication products accounted for approximately 100%, 86% and 66% of total product revenues in the fiscal years ended March 31, 1998, 1997 and 1996, respectively. Any general decline in the market for video communication products could have a material adverse effect on the Company's business and operating results.

POTENTIAL VOLATILITY OF STOCK PRICE

The market price of the shares of the Company's common stock has been and is likely to be highly volatile. It may be significantly affected by factors such as: actual or anticipated fluctuations in the Company's operating results; announcements of technical innovations; loss of key personnel; new products or new contracts by the Company, its competitors or their customers; governmental regulatory action; developments with respect to patents or proprietary rights, general market conditions, changes in financial estimates by securities analysts and other factors which could be unrelated to, or outside the control of, the Company. The stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stocks of technology companies and that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of the Company's common stock. In the past, following periods of volatility in the market price of a Company's securities, securities class action litigation has often been initiated against the issuing company. There can be no assurance that such litigation will not occur in the future with respect to the Company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on the Company's business and operating results. Any settlement or adverse determination in such litigation would also subject the Company to significant liability, which would have a material adverse effect on the Company's business and financial condition.

NEED FOR ADDITIONAL CAPITAL

The Company believes that it may require additional financial resources over the next several years for working capital, research and development, expansion of sales and marketing resources, and capital expenditures. Net cash used in operating activities for the year ended March 31, 1998 was approximately $6.5 million, resulting primarily from cash requirements of the Company's VideoCommunicator business. The Company has incurred and will continue to incur, significant costs related on the development of ViaTV products, advertising for its ViaTV products, support of the retail sales channel and growth in ViaTV inventory. The Company believes that it will be able to fund planned expenditures and satisfy its cash requirements for at least the next twelve months from cash flow from operations, if any, and existing cash balances. As of March 31, 1998, the Company had approximately $26.7 million in cash and cash equivalents. However, the Company is operating in a rapidly changing industry. There can be no assurance that the Company will not seek to exploit business opportunities that will require it to raise additional capital from equity or debt sources to finance its growth and capital requirements. In particular, the development and marketing of new products could require a significant commitment of resources, which could in turn require the Company to obtain additional financing earlier than otherwise expected. There can be no assurance that the Company will be able to obtain additional financing as needed on acceptable terms or at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" under Item 7 below.

ITEM 2. PROPERTIES

The Company's principal operations are located in an approximately 45,623 square foot facility in Santa Clara, California. This lease expires in April 1999. The Company also leases 2,663 square feet in London, England. This lease expires in January 1999 and the Company has no option to extend the lease. The Company's existing facilities are adequate to meet its current needs.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or to which any of its properties is subject.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company effected its initial public offering on July 2, 1997. Since that date, 8x8's common stock has been traded on the Nasdaq National Market under the symbol "EGHT." No dividends have ever been paid or declared on 8x8's common stock. The Company currently does not anticipate paying any cash dividends on its capital stock in the foreseeable future. As of March 31, 1998, there were 238 holders of record of the Company's common stock. Many of the Company's shares of common stock are held by brokers and other institutions on behalf of stockholders, therefore, the Company is unable to determine the total number of stockholders represented by these record holders. Responses from brokers and other institutions regarding shares held on behalf of other stockholders indicate that there were at least 5,525 such other stockholders as of March 31, 1998.

PRICE RANGE OF COMMON STOCK

PERIOD	HIGH	LOW
July 2, 1997 to September 30, 1997..........................	$11 13/1	$6 5/8
October 1, 1997 to December 31, 1997........................	$16	$10 7/1
January 1, 1998 to March 31, 1998...........................	$10 7/	$5 1/2

On February 17, 1998, the Company, issued to Stanford University a warrant to purchase 10,000 shares of the Company's common stock at a per share exercise price of $5.50, then equal to its fair market value. This warrant expires on or before February 17, 1999. This warrant and the underlying shares are not registered under the Securities Act of 1933, as amended, and were issued pursuant to the exemption provided by Section 4(2) of such Act.

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED MARCH 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Total revenues............................	$49,776	$19,146	$28,774	$19,929	$34,401
Net income (loss).........................	3,727	(13,613)	(3,217)	(5,881)	(348)
Net income (loss) per share:					
Basic.....................................	$ 0.31	$ (2.56)	$ (0.70)	$ (1.34)	$ (0.08)
Diluted...................................	$ 0.25	$ (2.56)	$ (0.70)	$ (1.34)	$ (0.08)
Total assets....................	$46,429	$12,727	$23,067	$20,644	$21,908

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

OVERVIEW

The Company was incorporated in February 1987 in California and reincorporated in Delaware in December 1996. Since June 1995, the Company has been executing a business strategy designed to focus the Company's efforts towards video communication. As part of this strategy, the Company discontinued sales of its MPEG semiconductor product line and reduced its workforce in the quarter ended June 30, 1996.

In the fiscal years ended March 31, 1998, 1997 and 1996, sales of the Company's video communication products accounted for 100%, 86% and 66%, respectively, of product revenues.

To address new opportunities, the Company has leveraged its strengths in semiconductor design and related software to develop and market low cost video communication systems (hereinafter referred to as its "VideoCommunicators"). The Company began shipping the first product in its planned family of VideoCommunicator products, ViaTV videophone model VC100, in February 1997. Subsequently, the Company introduced the VC105, an upgraded VC100, and added three new models, the VC50, VC55 and VC150, to the

ViaTV product line. The Company also has introduced versions of its ViaTV videophones designed for European and Asian markets.

The Company is marketing its VideoCommunicators through retail channels, catalogs and original equipment manufacturers (OEMs) as well as through direct marketing efforts utilizing a combination of advertising, toll-free telemarketing and direct mail supported by co-marketing arrangements with third parties. The Company sells its video communication semiconductors and related software to OEMs and distributors.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Consolidated Statements of Operations and the notes thereto:

Revenues

	YEAR ENDED MARCH 31,					
	1998		1997		1996	
			(IN MILLIONS)			
Product revenues.....................	$35.3	71%	$15.2	80%	$19.8	69%
License and other revenues...........	14.5	29%	3.9	20%	9.0	31%
	$49.8	100%	$19.1	100%	$28.8	100%

Total revenues were $49.8 million, $19.1 million and $28.8 million for the fiscal years ended March 31, 1998, 1997 and 1996, respectively. Total revenues for fiscal 1998 were divided among video communication semiconductors (44%), videophone systems (27%) and nonrecurring license and other revenues (29%). In fiscal 1997, total revenues were divided between semiconductors (80%) and nonrecurring license and other revenues (20%). In fiscal 1996, total revenues were divided between semiconductors (69%) and nonrecurring license and other revenues (31%).

Product revenues were $35.3 million in fiscal 1998, an increase of $20.1 million above the $15.2 million reported in fiscal 1997, and $15.5 million above the $19.8 million reported in fiscal 1996. The increase in product revenues is primarily due to sales generated from the Company's ViaTV products, combined with an increase in sales of the Company's video communication semiconductors, offset by a decrease in both MPEG semiconductor and math co-processor sales due to the discontinuation of such product lines in fiscal 1997.

License and other revenues consist of technology licenses, including royalties required under such licenses, and nonrecurring engineering fees for services performed by the Company for its customers. License and other revenues were $14.5 million in fiscal 1998, an increase of $10.6 million above the $3.9 million reported in fiscal 1997, and $5.5 million above the $9.0 million reported in fiscal 1996. In fiscal 1998, license and other revenues included approximately $5.3 million paid by 3Com for a license to substantially all of the Company's technology underlying its video communicators. There can be no assurance that the Company will receive any revenues from licensing or other such arrangements in the future.* See "Factors That May Affect Future Results -- No Assurance of Future License and Other Revenues" and "Factors That May Affect Future Results -- Dependence on Key Customers."

Product sales and license and other revenues derived from 3Com represented approximately 20% of total revenues for the fiscal year ended March 31, 1998. Product sales to ASCII, the Company's former distributor in Japan (the Company terminated its distribution relationship with ASCII effective June 30, 1997), represented approximately 13% of total revenues for the fiscal year ended March 31, 1997. License and other revenues derived from ESS Technology represented approximately 24% of total revenues for the fiscal year ended March 31, 1996. Dependence on significant customers entails certain risks.* See "Factors That May

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* This statement is a forward looking statement reflecting current expectations. There can be no assurance that the Company's actual future performance will meet the Company's current expectations. See "Manufacturing" commencing on page 10, "Competition" on page 13 "Factors That May Affect Future Results" commencing on page 14 for a discussion of certain factors that could affect future performance.

Affect Future Results -- Potential Fluctuations in Operating Results" and "Factors That May Affect Future Results -- Potential Fluctuations in Operating Results -- Dependence on Key Customers."

The Company's sales to Europe represented 22%, 21% and 17% of total revenues for the fiscal years ended March 31, 1998, 1997, 1996, respectively. The Company's sales to the Asia Pacific region represented 25%, 33% and 32% of total revenues for the fiscal years ended March 31, 1998, 1997, and 1996, respectively. See "Factors That May Affect Future Results -- International Operations."

Cost of Revenues

	YEAR ENDED MARCH 31,		
	1998	1997	1996
	(IN MILLIONS)		
Cost of product revenues............................	$17.8	$12.0	$16.7
As a percentage of product revenues.................	50%	79%	84%
Cost of license and other revenues..................	$ 1.1	$ --	$ --
As a percentage of license and other revenues.......	7%	0%	0%

The cost of product revenues consists of costs associated with VideoCommunicator components, semiconductor wafer fabrication, VideoCommunicator and semiconductor assembly and testing performed by third-party vendors and direct and indirect costs associated with purchasing, scheduling and quality assurance. Costs of product revenues were $17.8 million, $12.0 million and $16.7 million for the fiscal years ended March 31, 1998, 1997, and 1996, respectively. The cost of product revenues in fiscal 1998 included costs associated with increased shipments of its VideoCommunicator products, which the Company began shipping in February 1997, as well as increased shipments of the Company's video communication semiconductor products. The cost structure of the Company's ViaTV product line is substantially different from the Company's video communication semiconductor products and the cost of product revenues for the ViaTV product line is substantially greater as a percentage of related revenues. In fiscal 1997, cost of product revenues included a $4.0 million charge associated with the write-off of inventories related to the Company's discontinuation of the MPEG product line in September 1996. As a result of this write-off, costs for the period increased and were equal to 79% of product revenue. In fiscal 1996, cost of product revenues were adversely impacted by the costs of the MPEG product line which exceeded the revenue generated by this product line.

Cost of license and other revenues was $1.1 million for the fiscal year ended March 31, 1998 and consisted of personnel and other costs incurred to perform certain development work under terms of a nonrecurring engineering contract between the Company and one of its customers. There were no costs associated with license and other revenues in the fiscal years ended March 31, 1997 and 1996, respectively.

Gross Profit

	YEAR ENDED MARCH 31,		
	1998	1997	1996
	(IN MILLIONS)		
Gross profit...	$30.9	$7.1	$12.1
As a percentage of total revenues....................	62%	37%	42%

Total gross profit was $30.9 million, $7.1 million and $12.1 million in fiscal 1998, 1997 and 1996, respectively. Gross profit from product revenues was $17.5 million, $3.2 million and $3.1 million for the fiscal years ended March 31, 1998, 1997, and 1996, respectively. Gross profit from license and other revenues, all of which were nonrecurring, less related costs, was $13.4 million, $3.9 million and $9.0 million in fiscal 1998, 1997 and 1996, respectively. There can be no assurance that the Company will receive any revenues from such license and other revenues sources in the future.* See "Factors That May Affect Future Results -- No Assurance of Future License and Other Revenues."

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* This statement is a forward looking statement reflecting current expectations. There can be no assurance that the Company's actual future performance will meet the Company's current expectations. See "Manufacturing" commencing on page 10, "Competition" on page 13 and "Factors That May Affect Future Results" commencing on page 14 for a discussion of certain factors that could affect future performance.

The increase in gross profit and margin from product revenues in fiscal 1998 was due primarily to the increase in video communication semiconductor revenues. In fiscal 1997, the significant decline in gross profit and margin relates primarily to charges associated with the write-off of inventories related to the Company's exit from the MPEG market. In fiscal 1997, the Company sold its remaining MPEG inventory. The gross profit from product revenues for fiscal 1996 was adversely impacted by negative margin from sales of MPEG products.

The markets for the Company's products are characterized by falling average selling prices, which could have a material adverse effect on the Company's future business and operating results if the Company cannot achieve lower cost of sales.* The Company expects that, as a result of competitive pressures and other factors, gross profit as a percentage of revenue for the Company's semiconductor products will likely decrease for the foreseeable future.* Gross profit as a percent of revenue is substantially lower for the sales of ViaTV products than for sales of the Company's semiconductors. If ViaTV product revenue continues to grow as a percentage of total product revenue, the Company expects that gross profit as a percentage of total product revenue will decrease.* See "Factors That May Affect Future Results -- Fluctuations in Operating Results."

Operating Expenses -- Research and Development

	YEAR ENDED MARCH 31,		
	1998	1997	1996
	(IN MILLIONS)		
Research and development	$12.3	$10.5	$7.7
As a percentage of total revenues	25%	55%	27%

Research and development expenses consist primarily of personnel, system prototype design and fabrication, mask, prototype wafer and equipment costs necessary for the Company to conduct its development efforts. Research and development costs, including software development costs, are expensed as incurred. Research and development expenses were $12.3 million, $10.5 million and $7.7 million for fiscal 1998, 1997 and 1996, respectively. During fiscal 1998 and 1997, research and development expenses were concentrated on video communication semiconductors and VideoCommunicators. Higher research and development expenses during fiscal 1998 were due to increased headcount, increased engineering and prototype expenses associated with the Company's VideoCommunicator products, and mask and prototype costs associated with the ongoing development of the Company's next generation video communication semiconductor product. A significant portion of research and development expenses during fiscal 1996 was attributable to the development of products that were subsequently discontinued, including an Intel compatible x86 microprocessor and graphics and MPEG semiconductors.

During fiscal 1998, the overall increase in research and development expenses was partially offset by the use of research and development personnel to perform nonrecurring engineering services under a revenue generating contract. The costs associated with this contract are included in the cost of license and other revenues. Although total research and development expenses increased from fiscal 1997 to fiscal 1998 as a result of the factors listed above, the non-cash compensation expense recognized on certain stock option grants and charged to research and development decreased to $416,000 in fiscal 1998 from $1.1 million in fiscal 1997.

The Company expects to continue to allocate substantial resources to research and development.* However, future research and development costs may vary both in absolute dollars and as a percentage of total revenues.* See "Factors That May Affect Future Results -- Rapid Technological Change; Dependence on New Product Introduction."

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* This statement is a forward looking statement reflecting current expectations. There can be no assurance that the Company's actual future performance will meet the Company's current expectations. See "Manufacturing" commencing on page 10, "Competition" on page 13 and "Factors That May Affect Future Results" commencing on page 14 for a discussion of certain factors that could affect future performance.

Operating Expenses -- Selling, General and Administrative

	YEAR ENDED MARCH 31,		
	1998	1997	1996
	(IN MILLIONS)		
Selling, general and administrative..................	$17.4	$10.1	$7.9
As a percentage of total revenues....................	35%	53%	27%

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, human resources and general management. Such costs also include advertising, sales commissions, trade show and other marketing and promotional expenses. Selling, general and administrative expenses were $17.4 million, $10.1 million and $7.9 million in fiscal 1998, 1997 and 1996, respectively. Expenses increased due to additional headcount, higher compensation costs and costs associated with the marketing, advertising and promotion of the Company's VideoCommunicator product line. The Company expects that its sales and marketing expenses may increase as the Company launches new VideoCommunicator products and promotes its current VideoCommunicator products.* Therefore, future selling, general and administrative costs may vary both in absolute dollars and as a percentage of total revenues.* See "Factors That May Affect Future Results -- Potential Fluctuations in Operating Results."

While total expenses increased from fiscal 1997 to fiscal 1998 as a result of the factors listed above, the non-cash compensation expense recognized on certain stock option grants and charged to selling, general and administrative decreased to $741,000 in fiscal 1998 from $3.1 million in fiscal 1997.

Restructuring Costs

	YEAR ENDED MARCH 31,		
	1998	1997	1996
	(IN MILLIONS)		
Restructuring costs....................................	$--	$0.1	$0.6
As a percentage of total revenues......................	0%	1%	2%

During fiscal 1997, the Company recorded a $59,000 charge for restructuring its operations by reducing its workforce. As of March 31, 1997, the Company's restructuring actions were fully completed and there were no remaining restructuring cost accruals.

During fiscal 1996, the Company recorded a $603,000 restructuring charge related to discontinuing certain research and development activities not related to video communication products. These restructuring costs related primarily to the write-off of equipment associated with the discontinued research and development efforts.

Other Income, Net

In fiscal 1998, 1997 and 1996, other income, net, was $1.5 million, $120,000 and $952,000, respectively. In fiscal 1998, other income, net, consisted primarily of interest income from the Company's short-term cash investments. Interest income in fiscal 1998 included interest earned on the proceeds from the Company's initial public offering in July 1997. During fiscal 1996, the Company acquired equity positions in four privately held companies. In fiscal 1996, the Company realized $727,000 of income by selling the stock of one of these entities. The Company's investment in each of these entities represents less than 15% of the outstanding voting stock of these entities and accordingly, the Company has accounted for these investments on a cost basis. As of March 31, 1998, these investments were fully reserved.

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* This statement is a forward looking statement reflecting current expectations. There can be no assurance that the Company's actual future performance will meet the Company's current expectations. See "Manufacturing" commencing on page 10, "Competition" on page 13 and "Factors That May Affect Future Results" commencing on page 14 for a discussion of certain factors that could affect future performance.

(Benefit) Provision for Income Taxes

In August 1995, the Internal Revenue Service (IRS) asserted a deficiency against the Company for the taxable year 1992. The IRS alleged that as of March 31, 1992, the Company had accumulated earnings beyond the reasonable needs of its business. The Company contested this assessment. On May 15, 1997, the Company received a notice from the IRS indicating that the IRS fully reversed its assertion of deficiency. As a result, the Company reversed approximately $1.0 million of its income tax liability during fiscal 1998. In fiscal 1997 and 1996, the provisions for income taxes were not material and represented certain foreign withholding taxes and taxes related to the Company's foreign subsidiary.

At March 31, 1998, the Company had approximately $5.4 million of federal net operating loss carryforwards and approximately $1.9 million of research and development tax credit carryforwards available to offset future tax liabilities; such carryforwards expire beginning in the years 2012 and 2009, respectively. Under the ownership change limitations of the Internal Revenue Code of 1986, as amended, the amount and benefit from the net operating losses and credit carryforwards may be impaired or limited in certain circumstances.

At March 31, 1998, the Company had gross deferred tax assets of approximately $7.8 million. The weight of available evidence indicates that it is more likely than not that the Company will not be able to realize its deferred tax assets and thus a full valuation reserve has been recorded at March 31, 1998.

Year 2000

Computer systems may experience problems handling dates beyond the year 1999 because many computer programs use only two digits to identify a year in a date field. The Company is assessing both the readiness of its products and its internal computer systems for handling the year 2000. The Company expects to implement successfully the systems and programming changes necessary to address year 2000 issues, and does not believe that the cost of such actions will have a material effect on the Company's business and operating results. The Company is also assessing the possible effects on the Company's operations of the year 2000 readiness of key suppliers, subcontractors and customers. The Company's reliance on suppliers, subcontractors and customers, and, therefore, on the proper functioning of their information systems and software, means that failure to address year 2000 issues by its suppliers, subcontractors and customers could have a material impact on the Company's business and operating results.

Liquidity and Capital Resources

As of March 31, 1998, the Company had cash and liquid investments totaling $26.7 million, representing an increase of $18.0 million from March 31, 1997. In July 1997, the Company completed an initial public offering of its common stock, selling 4,140,000 shares at $6.50 per share. Net proceeds to the Company were approximately $24.7 million after deducting related issuance costs. Prior to the Company's initial public offering, the Company had satisfied its liquidity needs principally from proceeds generated from two issuances of its equity securities after fiscal 1994 and from cash generated from operations in fiscal 1994 and prior years. The Company currently has no bank borrowing arrangements.

Net cash used in operations was $6.5 million, $4.3 million and $625,000 in fiscal 1998, 1997 and 1996, respectively. Cash used in operations in fiscal 1998 reflected a $3.5 million increase in accounts receivable, a $11.6 million increase in inventory, and a $522,000 increase in prepaid expenses and other assets, offset by net income of $3.7 million, increases of $2.1 million in deferred revenue, $1.2 million in accounts payable, $519,000 in accrued compensation, and noncash items, including a deferred compensation charge of $1.3 million. In addition to increased revenues, the increase in accounts receivable in fiscal 1998 was partially due to increased ViaTV sales to customers in the retail channel, which typically negotiate payment terms greater than 30 days. The increase in inventory in fiscal 1998 was due to increases in both ViaTV inventory held by the Company and inventory balances held by retailers. Because the Company does not recognize revenue on the shipment of its VideoCommunicator products to retailers or distributors until sell-through to the distributor or retailer customer, product inventories at retailers and distributors are reflected in the Company's inventories and are expected to increase if the Company succeeds in further broadening its distribution channels.* In addition, deferred revenue is expected to increase if the Company succeeds in broadening its distribution channels and introducing additional products into its distribution channels.*

Cash used in operations in fiscal 1997 reflects a net loss of $13.6 million, and a decrease in accounts payable of $4.2 million. Cash used in operations was partially offset by cash provided by decreases in inventory and accounts receivable of $6.1 million and $2.6 million, respectively, and a non-cash deferred compensation charge of $4.5 million. Cash used in operations in fiscal 1996 reflected a net loss of $3.2 million that was substantially offset by changes in working capital. Cash used in investing activities for fiscal 1998 was primarily attributable to capital expenditures of approximately $1.0 million. Cash provided by investing activities for both fiscal 1997 and 1996 was primarily attributable to net sales of short-term investments of $5.2 million which was offset by capital expenditures of approximately $691,000 and $1.0 million, respectively. At March 31, 1998, the Company did not have any material capital commitments outstanding.

Cash flows from financing activities in fiscal 1998 consisted primarily of $24.7 million in net proceeds from the sale of the Company's common stock in its initial public offering. Cash flows from financing activities in fiscal 1997 and 1996 consisted primarily of proceeds from the sales of convertible noncumulative preferred stock and sales of common stock upon the exercise of stock options, respectively.

The Company believes that it may require additional financial resources over the next several years for working capital, research and development, expansion of sales and marketing resources, and capital expenditures.* Net cash used in operating activities for the year ended March 31, 1998 was approximately $6.5 million, resulting primarily from cash requirements of the Company's VideoCommunicator business. The Company has incurred and will continue to incur, significant costs related on the development of ViaTV products, advertising for its ViaTV products, support of the retail sales channel and growth in ViaTV inventory. The Company believes that it will be able to fund planned expenditures and satisfy its cash requirements for at least the next twelve months from cash flow from operations, if any, and existing cash balances.* As of March 31, 1998, the Company had approximately $26.7 million in cash and cash equivalents. However, the Company is operating in a rapidly changing industry. There can be no assurance that the Company will not seek to exploit business opportunities that will require it to raise additional capital from equity or debt sources to finance its growth and capital requirements.* In particular, the development and marketing of new products could require a significant commitment of resources, which could in turn require the Company to obtain additional financing earlier than otherwise expected.* There can be no assurance that the Company will be able to obtain additional financing as needed on acceptable terms or at all.*

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* This statement is a forward looking statement reflecting current expectations. There can be no assurance that the Company's actual future performance will meet the Company's current expectations. See "Manufacturing" commencing on page 10, "Competition" on page 13 and "Factors That May Affect Future Results" commencing on page 14 for a discussion of certain factors that could affect future performance.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

Schedules other than the one listed above have been omitted because they are inapplicable, because the required information has been included in the financial statements or notes thereto, or the amounts are immaterial.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of 8x8, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of 8x8, Inc. and its subsidiaries at March 31, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

San Jose, California
May 1, 1998

8X8 INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	MARCH 31, 1998	MARCH 31, 1997
Current assets:		
Cash and cash equivalents	$26,677	$ 8,722
Short-term investments	60	2
Accounts receivable, net	4,527	834
Accounts receivable from related parties	--	178
Inventory	12,758	1,178
Prepaid expenses and other assets	876	354
Total current assets	44,898	11,268
Property and equipment, net	1,370	1,344
Deposits and other assets	161	115
	$46,429	$ 12,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,216	$ 1,146
Accounts payable to related parties	409	233
Accrued compensation	1,445	926
Accrued warranty	1,461	1,603
Deferred revenue	2,447	363
Other accrued liabilities	1,387	689
Income taxes payable	536	1,654
Total current liabilities	9,901	6,614
Commitments and contingencies (Note 5)		
Minority interest	85	72
Stockholders' equity:		
Convertible preferred stock, $0.001 par value: Authorized: 5,000,000 shares; Issued and outstanding: no shares at March 31, 1998 and 3,726,373 shares at March 31, 1997	--	4
Common stock, $0.001 par value: Authorized: 40,000,000 shares; Issued and outstanding: 15,293,614 shares at March 31, 1998 and 6,990,286 shares at March 31, 1997	15	7
Additional paid-in capital	47,785	23,291
Notes receivable from stockholders	(893)	(1,078)
Deferred compensation	(744)	(2,781)
Unrealized loss on investments	(45)	--
Accumulated deficit	(9,675)	(13,402)
Total stockholders' equity	36,443	6,041
	$46,429	$ 12,727

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

8X8 INC.

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

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Product revenues	$34,933	$ 12,771	$17,772
Product revenues from related parties	355	2,521	2,037
License and other revenues	14,488	3,854	7,215
License and other revenues from related parties	--	--	1,750
Total revenues	49,776	19,146	28,774
Cost of product revenues	17,764	12,030	16,668
Cost of license and other revenues	1,087	--	--
Total cost of revenues	18,851	12,030	16,668
Gross profit	30,925	7,116	12,106
Operating expenses:			
Research and development	12,317	10,510	7,714
Selling, general and administrative	17,381	10,098	7,938
Restructuring costs	--	59	603
Total operating expenses	29,698	20,667	16,255
Income (loss) from operations	1,227	(13,551)	(4,149)
Other income, net	1,518	120	952
Income (loss) before income taxes	2,745	(13,431)	(3,197)
(Benefit) provision for income taxes	(982)	182	20
Net income (loss)	$ 3,727	$(13,613)	$(3,217)
Net income (loss) per share:			
Basic	$ 0.31	$ (2.56)	$ (0.70)
Diluted	$ 0.25	$ (2.56)	$ (0.70)
Shares used in per share calculations:			
Basic	12,083	5,312	4,598
Diluted	15,128	5,312	4,598

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

8X8, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID IN CAPITAL	NOTES RECEIVABLE FROM STOCKHOLDERS	DEFERRED COMPENSATION	UNREALIZED LOSS ON INVESTMENTS
	SHARES	AMOUNT	SHARES	AMOUNT				
Balance at March 31, 1995	3,041,820	$ 3	4,550,721	$ 5	$10,547	$ --	$ --	$ --
Issuance of common stock upon exercise of options	--	--	246,389	1	609	--	--	--
Repurchase of unvested common stock	--	--	(15,089)	(1)	(1)	--	--	--
Net loss	--	--	--	--	--	--	--	--
Balance at March 31, 1996	3,041,820	3	4,782,021	5	11,155	--	--	--
Issuance of common stock upon exercise of options	--	--	2,188,265	2	1,095	(1,078)	--	--
Issuance of common stock	--	--	20,000	--	10	--	--	--
Issuance of Series D convertible noncumulative preferred stock	684,553	1	--	--	3,764	--	--	--
Deferred compensation related to stock options	--	--	--	--	7,267	--	(2,781)	--
Net loss	--	--	--	--	--	--	--	--
Balance at March 31, 1997	3,726,373	4	6,990,286	7	23,291	(1,078)	(2,781)	--
Issuance of common stock upon initial public offering, net of issuance costs of $2,231	--	--	4,140,000	4	24,675	--	--	--
Issuance of common stock upon exercise of options and purchases under the employee stock purchase plan	--	--	483,593	--	597	--	--	--
Conversion of convertible noncumulative preferred stock to common stock	(3,726,373)	(4)	3,726,373	4	--	--	--	--
Issuance of warrant	--	--	--	--	17	--	--	--
Repayment of notes receivable from stockholders	--	--	--	--	--	162	--	--
Repurchase of unvested common stock	--	--	(46,638)	--	(23)	23	--	--
Deferred compensation related to stock options	--	--	--	--	(772)	--	2,037	--
Unrealized loss on investments	--	--	--	--	--	--	--	(45)
Net income	--	--	--	--	--	--	--	--
Balance at March 31, 1998	--	$--	15,293,614	$15	$47,785	$ (893)	$ (744)	$(45)

	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
Balance at March 31, 1995	$ 3,428	$ 13,983
Issuance of common stock upon exercise of options	--	610
Repurchase of unvested common stock	--	(2)
Net loss	(3,217)	(3,217)
Balance at March 31, 1996	211	11,374
Issuance of common stock		

upon exercise of options.................	--	19
Issuance of common stock...................	--	10
Issuance of Series D convertible noncumulative preferred stock...................	--	3,765
Deferred compensation related to stock options.................	--	4,486
Net loss..................	(13,613)	(13,613)
	--------	--------
Balance at March 31, 1997....................	(13,402)	6,041
Issuance of common stock upon initial public offering, net of issuance costs of $2,231..................	--	24,679
Issuance of common stock upon exercise of options and purchases under the employee stock purchase plan....................	--	597
Conversion of convertible noncumulative preferred stock to common stock...	--	--
Issuance of warrant.......	--	17
Repayment of notes receivable from stockholders............	--	162
Repurchase of unvested common stock............	--	--
Deferred compensation related to stock options.................	--	1,265
Unrealized loss on investments.............	--	(45)
Net income................	3,727	3,727
	--------	--------
Balance at March 31, 1998....................	$ (9,675)	$ 36,443
	========	========

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

8X8, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 3,727	$(13,613)	$ (3,217)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	901	873	775
Loss on disposition of capital equipment	--	--	541
Amortization of deferred compensation	1,265	4,486	--
Writedown of nonmarketable equity investment	--	400	--
Other	(15)	(5)	--
Changes in assets and liabilities:			
Accounts receivable, net	(3,515)	2,567	(384)
Inventory	(11,580)	6,092	(5,788)
Income taxes receivable	--	--	2,241
Prepaid expenses and other assets	(522)	(70)	175
Deposits and other assets	(46)	--	--
Accounts payable	1,246	(4,202)	3,827
Accrued compensation	519	(853)	575
Accrued warranty	(142)	545	1
Deferred revenue	2,084	163	(565)
Other accrued liabilities	698	(852)	1,174
Income taxes payable	(1,118)	120	20
Net cash used in operating activities	(6,498)	(4,349)	(625)
Cash flows from investing activities:			
Acquisitions of property and equipment	(927)	(691)	(1,013)
Sales of short-term investments--available for sale	--	5,168	21,711
Purchases of short-term investments--available for sale	--	--	(16,583)
Short-term investments--trading activity, net	(58)	71	64
Purchase of nonmarketable equity investments	--	--	(400)
Net cash (used in) provided by investing activities	(985)	4,548	3,779
Cash flows from financing activities:			
Proceeds from issuance of convertible noncumulative preferred stock, net	--	3,765	--
Proceeds from issuance of common stock, net	25,276	29	608
Repayment of notes receivable from stockholders	162	--	--
Proceeds from minority interest in subsidiary	--	77	--
Net cash provided by financing activities	25,438	3,871	608
Net increase in cash and cash equivalents	17,955	4,070	3,762
Cash and cash equivalents beginning of the year	8,722	4,652	890
Cash and cash equivalents end of the year	$ 26,677	$ 8,722	$ 4,652
Supplemental disclosure of cash flow information:			
Taxes paid (refunded), net	$ 136	$ (139)	$ (2,240)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES:

THE COMPANY

8x8, Inc. (the "Company" or "8x8") was incorporated in California in February 1987. In December 1996, the Company was reincorporated in Delaware and exchanged each share of each series of stock of the predecessor company for one share of each corresponding series of stock of the Delaware successor. These financial statements have been prepared giving effect to the reincorporation for all periods presented.

The Company designs, manufactures and markets videophones for use in the consumer market. The Company also designs, develops and markets highly integrated proprietary video communication semiconductors and associated software for videophones and video communication.

FISCAL YEAR

The Company's fiscal year ends on the last Thursday on or before March 31. For purposes of these consolidated financial statements, the Company has indicated its fiscal year as ending on March 31.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenues from product sales to original equipment manufacturers (OEMs) and other end users are recognized upon shipment. License revenues are generally recognized upon the delivery of the licensed technology provided no significant future obligations exist and collection is probable. For financial reporting purposes, revenues generated by sales to distributors and retailers under agreements allowing certain rights of return are deferred until the product is sold by the distributor or retailer. When no rights of return exist, revenues generated by product sales are recognized upon shipment.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates the classification at each reporting date. At March 31, 1998 and 1997, the Company classified its investments either as available-for-sale or as trading. The cost of the Company's investments is determined based upon specific identification. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, if any, recorded as a separate component of stockholders' equity. At March 31, 1998 and 1997, the Company's investments classified as available-for-sale totaled $26 million and $7.7 million, respectively, and were primarily comprised of money market funds with an effective maturity of three months or less. The investments classified as trading are reported at fair value with realized and unrealized gains and losses being reported in the statement of operations. The cost and fair value of investments classified as trading were not significant at March 31, 1998 and 1997. Realized and unrealized gains and losses were also not significant for the years ended March 31, 1998, 1997 and 1996.

INVENTORY

Inventory is stated at the lower of standard cost, which approximates actual cost, using the first-in, first-out method, or market.

NONMARKETABLE EQUITY INVESTMENTS

Nonmarketable equity investments, included in other assets, of less than 20% of the investee's outstanding voting stock are accounted for on the cost method, because the Company does not have an ability to significantly influence the operating and financial policies of the investees. Loss resulting from impairment in the value of investments which is other than a temporary decline is recorded in the period in which such loss occurs.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method, based upon the shorter of the estimated useful lives, ranging from three to five years, or the lease term of the respective assets as follows:

Machinery and computer equipment	3 years
Furniture and fixtures	5 years
Licensed software	3 years
Leasehold improvements	Shorter of lease term or useful life of the asset

WARRANTY EXPENSE

The Company provides for the estimated cost which may be incurred under its product warranties upon revenue recognition.

RESEARCH AND SOFTWARE DEVELOPMENT COSTS

Research and development costs are charged to operations as incurred. Software development costs incurred prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. The Company defines establishment of technological feasibility as the completion of a working model. Software development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability of the product are capitalized, if material. To date, all software development costs have been expensed as incurred.

FOREIGN CURRENCY TRANSLATION

The U.S. dollar is the functional currency of the Company's foreign subsidiary. Exchange gains and losses resulting from transactions denominated in currencies other than the U.S. dollar are included in the results of operations for the year. To date, such amounts have not been significant. Total assets of the Company's foreign subsidiary were $620,000, $429,000, and $479,000 as of March 31, 1998, 1997 and 1996, respectively. The Company does not undertake any foreign currency hedging activities.

INCOME TAXES

Income taxes are accounted for using the asset and liability approach. Under the asset and liability approach, a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributed to temporary differences and carryforwards. If necessary, the deferred tax assets are reduced by the amount of benefits that, based on available evidence, are not expected to be realized.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade accounts receivable. The Company places its cash, cash equivalents and short-term investments primarily in market rate accounts with reputable financial institutions. Cash equivalents present risk of changes in value because of interest rate changes. The Company has not experienced any material losses relating to any investment instruments. The Company sells its products to OEMs and distributors throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. At March 31, 1998, one customer accounted for 30% of accounts receivable. At March 31, 1997, three customers accounted for 16%, 15% and 10% of accounts receivable, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, including cash equivalents, short-term investments, accounts receivable, and nonmarketable equity investments, approximate fair values.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for its stock plans. The Company provides additional pro forma disclosures as required under Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation." See Note 6.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform with fiscal 1998 presentation.

NET INCOME (LOSS) PER SHARE

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 128 (FAS 128), "Earnings per Share," which was issued in February 1997, and which requires presentation of both basic and diluted net income (loss) per share on the face of the statements of operations for all periods presented. Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders (numerator) by the weighted average number of common shares outstanding during the period (denominator). Diluted net income (loss) per share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares result from the assumed exercise, using the treasury stock method, of outstanding convertible noncumulative preferred stock (Preferred Stock), common stock options and unvested restricted common stock having a dilutive effect. All prior years' data in this report have been restated to reflect the adoption of FAS 128. FAS 128 also requires a reconciliation of the numerators and denominators of the basic and diluted per share calculations.

There were no adjustments to the numerators for any period presented. The reconciliation of the denominators is as follows (in thousands):

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Basic shares	12,083	5,312	4,598
Effect of dilutive securities:			
Preferred Stock	973	--	--
Common stock options	1,376	--	--
Unvested restricted common stock	696	--	--
Diluted shares	15,128	5,312	4,598

The following equity instruments were not included in the computations of net income (loss) per share because the effect on the calculations would be anti-dilutive (in thousands):

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Preferred Stock	--	3,726	3,042
Common stock options	287	2,291	2,561
Unvested restricted common stock	--	1,296	1
Total	287	7,313	5,604

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 (FAS 130), "Reporting Comprehensive Income." FAS 130 establishes standards for the reporting of comprehensive income and its components in financial statements of the Company beginning in fiscal 1999. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. Reclassification of financial statements for earlier periods for comparative purposes is required. Adoption by the Company in fiscal 1999 is not expected to have a significant effect on the Company's disclosure requirements.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (FAS 131), "Disclosures about Segments of an Enterprise and Related Information." FAS 131 revises information regarding the reporting of certain operating segments for periods beginning after December 15, 1997. The Statement also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company will adopt FAS 131 in its fiscal 1999 annual report. The Company has not yet determined the impact, if any, of adopting this new standard.

In October 1997, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position No. 97-2 (SOP 97-2)," Software Revenue Recognition," which supersedes SOP 91-1. SOP 97-2 will become effective for transactions entered into beginning in fiscal 1999. Retroactive application of the provisions of SOP 97-2 is prohibited.

NOTE 2 -- BALANCE SHEET COMPONENTS:

	MARCH 31, 1998	MARCH 31, 1997
	(IN THOUSANDS)	
Accounts receivable	$ 5,137	$ 1,208
Less: allowance for doubtful accounts	(610)	(374)
	$ 4,527	$ 834
Inventories:		
Raw materials	$ 3,864	$ 418
Work-in-process	5,337	613
Finished goods	3,557	147
	$12,758	$ 1,178
Property and equipment:		
Machinery and computer equipment	$ 3,837	$ 3,254
Furniture and fixtures	691	671
Licensed software	2,268	2,137
Leasehold improvements	600	554
	7,396	6,616
Less: accumulated depreciation and amortization	(6,026)	(5,272)
	$ 1,370	$ 1,344

NOTE 3 -- TRANSACTIONS WITH RELATED PARTIES:

During the fiscal year ended March 31, 1997, the Company's product revenues included $106,000 in sales to Sanyo Semiconductor Corporation (Sanyo) which is one of the Company's stockholders. Additionally, the Company purchased $3.8 million and $408,000 of raw materials inventory from Sanyo and an affiliate during fiscal 1998 and 1997, respectively. An executive of Sanyo is also on the Company's Board of Directors.

A representative of National Semiconductor Corporation (National) was a member of the Company's Board of Directors until May 19, 1997. The Company subleased to National a portion of its facilities under a month to month sublease arrangement until August 1, 1997. Proceeds from the sublease were recorded as a reduction to operating expenses and aggregated $149,000, $276,000 and $205,000 during the fiscal years ended March 31, 1998, 1997 and 1996, respectively.

During the fiscal years ended March 31, 1998, 1997 and 1996, the Company's product revenues included $355,000, $2,415,000 and $2,037,000, respectively, in sales to ASCII Corporation (ASCII). The Company terminated its distribution relationship with ASCII effective June 30, 1997. An executive of ASCII was a member of the Company's Board of Directors until May 27, 1997.

During fiscal 1996, the Company licensed certain technologies to VideoCore Technology (VideoCore), a company founded by one of 8x8's former officers, in exchange for cash and an equity interest in VideoCore. This license agreement also provided for potential future license fees and royalty fees payable to the Company. VideoCore, including the Company's equity interest, was subsequently acquired by another entity.

During fiscal 1996, the Company licensed certain technologies to Enable Semiconductor, a company founded by another of 8x8's former officers, in exchange for cash and an equity interest in that company.

During fiscal 1997, the Company and certain of its employees formed VidUs, Inc. (VidUs). At March 31, 1998, the Company owned 67% of VidUs and Company employees owned the remaining 33%.

VidUs is engaged in the design of integrated camera and video compression solutions as well as ethernet interface cards. VidUs has been consolidated in the Company's financial statements since inception.

During fiscal 1998, the Company paid a member of the Board of Directors approximately $50,000 for technical consulting services provided on behalf of the Company.

NOTE 4 -- INCOME TAXES:

Income (loss) before income taxes includes $91,000, $74,000, and $51,000 of income of its foreign subsidiary for the fiscal years ended March 31, 1998, 1997 and 1996, respectively. The components of the consolidated (benefit) provision for income taxes consisted of the following (in thousands):

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Current:			
Federal	$(1,018)	$ --	$--
State	--	--	--
Foreign	36	182	20
	$ (982)	$182	$20

Deferred tax assets are comprised of the following (in thousands):

	MARCH 31,	
	1998	1997
Research and development credit carryforwards	$1,920	$ 1,573
Net operating loss carryforwards	1,839	3,780
Inventory valuation	1,020	932
Reserves and allowances	891	846
Other	2,116	1,650
	7,786	8,781
Valuation allowance	(7,786)	(8,781)
Total	$ --	$ --

Management believes that, based on a number of factors, the weight of objective available evidence indicates that it is more likely than not that it will not be able to realize its deferred tax assets and thus a full valuation allowance has been recorded at March 31, 1998.

At March 31, 1998, the Company had approximately $5.4 million of federal net operating loss carryforwards for tax reporting purposes available to offset future taxable income; such carryforwards expire at various dates beginning 2012. In addition, at March 31, 1998, the Company had research and development credit carryforwards for federal and state tax reporting purposes of approximately $1.9 million which begin expiring in 2009. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating losses and credits that can be carried forward may be impaired or limited in certain circumstances. Events which may cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three year period. As of March 31, 1998, the net operating loss carry forwards of the Company were not subject to any material annual limitations.

A reconciliation of the tax (benefit) provision to the amounts computed using the statutory U.S. federal income tax rate of 34% is as follows (in thousands):

	YEAR ENDED MARCH 31,		
	1998	1997	1996
(Benefit) provision at statutory rate	$ 933	$(4,567)	$(1,087)
State income taxes before valuation allowance, net of federal benefit	160	(344)	(177)
Reversal of previously accrued income taxes payable	(1,018)	--	--
Research and development credits	(600)	(373)	(243)
Valuation allowance	(995)	4,012	1,414
Non-deductible compensation	504	1,525	--
Other	34	(71)	113
(Benefit) provision for income taxes	$ (982)	$ 182	$ 20

In August 1995, the Internal Revenue Service (the IRS) asserted a deficiency against the Company for the taxable year 1992 in the amount of approximately $1,365,000, together with a penalty in the amount of approximately $273,000 plus accrued interest. The IRS alleged that as of March 31, 1992, the Company had accumulated earnings beyond the reasonable needs of the Company's business. The Company did not make any payments and in accordance with IRS procedures formally protested this assessment on October 30, 1995. In May 1997 the Company received a notice from the IRS indicating it had fully reversed the August 1995 notice of deficiency. As a result, the Company reversed approximately $1 million of its income tax liability during the first quarter of fiscal 1998.

NOTE 5 -- COMMITMENTS AND CONTINGENCIES:

The Company leases its primary facility under a noncancelable operating lease agreement that expires in April 1999. This agreement provides for annual increments of rent in predetermined amounts and requires the Company to pay property taxes, insurance and normal maintenance costs.

Future minimum lease payments under non-cancelable operating leases as of March 31, 1998 are as follows (in thousands):

YEAR ENDED MARCH 31,	
1999	$1,038
2000	80
Total minimum payments	$1,118

Rent expense for all operating leases for the years ended March 31, 1998, 1997 and 1996 was $1,075,000, $717,000 and $767,000, respectively.

From time to time, the Company receives notices from third parties asserting claims against the Company or threatening the commencement of legal proceedings against the Company. While the outcome of any resulting settlement negotiations or legal proceedings cannot be predicted with certainty, the management of the Company does not believe that any of the assertions of claims or threats received to date will have a material adverse effect on the Company's business, operating results or financial condition.

NOTE 6 -- STOCKHOLDERS' EQUITY:

COMMON STOCK AND PREFERRED STOCK

In July 1997, the Company completed the initial public offering (the Offering) of its Common Stock, selling 4,140,000 shares at $6.50 per share. Net proceeds to the Company were approximately $24.7 million after deducting related issuance costs. As of the closing date of the Offering, all of the Preferred Stock outstanding was converted into an aggregate of 3,726,373 shares of Common Stock.

On October 21, 1996, the Company's Board of Directors approved that, effective upon the closing of the Offering, the Company will be authorized to issue five million shares of undesignated preferred stock. The Board of Directors has the authority to issue the undesignated preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof.

1987 INCENTIVE STOCK PLAN

In 1987, the Company adopted an Incentive Stock Plan (the 1987 Plan) which was subsequently terminated by the Board of Directors in January 1992. The Company had reserved 2,962,000 shares of its common stock for issuance under the 1987 Plan. The 1987 Plan provided for grants of stock purchase rights at prices equal to the fair market value of stock as determined by the Company's Board of Directors. Stock purchase rights granted under the plan generally vested over five years. During the year ended March 31, 1996, unvested shares aggregating 15,089 were repurchased at prices ranging from $0.10 to $0.40 per share. In January 1992, upon termination, all unissued shares under the 1987 Plan were canceled. At March 31, 1998, all shares of common stock purchased under the 1987 Plan were fully vested.

1992 STOCK OPTION PLAN

In January 1992, the Board of Directors adopted the 1992 Stock Option Plan (the 1992 Plan) and reserved 1,000,000 shares of the Company's common stock for issuance under this plan. In August 1994, the Board of Directors authorized an increase in the number of shares of the Company's common stock reserved for issuance under the 1992 Plan to 2,000,000 shares. The 1992 Plan provides for granting incentive and nonstatutory stock options to employees at prices equal to the fair market value of the stock at the grant dates. Options generally vest over periods ranging from two to four years. Vesting for certain options accelerates if certain predefined milestones are met.

KEY PERSONNEL PLAN

In July 1995, the Board of Directors adopted the Key Personnel Plan and reserved 2,000,000 shares of the Company's common stock for issuance under this plan. In June 1996, the Board of Directors authorized an increase in the number of shares of the Company's common stock reserved for issuance under the Key Personnel Plan to 2,200,000 shares. The Key Personnel Plan provides for granting incentive and nonstatutory stock options to officers of the Company at prices equal to the fair market value of the stock at the grant dates. Options generally vest over periods ranging from two to four years. Vesting for certain options accelerated in fiscal 1998 upon the achievement of certain predefined milestones.

1996 STOCK PLAN

In June 1996, the Board of Directors adopted the 1996 Stock Plan (the 1996 Plan) and reserved 1,000,000 shares of the Company's common stock for issuance under this plan. In June 1997, the Company's shareholders authorized an increase in the number of shares of the Company's common stock reserved for issuance under the 1996 Plan to 1,500,000 shares. This amount is to be increased annually on the first day of each of the Company's fiscal years in an amount equal to 5% of the Company's common stock issued and outstanding at the end of the immediately preceding fiscal year subject to certain maximum limitations. The 1996 Plan provides for granting incentive and nonstatutory stock options to employees at prices equal to the fair market value of the stock at the grant dates as determined by the Company's Board of Directors. Options generally vest over a period of not more than five years.

1996 DIRECTOR OPTION PLAN

The Company's 1996 Director Option Plan (the Director Plan) was adopted in June 1996 and became effective upon the closing of the Offering. A total of 150,000 shares of common stock have been reserved for issuance under the Director Plan. The Director Plan provides for the grant of nonstatutory stock options to certain nonemployee directors of the Company (the Outside Directors). The Director Plan provides that each Outside Director will be granted a nonstatutory stock option to purchase 16,000 shares of common stock on the date upon which such person first becomes an Outside Director or, if later, on the effective date of the Director Plan. Thereafter, each Outside Director will be automatically granted an option to purchase 4,000 shares of common stock on the date such Outside Director is reelected to the Board of Directors, if on such date, such Outside Director will have served on the Company's Board of Directors for at least six months. The Director Plan provides that each option will become exercisable in monthly installments over a period of one year from the date of grant. The exercise price per share of all options granted under the Director Plan will be equal to the fair market value of a share of the Company's common stock on the date of grant. Options granted to Outside Directors under the Director Plan have a ten year term, or shorter upon termination of an Outside Director's status as a director. If not terminated earlier, the Director Plan will have a term of ten years.

Option activity under the stock option plans is summarized as follows:

	OPTIONS AVAILABLE FOR GRANT	SHARES SUBJECT TO OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Balance at March 31, 1995	880,185	1,098,350	$2.38
Increase in options available for grant	2,000,000	--	--
Granted	(2,973,550)	2,973,550	$2.50
Exercised	--	(246,389)	$2.48
Returned to plan	1,264,754	(1,264,754)	$2.49
Balance at March 31, 1996	1,171,389	2,560,757	$2.46
Increase in options available for grant	1,200,000	--	--
Granted	(4,947,462)	4,947,462	$1.68
Exercised	--	(2,188,265)	$0.50
Cancellation of options available for grant	(75)	--	--
Returned to plan	3,028,804	(3,028,804)	$2.32
Balance at March 31, 1997	452,656	2,291,150	$2.83
Increase in options available for grant	650,000	--	--
Granted	(1,273,665)	1,273,665	$7.92
Exercised	--	(413,033)	$0.50
Returned to plan	291,918	(291,918)	$4.73
Balance at March 31, 1998	120,909	2,859,864	$5.26
Options exercisable at March 31, 1998	--	776,576	$3.82

Significant option groups outstanding at March 31, 1998 and related weighted average exercise price and contractual life information are as follows:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
$0.50 to $1.40	887,164	$ 0.50	356,197	$ 0.50	7.7
$4.20 to $5.60	130,200	$ 5.21	72,876	$ 5.01	9.1
$5.60 to $7.00	1,492,800	$ 6.78	333,216	$ 6.80	9.0
$8.40 to $9.80	62,800	$ 9.32	--	--	9.5
$9.80 to $11.20	98,500	$10.61	6,665	$10.50	9.5
$11.20 to $12.60	184,400	$11.33	7,622	$11.25	9.4
$12.60 to $14.00	4,000	$14.00	--	--	9.6
	2,859,864	$ 5.26	776,576	$ 3.82	8.6

During the year ended March 31, 1997, options to purchase 2,156,800 shares under the Key Personnel Plan were exercised for partial recourse notes. Shares issued under this plan are subject to repurchase at their original issuance price of $0.50 if the employee departs prior to vesting. During fiscal 1998, the Company repurchased 46,638 unvested shares and 579,647 shares were not vested at March 31, 1998.

In June 1996, the Board of Directors approved a proposal under which employees elected to cancel approximately 2,467,000 options in exchange for grants of new options with an exercise price equal to the then current fair market value as determined by the Board of Directors.

In conjunction with the Offering, the Company recorded a deferred compensation charge of approximately $7,267,000 with respect to options repriced and certain additional options granted in fiscal 1997. The Company recognized $1,265,000 and $4,486,000 of said amount as compensation expense in the fiscal years ended March 31, 1998 and 1997, respectively. The Company is recognizing the deferred compensation over the related vesting period of the options (which is generally 48 months). At March 31, 1998 the balance of this deferred compensation was $744,000. This deferred compensation is subject to reduction for any employee who terminates employment prior to the expiration of such employee's option vesting period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, using the multiple option approach with the following weighted-average assumptions:

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Expected volatility...............	65%	0.0%	0.0%
Expected dividend yield...........	0.0%	0.0%	0.0%
Risk-free interest rate...........	5.7% to 6.5%	5.7% to 6.5%	5.1% to 6.7%
Weighted average expected option term............................	5.3 years	5.0 years	5.0 years
Weighted average fair value of options granted.................	$4.89	$0.60	$0.40

1996 EMPLOYEE STOCK PURCHASE PLAN

The Company's 1996 Stock Purchase Plan (the Purchase Plan) was adopted in June 1996 and became effective upon the closing of the Offering. Under the Purchase Plan a total of 500,000 shares of common stock have been reserved for issuance to participating employees who meet eligibility requirements. During fiscal 1998, 70,560 shares were issued under the Purchase Plan.

The Purchase Plan permits eligible employees to purchase common stock through payroll deductions at a price equal to 85% of the fair market value of the common stock at the beginning of each two-year offering period or the end of a six month purchase period, whichever is lower. The contribution amount may not exceed ten percent of an employee's base compensation, including commissions but not including bonuses and overtime, In the event of a merger of the Company with or into another corporation or the sale of all or substantially all of the assets of the Company, the Purchase Plan provides that a new exercise date shall be set for each option under the plan which exercise date shall occur before the date of the merger or asset sale.

For the purpose of providing pro forma disclosures, the estimated fair value of stock purchase rights were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions: a risk-free interest rate of 5.63%, an expected life of 1.2 years, expected volatility of 65% and no expected dividends. The weighted average grant date fair value was $2.62.

CERTAIN PRO FORMA DISCLOSURES

The Company accounts for its stock plans in accordance with the provisions of Accounting Principles Board Opinion No. 25. Had compensation cost for the Company's stock plans been determined based on the fair value of options at their grant dates, as prescribed in FAS 123, the Company's net income (loss) would have been as follows (in thousands, except per share amounts):

	YEAR ENDED MARCH 31,		
	1998	1997	1996
Net income (loss):			
As reported	$3,727	$(13,613)	$(3,217)
Pro forma	58	(14,744)	(3,685)
Basic income (loss) per share:			
As reported	$ 0.31	$ (2.56)	$ (0.70)
Pro forma	$ 0.01	$ (2.78)	$ (0.80)
Diluted income (loss) per share:			
As reported	$ 0.25	$ (2.56)	$ (0.70)
Pro forma	$ 0.01	$ (2.78)	$ (0.80)

NOTE 7 -- EMPLOYEE BENEFIT PLANS:

401(K) SAVINGS PLAN

In April 1991, the Company adopted a 401(k) savings plan (the Savings Plan) covering substantially all of its U.S. employees. Under the Savings Plan, eligible employees may contribute up to the maximum allowed by the IRS from their compensation to the Savings Plan. Effective January 1, 1998 the Company's matching contribution increased from $300 to $1,500 per employee per calendar year at a dollar for dollar rate of the employee contribution. The Company's matching contributions vest over three years. To date, the Company's contributions have not been significant.

PROFIT SHARING PLAN

In April 1995, the Company's Board of Directors approved a profit sharing plan which provides for additional compensation to all employees of the Company based on quarterly income before income taxes. The profit sharing plan was effective beginning in fiscal 1996 and provided for payments of 15% of total quarterly income before income taxes. In July 1995, the Company's Board of Directors amended the profit sharing plan so that 5% of profit sharing would be based on the profitability of individual business units. In July 1997, the Board of Directors amended the profit sharing plan such that future bonuses are calculated as a percentage of net income. Charges related to this plan were approximately $685,000 in the fiscal year ended March 31, 1998, and were not significant for the fiscal years ended March 31, 1997 or 1996.

NOTE 8 -- GEOGRAPHIC AREA AND SIGNIFICANT CUSTOMER INFORMATION:

The Company's export sales to Europe represented 22%, 21% and 17% of total revenues in fiscal years 1998, 1997 and 1996, respectively. The Company's export sales to the Asia Pacific region represented 25%, 33%, and 32% of total revenues in fiscal years 1998, 1997 and 1996, respectively.

Product sales and license and other revenues derived from one customer represented approximately 20% of total revenues for the fiscal year ended March 31, 1998. Product sales to one customer represented approximately 13% of total revenues for the fiscal year ended March 31, 1997. License and other revenues derived from one customer represented approximately 24% of total revenues for the fiscal year ended March 31, 1996.

NOTE 9 -- RESTRUCTURING COSTS AND INVENTORY CHARGES:

During fiscal 1997, the Company recorded a charge for restructuring its operations by reducing its workforce by approximately 25%. As of March 31, 1997, the Company's restructuring actions were fully completed and there were no remaining restructuring cost accruals.

During fiscal 1996, the Company recorded restructuring charges resulting from the Company's decision to reduce the scope of its research and development activities by eliminating certain product development efforts. The restructuring costs related primarily to a write off of equipment associated with the terminated development efforts.

During the quarter ended June 30, 1996, the Company recorded a charge of $4.0 million related to its MPEG inventories. In September 1996, the Company sold its remaining MPEG inventory.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	WRITE-OFFS/ RECOVERIES OF UNCOLLECTIBLE ACCOUNTS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts:				
March 31, 1996	$397	$234	$111	$520
March 31, 1997	520	--	146	374
March 31, 1998	374	255	19	610

CONSOLIDATED QUARTERLY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	QUARTER ENDED							
	MARCH 31, 1998	DEC. 31, 1997	SEPT. 30, 1997	JUNE 30, 1997	MARCH 31, 1997	DEC. 31, 1996	SEPT. 30, 1996	JUNE 30, 1996
Total revenues	$12,129	$15,138	$10,894	$11,615	$ 4,489	$ 4,582	$ 4,372	$ 5,703
Cost of revenues	4,891	6,879	4,537	2,544	1,302	1,283	1,942	7,503
Gross profit (loss)	7,238	8,259	6,357	9,071	3,187	3,299	2,430	(1,800)
Operating expenses:								
Research and development	2,838	3,284	2,982	3,213	2,608	3,141	2,340	2,421
Selling, general and administrative	4,723	5,358	3,760	3,540	3,115	2,003	1,733	3,247
Restructuring costs	--	--	--	--	--	--	--	59
Total operating expenses	7,561	8,642	6,742	6,753	5,723	5,144	4,073	5,727
Income (loss) from operations	(323)	(383)	(385)	2,318	(2,536)	(1,845)	(1,643)	(7,527)
Other income, net	423	515	480	100	(272)	265	74	53
Income (loss) before income taxes	100	132	95	2,418	(2,808)	(1,580)	(1,569)	(7,474)
(Benefit) provision for income taxes	18	--	--	(1,000)	36	--	46	100
Net income (loss)	$ 82	$ 132	$ 95	$ 3,418	$(2,844)	$(1,580)	$(1,615)	$(7,574)
Net income (loss) per share:								
Basic	$ 0.01	$ 0.01	$ 0.01	$ 0.59	$ (0.50)	$ (0.29)	$ (0.30)	$ (1.58)
Diluted	$ 0.01	$ 0.01	$ 0.01	$ 0.29	$ (0.50)	$ (0.29)	$ (0.30)	$ (1.58)
Shares used in per share calculations:								
Basic	14,581	14,274	13,682	5,794	5,651	5,495	5,321	4,782
Diluted	16,113	16,723	16,090	11,587	5,651	5,495	5,321	4,782

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

Not applicable.

PART III

Certain information required by Part III is omitted from this Report on Form 10-K in that the Registrant will file its definitive Proxy Statement for its Annual Meeting of Stockholders to be held on June 15, 1998, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the 1998 Proxy Statement), not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this is included in the 1998 Proxy Statement under the captions "Election of Directors -- Nominees," "Additional Information -- Executive Officers" and "Additional Information -- Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is included in the 1998 Proxy Statement under the captions "Election of Directors -- Compensation of Directors," "Additional Information -- Executive Compensation" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is set forth in the 1998 Proxy Statement under the caption "Additional Information -- Security Ownership" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND TRANSACTIONS

The information required by this Item is set forth in the 1998 Proxy Statement under the captions "Additional Information -- Certain Relationships and Transactions," "Additional Information -- Employment Contracts and Termination of Employment and Change in Control Arrangements," "Additional Information -- Compensation Committee Interlocks and Insider Participation," "Additional Information -- Report of the Compensation Committee of the Board of Directors" and "Additional Information -- Stock Performance Graph" and is incorporated herein by reference.

PART IV

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

(a)(1) Financial Statements.

The information required by this item is included above in Item 8.

(a)(2) Financial Statement Schedules.

The information required by this item is included above in Item 8.

(a)(3) Exhibits.

The documents listed on the Exhibit Index appearing at page 48 of this Report are filed herewith. Copies of the exhibits listed in the Exhibit Index will be furnished, upon request, to holders or beneficial owners of the Company's Common Stock.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, 8x8, Inc., a Delaware corporation, has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on May 7, 1998.

8X8, INC.

By: /s/ PAUL VOOIS

Paul Voois,
Chairman & Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Paul Voois and Sandra L. Abbott, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the date indicated:

SIGNATURE	TITLE	DATE
/s/ PAUL VOOIS Paul Voois	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	May 7, 1998
/s/ SANDRA L. ABBOTT Sandra L. Abbott	Chief Financial Officer and Vice President, Finance (Principal Financial and Accounting Officer)	May 7, 1998
/s/ KEITH R. BARRACLOUGH Keith R. Barraclough	President, Chief Operating Officer and Director	May 7, 1998
/s/ BRYAN MARTIN Bryan Martin	Vice President, Engineering, Chief Technical Officer and Director	May 7, 1998
/s/ CHRIS MCNIFFE Chris McNiffe	Vice President, Sales and Marketing and Director	May 7, 1998
/s/ SAMUEL WANG Samuel Wang	Vice President, Process Technology and Director	May 7, 1998
/s/ BERND GIROD Bernd Girod	Director	May 7, 1998
/s/ AKIFUMI GOTO Akifumi Goto	Director	May 7, 1998
/s/ GUY L. HECKER Guy L. Hecker, Jr.	Director	May 7, 1998
/s/ WILLIAM TAI William Tai	Director	May 7, 1998

8X8, INC.

EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT TITLE
3.2+	Form of Amended and Restated Certificate of Incorporation of Registrant.
3.3+	Bylaws of Registrant.
10.1+	Form of Indemnification Agreement.
10.2+	1992 Stock Option Plan, as amended, and form of Stock Option Agreement.
10.3+	Key Personnel Plan, as amended, and form of Stock Option Agreement.
10.4+	1996 Stock Plan, as amended, and form of Stock Option Agreement.
10.5+	1996 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
10.6+	1996 Director Option Plan, as amended, and form of Director Option Agreement.
10.7+	Amended and Restated Registration Rights Agreement dated as of September 6, 1996 among the Registrant and certain holders of the Registrant's Common Stock.
10.8+	Facility lease dated as of July 3, 1990 by and between Sobrato Interests, a California Limited Partnership, and the Registrant, as amended.
10.9*+	License Agreement dated as of May 7, 1996 by and between Kyushu Matsushita Electric Industrial Co., Ltd. and the Registrant.
10.12+	Promissory Note between Sandra L. Abbott and Registrant dated June 29, 1996.
10.13+	Promissory Note between David M. Harper and Registrant dated June 29, 1996.
10.14+	Promissory Note between Bryan R. Martin and Registrant dated June 29, 1996.
10.15+	Promissory Note between Chris McNiffe and Registrant dated June 29, 1996.
10.16+	Promissory Note between Mike Noonen and Registrant dated June 29, 1996.
10.17+	Promissory Note between Samuel T. Wang and Registrant dated June 29, 1996.
10.18*+	License Agreement dated as of May 5, 1997 by and between U.S. Robotics Access Corporation and the Registrant.
10.19	Warrant Number CS-01 issued by 8x8, Inc. to Stanford University on February 17, 1998.
10.20	Fifth Amendment to Lease dated January 26, 1998 between Sobrato Interests and the Registrant.
10.21	Landlords Consent to Sublease dated February 23, 1998 among Sobrato Interests, Bay Networks, Inc. and the Registrant.
21.1+	Subsidiaries of Registrant.
23.1	Consent of Independent Accountants.
24.1	Power of Attorney (see page 47).
27.1	Financial Data Schedule.

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* Confidential treatment was granted with respect to certain portions of this exhibit.

+ Previously filed as an exhibit to the Registrant's Registration Statement on Form S-1, Securities and Exchange Commission File No. 333-15627, declared effective on July 1, 1997 and incorporated by reference herein.

EXHIBIT 10.19

COMMON STOCK PURCHASE WARRANT

THIS WARRANT AND THE SHARES OF COMMON STOCK WHICH MAY BE PURCHASED UPON THE EXERCISE OF THIS WARRANT HAVE BEEN ACQUIRED SOLELY FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH SALE, OFFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE ACT AND OF ANY APPLICABLE STATE SECURITIES LAWS UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT. THIS WARRANT MAY NOT BE TRANSFERRED BY HOLDER WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMPANY, WHICH CONSENT MAY BE WITHHELD AT THE SOLE DISCRETION OF THE COMPANY.

VOID AFTER FEBRUARY 17, 1999

NO. CS-01 8X8, INC.

WARRANT TO PURCHASE 10,000 SHARES OF COMMON STOCK

THIS CERTIFIES THAT, Stanford University (the "HOLDER") is entitled to subscribe for and purchase 10,000 shares (as adjusted pursuant to Section 3 hereof) of the fully paid and nonassessable Common Stock, par value $0.001 per share, (the "SHARES"), of 8x8, Inc., a Delaware corporation (the "COMPANY"), at the price of $5.50 per share (the "EXERCISE PRICE") (as adjusted pursuant to Section 3 hereof), subject to the provisions and upon the terms and conditions hereinafter set forth.

1. Method of Exercise; Payment.

(a) Cash Exercise. The purchase rights represented by this Warrant may be exercised by the Holder, in whole or in part, by the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A duly executed) at the principal office of the Company, and by the payment to the Company, by certified, cashier's or other check acceptable to the Company, of an amount equal to the aggregate Exercise Price of the shares being purchased.

(b) Net Issue Exercise.

(i) In lieu of exercising this Warrant, the Holder may elect to receive shares equal to the value of this Warrant (or the portion thereof being cancelled) by surrender of this Warrant at the principal office of the Company together with notice of such election, in which event the Company shall issue to the Holder a number of shares of the Company's Common Stock computed using the following formula:

X = Y (A-B)

A

```
Where X  =  the number of shares of Common Stock to be issued to the Holder.

      Y  =  the number of shares of Common Stock purchasable under this Warrant.

      A  =  the fair market value of one share of the Company's Common Stock.

      B  =  the Exercise Price (as adjusted to the date of such calculation).

                     (ii) This Warrant shall automatically be exercised
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pursuant to Section 1(b) hereof immediately before its expiration pursuant to
Section 12 hereof unless Holder notifies the Company in writing to the contrary before such termination.

(c) Fair Market Value. For purposes of this Section 1, the fair market value of the Company's Common Stock shall mean:

(i) The average of the closing bid and asked prices of the Company's Common Stock quoted in the Over-The-Counter Market Summary or the closing price quoted on any exchange on which the Common Stock is listed, whichever is applicable, as published in the Western Edition of The Wall Street Journal for the ten trading days prior to the date of determination of fair market value;

(ii) If the Company's Common Stock is not traded Over-The-Counter or on an exchange, fair market value of the Common Stock per share shall be the price per share which the Company could obtain from a willing buyer for shares sold by the Company from authorized but unissued shares of Common Stock as such price shall be determined in good faith by the Board of Directors of the Company.

(d) Stock Certificates. In the event of any exercise of the rights represented by this Warrant, certificates for the shares of Common Stock so purchased shall be delivered to the Holder within a reasonable time and, unless this Warrant has been fully exercised or has expired, a new Warrant representing the shares with respect to which this Warrant shall not have been exercised shall also be issued to the Holder within such time.

2. Stock Fully Paid; Reservation of Shares. All of the Shares issuable upon the exercise of the rights represented by this Warrant will, upon issuance and receipt of the Exercise Price therefor, be fully paid and nonassessable, and free from all taxes, liens and charges with respect to

the issue thereof. During the period within which the rights represented by this Warrant may be exercised, the Company shall at all times have authorized and reserved for issuance sufficient shares of its Common Stock to provide for the exercise of the rights represented by this Warrant.

3. Stock Splits, Dividends and Combinations. Subject to the provisions of Section 12 hereof, in the event that the Company shall at any time subdivide the outstanding shares of Common Stock or shall issue a stock dividend on its outstanding shares of Common Stock the number of Shares issuable upon exercise of this Warrant immediately prior to such subdivision or to the issuance of such stock dividend shall be proportionately increased, and the Exercise Price shall be proportionately decreased, and in the event that the Company shall at any time combine the outstanding shares of Common Stock the number of Shares issuable upon exercise of this Warrant immediately prior to such combination shall be proportionately decreased, and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such subdivision, stock dividend or combination, as the case may be.

4. Notice of Adjustments. Whenever the number of Shares purchasable hereunder or the Exercise Price thereof shall be adjusted pursuant to Section 3 hereof, the Company shall provide notice by first class mail to the holder of this Warrant setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the number of Shares which may be purchased and the Exercise Price therefor after giving effect to such adjustment.

5. Repurchase on Sale, Merger or Consolidation of the Company.

(a) "Acquisition". For the purpose of this Warrant, "Acquisition" means any reclassification or change of the Common Stock (other than a change in par value, or as a result of a subdivision or combination), or any consolidation or merger of the Company with or into another corporation (other than a merger with another corporation in which the Company is a continuing corporation and which does not result in any reclassification or change of outstanding securities issuable upon exercise of this Warrant), or any sale of all or substantially all of the assets of the Company.

(b) Assumption of Warrant. If upon the closing of any Acquisition the successor entity assumes the obligations of this Warrant, then this Warrant shall be exercisable for the same amount and type of securities, cash, and property as would be payable for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing. If upon the closing of any Acquisition the successor entity assumes the obligations of this Warrant, the exercise price of the Warrant shall be adjusted such that the exercise price for the amount of securities, cash and property as would be payable for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing, is set at an amount equal to the Warrant Price, and such that the aggregate exercise price for this Warrant is set such that it is equal to the Warrant Price multiplied by the number of the Shares.

(c) Non-assumption; Conversion. If upon the closing of any Acquisition the successor entity does not assume the obligations of this Warrant and Holder has not otherwise exercised this Warrant in full, then the unexercised portion of this Warrant shall be deemed to have been automatically converted pursuant to Section 1(b) and thereafter the Holder shall participate in the Acquisition on the same terms as other holders of the same class of securities of the Company.

6. Fractional Shares. No fractional shares of Common Stock will be issued in connection with any exercise hereunder. In lieu of such fractional shares the Company shall make a cash payment therefor based upon the Exercise Price then in effect.

7. Representations of the Company. The Company represents that all corporate actions on the part of the Company, its officers, directors and shareholders necessary for the sale and issuance of the Shares pursuant hereto and the performance of the Company's obligations hereunder were taken prior to and are effective as of the effective date of this Warrant.

8. Representations and Warranties by the Holder. The Holder represents and warrants to the Company as follows:

(a) This Warrant and the Shares issuable upon exercise thereof are being acquired for its own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act of 1933, as amended (the "ACT"). Upon exercise of this Warrant, the Holder shall, if so requested by the Company, confirm in writing, in a form satisfactory to the Company, that the securities issuable upon exercise of this Warrant are being acquired for investment and not with a view toward distribution or resale.

(b) The Holder understands that the Warrant and the Shares have not been registered under the Act by reason of their issuance in a transaction exempt from the registration and prospectus delivery requirements of the Act pursuant to Section 4(2) thereof, and that they must be held by the Holder indefinitely, and that the Holder must therefore bear the economic risk of such investment indefinitely, unless a subsequent disposition thereof is registered under the Act or is exempted from such registration.

(c) The Holder has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the purchase of this Warrant and the Shares purchasable pursuant to the terms of this Warrant and of protecting its interests in connection therewith.

(d) The Holder is able to bear the economic risk of the purchase of the Shares pursuant to the terms of this Warrant.

9. Restrictive Legend.

The Shares issuable upon exercise of this Warrant (unless registered under the Act) shall be stamped or imprinted with a legend in substantially the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF, AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SUCH SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO IT STATING THAT SUCH SALE OR TRANSFER IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SHARES AND RESTRICTING THEIR TRANSFER MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THE CORPORATION AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION.

10. Restrictions Upon Transfer and Removal of Legend.

(a) The Holder may not transfer or assign (by operation of law or otherwise) this Warrant without the prior written consent of the Company, which consent may be withheld in the sole discretion of the Company.

(b) The Company need not register a transfer of Shares bearing the restrictive legend set forth in Section 9 hereof, unless the conditions specified in such legend are satisfied. The Company may also instruct its transfer agent not to register the transfer of the Shares, unless one of the conditions specified in the legend referred to in Section 9 hereof is satisfied.

(c) Notwithstanding the provisions of paragraph (c) above, no opinion of counsel or "no-action" letter shall be necessary for a transfer without consideration by any holder (i) to an affiliate of the holder, (ii) if such holder is a partnership, to a partner or retired partner of such partnership who retires after the date hereof or to the estate of any such partner or retired partner, (iii) if such holder is a corporation, to a shareholder of such corporation, or to any other corporation under common control, direct or indirect, with such holder, or (iv) by gift, will or intestate succession of any individual holder to his spouse or siblings, or to the lineal descendants or ancestors of such holder or his spouse, if the transferee agrees in writing to be subject to the terms hereof to the same extent as if such transferee were the original holder hereunder.

11. Rights of Shareholders. No holder of this Warrant shall be entitled, as a Warrant holder, to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such,

any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised and the Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein.

12. Expiration of Warrant. This Warrant shall expire and shall no longer be exercisable at 5:00 p.m., Santa Clara,California local time, on February 17, 1999. Further, the warrant shall expire and shall no longer be exercisable if Stanford University calls upon the Company to provide assured funding of $50,000 to Stanford University in any academic year of Stanford University, as set forth in paragraph 3 of the letter agreement dated February 13, 1998 between the Company and Stanford University.

13. Notices, Etc. All notices and other communications from the Company to the Holder shall be mailed by first class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company in writing by the Holder.

14. Governing Law, Headings. This Warrant is being delivered in the State of Delaware and shall be construed and enforced in accordance with and governed by the laws of such State. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof.

Issued on February 17, 1998.

8X8, INC.

By: /s/ BRETT D. BYERS
Name: Brett D. Byers
Title: General Counsel & Vice President

EXHIBIT A
NOTICE OF EXERCISE

TO: 8x8, Inc.
2445 Mission College Blvd.
Santa Clara, CA 95054
Attention: Chief Financial Officer

1. The undersigned hereby elects to purchase __________ shares of Common Stock of 8x8, Inc. pursuant to the terms of the attached Warrant.

2. Method of Exercise (Please initial the applicable blank):

___ The undersigned elects to exercise the attached Warrant by means of a cash payment, and tenders herewith payment in full for the purchase price of the shares being purchased, together with all applicable transfer taxes, if any.

___ The undersigned elects to exercise the attached Warrant by means of the net exercise provisions of Section 1(b) of the Warrant.

3. Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

(Name)

(Address)

4. The undersigned hereby represents and warrants that the aforesaid shares of Common Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale, in connection with the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares and all representations and warranties of the undersigned set forth in Section 8 of the attached Warrant are true and correct as of the date hereof. In support thereof, the undersigned hereby delivers an Investment Representation Statement in a form substantially similar to the form attached to the Warrant as Exhibit B.

(Signature)

Name:

Title:

(Date)

EXHIBIT B
INVESTMENT REPRESENTATION STATEMENT

```
PURCHASER  :     _________________________
SELLER     :     8x8, Inc.
COMPANY    :     8x8, Inc.
SECURITY   :     COMMON STOCK ISSUED UPON EXERCISE OF THE STOCK PURCHASE WARRANT
                 ISSUED ON February 17, 1998
AMOUNT     :     __________ SHARES
DATE       :     ____________, 19__
```

In connection with the purchase of the above-listed Securities, the Purchaser represents to the Seller and to the Company the following:

(a) Purchaser is aware of the Company's business affairs and financial condition, and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Purchaser is purchasing these Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) Purchaser understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. In this connection, Purchaser understands that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if its representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) Purchaser further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. Moreover, Purchaser understands that the Company is under no obligation to register the Securities. In addition, Purchaser understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) Purchaser is familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. The Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires among other things: (1) the availability of certain public information about the Company, (2) the resale occurring not less than one years after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years, (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable.

(e) Purchaser further understands that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

(f) Purchaser agrees, in connection with any underwritten public offering of the Company's securities, (1) not to sell, make short sale of, loan, grant any options for the purchase of, or otherwise dispose of any shares of common stock of the Company held by Purchaser (other than those shares included in the registration) without the prior written consent of the Company or the underwriters managing such underwritten public offering of the Company's securities for one hundred eighty (180) days from the effective date of such registration, and (2) Purchaser further agrees to execute any agreement reflecting (1) above as may be requested by the underwriters at the time of the public offering; provided however that the officers and directors of the Company who own the stock of the Company also agree to such restrictions.

Purchaser:

By:
Name:
Title:
Date: , 199_

EXHIBIT C
FORM OF TRANSFER
(To be signed only upon transfer of Warrant)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto ____ the right represented by the attached Warrant to purchase ____________* shares of Common Stock of 8x8, Inc., to which the attached Warrant relates, and appoints ______________ Attorney to transfer such right on the books of 8x8, Inc., with full power of substitution in the premises.

Dated:

(Signature must conform in all respects to name of Holder as specified on the face of the Warrant) Name:
Title:

(Address)

Signed in the presence of:

* Insert here the number of shares without making any adjustment for additional shares of Common Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the Warrant, may be deliverable upon exercise.

** NOTE THAT VALID TRANSFER OF THE WARRANT IS SUBJECT TO PRIOR WRITTEN CONSENT OF 8X8, INC., WHICH CONSENT MAY BE WITHHELD AT THE SOLE DISCRETION OF 8X8, INC. PURSUANT TO SECTION 10(a) OF THE WARRANT.

EXHIBIT 10.20

FIFTH AMENDMENT TO LEASE

This fifth amendment to lease ("Fifth Amendment") is made this 26th day of January, 1998 by and between Sobrato Interests, a California limited partnership having an address at 10600 North De Anza Boulevard., Suite 200, Cupertino, California 95014 ("Landlord") and 8x8, Inc., a Delaware corporation ("Tenant").

WITNESSETH

WHEREAS Landlord and Tenant (under the name Integrated Information Technology) entered into a lease dated July 3, 1990, a lease amendment dated March31, 1991, a second amendment dated March22, 1994, a third amendment dated December 18, 1995, and a fourth amendment to Lease dated March 18, 1997 (collectively the "Lease") for the premises located at 2445 Mission College Boulevard, California ("Premises"); and

WHEREAS effective February 1, 1998 (the "Effective Date"), Landlord and Tenant wish to modify the Lease to eliminate the second floor from the space comprising the Premises;

NOW, THEREFORE, in order to effect the intent of the parties as set forth above and for good and valuable consideration exchanged between the parties, the Lease is amended effective February 1, 1998 as follows:

1. The Premises shall consist of the first floor of the Building excluding those areas cross-hatched on Exhibit "A" attached hereto. The resulting square footage is 45,623 square feet, determined pursuant to the Square Footage Analysis included in Exhibit "A".

2. Beginning on the Effective Date, and continuing through expiration date of the Lease, the monthly rent shall be equal to the sum of Seventy Nine Thousand Eight Hundred Forty and 25/100 Dollars ($79,840.25) ($1.75 psf X 45,623 sf).

3. The Building has a separate HVAC, electrical, plumbing and metering systems serving each floor. Consequently, no proration of these cost between the two occupants of the Building will be required.

4. All defined terms shall have the same meanings as in the Lease, except as otherwise stated in this Fifth Amendment.

5. Except as hereby amended, the Lease and all the terms, covenants and conditions thereof shall remain unmodified and in full force and effect. In the event of any conflict or inconsistency between the terms and

January 23, 1998

provisions of this Fifth Amendment and the terms and provisions of the Lease, the terms and provisions of this Fifth Amendment shall prevail.

IN WITNESS WHEREOF, the parties hereto have set their hands to this Fourth Amendment as of the day and date first above written.

Landlord	Tenant
Sobrato Interests,	*8x8, Inc.,*
a California limited partnership	*a Delaware corporation*
By: /s/ J. M. SOBRATO	*By: /s/ Sandra Abbott*
Its: General Partner	*Its: Vice President Finance*

EXHIBIT 10.21

LANDLORD'S CONSENT TO SUBLEASE

Sobrato lnterests, a California limited partnership ("Landlord"), as Landlord under that certain Lease (the "Lease") dated June 29, 1993 by and between Landlord and Bay Networks, Inc., a Delaware corporation ("Tenant"), successor by merger to SynOptics Communications, Inc., a Delaware corporation, as Tenant, subject to and specifically conditioned upon the following terms and conditions hereby grants its consent to the Sublease dated February 23, 1998 made by and between the Tenant, as sublandlord, and 8x8, Inc., a Delaware corporation ("Subtenant"), as subtenant, a copy of which is attached as Exhibit A ("the Sublease"), covering that certain premises (the "Premises") commonly known as 2441 Mission College Boulevard, Santa Clara, CA.

As conditions to the consent of Landlord to the Sublease, it is understood and agreed as follows:

1. No Release. This Consent to Sublease shall in no way release the Tenant or any person or entity claiming by, through or under Tenant, including Subtenant from any of its covenants, agreements, liabilities and duties under the Lease, as the same may be amended from time to time, without respect to any provision to the contrary in the Sublease.

2. Specific Provisions of Lease and Sublease. This Consent to Sublease consenting to a sublease to Subtenant does not constitute approval by Landlord of any of the provisions of the Sublease document or agreement thereto or therewith; nor shall the same be construed to amend the Lease in any respect, any purported modifications being solely for the purpose of setting forth the rights and obligations as between Tenant and Subtenant, but not binding Landlord. The Sublease is, in all respects, subject and subordinate to the Lease, as the same may be amended. Furthermore, in the case of any conflict between the provisions of this Consent to Sublease or the Lease and the provisions of the Sublease, the provisions of this Consent to Sublease or the Lease, as the case may be, shall prevail unaffected by the Sublease.

3. Limited Consent. This Consent to Sublease does not and shall not be construed or implied to be a consent to any other matter for which

Landlord's consent is required under the Lease, including, without limitation, any Alterations under the Lease.

4. Tenant's Continuing Liability. Tenant shall be liable to Landlord for any default under the Lease, whether such default is caused by Tenant or Subtenant or anyone claiming by or through either Tenant or Subtenant but the foregoing shall not be deemed to restrict or diminish any right which Landlord may have against Subtenant pursuant to the Lease, in law or in equity for violation of the Lease or otherwise, including, without limitation, the right to enjoin or otherwise restrain any violation of the Lease by Subtenant.

5. Default by Tenant under the Lease. If Tenant defaults under the Lease, Landlord may elect to receive directly from Subtenant all sums due or payable to Tenant by Subtenant pursuant to the Sublease. Upon written notice from Landlord, Subtenant shall thereafter pay to Landlord any and all sums due or payable under the Sublease. In such event Tenant shall receive from Landlord a corresponding credit for such sums against any payments then due or thereafter becoming due from Tenant.

6. Termination of Lease. If at any time prior to the expiration of the term of the Sublease the Lease shall terminate or be terminated for any reason, the Sublease shall simultaneously terminate. However, Subtenant agrees, at the election and upon written demand of Landlord, and not otherwise, to attorn to Landlord for the remainder of the term of the Sublease, such attornment to be upon all of the terms and conditions of the Lease, except that the Base Rent set forth in the Sublease shall be substituted for the Base Rent set forth in the Lease and the computation of Additional Rent as provided in the Lease shall be modified as set forth in the Sublease. The foregoing provisions of this paragraph shall apply notwithstanding that as a matter of law, the Sublease may otherwise terminate upon the termination of the Lease and shall be self-operative upon such written demand of the Landlord, and no further instrument shall be required to give effect to said provisions. Upon the demand of Landlord, however, Subtenant agrees to execute, from time to time, documents in confirmation of the foregoing provisions of this paragraph satisfactory to Landlord in which Subtenant shall acknowledge such attornment and shall set forth the terms and conditions of its tenancy.

7. Sublease Profits. Pursuant to Section 31 of the Lease, provided the Sublease remains in full force and effect, Tenant agrees to pay to Landlord each month along with the base monthly rent due under the Lease, the sum of N/A representing Landlord's fifty percent (50%) share of the amount by which the consideration received pursuant to the Sublease exceeds the amount due to Landlord under the Lease less the reasonable subletting costs.

8. No Waiver; No Privity. Nothing herein contained shall be deemed a waiver of any of the Landlord's rights under the Lease. In no event, however, shall Landlord be deemed to be in privity of contract with Subtenant or owe any obligation or duty to Subtenant under the Lease or otherwise, any duties of Landlord under the Lease being in favor of, for the benefit of and enforceable solely by Tenant.

9. Notices. Subtenant agrees to promptly deliver a copy to Landlord of all notices of default and all other notices sent to Tenant under the Sublease, and Tenant agrees to promptly deliver a copy to Landlord of all such notices sent to Subtenant under the Sublease. All copies of any such notices shall be delivered personally or sent by United States registered or certified mail, postage prepaid, return receipt requested, to Landlord.

Landlord Sobrato Interests, a California limited partnership

By /s/ J. M. SOBRATO
----
its GP

Tenant Bay Networks, Inc., Delaware corporation

By JOHN J. POGGI, JR.
its Vice President

Subtenant

8x8, Inc., a Delaware corporation

by /s/ SANDRA ABBOTT
----
its VP

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-30943 and 333-50519) of 8x8, Inc. of our report dated May 1, 1998 appearing on page 24 of this Form 10-K.

Price Waterhouse LLP
San Jose, California
May 7, 1998

ARTICLE 5

This schedule contains summary information extracted from 8x8, Inc.'s Consolidated Statements of Operations and Consolidated Balance Sheets included in the Company's Form 10-K for the period ended March 31, 1998 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	MAR 31 1998
PERIOD START	APR 01 1997
PERIOD END	MAR 31 1998
CASH	26,677
SECURITIES	60
RECEIVABLES	4,527 [1]
ALLOWANCES	0
INVENTORY	12,758
CURRENT ASSETS	44,898
PP&E	7,396
DEPRECIATION	(6,026)
TOTAL ASSETS	46,429
CURRENT LIABILITIES	9,901
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	15
OTHER SE	36,428
TOTAL LIABILITY AND EQUITY	46,429
SALES	49,776
TOTAL REVENUES	49,776
CGS	18,851
TOTAL COSTS	18,851
OTHER EXPENSES	29,698
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	2,745
INCOME TAX	(982)
INCOME CONTINUING	3,727
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3,727
EPS PRIMARY	0.31
EPS DILUTED	0.25

[1] Item shown net of allowance, consistent with the balance sheet presentation.

End of Filing