UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1998

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

Commission File Number: 333-15627

8X8, INC.

Delaware	77-0142404
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2445 Mission College Blvd.
Santa Clara, CA 95054

(408) 727-1885

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 [ ]

The number of shares of the Registrant's Common Stock outstanding as of October 16, 1998 was 15,281,651.

The exhibit index begins on page 25.

8X8, INC.

INDEX

PART I - FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets at September 30, 1998 and March 31, 1998	1
Condensed Consolidated Statements of Operations for the three and six months ended September 30, 1998 and 1997	2
Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 1998 and 1997	3
Notes to Unaudited Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	6

PART II- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K	24
Signatures	24

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

8X8, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	September 30, 1998	March 31, 1998
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	$ 18,366	$ 26,737
Accounts receivable, net	3,874	4,527
Inventory	13,311	12,758
Prepaid expenses and other assets	1,374	876
Total current assets	36,925	44,898
Property and equipment, net	1,857	1,370
Deposits and other assets	111	161
	$ 38,893	$ 46,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,001	$ 2,625
Accrued compensation	1,516	1,445
Accrued warranty	1,324	1,461
Deferred revenue	2,176	2,447
Other accrued liabilities	1,911	1,923
Total current liabilities	8,928	9,901
Minority interest	--	85
Stockholders' equity:		
Common stock	15	15
Additional paid-in capital	48,034	47,785
Notes receivable from stockholders	(290)	(893)
Deferred compensation	(391)	(744)
Unrealized loss on investments	(107)	(45)
Accumulated deficit	(17,296)	(9,675)
Total stockholders' equity	29,965	36,443
	$ 38,893	$ 46,429

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

8X8, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
Product revenues	$ 8,375	$ 8,103	$ 14,886	$ 13,056
License and other revenues	628	2,791	1,217	9,453
Total revenues	9,003	10,894	16,103	22,509
Cost of product revenues	5,863	3,987	10,253	6,531
Cost of license and other revenues	50	550	50	550
Gross profit	3,090	6,357	5,800	15,428
Operating expenses:				
Research and development	2,753	2,982	5,365	6,195
Selling, general and administrative	4,290	3,760	8,652	7,300
Total operating expenses	7,043	6,742	14,017	13,495
Income (loss) from operations	(3,953)	(385)	(8,217)	1,933
Other income, net	303	480	596	580
Income(loss)before(benefit)provision for income taxes	(3,650)	95	$ (7,621)	2,513
(Benefit) provision for income taxes	--	--	--	(1,000)
Net income (loss)	$ (3,650)	$ 95	$ (7,621)	$ 3,513
Net income (loss) per share:				
Basic	$ (0.24)	$ 0.01	$ (0.51)	$ 0.36
Diluted	$ (0.24)	$ 0.01	$ (0.51)	$ 0.25
Shares used in per share calculations:				
Basic	14,939	13,682	14,866	9,738
Diluted	14,939	16,090	14,866	13,839

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

8X8, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Six months ended September 30,	
	1998	1997
Cash flows from operating activities:		
Net income (loss)	$ (7,621)	$ 3,513
Charges to net income (loss) not affecting cash	637	1,583
Net effect of changes in current and other assets and current liabilities	(1,321)	(1,646)
Net cash (used in) provided by operating activities	(8,305)	3,450
Cash flows from investing activities:		
Purchase of property and equipment	(934)	(518)
Short-term investments-trading activity, net	60	2
Net cash used in investing activities	(874)	(516)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	478	24,757
Repayment of notes receivable from stockholders	475	--
Purchases of common stock from minority shareholders in subsidiary	(85)	--
Net cash provided by financing activities	868	24,757
Net (decrease) increase in cash and cash equivalents	(8,331)	27,691
Cash and cash equivalents at the beginning of the period	26,677	8,722
Cash and cash equivalents at the end of the period	$ 18,366	$ 36,413

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

8X8, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

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

2. BASIS OF PRESENTATION

The Company's fiscal year ends on the last Thursday on or before March 31. The three and six month periods ended September 24, 1998 and September 25, 1997 included 13 weeks and 26 weeks of operations, respectively. For purposes of these condensed consolidated financial statements, the Company has indicated its fiscal year as ending on March 31 and its interim periods as ending on September 30.

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared on substantially the same basis as the Company's annual financial statements for the year ended March 31, 1998. In the opinion of management, these financial statements reflect all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 1998, including notes thereto, included in the Company's Annual Report on Form 10-K.

The results of operations for the interim periods included in these financial statements are not necessarily indicative of the results to be expected for any future period or the entire fiscal year.

3. BALANCE SHEET DETAIL

(in thousands)	September 30, 1998	March 31, 1998
Inventories:		
Raw materials	$ 3,232	$ 3,864
Work-in-process	5,826	5,337
Finished goods	4,253	3,557
	$13,311	$12,758

4. NET INCOME (LOSS) PER SHARE

All prior years' data in this report have been restated to reflect the adoption of Statement of Financial Accounting Standards No. 128 (FAS 128). FAS 128 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):

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
Basic shares	14,939	13,682	14,866	9,738
Effect of dilutive securities:				
Preferred stock	--	166	--	1,946
Common stock options	--	1,561	--	1,356
Unvested restricted common stock	--	681	--	799
Diluted shares	14,939	16,090	14,866	13,839

Approximately 3.1 million common stock options and 231,000 unvested restricted common shares were outstanding at September 30, 1998, but were not included in the computation of diluted net income (loss) per share because their impact was anti-dilutive in view of losses incurred by the Company. Approximately 138,000 common stock options at a weighted average price of $11.25 were outstanding at September 30, 1997, but were not included in the computation of diluted net income (loss) per share because their impact was anti-dilutive.

5. RELATED PARTY TRANSACTION

During the quarter ended September 30, 1998, the Company repurchased all outstanding shares of common stock held by minority shareholders in the Company's subsidiary, VidUs, Inc. (VidUs), for approximately $85,000 in conjunction with its merger with the Company in August 1998. All former minority shareholders of VidUs are employees of the Company.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In April 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (FAS 130), "Reporting Comprehensive Income." Comprehensive income (loss), as defined, includes all changes in equity (net assets) during a period from non-owner sources. The primary difference between net income (loss) and comprehensive income (loss), for the Company, is gains and losses on short-term investments classified as available-for-sale. Comprehensive income (loss) for the current reporting and comparable period in the prior year is as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	1998	1997	1998	1997
Comprehensive income (loss)	$(3,728)	$ 95	$(7,683)	$ 3,513

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position No. 97-2 (SOP 97-2) which provides guidance for recognizing revenue on software transactions and supersedes SOP 91-1 "Software Revenue Recognition." In March 1998, the AICPA issued Statement of Position No. 98-4 (SOP 98-4) "Deferral of the Effective

Date of a Provision of SOP 97-2, Software Revenue Recognition." SOP 98-4 defers, for one year, the application of certain passages in SOP 97-2 which limit what is considered vendor-specific objective evidence necessary to recognize revenue for software licenses on multiple-element arrangements when undelivered elements exist. Additional guidance is expected to be provided prior to adoption of the deferred provision of SOP 97-2. The Company will determine the impact, if any, the further guidance will have on current revenue recognition practices when issued. Adoption of the remaining provisions of SOP 97-2 did not have a material impact on revenue recognition during the quarter or six months ended September 30, 1998.

In June 1997, the Financial Accounting Standards Board (FASB) 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 June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities." FAS 133 is effective for fiscal years commencing after June 15, 1999. The Company will comply with the requirements of FAS 133 in fiscal year 2001 and does not expect the adoption of FAS 133 will be material to the Company's consolidated results of operations.

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

This Report on Form 10-Q 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-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including without limitation statements regarding the Company's expectations, beliefs, intentions or strategies regarding the future and statements contained within those sentences followed by an asterisk (i.e., "*"). All forward-looking statements included in this Report on Form 10-Q 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 heading "Factors That May Affect Future Results" and elsewhere in this Report on Form 10-Q.

This information should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto included in Item I of this Report on Form 10Q and the audited Consolidated Financial Statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Result of Operations for the fiscal year ended March 31, 1998 contained in the Company's Annual Report on Form 10-K.

Overview

Since June 1995, the Company has been executing a business strategy designed to focus the

Company's efforts towards video communication. In each of the quarters ended September 30, 1998 and 1997, sales of the Company's video communication products accounted for 100% of product revenues. In the fiscal years ended March 31, 1998 and 1997, sales of the Company's video communication products accounted for 100% and 86% of product revenues, respectively.

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 introduced versions of its ViaTV videophones designed for European and Asian markets. In addition, the Company introduced a VideoCommunicator product targeted specifically towards the surveillance market segment. In August 1998, the Company began shipping the RSM-1500 remote surveillance module, and subsequently ceased shipment of the VC50 model.

The Company is marketing its VideoCommunicators through retail and distribution 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 Condensed Consolidated Statements of Operations and the notes thereto:

Revenues

	Three months ended September 30,				Six months ended September 30,			
	1998		1997		1998		1997	
	(In millions)							
Product revenues	$ 8.4	93%	$ 8.1	74%	$ 14.9	93%	$ 13.1	58%
License and other revenues	0.6	7%	2.8	26%	1.2	7%	9.4	42%
Total revenues	$ 9.0	100%	$ 10.9	100%	$ 16.1	100%	$ 22.5	100%

Total revenues were $9.0 million and $10.9 million for the second quarters of fiscal 1999 and 1998, respectively. Total revenues for the second quarter of fiscal 1999 were divided among video communication semiconductors (39%), videophone systems (54%) and nonrecurring license and other revenues (7%). In the second quarter of fiscal 1998, total revenues were divided among video communication semiconductors (45%), videophone systems (29%) and nonrecurring license and other revenues (26%).

Product revenues were $8.4 million in the second quarter of fiscal 1999, an increase of $300,000 from the $8.1 million reported in the second quarter of fiscal 1998. The increase in product revenues was primarily due to the increase in unit sales of the Company's VideoCommunicator products, which was partially offset by a decrease in average selling prices.

License and other revenues consist of technology licenses, including royalties earned under such licenses, and nonrecurring engineering fees for services performed by the Company for its

customers. License and other revenues were approximately $600,000 in the second quarter of fiscal 1999, a decrease of approximately $2.2 million from the $2.8 million reported in the second quarter of fiscal 1998. 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."

Total revenues were $16.1 million and $22.5 million in the first six months of fiscal 1999 and 1998, respectively. Total revenues for the first six months of fiscal 1999 were divided among video communication semiconductors (41%), videophone systems (51%) and nonrecurring license and other revenues (8%). In the first six months of fiscal 1998, total revenues were divided among video communication semiconductors (37%), videophone systems (22%) and nonrecurring license and other revenues (41%).

Product revenues were $14.9 million in the first six months of fiscal 1999, an increase of $1.8 million above the $13.1 million reported in the first six months of fiscal 1998, and represented 93% and 58% of total revenues, respectively. In the first six months of fiscal 1999 and 1998 license and other revenues, all of which were nonrecurring, were $1.2 million and $9.4 million, respectively. In the first six months of 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 VideoCommunicators. There can be no assurance that the Company will receive any revenues from such arrangements in the future.* See "Factors That May Affect Future Results -- No Assurance of Future License and Other Revenues."

Revenues derived from VideoCommunicator products sold-through by one distribution customer represented approximately 11% of the Company's total revenues for the quarter ended September 30, 1998. Revenues derived from two separate customers represented approximately 15% and 10% of total revenues for the quarter ended September 30, 1997. No customer represented ten percent (10%) or more of the Company's total revenues for the six months ended September 30, 1998. Revenues derived from one customer represented approximately 28% of total revenues for the six months ended September 30, 1997. Dependence on a significant customer entails certain risks.* See "Factors That May Affect Future Results--Potential Fluctuations in Operating Results" and "Factors That May Affect Future Results--Dependence on Key Customers."

Revenues derived from customers outside of the United States as a percentage of total revenues were as follows:

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
Asia Pacific	31%	40%	27%	28%
Europe	18%	11%	19%	11%
Total	49%	51%	46%	39%

See "Factors That May Affect Future Results--International Operations."

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

Cost of Revenues

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Cost of product revenues	$ 5.9	$ 4.0	$10.3	$ 6.5
As a percentage of product revenues	70%	49%	69%	50%
Cost of license and other revenues	--	$ 0.5	--	$ 0.5
As a percentage of license and other revenues	0%	18%	0%	5%

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 $5.9 million and $4.0 million for the second quarters of fiscal 1999 and 1998, respectively. The cost of product revenues in the quarter ended September 30, 1998 included increased costs associated with the increased unit sales of the Company's VideoCommunicator products, which have a substantially different cost structure from the Company's semiconductor products.

Cost of license and other revenues in the second quarter of fiscal 1999 and 1998 were approximately $50,000 and $500,000, respectively, and consisted primarily of personnel and other costs incurred to perform certain development work under terms of nonrecurring engineering contracts. This development work was performed by research and development personnel of the Company.

Cost of product revenues were $10.3 million and $6.5 million in the first six months of fiscal 1999 and 1998, respectively. The cost structure of the Company's ViaTV product line, the Company's first line of VideoCommunicator products, is substantially different from the Company's video communication semiconductor products.

Gross Profit

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Gross profit	$ 3.1	$ 6.4	$ 5.8	$ 15.4
As a percentage of total revenues	34%	59%	36%	68%

Gross profit was $3.1 million and $6.4 million in the second quarters of fiscal 1999 and 1998, respectively. Gross profit from product revenues was $3.1 million and $4.1 million for the second quarters of fiscal 1999 and 1998, respectively. Gross profit from license and other revenues, all of which was nonrecurring, was approximately $600,000 and $2.3 million in the second quarters of fiscal 1999 and 1998, 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."

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

Gross profit was $5.8 million and $15.4 million in the first six months of fiscal of 1999 and 1998, respectively. License and other revenues, net of associated costs, contributed $1.2 million and $8.8 million to gross profit in the first six months of fiscal 1999 and 1998, respectively.

Lower product gross profit in the second quarter of fiscal 1999 was due primarily to decreased average selling prices for both the Company's VideoCommunicator and video communication semiconductor products. Decreases in average selling prices were partially offset by increased unit sales and decreased product costs. While the cost of some components used in the VideoCommunicator products have decreased, the Company will not be able to realize the benefit of these or potential future cost reductions, if at all, until current inventory levels decrease.*

Total gross margin was 34% and 59% in the second quarters of fiscal 1999 and 1998, respectively. The decrease in gross margin is due primarily to the decrease in license and other revenues, all of which were nonrecurring. In addition, gross margins were lower due to increased sales of the Company's VideoCommunicator products which have substantially lower gross margins than the Company's semiconductor products.

The markets for the Company's VideoCommunicator and semiconductor 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 and/or higher sales volumes.* 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 VideoCommunicator products than for sales of the Company's semiconductors. If VideoCommunicator 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

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Research and development	$ 2.8	$ 3.0	$ 5.4	$ 6.2
As a percentage of total revenues	31%	28%	34%	28%

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. During the three and six month periods ended September 30, 1998 and 1997, respectively, research and development expenses were attributable to the Company's next generation development of its video communication semiconductors and continued development of its VideoCommunicators.

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

Lower research and development expenses during the second quarter and six months ended September 30, 1998 were due to decreases in profit sharing and incentive bonuses, non-recurring VideoCommunicator design costs, and costs associated with materials and tooling used in prototype builds of the Company's VideoCommunicator products. These decreases were offset by an increase in headcount and the use of research and development personnel during the quarter ended September 30, 1997 to perform non-recurring engineering services under a revenue generating contract. The costs associated with this contract were included in the cost of license and other revenues. Higher research and development costs as a percentage of total revenues for both the three and six month periods ended September 30, 1998 were due to lower revenues as compared to the comparable periods in the prior fiscal year.

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."

Operating Expenses--Selling, General and Administrative

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
	(In millions)			
Selling, general and administrative	$4.3	$ 3.8	$8.6	$ 7.3
As a percentage of total revenues	48%	35%	53%	32%

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 $4.3 million and $3.8 million in the second quarters of fiscal 1999 and 1998, respectively. In the second quarter of fiscal 1999, expenses increased due to costs associated with the marketing, advertising and promotion of the Company's VideoCommunicator product line and additional headcount required to support these activities. These increases were partially offset by decreases in profit sharing and commission expenses. 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."

Selling, general and administrative expenses were $8.6 million and $7.3 million in the first six months of fiscal 1999 and 1998, respectively. While total expenses increased as a result of the factors listed above, the non-cash compensation expense recognized on certain stock option

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

grants and charged to selling, general and administrative decreased to $85,000 in the first six months of fiscal 1999 from $737,000 in the first six months of fiscal 1998.

Other Income, Net

Other income, net, consists primarily of interest earned on cash equivalents and short-term investments. Other income, net was approximately $303,000 for the three month period ended September 30, 1998 compared to $480,000 for the three month period ended September 30, 1997. Other income, net was $596,000 for the six month period ended September 30, 1998 compared to $580,000 for the comparable period in the prior fiscal year. The decrease in interest income in the second quarter of fiscal 1999 is due primarily to lower average cash equivalents and short-term investment balances as compared to the second quarter of fiscal 1998.

(Benefit) Provision for Income Taxes

There was no tax provision for the three and six month periods ended September 30, 1998 due to net losses incurred. The tax benefit in the six month period ended September 30, 1997 resulted from the reversal of approximately $1.0 million of the Company's income tax liability in the first quarter of fiscal 1998 upon notice from the Internal Revenue Service that it had reversed a previously asserted deficiency related to the taxable year 1992.

Year 2000

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. As the Year 2000 approaches, these code fields will need to accept four digit entries to distinguish years beginning with "19" from those beginning with "20." The Company is assessing the readiness of its products, internal computer systems, and third-party equipment and software utilized by the Company for handling Year 2000 issues. Based upon the Company's assessments, all of the Company's products are Year 2000 compliant. With regard to the Company's internal computer systems, the Company is currently implementing an enterprise-wide database and information management system, principally to improve operating efficiencies, that will also address Year 2000 compliance issues. Though the Company currently expects to successfully implement this and other internal computer systems and programming changes necessary to address Year 2000 issues, there can be no assurance that such implementations will be done within the projected timeframe or within budget.* See "Factors That May Affect Future Results--Enterprise-Wide Database Implementation." See also the discussion below regarding the estimated cost of the enterprise-wide database implementation project. 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 adverse impact on the Company's business and operating results.

Liquidity and Capital Resources

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 and cash

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

generated from operations in fiscal 1994 and prior years. As of September 30, 1998, the Company had cash and liquid investments totaling $18.4 million, representing a decrease of $8.3 million from March 31, 1998. The Company currently has no bank borrowing arrangements.

Net cash used in operations was $8.3 million during the first six months of fiscal 1999. Net cash provided by operations was $3.5 million during the first six months of fiscal 1998. Net cash used in operations in the six month period ended September 30, 1998 reflected a net loss of $7.6 million, increases of $553,000 in inventory and $498,000 in prepaid expenses and other assets, and a $624,000 decrease in accounts payable, offset primarily by a decrease of $653,000 in accounts receivable, and noncash items. The increase in inventory during the six months ended September 30, 1998 was due to increases in VideoCommunicator product inventory held by the Company and inventory balances held by retailers and distributors. Because the Company does not recognize revenue on the shipment of its VideoCommunicator products to retailers or distributors until the products are sold-through by the retailer or distributor, product inventories at retailers and distributors reflected in the Company's inventories are expected to increase if the Company succeeds in further broadening its distribution channels.*

Cash provided by operations in the six month period ended September 30, 1997 reflects net income of $3.5 million, increases of $2.9 million in deferred revenue, $1.8 million in accounts payable, and noncash items, including a deferred compensation charge of $1.1 million. Cash used in operations during this period included a $4.0 million increase in accounts receivable and a $1.5 million increase in inventory.

Net cash used in investing activities in the six months ended September 30, 1998 and 1997, is primarily attributable to capital expenditures of $934,000 and $518,000, respectively.

Net cash provided by financing activities in the six months ended September 30, 1998 consisted primarily of net proceeds from the repayment of stockholders' notes receivable and sales of the Company's common stock upon the exercise of employee stock options, offset by the repurchase of common stock from minority shareholders in the Company's VidUs subsidiary in conjunction with its merger with the Company in August 1998. Cash flows from financing activities in the six months ended September 30, 1997 consisted primarily of $24.7 million in net proceeds from sale of the Company's common stock in its initial public offering.

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.* 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 during the six months ended September 30, 1998 and in the fiscal year ended March 31, 1998 was approximately $8.3 million and $6.5 million, respectively, due primarily to cash requirements of the Company's VideoCommunicator product business. The Company has incurred, and will continue to incur, significant costs related to the development of VideoCommunicator products, advertising for its ViaTV products, support of the retail sales channel and growth in ViaTV inventory. In addition, as discussed above, the Company has entered into a contract to purchase a

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

new enterprise-wide database and information management system from a major software supplier. The Company currently estimates that total expenditures related to the purchase of the software and incremental hardware requirements, as well as the cost of implementation and training, will be between $1.5 million and $1.7 million, of which approximately $900,000 has been incurred as of September 30, 1998. See "Factors That May Affect Future Results--Enterprise-Wide Database Implementation. As of September 30, 1998, the Company had approximately $18.4 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.*

* This statement is a forward looking statement reflecting current expectations. There can be no assurance that 8x8's actual future performance will meet 8x8's current expectations. See "Factors That May Affect Future Results" commencing on page 15 for a discussion of certain factors that could affect future performance.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The following factors should be considered in conjunction with the information in this Report on Form 10-Q.

History of Losses; Uncertainty of Future Profitability

The Company recorded an operating loss of $7.6 million in the first six months of fiscal 1999. In addition, the Company recorded operating losses in three of the four quarters in fiscal 1998 and recorded an operating loss of $13.6 million in the year ended March 31, 1997. 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 achieve 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 the licensing of its technology. License and other revenues, all of which were nonrecurring, were $1.2 million and $9.5 million for the six month periods ended September 30, 1998 and 1997, respectively, and were $14.5 million and $3.9 million in the fiscal years ended March 31, 1998 and 1997, respectively. There can be no assurance that the Company will receive substantial 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 a quarterly and an annual 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 continue to be reduced and could result in 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 and distributors, 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, 1997. The Company recognizes revenue when distributors sell product to their customers. The Company may not be able to anticipate the rate at which distributors will receive additional orders from their end customers. 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 second quarter and six months ended September 30, 1998 accounted for approximately 51% and 45% of total revenues, respectively. For both of the fiscal years ended March 31, 1998 and 1997, revenues from the Company's ten largest customers accounted for approximately 61% of total revenues. Revenues derived from one customer represented approximately 11% of the Company's total revenues for the quarter ended September 30, 1998. No customer represented ten percent (10%) or more of the Company's total revenues for the six months ended September 30, 1998. During each of the last two fiscal years the Company had one customer 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. 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. The loss of, or any reduction in orders from, significant customers could have a material adverse effect on the Company's business and operating results.

International Operations

Sales to customers outside of the United States represented 49% and 46% of the Company's total revenues for the second quarter and the six months ended September 30, 1998. Sales to customers outside of the United States represented 47% and 54% of total revenues in the fiscal years ended March 31, 1998 and 1997, respectively. Specifically, sales to customers in the Asia Pacific region represented 31% and 27% of the Company's total revenues in the second quarter and the six months ended September 30, 1998. Sales to customers in Europe represented 18% and 19% of the Company's total revenues in the second quarter and the six months ended September 30, 1998. Sales to customers in the Asia Pacific region represented 25% and 33% and in the fiscal years ended March 31, 1998 and 1997, respectively, while sales to customers in Europe represented 22% and 21% 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.

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. 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 such as 3Com.

- 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 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 OEM customers of the Company 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 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.

Need for Additional Capital

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. 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 during the six months ended September 30, 1998 and in the fiscal year ended March 31, 1998 was approximately $8.3 million and $6.5 million, respectively, due primarily to cash requirements of the Company's VideoCommunicator business. The Company has incurred and will continue to incur, significant costs related on the development of VideoCommunicator 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 September 30, 1998, the Company had approximately $8.4 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.

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 VideoCommunicator 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 seven 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 be may 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.

Dependence on Third Party Manufacturers and Component Suppliers

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 and Flash Electronics in Fremont, California, while its semiconductor manufacturers include Taiwan Semiconductor Manufacturing Corporation and United Micro Electronics Corporation in Taiwan. The Company also relies on Anam/Amkor Electronics Corporation 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."

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.

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%, 100% and 86% of total product revenues for the six months ended September 30, 1998 and in the fiscal years ended March 31, 1998 and 1997, 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.

Enterprise-Wide Database

The company is currently engaged in a major project to upgrade its enterprise-wide database and information management systems, based principally on software from a major software supplier. In recent years, some fabless semiconductor and system-level product companies undertaking major systems transitions have experienced significant business disruption as a result of unexpected delays in the implementation of these projects. There can be no assurance that the Company's project will be completed within the projected timeframe or within budget.

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.

PART II -- OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index.

(b) No reports on Form 8-K were filed during the three month period ended September 30, 1998.

SIGNATURES

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

Date: October 21, 1998

8X8, INC.

By: /s/ SANDRA L. ABBOTT

Sandra L. Abbott
Chief Financial Officer and
Vice President of Finance
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT TITLE
27.1+	Financial Data Schedule.

All other schedules are omitted because they are not required, are not applicable or the information is included in the Condensed Consolidated Financial Statements or notes thereto.

5

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM 8X8, INC.'S CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CONDENSED CONSOLIDATED BALANCE SHEETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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ITEM SHOWN NET OF ALLOWANCE, CONSISTENT WITH THE BALANCE SHEET PRESENTATION.