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 June 29, 2000

[ ] 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 August 9, 2000 was 25,159,748.

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8X8, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2000	March 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,443	$ 48,576
Accounts receivable, net	2,004	2,394
Inventory	926	1,367
Prepaid expenses and other assets	2,459	1,043
Total current assets	54,832	53,380
Property and equipment, net	2,942	2,687
Intangibles and other assets	5,054	3,136
Deferred debt issuance costs	709	780
	$ 63,537	$ 59,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,577	$ 1,887
Accrued compensation	2,187	2,154
Accrued warranty	620	694
Deferred revenue	4,515	731
Other accrued liabilities	2,185	1,629
Total current liabilities	13,084	7,095
Convertible subordinated debentures	5,683	5,498
Total liabilities	18,767	12,593
Stockholders' equity:		
Common stock	23	23
Additional paid-in capital	101,836	101,559
Notes receivable from stockholders	(43)	(69)
Deferred compensation	(74)	(376)
Accumulated deficit	(56,972)	(53,747)
Total stockholders' equity	44,770	47,390
	$ 63,537	$ 59,983

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

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

	Three months ended June 30, 2000	Three months ended June 30, 1999
Product revenues	$ 4,970	$ 5,560
License and other revenues	853	334
Total revenues	5,823	5,894
Cost of product revenues	1,536	3,353
Cost of license and other revenues	42	--
Gross profit	4,245	2,541
Operating expenses:		
Research and development	4,214	2,423
Selling, general and administrative	3,699	3,587
In-process research and development	--	10,100
Amortization of intangibles	190	50
Total operating expenses	8,103	16,160
Loss from operations	(3,858)	(13,619)
Other income, net	976	1,881
Interest expense	(331)	--
Loss before provision for income taxes	(3,213)	(11,738)
Provision for income taxes	12	--
Net loss	$ (3,225)	$(11,738)
Net loss per basic and diluted share	$ (0.14)	$ (0.72)
Basic and diluted shares outstanding	22,582	16,341

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

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

	Three months ended June 30, 2000	1999
Cash flows from operating activities:		
Net loss	$ (3,225)	$(11,738)
Adjustment to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	434	337
Amortization of deferred compensation	305	54
Amortization of debt discount	185	--
Amortization of intangibles	190	--
Purchased in-process research and development	--	10,100
Gain on sale of investments, net	(225)	(1,687)
Other	29	--
Changes in assets and liabilities, net of effects of business acquired and disposal of business	99	3,102
Net cash (used in) provided by operating activities	(2,208)	168
Cash flows from investing activities:		
Purchases of property and equipment	(647)	(89)
Proceeds from sale of nonmarketable equity investment	225	1,880
Cash paid for acquisitions, net	(1,536)	(15)
Proceeds from disposition of business, net	4,733	--
Net cash provided by investing activities	2,775	1,776
Cash flows from financing activities:		
Proceeds from issuance of common stock	274	153
Repayment of notes receivable from stockholders	26	22
Net cash provided by financing activities	300	175
Net increase in cash and cash equivalents	867	2,119
Cash and cash equivalents at the beginning of the period	48,576	15,810
Cash and cash equivalents at the end of the period	$ 49,443	$ 17,929
Supplemental non-cash disclosures:		
Interest paid during the period	$ 87	$ --

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

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

1. DESCRIPTION OF THE BUSINESS

8x8, Inc. (the "Company") was incorporated in California in February 1987. In December 1996, the Company was reincorporated in Delaware. In March 2000, the Company announced that it would change its name, subject to shareholder approval, to Netergy Networks, Inc.

The Company is a leading developer of digital communications products and technologies, including highly integrated Internet protocol (IP) telephony solutions marketed to telephone service providers and semiconductors and related embedded technology marketed to original equipment manufacturers (OEMs) of telecommunication and videoconferencing equipment.

In addition, until May 19, 2000, the Company developed and marketed remote video monitoring systems to dealers and distributors of security products. See Note 6 regarding the sale of net assets and the license of certain related technologies associated with the Company's video monitoring business.

2. BASIS OF PRESENTATION

Our fiscal year ends on the last Thursday in March. Fiscal 2001 will be a 52 week year, while fiscal 2000 was a 53 week year. Our fiscal quarters end on the last Thursday of each calendar quarter. The three month periods ended June 29, 2000 and June 24, 1999, respectively, each included 13 weeks of operations. For purposes of these condensed consolidated financial statements, we have indicated our fiscal year as ending on March 31 and our interim periods as ending on June 30.

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared on substantially the same basis as our annual financial statements for the fiscal year ended March 31, 2000. In the opinion of management, these financial statements reflect all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement of our financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with our audited consolidated financial statements for the year ended March 31, 2000, including notes thereto, included in our fiscal 2000 Annual Report on Form 10-K.

The results of operations and cash flows 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)

	June 30, 2000	March 31, 2000
Inventory:		
Raw materials	$ 84	$ 65
Work-in-process	544	797
Finished goods	298	505
	$ 926	$1,367

4. NET INCOME (LOSS) PER SHARE

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 common stock options, convertible subordinated debentures, warrants and unvested restricted common stock having a dilutive effect. The numerators for each period presented are equal to the reported net loss. Additionally, due to net losses incurred for all periods presented, weighted average basic and diluted shares outstanding for the respective three-month periods are the same. 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):

	June 30,	
	2000	1999
Common stock options	4,452	3,859
Convertible subordinated debentures ...	638	--
Warrants	701	--
Unvested restricted common stock	432	240
Total	6,223	4,099

5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), as defined, includes all changes in equity (net assets) during a period from non-owner sources. For us, the primary difference between net income (loss) and comprehensive income (loss) is gains and losses on short-term investments classified as available-for-sale. Comprehensive losses for the periods ended June 30, 2000 and 1999 were approximately $3.2 million and $11.5 million, respectively. As of June 30, 2000, accumulated other comprehensive loss and accumulated deficit are the same.

6. DISPOSITION OF VIDEO MONITORING BUSINESS

On May 19, 2000, the Company entered into an agreement with Interlogix, Inc. ("Interlogix") whereby the Company agreed to sell certain assets and license certain technology to Interlogix related to the Company's video monitoring business. The Company is obligated to provide Interlogix with future updates and upgrades to the licensed technology, if any, over the initial three-year term of the technology license. The assets sold included certain accounts receivable, inventories, machinery, equipment, and intangibles. Interlogix agreed to pay the Company approximately $5.2 million for the assets and the associated technology license, of which $4.75 million was received prior to the end of the first quarter of fiscal 2001. The remaining balance of the purchase price of approximately $427,000 was included in prepaid and other assets at June 30, 2000 and was subsequently paid by Interlogix in July 2000. Upon delivery of certain remaining obligations, the Company will commence recognition of the resulting net gain of approximately $3.9 million, which has been recorded as deterred revenue, over the remaining term of the technology license.

7. ACQUISITION OF U|FORCE

On May 19, 2000, the Company entered into an agreement to acquire U|Force Inc., a Canadian corporation ("U|Force"). In connection with the acquisition, the Company agreed to issue up to a total of 4,579,201 shares of common stock as follows: (1) 1,447,523 shares upon closing of the acquisition to U|Force shareholders that elected to receive the Company's common stock at closing in exchange for their U|Force shares or rights to acquire U|Force shares; (2) 2,107,780 shares will be issued upon the exchange or redemption of the exchangeable shares (the "Exchangeable Shares") of Canadian entities held by former shareholders or indirect owners of U|Force stock; and (3) 1,023,898 shares will be issued upon exercise of options formerly for the purchase of U|Force stock that the Company assumed. In addition, the Company agreed to create a Special Voting Share that provides holders of Exchangeable Shares with voting rights that are equivalent to the shares of common stock into which their shares are convertible. Based on the closing price of the Company's common stock for a period surrounding the date of the agreement and the value of U|Force employee stock options assumed, the transaction is valued at approximately $44.6 million.

The Company closed the acquisition on June 30, 2000. The acquisition will be accounted for as a purchase transaction and will result in a charge for purchased in-process research and development expense in the second quarter of fiscal 2001.

8. SEGMENT REPORTING

Due to a change in the Company's organizational structure during its second fiscal quarter ended September 30, 1999, the Company determined that it had two reportable segments, Broadband Communications and Video Monitoring, as defined by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Broadband Communications segment is comprised of revenues and direct expenses associated with sales of the Company's products focused on the IP telephony and videoconferencing markets. The Video Monitoring segment is

comprised of revenues and direct expenses associated with sales of the Company's products focused on the video monitoring market. See Note 6 above regarding the sale of the Company's video monitoring business effective May 19, 2000. Due to limitations in the Company's internal reporting systems, it is not practicable to disclose results for the segments for the three months ended June 30, 1999. The following table illustrates results by segment for the three months ended June 30, 2000 only (in thousands):

	Revenues	Operating Loss
Broadband Communications	$ 4,860	$(3,111)
Video Monitoring	963	351
Corporate and Other	--	(1,098)
Total	$ 5,823	$(3,858)

There are no intersegment revenues between the two reportable segments. Shared support service functions such as human resources, facilities management and other infrastructure support and overhead are not allocated, but rather are included in the Corporate and Other category. In addition, special charges which are reported separately in the Condensed Consolidated Statements of Operations are not assigned or allocated to the segments, but rather have been included in the Corporate and Other category. All other accounting policies are applied consistently to the segments, where applicable. Due to the sale of all associated inventories as part of the disposition of the Video Monitoring business, the $926,000 of inventory reported at June 30, 2000 is related to the Company's Broadband Communications segment.

9. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities." FAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000 pursuant to the issuance of FAS 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133," which deferred the effective date of FAS 133 by one year. FAS 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company does not expect that the adoption of FAS 133 will have a material impact on its consolidated financial statements.

In March 2000, the FASB issued Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." FIN 44 clarifies the application of APB 25 for certain issues including: (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. In

general, FIN 44 is effective July 1, 2000. We do not expect the adoption of FIN 44 to have a material effect on our consolidated financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The Company is required to adopt SAB 101 by no later than the fourth quarter of fiscal 2001. The Company has reviewed SAB 101 and believes it should not have a significant impact on its revenue recognition practices.

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

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 our expectations, beliefs, estimates, intentions or strategies regarding the future, our planned integration of U|Force products into our IP telephony product solutions, our research and development plans, our sales and administrative costs, our in-process research and development expenses and the sufficiency of our cash position. All forward-looking statements included in this Report on Form 10-Q are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. You should not place undue reliance on these forward-looking statements. Our 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.

Overview

We began developing multimedia communication technology in the form of programmable multimedia semiconductors and accompanying software in 1990, and have subsequently become a leading manufacturer of semiconductors for the embedded videoconferencing and videophone markets. We maintain sales and marketing operations to support our multimedia semiconductor business, but we have focused virtually all of our ongoing research and development efforts on IP telephony products and technologies.

In an effort to expand the available market for our multimedia communication products, and to capitalize on our vertically integrated technology, we began developing low cost consumer videophones and marketing these products to consumers under the ViaTV brand name in 1997. Over the next two years, we became a leading manufacturer of consumer videophones. However, in 1999 we determined that a combination of factors including the high cost of maintaining a consumer distribution channel, the slower than expected growth rate of the consumer videophone market, and the low gross margins typical of a consumer electronics product made it unlikely that the consumer videophone

business would be profitable in the foreseeable future. Therefore, we announced in April 1999 that we would cease production of the ViaTV product line and withdraw from our ViaTV distribution channels over the subsequent several quarters, resulting in a charge of $5.7 million related to the write off of ViaTV inventories. By March 2000 we had completed the exit from the consumer videophone business and we expect no further revenues from ViaTV products.

In June 1998, using technology designed for our consumer videophone business, we entered the video monitoring market with our RSM (remote surveillance module) line of video monitoring products, focusing on security applications for small businesses. Until recently, we sold our video monitoring products primarily to security distributors and dealers in North America and Europe. However, in an effort to align our strategic focus on the IP telephony market, we announced the sale of our entire video monitoring business to Interlogix, a leading manufacturer of security equipment, in May 2000. We are currently transitioning our video monitoring operations to Interlogix and expect no further revenues from this business.

We entered the market for embedded IP telephony products in December 1998 with the announcement of our Audacity Internet Telephony Processor. The Audacity processor combines IP telephony protocol support with audio compression/decompression capability and runs multiple simultaneous IP phone calls on a single integrated circuit. In April 1999, we announced our Netergy Media Hub (formerly known as the Symphony module), an integrated system product that is based on the Audacity semiconductor and that connects up to four analog telephone lines to an IP network. In September 1999, we announced our Audacity-T2 IP Phone Processor, which combines all the digital processing required to implement an IP telephone onto a single integrated circuit. Our embedded IP telephony products target OEM manufacturers of IP telephony equipment, such as voice-enabled cable and DSL modems, as well as IP phones and gateways.

In May 1999, we acquired Odisei S.A., a privately held developer of IP telephony software based in Sophia Antipolis, France. We have leveraged the acquisition of Odisei to develop and market IP telephony solutions to service providers such as competitive local exchange carriers (CLECs) and Internet service providers (ISPs). In March 2000 the Company announced its Netergy Advanced Telephony System (ATS), an all-IP hosted iPBX solution that will allow service providers to offer dial tone and advanced private branch exchange (PBX) services to business customers over any broadband IP connection, including DSL, cable, T1/E1 and broadband wireless. The ATS makes use of our embedded IP telephony products, including the Netergy Media Hub, semiconductors and embedded IP telephony software.

In May 2000, we announced that we had entered into a definitive agreement to acquire U|Force, Inc., a developer of IP-based software applications (such as unified messaging) based in Montreal, Canada. U|Force also develops a service creation environment (SCE) that will allow telecommunication service providers to develop, deploy and manage

telephony applications and services to their customers. We intend to integrate the products currently being developed by U|Force into our IP telephony solutions product line. We closed the U|Force acquisition on June 30, 2000. The transaction will be accounted for using the purchase method.

In March 2000, we announced the change of our name, to Netergy Networks, Inc. subject to shareholder approval. The name change reflects our strategic transition to the IP telephony market.

RESULTS OF OPERATIONS

The following table sets forth consolidated statement of operations data for each of the fiscal quarters ended June 30, 2000 and 1999, respectively, as well as the percentage of our total revenues represented by each item. Cost of product revenues is presented as a percentage of product revenues and cost of license and other revenues is presented as a percentage of license and other revenues:

	Quarter Ended June 30,			
	2000		1999	
	($ in millions)			
Product revenues	$ 5.0	86%	$ 5.6	95%
License and other revenues	0.8	14%	0.3	5%
Total revenues	5.8	100%	5.9	100%
Cost of product revenues	1.5	30%	3.3	59%
Cost of license and other revenues	0.1	13%	--	0%
Total cost of revenues	1.6	28%	3.3	56%
Gross profit	4.2	72%	2.6	44%
Operating expenses:				
Research and development	4.2	72%	2.4	41%
Selling, general and administrative	3.7	64%	3.6	61%
In-process research and development	--	0%	10.1	171%
Amortization of intangibles	0.2	3%	0.1	2%
Total operating expenses	8.1	139%	16.2	275%
Loss from operations	(3.9)	(67%)	(13.6)	(231%)
Other income, net	1.0	17%	1.9	32%
Interest expense	(0.3)	(5%)	--	0%
Loss before income taxes	(3.2)	(55%)	(11.7)	(198%)
Provision for income taxes	0.0	0%	--	0%
Net loss	$(3.2)	(55%)	$(11.7)	(198%)

The following discussion should be read in conjunction with our Condensed Consolidated Statements of Operations and the notes thereto:

Revenues

	Three months ended June 30, 2000		1999	
Product revenues:	($ in millions)			
Multimedia communication semiconductor	$3.6		$2.5	
IP telephony semiconductor and Media Hub	0.5		0.1	
Video monitoring	0.9		1.5	
Consumer videophone	--		1.5	
Total product revenues	$5.0	86%	$5.6	95%
License and other revenues	0.8	14%	0.3	5%
Total revenues	$5.8	100%	$5.9	100%

Product revenues were $5.0 million in the first quarter of fiscal 2001, a decrease of $590,000 from the $5.6 million reported in the first quarter of fiscal 2000. The decrease in product revenues in the first quarter of fiscal 2001 is due primarily to significantly lower ViaTV product revenue, resulting from our decision in fiscal 1999 to exit the consumer videophone market, a decrease in video monitoring product revenues due to the sale of our video monitoring business on May 19, 2000, and lower average selling prices or ASPs on sales of our multimedia communicator semiconductors. These decreases were partially offset by increases in unit shipments of our multimedia communication semiconductor, IP telephony semiconductor and Netergy Media Hub products.

License and other revenues consist of technology licenses, including royalties required under such licenses, and nonrecurring engineering fees for services performed by us for our customers. License and other revenues were $853,000 in the first quarter of fiscal 2001, an increase of $519,000 from the $334,000 reported in the quarter ended June 30, 1999, due primarily to an increase in royalties earned under a license of certain of our video compression technology.

No customer represented 10% or more of our total revenues for the quarter ended June 30, 2000. Revenues derived from one customer represented approximately 11% of our total revenues for the quarter ended June 30, 1999.

Our sales to Europe represented 32% and 23% of total revenues for the first quarters of fiscal 2001 and 2000, respectively. Our sales to the Asia Pacific region represented 34% and 17% of total revenues for the first quarters of fiscal 2001 and 2000, respectively.

Cost of Revenues and Gross Profit

The cost of product revenues consists of costs associated with components, semiconductor wafer fabrication, system and semiconductor assembly and testing performed by third-party vendors and direct and indirect costs associated with purchasing, scheduling and quality assurance. Gross profit from product revenues was approximately $3.4 million and $2.2 million for the fiscal quarters ended June 30, 2000 and 1999, respectively. Product gross margin increased to 70% in the first quarter of fiscal 2001 compared to 41% in the corresponding period of fiscal 2000. The increase in gross profit and margin from product revenue in fiscal 2001 compared to fiscal 2000 is due primarily to an increase in higher margin multimedia communication semiconductor revenue and a significant decrease in low margin consumer videophone revenue as a percentage of total revenues, offset by lower ASPs on sales of our multimedia communication semiconductor products. In addition, we realized higher gross margins on sales of our video monitoring products in the quarter ended June 30, 2000 primarily due to decreases in product costs.

Gross profit from license and other revenues, all of which are considered nonrecurring, was $811,000 and $334,000 in the fiscal quarters ended June 30, 2000 and 1999, respectively. There can be no assurance that we will receive any revenues from such license and other revenue sources in the future.

Our 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 our products are characterized by falling average selling prices. We expect that, as a result of competitive pressures and other factors, gross profit as a percentage of revenue for our multimedia communication semiconductor products will likely decrease for the foreseeable future. Because the market is emerging, the average selling price for IP telephony semiconductors and Netergy Media Hubs is uncertain. We may not be able to attain ASPs for IP telephony semiconductors similar to those of our historical videoconferencing semiconductors. If ASPs for IP telephony semiconductors are lower, gross margins will be lower than our historical gross margins, unless costs for IP telephony semiconductors are also proportionately lower. In the likely event that we encounter significant price competition in the markets for our products, we could be at a significant disadvantage compared to our competitors, many of whom have substantially greater resources, and therefore may be better able to withstand an extended period of downward pricing pressure.

Research and Development Expenses

Research and development expenses consist primarily of personnel, system prototype design and fabrication, mask, prototype wafer and equipment costs necessary for us to conduct our development efforts. Research and development costs, including software development costs, are expensed as incurred. Research and development expenses were

$4.2 million and $2.4 million for the first quarters of fiscal 2001 and 2000, respectively. Higher research and development expenses during fiscal 2001 as compared to fiscal 2000 were primarily associated with increases in headcount, consulting expenses associated with development of the graphical user interface for the Netergy ATS product, mask charges associated with Audacity-T2 development, and a stock compensation charge of approximately $300,000 related to the acceleration of stock option vesting pursuant to an existing bonus program.

We expect 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.

Selling, General and Administrative Expenses

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 $3.7 million and $3.6 million in the first quarters of fiscal 2001 and 2000, respectively. The slight increase in expenses in the first quarter of fiscal 2001 compared to the corresponding period in fiscal 2000 is primarily the result of higher market research and trade show expenditures, as well as costs incurred related to the Company's pending name change. These increases were offset by lower headcount and other costs required to support ViaTV sales, promotion and support activities due to our exit from the consumer videophone business.

As we introduce and promote new IP telephony products, attempt to expand distribution channels for such products, and integrate the existing U|Force sales, marketing, finance and corporate organizations, we expect that future selling, general and administrative costs may be higher both in absolute dollars and as a percentage of total revenues for the foreseeable future.

In-Process Research and Development and Amortization of Intangibles

In conjunction with the May 1999 acquisition of Odisei, we recorded intangible assets related to goodwill and workforce that are being amortized on a straight-line basis over five and three years, respectively. Amortization of goodwill and workforce charged to operations was $190,000 and $50,000 during the quarters ended June 30, 2000 and 1999, respectively. In addition, we incurred an in-process research and development charge of $10.1 million in the first quarter of fiscal 2000 related to the acquisition of Odisei.

Beginning in our second quarter of fiscal 2001, we will begin to incur charges associated with the acquisition of U|Force. These charges will include amortization of intangible assets acquired and goodwill, as well as a write-off of in-process research and development. We expect these charges to be significant.

Other Income, Net

In the first quarters of fiscal 2001 and 2000, other income, net, was $976,000 and $1.9 million, respectively. During fiscal 1996, we acquired an equity position in a privately held company. We realized gains of $225,000 and $1.9 million during the quarters ended June 30, 2000 and 1999, respectively, resulting from the sale of this investment. The remaining balance of other income, net, in the quarter ended June 30, 2000 consisted primarily of interest income earned on our cash and cash equivalents. Interest income increased significantly in the first quarter of fiscal 2001 as compared to the corresponding quarter of the prior fiscal year due primarily to significantly higher average cash and cash equivalent balances. Other income, net, in the first quarter of fiscal 2000 also included approximately $200,000 of losses realized on the sale of certain of our cash equivalent investments during the period.

Interest Expense

Interest expense of $331,000 included interest charges associated with the convertible subordinated debentures issued in December 1999, as well as the amortization of the related debt discount and debt issuance costs.

Provision for Income Taxes

The provision of $12,000 for the quarter ended June 30, 2000 represents certain foreign taxes. There was no tax provision for the quarter ended June 30, 1999 due to the net losses incurred.

Year 2000 Impact

We have not experienced any problems with our computer systems or our products relating to their inability to recognize appropriate dates related to the year 2000. We are also not aware of any material problems with our clients or vendors. Accordingly, we do not anticipate incurring material expenses or experiencing any material operational disruptions as a result of any year 2000 issues.

Liquidity and Capital Resources

As of June 30, 2000, we had cash and cash equivalents totaling $49.4 million, representing an increase of $867,000 from March 31, 2000. We currently have no bank borrowing arrangements.

Cash used in operations of approximately $2.2 million in the first quarter of fiscal 2001 is primarily attributable to the net loss of $3.2 million, increases in prepaid expenses and other assets of approximately $1.0 million, a decrease in accrued compensation of $354,000, and a net gain resulting from the sale of investments of $225,000. Cash used in operations was partially offset by an increase in accounts payable of $1.7 million, and noncash items, including depreciation and amortization of $434,000, amortization of

intangibles of $190,000, amortization of the debt discount of $185,000, and a stock compensation charge of $305,000. Cash provided by operations of $168,000 in the first quarter of fiscal 2000 is primarily attributable to decreases in accounts receivable, net, and inventory of $4.0 million and $2.4 million, respectively, an increase in other accrued liabilities of $177,000, and noncash items, including a charge for purchased in-process research and development of $10.1 million and depreciation and amortization of $337,000. Cash provided by operations was partially offset by the net loss of $11.7 million, decreases in deferred revenue and accounts payable of $2.9 million and $587,000, respectively, and a net gain resulting from the sale of investments of $1.7 million.

Cash provided by investing activities in the quarter ended June 30, 2000 is primarily attributable to net proceeds from the disposition of our video monitoring business of $4.7 million and proceeds from the sale of a nonmarketable equity investment of $225,000, offset by capital expenditures of $647,000 and net cash paid of $1.5 million related to the acquisition of U|Force. Cash provided by investing activities in the quarter ended June 30, 1999 is primarily attributable to proceeds from the sale of a nonmarketable equity investment of $1.9 million, offset by capital expenditures of $89,000 and net cash paid of $15,000 related to the acquisition of Odisei.

Cash provided by financing activities in the quarters ended June 30, 2000 and 1999 consisted primarily of net proceeds from the repayment of stockholders' notes receivable and net proceeds from sales of the Company's common stock upon the exercise of employee stock options.

We believe that we will be able to fund planned expenditures and satisfy our cash requirements for at least the next twelve months from existing cash balances. However, we may seek to explore business opportunities, including acquiring or investing in complementary businesses or products, that will require additional capital from equity or debt sources. Additionally, the development and marketing of new products could require a significant commitment of resources, which could in turn require us to obtain additional financing earlier than otherwise expected. We may not be able to obtain additional financing as needed on acceptable terms, or at all, which would force us to delay our plans for growth and implementation of our strategy which could seriously harm our business, financial condition and results of operations. If we issue additional equity or convertible debt securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial market risk includes risks associated with international operations and related foreign currencies. We derive a significant portion of our revenues from customers in Europe and Asia. In order to reduce the risk from fluctuation in foreign exchange rates, the vast majority of our sales are denominated in U.S. dollars. In addition, all of our arrangements with our semiconductor foundry and assembly vendors, and with our subcontract manufacturer for our Netergy Media Hub products, are denominated in U.S. dollars. We have subsidiaries in Europe and Canada (effective June 30, 2000 upon closing of the acquisition of U|Force), and as such we are exposed to market

risk from changes in exchange rates. We have not entered into any currency hedging activities. To date, our exposure to exchange rate volatility has not been significant, however, there can be no assurance that there will not be a material impact in the future.

Factors That May Affect Future Results

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

WE HAVE A HISTORY OF LOSSES AND WE ARE UNCERTAIN AS TO OUR FUTURE PROFITABILITY

We recorded an operating loss of approximately $3.9 million in the quarter ended June 30, 2000 and had an accumulated deficit of $57.0 million at June 30, 2000. In addition, we recorded operating losses for the fiscal years ended March 31, 2000 and 1999, respectively. We expect to continue to incur operating losses for the foreseeable future, and such losses may be substantial. We will need to generate significant revenue growth to achieve profitability. Given our history of fluctuating revenues and operating losses, we cannot be certain that we will be able to achieve profitability on either a quarterly or annual basis.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL TO SUPPORT OUR GROWTH, AND FAILURE TO DO SO IN A TIMELY MANNER MAY CAUSE US TO DELAY OUR PLANS FOR GROWTH

As of June 30, 2000, we had approximately $49.4 million in cash and cash equivalents. We believe that we will be able to fund planned expenditures and satisfy our cash requirements for at least the next twelve months from existing cash balances. However, we may seek to explore business opportunities, including acquiring or investing in complementary businesses or products, that will require additional capital from equity or debt sources. Additionally, the development and marketing of new products could require a significant commitment of resources, which could in turn require us to obtain additional financing earlier than otherwise expected. We may not be able to obtain additional financing as needed on acceptable terms, or at all, which would force us to delay our plans for growth and implementation of our strategy which could seriously harm our business, financial condition and results of operations. If we issue additional equity or convertible debt securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of our common stock.

THE GROWTH OF OUR BUSINESS AND FUTURE PROFITABILITY DEPENDS ON FUTURE IP TELEPHONY REVENUE

We believe that our business and future profitability will be largely dependent on widespread market acceptance of our IP telephony products. Our videoconferencing semiconductor business has not provided, nor is it expected to provide, sufficient revenues to profitably operate our business. To date, we have not generated significant revenue from the sale of our IP telephony products. If we are not able to generate significant revenues

selling into the IP telephony market, it would have a material adverse effect on our business and operating results.

THE GROWTH OF OUR BUSINESS DEPENDS ON THE GROWTH OF THE IP TELEPHONY MARKET

Success of our IP telephony product strategy assumes that there will be future demand for IP telephony systems. In order for the IP telephony market to continue to grow, several things need to occur. Telephone service providers must continue to invest in the deployment of high speed broadband networks to residential and commercial customers. IP networks must improve quality of service for real-time communications, managing effects such as packet jitter, packet loss and unreliable bandwidth, so that toll-quality service can be provided. IP telephony equipment must achieve the 99.999% reliability that users of the public switched telephone network have come to expect from their telephone service. IP telephony service providers must offer cost and feature benefits to their customers that are sufficient to cause the customers to switch away from traditional telephony service providers. If any or all of these factors fail to occur our business may not grow.

IF OUR PRODUCTS DO NOT INTEROPERATE WITH OUR CUSTOMERS' NETWORKS, ORDERS FOR OUR PRODUCTS WILL BE DELAYED OR CANCELED AND SUBSTANTIAL PRODUCT RETURNS COULD OCCUR, WHICH COULD HARM OUR BUSINESS

Many of the potential customers for our Netergy ATS product have requested that our products be designed to interoperate with their existing networks, each of which may have different specifications and use multiple standards. Our customers' networks may contain multiple generations of products from different vendors that have been added over time as their networks have grown and evolved. Our products must interoperate with these products as well as with future products in order to meet our customers' requirements. In some cases, we may be required to modify our product designs to achieve a sale, which may result in a longer sales cycle, increased research and development expense, and reduced operating margins. If our products do not interoperate with existing equipment in our customers' networks, installations could be delayed, orders for our products could be canceled or our products could be returned. This could harm our business, financial condition and results of operations.

OUR FUTURE OPERATING RESULTS MAY NOT FOLLOW PAST OR EXPECTED TRENDS DUE TO MANY FACTORS AND ANY OF THESE COULD CAUSE OUR STOCK PRICE TO FALL

Our historical operating results have fluctuated significantly and will likely continue to fluctuate in the future, and a decline in our operating results could cause our stock price to fall. On an annual and a quarterly basis there are a number of factors that may affect our operating results, many of which are outside our 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 us or our competitors;

- - market acceptance of new or existing products;

- - the cost and availability of components;

- - the mix of our customer base and sales channels;

- - the mix of products sold;

- - the management of inventory;

- - the level of international sales;

- - continued compliance with industry standards; and

- - general economic conditions.

Our 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 our products are characterized by falling average selling prices. We expect that, as a result of competitive pressures and other factors, gross profit as a percentage of revenue for our semiconductor products will likely decrease for the foreseeable future. The market for IP telephony semiconductors is likely to be a high volume market characterized by commodity pricing. We will not be able to generate average selling prices or gross margins for our IP telephony semiconductors similar to those that we have historically commanded for our videoconferencing semiconductors. In addition, the gross margins for our Media Hub systems products are, and will likely continue to be, substantially lower than the gross margins for our videoconferencing semiconductors. In the likely event that we encounter significant price competition in the markets for our products, we could be at a significant disadvantage compared to our 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 our business 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 our operating results. 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 our revenues may be magnified by our inability to adjust spending to compensate for such shortfall. Announcements by us or our competitors of new products and technologies could

cause customers to defer purchases of our existing products, which would also have a material adverse effect on our business and operating results.

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

THE LONG AND VARIABLE SALES AND DEPLOYMENT CYCLES FOR OUR IP TELEPHONY PRODUCTS, PARTICULARLY OUR NETERGY IPBX PRODUCT, MAY CAUSE OUR REVENUE AND OPERATING RESULTS TO VARY SIGNIFICANTLY

Our IP telephony products have lengthy sales cycles and we may incur substantial sales and marketing expenses and expend significant management effort without making a sale. A customer's decision to purchase our products often involves a significant commitment of its resources and a lengthy product evaluation and qualification process. In addition, the length of our sales cycles will vary depending on the type of customer to whom we are selling and the product being sold. Even after making the decision to purchase our products, our customers may deploy our products slowly. Timing of deployment can vary widely and will depend on:

- the size of the network deployment;

- the complexity of our customers' network environments;

- our customers' skill sets;

- the hardware and software configuration and customization necessary to deploy our products; and

- our customers' ability to finance their purchase of our products.

As a result, it is difficult for us to predict the quarter in which our customers may purchase our products and our revenue and operating results may vary significantly from quarter to quarter.

INTENSE COMPETITION IN THE MARKETS IN WHICH WE COMPETE COULD PREVENT US FROM INCREASING OR SUSTAINING OUR REVENUE AND PREVENT US FROM ACHIEVING PROFITABILITY

IP Telephony and Multimedia Communication Semiconductors and Media Hub Markets

We compete with both manufacturers of digital signal processing semiconductors and media hub products developed for the growing VoIP marketplace. We also compete with manufacturers of multimedia communication semiconductors. The markets for our products are characterized by intense competition, declining average selling prices and rapid technological change.

The principal competitive factors in the market for IP telephony and videoconferencing semiconductors and firmware include product definition, product design, system integration, chip size, code size, functionality, time-to-market, adherence to industry standards, price and reliability. We have a number of competitors in this market including

Analog Devices, Audio Codes, Broadcom Corporation, Conexent, DSP Group, Lucent Technologies, Motorola, Inc., Philips Electronics, Texas Instruments/Telogy Networks, Inc., Mitel Semiconductors, Winbond Electronics, and Radvision Ltd. Certain of our competitors for IP telephony and videoconferencing semiconductors maintain their own semiconductor foundries and may therefore benefit from certain capacity, cost and technical advantages.

Principle competitive factors in the market for VoIP media hub products include product definition, product design, system integration, system functionality, time-to-market, interoperability with common network equipment, adherence to industry standards, price and reliability. Currently there are a limited number of system suppliers offering residential and small office VoIP media hub-like products, including Komodo Technology (which is being acquired by Cisco Systems), Soliton Systems, Nx Networks and MCK Communications. We expect, however, that this market will be characterized by intense competition, declining average selling price and rapid technology change. In addition, our presence in the VoIP systems business may result in certain customers or potential customers perceiving us as a competitor or potential competitor, which may be used by other semiconductor manufacturers to their advantage.

Netergy iPBX Server Software Market

We compete with suppliers of traditional PBXs, Centrex equipment and newer generation IP-based solutions that seek to sell such products to telecommunication service providers, which in turn offer voice services to the Small Medium Enterprise (SME) marketplace. This market is rapidly shifting to a network centric, IP-based solutions model. New IP-based solutions are cannibalizing traditional markets due to increased efficiencies of IP technology, lower costs, increases in return on investment (ROI), improved features sets and the requirement for rapid innovation. As an IP-based solution, the Netergy iPBX product competes by leveraging the innate efficiencies of IP architectures and combining those efficiencies with best-of-class features from competitive products. This market is characterized by rapid technological change, intense competition and first mover advantage.

The main competition includes Lucent, Nortel Networks, VocalData, VocalTec Communications, Inter-tel and several other providers of traditional and newer generation IP-based solutions. Although each of these companies is in competition with our iPBX product suite, all today provide solutions based on past-generation integrated solutions, whereas the ATS product suite and hosted iPBX establishes a new methodology for addressing an existing growth market. Directly competitive products targeted for general release in calendar year 2001 are currently under development at several pre-IPO startup companies, including BroadSoft, Sylantro Systems, IPCell Technologies and Shoreline Communications.

Principle competitive factors in the market for hosted iPBX solutions include product feature parity, interface design, product reliability, time-to-market, adherence to standards, price, functionality and IP network delivery/design. We believe that the market for iPBX solutions is currently in the initial adoption phase and that growth of the market will be

driven by the ability of iPBX products to meet the advanced feature requirements of service providers, by the lower costs of IP-based solutions, and by a general trend toward the replacement of circuit-switched networks with packet switched ones.

We expect our competitors to continue to improve the performance of their current products and introduce new products or new technologies. If our competitors successfully introduce new products or enhance their existing products, this could reduce the sales or market acceptance of our products and services, increase price competition or make our products obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. We may not have sufficient resources to make these investments or to make the technological advances necessary to be competitive, which in turn will cause our business to suffer.

Our reliance on developing vertically integrated technology, comprising systems, software and semiconductors, places a significant strain on our research and development resources. Competitors that focus on one aspect of technology, such as systems or semiconductors, may have a considerable advantage over us. In addition, many of our 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 us. Competition in our markets may result in significant price reductions. As a result of their greater resources, many current and potential competitors may be better able than us to initiate and withstand significant price competition or downturns in the economy. There can be no assurance that we will be able to continue to compete effectively, and any failure to do so would have a material adverse effect on our business and operating results.

WE DEPEND ON SUBCONTRACTED MANUFACTURERS TO MANUFACTURE SUBSTANTIALLY ALL OF OUR PRODUCTS, AND ANY DELAY OR INTERRUPTION IN MANUFACTURING BY THESE CONTRACT MANUFACTURERS WOULD RESULT IN DELAYED OR REDUCED SHIPMENTS TO OUR CUSTOMERS AND MAY HARM OUR BUSINESS

We outsource the manufacturing of our semiconductors and IP telephony system products to independent foundries and subcontract manufacturers, respectively. Our primary semiconductor manufacturer is Taiwan Semiconductor Manufacturing Corporation. Subcontract system manufacturers include EFA Corporation in Taiwan. We also rely on Amkor Electronics in South Korea, Integrated Packaging Assembly Corporation in San Jose, California, and Digital Testing Services in Santa Clara, California, for packaging and testing of our semiconductors. We do not have long-term purchase agreements with our subcontract manufacturers or our component suppliers. There can be no assurance that our subcontract manufacturers will be able or willing to reliably manufacture the our products, or that our component suppliers will be able or willing to reliably supply components for the our products, in volumes, on a cost effective basis or in a timely manner. We may experience difficulties due to its reliance on independent semiconductor foundries, subcontract manufacturers and component suppliers that could have a material adverse effect on our business and operating results.

WE MAY NOT BE ABLE TO MANAGE OUR INVENTORY LEVELS EFFECTIVELY WHICH MAY LEAD TO INVENTORY OBSOLESCENCE WHICH WOULD FORCE US TO LOWER OUR PRICES

Our products have lead times of up to several months, and are built to forecasts that are necessarily imprecise. Because of our practice of building our products to necessarily imprecise forecasts, it is likely that, from time to time, we will have either excess or insufficient product inventory. Excess inventory levels would subject us to the risk of inventory obsolescence and the risk that our selling prices may drop below our inventory costs, while insufficient levels of inventory may negatively affect relations with customers. Any of these factors could have a material adverse effect on our operating results and business.

WE DEPEND ON PURCHASE ORDERS FROM KEY CUSTOMERS AND FAILURE TO RECEIVE SIGNIFICANT PURCHASE ORDERS IN THE FUTURE WOULD CAUSE A DECLINE IN OUR OPERATING RESULTS

Historically, a significant portion of our sales have been to relatively few customers, although the composition of these customers has varied. Revenues from our ten largest customers for the quarters ended June 30, 2000 and 1999, respectively, accounted for approximately 53% and 56%, respectively, of total revenues. Revenues from our ten largest customers for the fiscal years ended March 31, 2000 and 1999 accounted for 35% and 40%, respectively, of total revenues. Substantially all of our product sales have been made, and are expected to continue to be made, on a purchase order basis. None of our customers has entered into a long-term agreement requiring it to purchase our products. In the future, we will need to gain purchase orders for our products to earn additional revenue. Further, all of our license and other revenues are nonrecurring.

THE IP TELEPHONY MARKET IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND WE DEPEND ON NEW PRODUCT INTRODUCTION IN ORDER TO MAINTAIN AND GROW OUR BUSINESS

IP telephony is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we 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. Our 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 and reliability;
- the ability to manage long development cycles;

- - cost-effectiveness of products under development;

- - effective manufacturing processes; and

- - the success of promotional efforts.

Additionally, we may also be required to collaborate with third parties to develop our products and may not be able to do so on a timely and cost-effective basis, if at all. We have 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 we are 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 our operating results would decline and our business would not grow.

IF WE DO NOT DEVELOP AND MAINTAIN SUCCESSFUL PARTNERSHIPS FOR IP TELEPHONY PRODUCTS, WE MAY NOT BE ABLE TO SUCCESSFULLY MARKET OUR SOLUTIONS

We are entering into new market areas and our success is partly dependent on our ability to forge new marketing and engineering partnerships. IP telephony communications systems are extremely complex and no single company possesses all the required technology components needed to build a complete end to end solution. Partnerships will be required to augment our development programs and to assist us in marketing complete solutions to our targeted customers. We may not be able to develop such partnerships in the course of our product development. Even if we do establish the necessary partnerships, we may not be able to adequately capitalize on these partnerships to aid in the success of our business.

INABILITY TO PROTECT OUR PROPRIETARY TECHNOLOGY OR INFRINGEMENT BY US OF A THIRD PARTY'S PROPRIETARY TECHNOLOGY WOULD DISRUPT OUR BUSINESS

We rely in part on trademark, copyright and trade secret law to protect our intellectual property in the United States and abroad. We seek to protect our software, documentation and other written materials under trade secret and copyright law, which afford only limited protection. We also rely in part on patent law to protect our intellectual property in the United States and abroad. We currently hold nineteen United States patents, including patents relating to programmable integrated circuit architectures, telephone control arrangements, software structures and memory architecture technology, and have a number of United States and foreign patent applications pending. We cannot predict whether such patent applications will result in an issued patent. We may not be able to protect our proprietary rights in the United States or abroad (where effective intellectual property protection may be unavailable or limited) and competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any patent of ours. We have in the past licensed and in the future expect to

continue licensing our technology to others, many of whom are located or may be located abroad. There are no assurances that such licensees will protect our technology from misappropriation. Moreover, litigation may be necessary in the future to enforce our 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 our business and operating results.

There has been substantial litigation in the semiconductor, electronics and related industries regarding intellectual property rights, and from time to time third parties may claim infringement by us of their intellectual property rights. Our broad range of technology, including systems, digital and analog circuits, software and semiconductors, increases the likelihood that third parties may claim infringement by us of their intellectual property rights. If we were found to be infringing on the intellectual property rights of any third party, we could be subject to liabilities for such infringement, which could be material, and we 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 our business and operating results. From time to time, we have received, and may continue to receive in the future, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. There can be no assurance that we will prevail in these discussions and actions, or that other actions alleging infringement by the Company of third-party patents will not be asserted or prosecuted against the Company.

We rely on certain technology, including hardware and software licensed from third parties. In addition, we may be required to license technology from third parties in the future to develop new products or product enhancements. Third-party licenses may not be available to us on commercially reasonable terms, if at all. Our inability to obtain third-party licenses required to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at a greater cost, any of which could seriously harm our business, financial condition and results of operations.

THE FAILURE OF IP NETWORKS TO MEET THE RELIABILITY AND QUALITY STANDARDS REQUIRED FOR VOICE COMMUNICATIONS WOULD RENDER OUR PRODUCTS OBSOLETE

Circuit-switched networks such as the public switched telephone network feature a very high reliability, with a guaranteed quality of service. The common standard for reliability of carrier-grade real-time voice communications is 99.999%, meaning that the network can be down for only a few minutes per year. In addition, such networks have imperceptible delay and consistently satisfactory audio quality. Emerging broadband IP networks such as LANs, WANs and the Internet, or emerging last mile technologies such as cable, DSL and wireless local loop will not be used for telephony unless such networks and technologies can provide reliability and quality consistent with these standards.

OUR PRODUCTS MUST COMPLY WITH INDUSTRY STANDARDS AND FCC REGULATIONS, AND CHANGES MAY REQUIRE US TO MODIFY EXISTING PRODUCTS

In addition to reliability and quality standards, the market acceptance of telephony over broadband IP networks is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. IP telephony products rely heavily on standards such as H.323, SIP, SGCP, MGCP, and H.GCP to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular application, and about the definition of the standards themselves. Furthermore, the industry has had difficulty achieving true multivendor interoperability for highly complex standards such as H.323. We also must comply with certain rules and regulations of the Federal Communications Commission regarding electromagnetic radiation and safety standards established by Underwriters Laboratories as well as similar regulations and standards applicable in other countries. Standards are continuously being modified and replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. The failure of our products to comply, or delays in compliance, with various existing and evolving industry standards could delay or interrupt volume production of our IP telephony products, which would have a material adverse effect on our business and operating results.

FUTURE REGULATION OR LEGISLATION COULD RESTRICT OUR BUSINESS OR INCREASE OUR COST OF DOING BUSINESS

At present there are few laws or regulations that specifically address access to or commerce on the Internet, including IP telephony. We are unable to predict the impact, if any, that future legislation, legal decisions or regulations concerning the Internet may have on our business, financial condition and results of operations. Regulation may be targeted towards, among other things, assessing access or settlement charges, imposing tariffs or imposing regulations based on encryption concerns or the characteristics and quality of products and services, which could restrict our business or increase our cost of doing business. The increasing growth of the broadband IP telephony market and popularity of broadband IP telephony products and services heighten the risk that governments will seek to regulate broadband IP telephony and the Internet. In addition, large, established telecommunications companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.

WE MAY TRANSITION TO SMALLER GEOMETRY PROCESS TECHNOLOGIES AND HIGHER LEVELS OF DESIGN INTEGRATION WHICH COULD DISRUPT OUR BUSINESS

We continuously evaluate the benefits, on an integrated circuit, product-by-product basis, of migrating to smaller geometry process technologies in order to reduce costs. We have commenced migration of certain future products to smaller geometry processes. We believe that the transition of our products to increasingly smaller geometries will be important for us to remain competitive. We have in the past experienced difficulty in

migrating to new manufacturing processes, which has resulted and could continue to result in reduced yields, delays in product deliveries and increased expense levels. Moreover, we are dependent on relationships with our foundries and their partners to migrate to smaller geometry processes successfully. If any such transition is substantially delayed or inefficiently implemented we may experience delays in product introductions and incur increased expenses. As smaller geometry processes become more prevalent, we expect to integrate greater levels of functionality as well as customer and third-party intellectual property into our products. Some of this intellectual property includes analog components for which we have little or no experience or in-house expertise. We cannot predict whether higher levels of design integration or the use of third-party intellectual property will adversely affect our ability to deliver new integrated products on a timely basis, or at all.

OUR ANNOUNCED ACQUISITION OF U|FORCE AND ANY FUTURE ACQUISITIONS MAY BE DIFFICULT TO INTEGRATE, DISRUPT OUR BUSINESS, DILUTE STOCKHOLDER VALUE OR DIVERT MANAGEMENT ATTENTION

We announced our intention to acquire U|Force on May 19, 2000 and subsequently closed the transaction on June 30, 2000. There are significant risks associated with the assimilation and integration of U|Force, including:

- unanticipated problems and costs associated with combining the businesses and integrating U|Force's products and technologies;

- impact of integration efforts on management's attention to our core business;

- adverse effects on existing business relationships with suppliers and customers;

- risks associated with entering markets in which we have limited or no prior experience; and

- potential loss of key employees, particularly those of the acquired organizations.

If we are unable to successfully integrate U|Force or to create new or enhanced products, we may not achieve the anticipated benefits from the pending acquisition. If we fail to achieve the anticipated benefits from the acquisition, we may incur increased expenses, experience a shortfall in our anticipated revenues and we may not obtain a satisfactory return on our investment. In addition, if any significant number of U|Force employees fail to remain employed with us, we may experience difficulties in achieving the expected benefits of the acquisition.

Beginning in our second quarter of fiscal 2001, we will begin to incur charges associated with the acquisition of U|Force. These charges will include amortization of intangible assets acquired and goodwill, as well as a write-off of in-process research and development. We expect these charges to be significant.

IF WE DISCOVER PRODUCT DEFECTS, WE MAY HAVE PRODUCT-RELATED LIABILITIES WHICH MAY CAUSE US TO LOSE REVENUES OR DELAY MARKET ACCEPTANCE OF OUR PRODUCTS

Products as complex as those offered by us frequently contain errors, defects and functional limitations when first introduced or as new versions are released. We have in the past experienced such errors, defects or functional limitations. We sell products into markets that are extremely demanding of robust, reliable, fully functional products. Therefore delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of such products, which could damage our credibility with our customers and adversely affect our ability to retain our existing customers and to attract new customers. Moreover, such errors, defects or functional limitations could cause problems, interruptions, delays or a cessation of sales to our customers. Alleviating such problems may require significant expenditures of capital and resources by us. Despite testing by us, our suppliers or our customers may find errors, defects or functional limitations in new products after commencement of commercial production, resulting in additional development costs, loss of, or delays in, market acceptance, diversion of technical and other resources from our other development efforts, product repair or replacement costs, claims by our customers or others against us, or the loss of credibility with our current and prospective customers.

WE HAVE SIGNIFICANT INTERNATIONAL OPERATIONS, WHICH SUBJECTS US TO RISKS THAT COULD CAUSE OUR OPERATING RESULTS TO DECLINE

Sales to customers outside of the United States represented 66%, 47% and 43% of total revenues in the first quarter ended June 30, 2000 and the fiscal years ended March 31, 2000 and 1999, respectively. Specifically, sales to customers in the Asia Pacific region represented 34%, 24% and 26% of our total revenues in the first quarter ended June 30, 1999 for the fiscal years ended March 31, 2000 and 1999, respectively, while sales to customers in Europe represented 32%, 23% and 17% of our total revenues for the same periods, respectively.

International sales of our videoconferencing semiconductors will continue to represent a substantial portion of our product revenues for the foreseeable future. In addition, substantially all of our current products are, and substantially all of our 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. We are 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 could have a material adverse effect on our business and operating results.

WE NEED TO HIRE AND RETAIN KEY PERSONNEL TO SUPPORT OUR PRODUCTS

The development and marketing of our IP telephony products will continue to place a significant strain on our limited personnel, management and other resources. Competition for highly skilled engineering, sales, marketing and support personnel is intense because there are a limited number of people available with the necessary technical skills and understanding of our market, particularly in the San Francisco Bay area where our corporate headquarters is located. Any failure to attract, assimilate or retain qualified personnel to fulfill our current or future needs could impair our growth. We currently do not have employment contracts with any of our employees and we do not maintain key person life insurance policies on any of our employees.

OUR STOCK PRICE HAS BEEN VOLATILE AND WE CANNOT ASSURE YOU THAT OUR STOCK PRICE WILL NOT DECLINE

The market price of the shares of our 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 our operating results;
- announcements of technical innovations;
- loss of key personnel;
- new products or new contracts by us, our competitors or their customers;
- governmental regulatory action; and
- 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 our control.

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 our 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. If our stock price is volatile, we may also be subject to such litigation. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would disrupt business and could cause a decline in our operating results. Any settlement or adverse determination in such litigation would also subject us to significant liability.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index.

(b) Reports on Form 8-K.

On May 23, 2000, we filed a Current Report on Form 8-K dated May 19, 2000 announcing that the Company had entered into a Share Exchange Agreement, ("Exchange Agreement") with U|Force, Inc. ("U|Force") and all of the shareholders of U|Force and indirect owners of shares of U|Force whereby the Company will acquire all of the shares of capital stock of U|Force from the holders of the capital stock of U|Force, as is more fully described in the Exchange Agreement.

On May 26, 2000, we filed a Current Report on Form 8-K dated May 19, 2000 announcing that the Company had entered into an Asset Purchase Agreement with Interlogix, Inc. ("Buyer") providing for the sale of certain assets comprising the Company's video monitoring business to Buyer.

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: August 14, 2000.

8X8, INC.

By: /s/ DAVID STOLL

David Stoll
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.

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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.

1,000

3-MOS
MAR-29-2001
MAR-31-2000
JUN-29-2000
49,443
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2,004
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926
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63,537
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1,578
1,578
8,103
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331
(3,213)
12
(3,225)
0
0
0
(3,225)
(0.14)
(0.14)

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