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 December 31, 1998

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

Commission File Number: 333-15627

8X8, INC.

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 January 5, 1999 was 15,295,977.

The exhibit index begins on page 26.

8X8, INC.

INDEX

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 1998	March 31, 1998
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	$ 17,064	$ 26,737
Accounts receivable, net	6,771	4,527
Inventory	10,729	12,758
Prepaid expenses and other assets	852	876
Total current assets	35,416	44,898
Property and equipment, net	2,165	1,370
Deposits and other assets	85	161
	$ 37,666	$ 46,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,636	$ 2,625
Accrued compensation	1,790	1,445
Accrued warranty	1,237	1,461
Deferred revenue	3,483	2,447
Other accrued liabilities	1,810	1,923
Total current liabilities	10,956	9,901
Minority interest	--	85
Stockholders' equity:		
Common stock	15	15
Additional paid-in capital	48,012	47,785
Notes receivable from stockholders	(286)	(893)
Deferred compensation	(281)	(744)
Unrealized loss on investments	(231)	(45)
Accumulated deficit	(20,519)	(9,675)
Total stockholders' equity	26,710	36,443
	$ 37,666	$ 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 December 31,		Nine months ended December 31,	
	1998	1997	1998	1997
Product revenues	$ 7,611	$ 12,325	$ 22,497	$ 25,381
License and other revenues	2,468	2,813	3,685	12,266
Total revenues	10,079	15,138	26,182	37,647
Cost of product revenues	5,621	6,475	15,865	13,006
Cost of license and other revenues	9	404	68	954
Gross profit	4,449	8,259	10,249	23,687
Operating expenses:				
Research and development	2,512	3,284	7,877	9,479
Selling, general and administrative	5,409	5,358	14,061	12,658
Total operating expenses	7,921	8,642	21,938	22,137
Income (loss) from operations	(3,472)	(383)	(11,689)	1,550
Other income, net	249	515	845	1,095
Income(loss)before(benefit)provision for income taxes	(3,223)	132	(10,844)	2,645
(Benefit) provision for income taxes	--	--	--	(1,000)
Net income (loss)	$ (3,223)	$ 132	$(10,844)	$ 3,645
Net income (loss) per share:				
Basic	$ (0.21)	$ 0.01	$ (0.73)	$ 0.32
Diluted	$ (0.21)	$ 0.01	$ (0.73)	$ 0.25
Shares used in per share calculations:				
Basic	15,105	14,274	14,945	11,250
Diluted	15,105	16,723	14,945	14,800

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

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

	Nine months ended December 31, 1998	1997
Cash flows from operating activities:		
Net income (loss)	$(10,844)	$ 3,645
Charges to net income (loss) not affecting cash	821	1,978
Net effect of changes in current and other assets and current liabilities	940	(5,340)
Net cash (used in) provided by operating activities	(9,083)	283
Cash flows from investing activities:		
Purchase of property and equipment	(1,473)	(722)
Short-term investments-trading activity, net	60	2
Purchases of common stock from minority shareholders in subsidiary	(85)	--
Net cash used in investing activities	(1,498)	(720)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	489	24,776
Repayment of notes receivable from stockholders	479	126
Net cash provided by financing activities	968	24,902
Net (decrease) increase in cash and cash equivalents	(9,613)	24,465
Cash and cash equivalents at the beginning of the period	26,677	8,722
Cash and cash equivalents at the end of the period	$ 17,064	$ 33,187

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 multimedia communication semiconductors and associated software for videophones and other multimedia communication products.

2. BASIS OF PRESENTATION

The Company's fiscal year ends on the last Thursday on or before March 31. The three and nine month periods ended December 31, 1998 included 14 weeks and 40 weeks of operations, respectively. The three and nine month periods ended December 25, 1997 included 13 weeks and 39 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 December 31.

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)	December 31, 1998	March 31, 1998
Inventories:		
Raw materials	$ 2,680	$ 3,864
Work-in-process	3,491	5,337
Finished goods	4,558	3,557
	$10,729	$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 December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Basic shares	15,105	14,274	14,945	11,250
Effect of dilutive securities:				
Preferred stock	--	--	--	1,297
Common stock options	--	1,833	--	1,480
Unvested restricted common stock	--	--	616	773
Diluted shares	15,105	16,723	14,945	14,800

Approximately 3,346,000 common stock options and 187,000 unvested restricted common shares were outstanding at December 31, 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. The number of common stock options outstanding at December 31, 1997 that were not included in the computation of diluted net income (loss) per share because their impact was anti-dilutive was not material.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In April 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (FAS130), "Reporting Comprehensive Income." Comprehensive net 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 net income (loss), for the Company, is gains and losses on short-term investments classified as available-for-sale. Comprehensive net income (loss) for the current reporting and comparable period in the prior year is as follows (in thousands):

	Three Months Ended December 31, 1998	Three Months Ended December 31, 1997	Nine months Ended December 31, 1998	Nine months Ended December 31, 1997
Comprehensive net income (loss)	$ (3,347)	$ 132	$(11,030)	$ 3,645

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." SOP 98-4 deferred, for one year, the application of certain passages in SOP 97-2 pending further guidance. In December 1998, the AICPA provided further guidance by issuing SOP 98-9 "Modification of 97-2, Software Revenue Recognition, With Respect to Certain Transactions." SOP 98-9 amends SOP 97-2 by clarifying vendor-specific objective evidence necessary to recognize revenue for software licenses on multiple element arrangements when undelivered elements exist. SOP 98-9 is effective for fiscal years beginning after March 15, 1999. The Company does not expect the adoption of SOP 98-9 will be material to the Company's consolidated results of operations. Adoption of the remaining provisions of SOP 97-2 did not have a material impact on revenue recognition during the quarter or nine months ended December 31, 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 10-Q and the audited Consolidated Financial Statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results 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 exclusively on the development, manufacture and marketing of multimedia communication semiconductors, software and systems. In each of the third quarters ended December 31, 1998 and 1997, sales of the Company's multimedia communication products accounted for 100% of product revenues. In the fiscal years ended March 31, 1998 and 1997, sales of the Company's multimedia communication products accounted for 100% and 86% of product revenues, respectively.

The Company markets its line of multimedia communication semiconductors and related software to OEMs and distributors, mainly for videoconferencing and videophone applications. This product line includes the LVP, VCP and VCPex processors.

The Company has leveraged its strengths in semiconductor design and related software to develop and market low-cost multimedia communication systems, including its VideoCommunicator products. The Company began shipping the first product in its planned family of VideoCommunicator products, the 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 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 has announced the VC110 and VC160, which are upgrades to the VC105 and VC150, respectively. The Company expects these products to become available in the first quarter of fiscal 2000.*

The Company markets 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.

In December 1998, the Company introduced a new semiconductor product, the Audacity internet telephony processor, which combines telephony protocols with audio compression/decompression algorithms and implements multiple, simultaneous internet protocol (IP) phone calls on a single integrated circuit. At the same time, the Company announced a prototype system called the Packet Gateway cable adapter, which includes a cable modem and an Audacity processor and enables IP telephony over cable networks. These products reflect the Company's recent efforts to develop broadband telephony technology. To date the Company has not realized any revenue from broadband telephony.

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

(In millions)	Three months ended December 31,				Nine months ended December 31,			
	1998		1997		1998		1997	
Product revenues	$ 7.6	75%	$12.3	81%	$22.5	86%	$25.4	67%
License and other revenues	2.5	25%	2.8	19%	3.7	14%	12.3	33%
Total revenues	$10.1	100%	$15.1	100%	$26.2	100%	$37.7	100%

Total revenues were $10.1 million and $15.1 million for the third quarters of fiscal 1999 and 1998, respectively. Total revenues for the third quarter of fiscal 1999 were divided among multimedia communication semiconductors 19%, videophone systems 56% and nonrecurring license, royalty and other revenue 25%. In the third quarter of fiscal 1998 total revenues were divided among multimedia communication semiconductors 40%, videophone systems 41% and nonrecurring license and other revenue 19%.

Product revenues were $7.6 million in the third quarter of fiscal 1999, a decrease of $4.7 million from the $12.3 million reported in the third quarter of fiscal 1998. The decrease in product revenues was primarily due to a decrease in semiconductor revenues. The decrease in semiconductor revenues is due mainly to softness in demand from OEM customers, particularly in Asia and Europe, that manufacture personal videoconferencing systems. In addition, VideoCommunicator product revenues were higher in the third quarter of fiscal 1998 compared to the same period of fiscal 1999 because of nonrecurring shipments to one OEM customer.

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 $2.5 million in the third quarter of fiscal 1999, a decrease of approximately $300,000 from the $2.8 million reported in the third 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 $26.2 million and $37.7 million in the first nine months of fiscal 1999 and 1998, respectively. Total revenues for the first nine months of fiscal 1999 were divided among multimedia communication semiconductors 33%; videophone systems 53%; and nonrecurring license and other revenues 14%. In the first nine months of fiscal 1998, total revenues were divided among multimedia communication semiconductors 39%; videophone systems 29%; and nonrecurring license and other revenues 32%.

Product revenues were $22.5 million in the first nine months of fiscal 1999, a decrease of $2.9 million from the $25.4 million reported in the first nine months of fiscal 1998. In the first nine months of fiscal 1999 and 1998 license and other revenues, all of which were nonrecurring, were $3.7 million and $12.3 million, respectively. In the first nine 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."

In the third quarter of fiscal 1999, revenues derived from one customer represented approximately 14% of the Company's total revenues. In the third quarter of fiscal 1998, revenues derived from one customer represented approximately 22% of total revenues. No customer represented ten percent (10%) or more of the Company's total revenues for the nine months ended December 31, 1998. Revenues derived from one customer represented approximately 26% of total revenues for the first nine months of fiscal 1998. Dependence on any significant customer or customers entails certain risks

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

	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Asia Pacific	21%	22%	24%	26%
Europe	13%	18%	17%	14%
Total	34%	40%	41%	40%

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

Cost of Revenues

(In millions)	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Cost of product revenues	$ 5.6	$ 6.4	$ 15.9	$ 13.0
As a percentage of product revenues	74%	52%	71%	51%
Cost of license and other revenues	$ --	$ 0.4	$ 0.1	$ 1.0
As a percentage of license and other revenues	0%	14%	3%	8%

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 $5.6 million and $6.4 million for the third quarters of fiscal 1999 and 1998, respectively.

Cost of license and other revenues in the third quarter of fiscal 1999 and 1998 were approximately $9,000 and $404,000, respectively. Cost of license and other revenues in the third quarter of fiscal 1998 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 $15.9 million and $13.0 million in the first nine 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 multimedia communication semiconductor products. The Company expects the costs of product revenues to continue to increase as a percentage of product revenues if the VideoCommunicator revenues continue to increase as a percent of product revenues.

Gross Profit

(In millions)	Three months ended December 31, 1998	1997	Nine months ended December 31, 1998	1997
Gross profit	$ 4.4	$ 8.3	$ 10.2	$ 23.7
As a percentage of total revenues	44%	55%	39%	63%

Gross profit was $4.4 million and $8.3 million in the third quarters of fiscal 1999 and 1998, respectively. Gross profit from product revenues was $2.0 million and $5.9 million for the third quarters of fiscal 1999 and 1998, respectively. Gross profit from license and other revenues, all of which was nonrecurring, was approximately $2.5 million and $2.4 million in the third 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."

Gross profit was $10.2 million and $23.7 million in the first nine months of fiscal of 1999 and 1998, respectively. License and other revenues, net of associated costs, contributed $3.6 million and $11.3 million to gross profit in the first nine months of fiscal 1999 and 1998, respectively.

Lower gross profit in the third quarter of fiscal 1999 was primarily due to the decrease in semiconductor revenues. The gross profit for the Company's VideoCommunicator products decreased due to declining average selling prices, but this decrease was partially offset by lower product costs and higher volumes.

Total gross margin was 44% and 55% in the third quarters of fiscal 1999 and 1998, respectively. Lower gross margin in the third quarter of fiscal 1999 was primarily due to the decrease in semiconductor revenues as a percentage of total revenues. 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.

In the first nine months of fiscal 1999, semiconductor revenues have decreased compared to the same periods in fiscal 1998. Since 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." In addition, 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.*

Operating Expenses--Research and Development

(In millions)	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Research and development	$ 2.5	$ 3.3	$ 7.9	$ 9.5
As a percentage of total revenues	25%	22%	30%	25%

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 nine month periods ended December 31, 1998 and 1997, respectively, research and development expenses were primarily attributable to the Company's next generation development of its multimedia communication semiconductors and continued development of its VideoCommunicators.

Lower research and development expenses during the third quarter and nine months ended December 31, 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. During the quarter and nine months ended December 31, 1997 research and development costs would have been higher, except that certain research and development personnel performed 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 nine month periods ended December 31, 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

(In millions)	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Selling, general and administrative	$ 5.4	$ 5.4	$ 14.1	$ 12.7
As a percentage of total revenues	53%	36%	54%	34%

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 $5.4 million in each of the third quarters of fiscal 1999 and 1998, respectively. In the third 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 offset by decreases in profit sharing and incentive bonuses, 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 $14.1 million and $12.7 million in the first nine 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 grants and charged to selling, general and administrative expenses decreased to $64,000 in the first nine months of fiscal 1999 from $354,000 in the first nine 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 $249,000 for the three month period ended December 31, 1998 compared to $515,000 for the three month period ended December 31, 1997. Other income, net was $845,000 for the nine month period ended December 31, 1998 compared to $1.1 million for the comparable period in the prior fiscal year. The decrease in interest income in the third quarter of fiscal 1999 is due primarily to lower average cash equivalents and short-term investment balances as compared to the third quarter of fiscal 1998.

(Benefit) Provision for Income Taxes

There was no tax provision for the three and nine month periods ended December 31, 1998 due to net losses incurred. The tax benefit in the nine month period ended December 31, 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. The Company has not allocated any portion of the total project cost to the Year 2000 issue. While the Company continues to monitor its system implementation costs, the Company does not believe the incremental project cost associated with Year 2000 compliance to be material, as this feature is included with software purchased by the Company to satisfy its business needs. 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 expects that this assessment, as well as related remediation and contingency planning activities, will be on-going throughout calendar year 1999. 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.

The total estimated cost to be incurred by the Company regarding the testing of current products for Year 2000 compliance, and answering and responding to customer requests related to Year 2000 issues, including both incremental spending and redeployed resources, is currently not expected to exceed $100,000. The total cost estimate does not include costs of internal software and hardware replaced in the normal course of business. In some instances, the installation schedule of new software and hardware in the normal course of business is being accelerated to also afford a solution to Year 2000 compliance issues.

* 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.

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 generated from operations in fiscal 1994 and prior years. As of December 31, 1998, the Company had cash and liquid investments totaling $17.1 million, representing a decrease of $9.6 million from March 31, 1998. The Company currently has no bank borrowing arrangements.

Net cash used in operations was $9.1 million during the first nine months of fiscal 1999. Net cash provided by operations was $283,000 during the first nine months of fiscal 1998. Net cash used in operations in the nine month period ended December 31, 1998 reflected a net loss of $10.8 million, an increase of $2.2 million in accounts receivable, and a $224,000 decrease in accrued warranty, offset primarily by a decrease of $2.0 million in inventory, increases of $1.0 million in deferred revenue and $345,000 in accrued compensation and $821,000 of noncash items. The decrease in inventory during the nine months ended December 31, 1998 was due to decreases in VideoCommunicator product inventory held by the Company and inventory balances held by retailers and distributors. 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. If the Company broadens its distribution channels, inventories at retailers and distributors, which are reflected in the Company's inventories, are expected to increase.*

Net cash used in investing activities in the nine months ended December 31, 1998 is primarily attributable to capital expenditures of $1.5 million and 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.

Net cash provided by financing activities in the nine months ended December 31, 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.

* 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.

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 nine months ended December 31, 1998 and in the fiscal year ended March 31, 1998 was approximately $9.1 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, the Company has entered into a contract to purchase a 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 $1.6 million and $1.8 million, of which approximately $1.3 million has been incurred as of December 31, 1998. See "Factors That May Affect Future Results--Enterprise-Wide Database Implementation. As of December 31, 1998, the Company had approximately $17.1 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 $11.7 million in the first nine 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 and were $26.2 million in the first nine months of fiscal 1999. 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 $3.7 million and $12.3 million for the nine month periods ended December 31, 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 VideoCommunicators 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. For example, total gross margin was 44% and 55% in the third quarters of fiscal 1999 and 1998, respectively due to continued growth of the Company's VideoCommunicator business relative to its semiconductor business.

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. Also, one customer which represented approximately 20% of semiconductor revenues in fiscal 1998 has not placed significant semiconductor orders with the Company in fiscal 1999. 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. As the Company introduces new products or upgrades to current products, the Company's retailers or distributors may decide to return to the Company inventory which they determine they cannot sell. 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 1999 and 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 third quarter and nine months ended December 31, 1998 accounted for approximately 51% and 44% 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 14% of the Company's total revenues for the quarter ended December 31, 1998. No customer represented ten percent (10%) or more of the Company's total revenues for the nine months ended December 31, 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 34% and 41% of the Company's total revenues for the third quarter and the nine months ended December 31, 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 21% and 24% of the Company's total revenues in the third quarter and the nine months ended December 31, 1998. Sales to customers in Europe represented 13% and 17% of the Company's total revenues in the third quarter and the nine months ended December 31, 1998. Sales to customers in the Asia Pacific region represented 25% and 33% of the

Company's revenues 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 multimedia communication semiconductors and with the introduction of its VideoCommunicator products now competes with manufacturers of multimedia 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 multimedia communication systems, thereby eliminating a consumer's need to purchase a separate multimedia 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 multimedia 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 videoconferencing equipment. Manufacturers of more expensive corporate videoconferencing systems have continually reduced the cost of their products and may enter the market for lower cost consumer multimedia 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 multimedia 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 multimedia communication semiconductor and related technology from other suppliers.

The principal competitive factors in the market for multimedia 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, AudioCodes, DSP Group, Lucent Technologies, Motorola, NeoParadigm Labs, Philips, Texas Instruments and Winbond Electronics. Potential competitors include ESS Technology and Rockwell Semiconductor Systems. Certain of the Company's competitors for multimedia 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 multimedia 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 nine months ended December 31, 1998 and in the fiscal year ended March 31, 1998 was approximately $9.1 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 December 31, 1998, the Company had approximately $17.1 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 VideoCommunicator 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 multimedia communication on POTS could impede market acceptance and have a material adverse effect on the Company's business and results of operations.

Uncertainty of Revenues from Broadband Telephony Market

The Company has committed, and intends to continue to commit, a significant amount of financial and personnel resources to the development, manufacturing and marketing of its broadband telephony products, such as the Audacity internet telephony processor and the Packet Gateway adapter. As of December 31, 1998, broadband telephony products have not contributed to the Company's revenue. Furthermore, the Company does not have significant backlog for future sales of these products. The Company faces severe competition and rapidly changing technology in the broadband telephony market. It is likely that the Company will need to invest significant additional resources to compete in this market, and there can be no assurance that such investment will result in significant revenues.

Rapid Technological Change; Dependence on New Product Introduction

The multimedia communication semiconductor and multimedia communication markets are characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. In order to compete in these markets, 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 multimedia 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 Multimedia Communication Industry

Sales of multimedia communication products accounted for approximately 100%, 100% and 86% of total product revenues for the nine months ended December 31, 1998 and in the fiscal years ended March 31, 1998 and 1997, respectively. Any general decline in the market for multimedia 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 5. OTHER INFORMATION

The Company's 1999 Annual Meeting of Stockholders will be held at 2 p.m. Pacific Standard Time on June 21, 1999 at the Company's principal executive offices at 2445 Mission College Blvd., Santa Clara, California.

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 December 31, 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: January 27, 1999

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.

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.