

REGISTRATION NO. 333-15627

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
8X8, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State or other jurisdiction of Incorporation or Organization) 3674 (Primary Standard Industrial Classification Code Number) 77-0142404 (I.R.S. Employer Identification No.)

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

JOE PARKINSON  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
8X8, INC.  
2445 MISSION COLLEGE BOULEVARD  
SANTA CLARA, CA 95054  
(408) 727-1885  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,  
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
As soon as practicable after this Registration Statement becomes effective

If this Form is filed to register additional securities for an offering pursuant to rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$0.001.....	2,875,000 shares	\$10.00	\$28,750,000	\$8,712.12

(1) Includes up to 375,000 shares of Common Stock which may be purchased by the Underwriters to cover overallotments, if any.

(2) Estimated pursuant to Rule 457(a) solely for the purpose of calculating the registration fee.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

## 8X8, INC.

## CROSS-REFERENCE SHEET

SHOWING LOCATION IN PROSPECTUS  
OF INFORMATION REQUIRED BY ITEMS OF FORM S-1

1.	Forepart of the Registration Statement and Outside Front Cover Page of Prospectus....	Front Cover Page of Prospectus
2.	Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front and Outside Back Cover Pages of Prospectus
3.	Summary Information and Risk Factors.....	Prospectus Summary; Risk Factors; Selected Consolidated Financial Data
4.	Use of Proceeds.....	Prospectus Summary; Use of Proceeds
5.	Determination of Offering Price.....	Front Cover Page of Prospectus; Underwriting
6.	Dilution.....	Risk Factors; Dilution
7.	Selling Security Holders.....	Not Applicable
8.	Plan of Distribution.....	Outside and Inside Front Cover Pages of Prospectus; Underwriting
9.	Description of Securities to be Registered.....	Front Cover Page of Prospectus; Prospectus Summary; Capitalization; Description of Capital Stock
10.	Interests of Named Experts and Counsel....	Legal Matters
11.	Information with Respect to the Registrant.....	Front Cover Page of Prospectus; Prospectus Summary; Risk Factors; Use of Proceeds; Dividend Policy; Capitalization; Dilution; Selected Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Certain Transactions; Principal Stockholders; Description of Capital Stock; Shares Eligible for Future Sale; Legal Matters; Experts; Consolidated Financial Statements
12.	Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED NOVEMBER 19, 1996

2,500,000 SHARES

LOGO

COMMON STOCK

All of the 2,500,000 shares of Common Stock offered hereby are being sold by 8x8, Inc. ("8x8" or the "Company"). Prior to this offering (the "Offering"), there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between \$8.00 and \$10.00 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The Company has applied to have its Common Stock approved for quotation on the Nasdaq National Market under the symbol "EGHT."

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 5 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

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 THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.  
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	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)
Per Share.....	\$	\$	\$
Total(3).....	\$	\$	\$

(1) See "Underwriting" for information concerning indemnification of the Underwriters and other matters.

(2) Before deducting expenses payable by the Company estimated at \$1,050,000.

(3) The Company has granted the Underwriters a 30-day option to purchase up to 375,000 additional shares of Common Stock solely to cover over-allotments, if any. If the Underwriters exercise this option in full, the Price to Public will total \$ , the Underwriting Discounts and Commissions will total \$ and the Proceeds to Company will total \$ . See "Underwriting."

The shares of Common Stock are offered by the several Underwriters named herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of the certificates representing such shares will be made against payment therefor at the office of Montgomery Securities on or about , 1996.

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 MONTGOMERY SECURITIES DONALDSON, LUFKIN & JENRETTE  
 SECURITIES CORPORATION

, 1996

## LOGO

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The Company intends to furnish its stockholders with annual reports containing financial statements audited by its independent accountants and quarterly reports for the first three quarters of each fiscal year containing unaudited financial information.

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This Prospectus includes trademarks and trade names of the Company and other corporations.

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As used in this Prospectus, "8x8" and the "Company" refer to 8x8, Inc. and its subsidiaries, unless the context otherwise indicates. Except as otherwise indicated, the information presented in this Prospectus assumes that (i) the Underwriters' over-allotment option is not exercised, (ii) all outstanding shares of the Company's Preferred Stock are converted into Common Stock upon the closing of this Offering and (iii) the Company has reincorporated in Delaware and has filed an Amended and Restated Certificate of Incorporation immediately after the closing of this Offering to eliminate the Company's currently existing classes of Preferred Stock and authorize undesignated Preferred Stock. See "Capitalization," "Description of Capital Stock" and "Underwriting."

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## PROSPECTUS SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including "Risk Factors" and Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Prospectus. The discussion in this Prospectus contains forward-looking statements. The outcome of the events described in such forward-looking statements is subject to risks and uncertainties. The Company's actual results may differ materially from those discussed in such forward-looking statements. Factors that may cause or contribute to such differences include those discussed in sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as those discussed elsewhere in this Prospectus.

## THE COMPANY

8x8, Inc. ("8x8" or the "Company") designs, develops and markets highly integrated, proprietary video compression semiconductors and associated software to OEMs of corporate video conferencing systems. To address new opportunities, the Company intends to leverage its strengths in semiconductor design and related software by introducing video conferencing systems for the consumer market. The first product in the Company's planned family of VideoCommunicators is the VC100, which is currently under development. The VC100 connects to a television set and a standard touch-tone telephone adding video to an otherwise normal telephone call, without the need for a personal computer ("PC"). The Company plans to introduce the VC100 in early 1997 targeted at the consumer market.

The proliferation of video conferencing products is dependent on several factors including network bandwidth, advanced compression technologies and the acceptance of video telephony standards. Increases in available bandwidth improve the data carrying capacity of networks, while improvements in compression technologies utilize a given bandwidth more efficiently. Finally, video telephony standards are key to widespread adoption as they are designed to permit the interoperability between systems offered by different vendors.

As a result of recent technological advances and the adoption of the H.324 standard for video telephony over standard analog telephone lines (commonly known as plain old telephone service, or "POTS"), consumer video phones are being developed by a number of suppliers. These products are being introduced in a variety of form factors, including those based on telephones and televisions and those based on the PC. An increasing number of PCs are being shipped with pre-installed H.324 compliant software. An installed base of H.324 products, if achieved, should increase the usefulness and demand for additional video phones.

The Company's video compression semiconductors combine, on a single chip, a RISC microprocessor, a digital signal processor, specialized video processing circuitry, static RAM memory and proprietary software to perform the real time compression and decompression ("codec") of video and audio information and establish and maintain network connections in a manner consistent with international standards for video telephony. These semiconductors are designed to provide video conferencing over a broad range of network types including POTS, integrated services digital networks ("ISDN"), local area networks ("LAN") and asymmetric digital subscriber lines ("ADSL"). Customers for the Company's video compression semiconductors include PictureTel, Siemens, Sony, VideoServer, VCON and Vtel.

The Company's VideoCommunicators will be based on its proprietary semiconductor, software and systems technology. The VC100 is designed to be compliant with the H.324 international standard for video telephony over POTS and to be compatible with PC and non-PC based systems that adhere to the H.324 standard. The VC100 is designed to communicate with full duplex audio and video rates of up to 12 frames per second. In addition, the Company is currently developing a second VideoCommunicator, the VC200, a non-PC based POTS video phone with a built-in liquid crystal display. The Company intends to sell its VideoCommunicators through a direct marketing effort utilizing a combination of advertising, toll-free telemarketing and direct mail supported by co-marketing arrangements with third parties and resale through the retail channel.

The Company was incorporated in California under the name Integrated Information Technology, Inc. in February 1987. In April 1996, the Company changed its name to 8x8, Inc. Prior to the consummation of this Offering, the Company will reincorporate in Delaware. The Company's executive offices are located at 2445 Mission College Boulevard, Santa Clara, CA 95054, and its telephone number is (408) 727-1885.

## THE OFFERING

Common Stock offered by the Company..... 2,500,000 shares  
Common Stock to be outstanding after the  
Offering..... 13,195,348 shares(1)  
Use of Proceeds..... For general corporate purposes including working  
capital. See "Use of Proceeds."  
Proposed Nasdaq National Market symbol..... EGHT

SUMMARY CONSOLIDATED FINANCIAL INFORMATION  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED MARCH 31,					SIX MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1995	1996	1995	1996
CONSOLIDATED STATEMENT OF OPERATIONS							
DATA:							
Total revenues.....	\$36,001	\$31,082	\$34,401	\$19,929	\$28,774	\$12,122	\$10,075
Gross profit.....	23,509	16,945	14,932	8,025	12,106	4,197	868
Income (loss) from operations.....	7,527	(1,473)	243	(6,527)	(4,149)	(3,781)	(5,894)
Net income (loss).....	4,960	(841)	(348)	(5,881)	(3,217)	(3,701)	(5,913)
Pro forma net loss per share.....					\$ (.28)	\$ (.32)	\$ (.50)
Shares used in pro forma per share calculations.....					11,654	11,585	11,800

SEPTEMBER 30, 1996	
ACTUAL	AS ADJUSTED(2)

## CONSOLIDATED BALANCE SHEET DATA:

Working capital.....	\$ 5,728	\$ 27,093
Total assets.....	12,856	34,221
Total liabilities.....	5,105	5,105
Stockholders' equity.....	7,751	29,116

(1) Based on shares outstanding as of September 30, 1996, but includes an aggregate of 270,913 shares of Common Stock issuable upon conversion of Series D Preferred Stock issued in October 1996. Excludes, as of September 30, 1996, (i) an aggregate of 1,543,787 shares of Common Stock issuable on the exercise of outstanding options granted under the Company's 1992 Stock Option Plan and 1996 Stock Plan and (ii) an aggregate of 1,871,330 shares of Common Stock reserved for issuance under the Company's 1992 Stock Option Plan, 1996 Stock Plan, 1996 Director Option Plan and 1996 Employee Stock Purchase Plan. See "Management -- Compensation Plans" and Note 6 of Notes to Consolidated Financial Statements.

(2) Adjusted to reflect (i) the sale of 270,913 shares of Series D Preferred Stock by the Company for aggregate proceeds of approximately \$1.5 million in October 1996 and (ii) the sale of 2,500,000 shares of Common Stock by the Company at an assumed public offering price of \$9.00 per share after deducting estimated underwriting discounts and commissions and estimated offering expenses. See "Use of Proceeds" and "Capitalization."

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and under "Business," as well as other statements contained in this Prospectus regarding matters that are not historical facts are forward-looking statements (as such term is defined in the rules promulgated pursuant to the Securities Act of 1933, as amended (the "Securities Act")). Because the outcome of the events described in such forward-looking statements is subject to risks and uncertainties, actual results may differ materially from those expressed in or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those discussed herein under "Risk Factors." The Company undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## RISK FACTORS

An investment in the shares of Common Stock being offered hereby involves a high degree of risk. In addition to the other information in this Prospectus, the following risk factors should be considered carefully by potential purchasers in evaluating an investment in the Common Stock offered hereby.

## HISTORY OF LOSSES; UNCERTAINTY OF FUTURE PROFITABILITY

After a modest operating profit in fiscal 1994, the Company recorded operating losses of \$6.5 million and \$4.1 million in the years ended March 31, 1995 and 1996, respectively. Revenues fluctuated from \$34.4 million in fiscal 1994 to \$19.9 million in fiscal 1995 to \$28.8 million in fiscal 1996. The Company recorded an operating loss of \$3.8 million for the six months ended September 30, 1995, which increased to \$5.9 million for the six months ended September 30, 1996. Revenues declined from \$12.1 million for the six months ended September 30, 1995 to \$10.1 million for the six months ended September 30, 1996. In view of the Company's operating losses, there can be no assurance that the Company will either become profitable or sustain profitability on an annual or quarterly basis. Losses and declining revenues will likely continue unless the Company's initial VideoCommunicators, particularly the VC100, are successfully introduced and achieve widespread consumer market acceptance, of which there can be no assurance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## CRITICAL DEPENDENCE ON FUTURE VIDEOCOMMUNICATOR REVENUES

The Company's business and future profitability will be critically dependent on the development and successful introduction and marketing of its first VideoCommunicator, the VC100. The Company currently plans to introduce the VC100 in early 1997. The Company has in the past experienced delays in the development of new products and the enhancement of existing products, and such delays may occur in the development and introduction of the VC100. Moreover, the Company must achieve significant technological and business milestones in order to permit the introduction and marketing of the VC100 product. These milestones include debugging the current VC100 prototype design; receiving necessary domestic and international regulatory approvals; completing reliability testing; procuring adequate semiconductor foundry and electronic subcontract manufacturing services and capacity; establishing production of the VC100 in volumes on a cost effective basis and at acceptable quality levels; implementing the marketing, sales, distribution and customer support strategy for the VC100 product; and establishing direct marketing capabilities and distribution relationships with third parties. There can be no assurance that any of these or other milestones will be met in sufficient time to permit the introduction of the VC100 by early 1997, if at all. If the Company is unable for any reason to develop, introduce and market the VC100 product in a timely manner or, if the VC100 product does not achieve sufficient market acceptance, it would have a material adverse effect on the Company's business and operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- 8x8 Strategy."



## POTENTIAL FLUCTUATIONS IN FUTURE OPERATING RESULTS

The Company's future operating results are expected to fluctuate as the Company proceeds with the development, introduction and marketing of its family of non-PC based VideoCommunicators. Further, because of the Company's planned reliance on its VideoCommunicators, the Company's historical operating results will not be comparable to, and should not be relied upon as an indication of, future operating results. In addition, the Company's operating results have fluctuated significantly and may continue to fluctuate in the future, on an annual and a quarterly basis, as a result of a number of factors, many of which are outside the Company's control, including changes in market demand, the timing of customer orders, competitive market conditions, lengthy sales 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 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, product pricing, the allocation between international and domestic sales, the percentage of direct sales and sales to distributors, and manufacturing and component costs. The Company may also be required to reduce prices in response to competitive pressure or other factors or increase spending to pursue new market opportunities. Any decline in average selling prices of a particular product which is not offset by a reduction in production costs or by sales of other products with higher gross margins would decrease the Company's overall gross margin and adversely affect the Company's operating results. In particular, 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. Moreover, the Company believes that the introduction of its family of VideoCommunicators may adversely impact its gross margins due in part to higher unit costs associated with initial production of its first products as well as substantially different cost and pricing structures related to the manufacture and sale of consumer products.

Variations in timing of sales may cause significant fluctuations in future operating results. In addition, because a significant portion of the Company's business may be derived from orders placed by a limited number of large customers, the timing of such orders can also cause significant fluctuations in the Company's operating results. Anticipated orders from customers may fail to materialize, and delivery schedules may be deferred or canceled for a number of reasons, including changes in specific customer requirements. If sales do not meet the Company's expectations in any given quarter, the adverse impact of the shortfall on the Company's operating results may be magnified by the Company's inability to adjust spending to compensate for the 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 strategic shift towards the introduction and marketing of VideoCommunicators, such as the VC100, may result in substantially different patterns in operating results. For example, the Company's operating results may be subject to increased seasonality with sales higher during the Company's third fiscal quarter, corresponding to the Christmas shopping season. The Company intends to spend substantial additional amounts on advertising, toll-free marketing and customer support. There can be no assurance as to the amount of such spending or that revenues adequate to justify such spending will result. As a result of its shift to selling VideoCommunicators, the Company may experience different inventory, product return, price protection and warranty cost patterns.

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 Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## COMPETITION

The Company competes with independent manufacturers of video compression semiconductors and, after the planned introduction of its VideoCommunicators, will compete with manufacturers of video conferencing 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 its planned 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 the following segments:

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 Electric Industrial Co., Ltd. ("Matsushita"), Philips, Samsung and Sony. Many of these potential competitors sell television and telephone products into which they may integrate video conferencing systems, thereby eliminating a consumer's need to purchase a separate video conferencing system, such as the VC100.

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

Existing manufacturers of video conferencing equipment. Manufacturers of more expensive corporate video conferencing systems may enter the market for lower cost consumer video conferencing products. Potential competitors include Compression Labs, PictureTel, Sony 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 TV-based Internet access have recently been announced or introduced by companies such as Philips and Sony.

The principal competitive factors in the market for video compression semiconductors include product definition, product design, system integration, chip size, functionality, time-to-market, adherence to industry standards and reliability. The Company has a number of direct competitors in this market including Lucent Technologies and Texas Instruments. Certain of the Company's competitors for video compression semiconductors maintain their own semiconductor foundries and may therefore benefit from certain capacity, cost and technical advantages.

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. A number 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 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.

A number of companies have licensed portions of the Company's technology (including an affiliate of Matsushita which has licensed substantially all of the Company's technology underlying the Company's VideoCommunicators currently under development) and, therefore, may be able to use this technology to produce products that compete directly with the Company's VideoCommunicators. See "Business -- Licensing and Development Arrangements."

#### UNCERTAINTY OF MARKET ACCEPTANCE; LIMITS OF EXISTING TECHNOLOGY

Previous efforts to sell consumer video phones have been unsuccessful and there can be no assurance that the market for such products will develop. The Company has no reliable data to suggest that there will be significant customer demand for such products, including the Company's VideoCommunicators. For such products to achieve widespread consumer acceptance, the installed base must reach a critical mass. Failure of the market for consumer video telephony to develop or achieve critical mass would have a material adverse effect on the Company's business and operating results.

In addition, the data carrying capacity of standard analog phone lines is limited. Currently, modems used for the transmission of data over standard analog phone lines are limited to data transfer rates of up to 33.6 Kbps. Using such modems, the Company's VC100 may initially be capable of delivering video data at rates only up to 12 frames per second. This compares to 30 frames per second provided by television, 24 frames per second provided by movies and 24 or more frames per second provided by ISDN video teleconferencing. At rates less than approximately 24 frames per second, 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 related to the H.324 standard on POTS could have a material adverse effect on the Company's business and results of operations. See "Business -- Sales and Marketing."

#### DEPENDENCE ON H.324 STANDARD FOR VIDEO TELEPHONY

The H.324 standard has only recently received industry endorsement as an international protocol for video telephony using POTS. The Company believes that adherence to this standard is an important factor in the development of this marketplace and, if the H.324 standard is not widely implemented in the industry, different vendors' products will not be compatible, which may deter or delay growth in the market and reduce the demand for consumer video telephony products. However, the emergence of industry standards may also lower barriers to entry and result in increased competition. There can be no assurance that the H.324 standard will not change or be supplanted by other standards, which could render the Company's H.324 compliant products uncompetitive. There can be no assurance that, even with the H.324 standard in place, a market for video telephony products compatible with H.324 will develop. Further, the implementation of the H.324 standard by different manufacturers may vary. Such variation could degrade the quality and limit the interoperability of POTS based systems, which may inhibit widespread acceptance of consumer video telephony products.

#### NO HISTORY OF DIRECT CONSUMER MARKETING

In recent years, the Company has been a provider of video compression semiconductors to OEMs of video conferencing systems. Accordingly, the Company has had no prior experience in marketing commercial quantities of consumer products such as the VC100. In order to achieve significant market penetration and brand awareness for the VC100, the Company must expand its sales and marketing efforts and develop direct consumer marketing capabilities. There can be no assurance that the Company will be successful in these areas or that the Company will be able to achieve significant market penetration with its VC100. See "Business -- Sales and Marketing."

#### POTENTIAL REDUCTION IN LICENSING REVENUES

The Company has in the past received substantial revenues from licensing of technology. Licensing revenues were \$8.1 million and \$1.8 million in the year ended March 31, 1996 and the six months ended September 30, 1996, respectively. There can be no assurance that the Company will receive revenues from licensing of its technology in the future.

#### PRODUCT CONCENTRATION; POTENTIAL LOSS OF SEMICONDUCTOR SALES; DEPENDENCE ON VIDEO CONFERENCING INDUSTRY

In the years ended March 31, 1994, 1995 and 1996 and the six month period ended September 30, 1996, sales of video compression semiconductors accounted for approximately 12%, 42%, 63% and 81%, respectively,

of the Company's total revenues. Pending a successful introduction of its VideoCommunicators, sales of video compression semiconductors will continue to account for a substantial majority of total revenues. Moreover, successful introduction of VideoCommunicators may adversely affect sales of semiconductors to the Company's existing customers that currently, or may in the future, sell products that compete with the Company's VideoCommunicators.

Sales of the Company's existing compression semiconductors and planned VideoCommunicators are also dependent on the video conferencing industry. Thus, regardless of the success or failure of its VideoCommunicators, the Company will continue to be substantially dependent on the video conferencing industry. Any reduction in the demand for the Company's video compression semiconductors (particularly prior to significant VideoCommunicator revenues) or any general decline in the market for video conferencing products could have a material adverse effect on the Company's business, and operating results. See "Business -- Sales and Marketing" and "Business -- Competition."

#### 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. Product revenues from the Company's ten largest customers, in the years ended March 31, 1994, 1995 and 1996 and the six months ended September 30, 1996 accounted for approximately 55%, 44%, 39% and 53%, respectively, of its total revenues. Sales of video compression semiconductors to relatively few customers may continue to account for a significant portion of its total revenues. Substantially all the Company's 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. 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. See "Business -- Sales and Marketing."

#### RAPID TECHNOLOGICAL CHANGE; DEPENDENCE ON NEW PRODUCT INTRODUCTION

The video compression semiconductor and video conferencing markets are characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully, the Company must continue to design, develop, manufacture and sell new and enhanced products that provide increasingly higher levels of performance and reliability, 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 is currently a developer and supplier of video compression semiconductors which it has sold since 1991. The Company was previously involved in several other businesses which have since been discontinued. Prior product lines and development efforts included math co-processors, microprocessors, graphics and MPEG decoding semiconductors. The Company discontinued its efforts in these areas in part because of rapid changes in the personal computer marketplace and severe price competition for certain of these components.

The Company plans to introduce additional VideoCommunicators and video compression semiconductors subsequent to the introduction of the VC100. There can be no assurance that these or any future products will be successfully developed or introduced to the market. The Company has in the past experienced delays in the development of new products and the enhancement of existing products, and such delays may 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, or if such new or enhanced products do not achieve sufficient market acceptance, it would have a material adverse effect on the Company's business and operating results. See "Business -- Research and Development."

## MANAGEMENT OF GROWTH

The development, introduction and marketing of the Company's VideoCommunicators will place a significant strain on the Company's limited personnel, management and other resources. The Company's ability to manage any future growth effectively will require it to attract, train, motivate and manage new employees successfully, to effectively integrate new employees into its operations and to continue to improve its operational, financial and management systems. In particular, the Company intends to hire additional research and development personnel and to develop direct consumer marketing capabilities by increasing the size of its domestic and international sales and marketing staff. The Company's failure to manage its growth effectively could have a material adverse effect on the Company's business and operating results. See "Business -- 8x8 Strategy."

## 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 laws, which afford only limited protection. There can be no assurance that the steps taken by the Company will prevent misappropriation of its technology. The Company also relies in part on patent law to protect its intellectual property in the United States and abroad. The Company currently holds three United States patents, including patents relating to video compression and memory architecture technology, and has 17 United States patent applications pending. The Company has four foreign patent applications pending. There can be no assurance that any patent, trademark or copyright owned by the Company will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of the Company's pending or future patent applications will be issued with the scope of the claims sought by the Company, if at all. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. Thus, effective intellectual property protection may be unavailable or limited in certain foreign countries. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad 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. 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. In addition, as is common in its industry, the Company has from time to time received notification from other companies of intellectual property rights held by those companies upon which the Company's products may infringe. 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 could be required to seek licenses from other companies or to refrain from using, manufacturing or selling certain products or using certain processes. Although holders of patents and other intellectual property rights often offer licenses to their patents or other intellectual property rights, no assurance can be given that licenses would be offered to the Company, that the terms of any offered license would be acceptable to the Company or that failure to obtain a license would not have a material adverse effect on the Company's business and operating results.

The Company relies upon certain software licensed from third parties. There can be no assurance that the software licensed by the Company will continue to provide competitive features and functionality or that licenses for software currently utilized by the Company or other software which the Company may seek to license in the future will be available to the Company on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent software or suitable alternative products could be developed, identified, licensed and integrated, and the

inability to license key new software that may be developed, on commercially reasonable terms, would have a material adverse effect on the Company's business and operating results.

#### LACK OF EXPERIENCE IN MANUFACTURING CONSUMER VIDEO TELEPHONY PRODUCTS

The Company is a fabless semiconductor manufacturer and has not manufactured commercial quantities of any consumer video telephony products. To achieve future profitability, the Company must be able to reliably manufacture the VC100 and its other VideoCommunicators directly or through third party subcontract manufacturers, in commercial quantities, on a cost effective basis and in a timely manner, of which there can be no assurance. In view of the Company's lack of manufacturing experience, there can be no assurance that unforeseen technical or other difficulties will not arise which could interfere with the manufacture thereof or prevent, or create delays in, marketing these products. Any delay in the manufacture of the VideoCommunicators, quality control problems, or inability to produce such products in commercial quantities or on a cost effective basis could have a material adverse effect on the Company's business and operating results.

#### DEPENDENCE ON THIRD PARTY MANUFACTURERS; COMPONENT AVAILABILITY

The Company uses independent foundries to fabricate, assemble and test its video compression semiconductors. The Company does not have long-term purchase agreements with its semiconductor foundries, and purchases semiconductor wafers pursuant to purchase orders. Therefore these foundries are generally not obligated to supply products to the Company for any specific period, in any specific quantity or at any specific price. The Company secures assembly and test services on a purchase order basis as well.

The Company plans to outsource the manufacture of its VideoCommunicators to subcontract manufacturers. The Company is currently negotiating arrangements with certain large subcontract manufacturing companies to produce its VideoCommunicators. There can be no assurance that these negotiations will be successful. The Company anticipates that its subcontract manufacturers will procure components from their suppliers and perform assembly and testing of the Company's VideoCommunicators on a turnkey basis. There can be no assurance that these or additional contract manufacturers will be able to reliably manufacture the Company's products in volumes, on a cost effective basis or in a timely manner.

The Company's reliance on independent semiconductor foundries and subcontract manufacturers involves a number of risks, including the lack of direct control over the manufacturing process, the absence or unavailability of adequate capacity, the unavailability of, or interruption in access to, certain process technologies (particularly in the case of semiconductors) and reduced control over delivery schedules, quality control, manufacturing yields and costs. In the event that the Company's foundries and subcontract manufacturers are unable or unwilling to continue to manufacture the Company's products in required volumes, on a cost effective basis, in a timely manner or at all, the Company will have to secure additional foundry or manufacturing capacity. Available semiconductor foundry and manufacturing capacity at times has been limited. Even if such additional capacity is available at commercially acceptable terms, the qualification process could be lengthy and could create delays in product shipments.

Certain components necessary for the manufacture of the Company's products are obtained from a single supplier or a limited group of suppliers. These include a digital camera, modem chips, certain ASICs and other semiconductor components. The Company does not maintain any long-term agreements with any of its suppliers of components. Because the purchase of certain key components may involve long lead times, in the event of unanticipated increases in demand for the Company's products, the Company could be unable to manufacture certain products in a quantity sufficient to meet end user demand. A shortage of any key component could have a material adverse effect on the Company's business and operating results.

These risks and the related difficulties that the Company may experience due to its reliance on independent semiconductor foundries, subcontract manufacturers and component suppliers could have a material adverse effect on the Company's business and operating results.

## COMPLIANCE WITH REGULATIONS AND INDUSTRY STANDARDS

The Company must comply with certain rules and regulations of the Federal Communications Commission ("FCC") regarding electromagnetic radiation and standards established by Underwriters Laboratories, Inc., as well as similar regulations and standards applicable in other countries. The Company's VideoCommunicators must comply with these regulations and standards as a prerequisite to commercial sales. As these regulations and standards evolve, the Company may be required to modify its existing products or develop and support new versions of its products. 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 introduction of the VideoCommunicators, which would have a material adverse effect on the Company's business and operating results.

## INTERNATIONAL OPERATIONS

Sales to customers outside of the United States represented 29%, 40%, 49% and 62% of the total revenues in the years ended March 31, 1994, 1995 and 1996 and the six months ended September 30, 1996, respectively, and international sales are likely to continue to represent a substantial portion of its total 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 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. While international sales are typically denominated in U.S. dollars, fluctuations in currency exchange rates could cause the Company's products to become relatively more expensive to customers in a particular country, leading to a reduction in sales or profitability in that country. Payment cycles for international customers may be longer than those for customers in the United States. 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. See "Business -- Sales and Marketing" and "Business -- Manufacturing."

## NEED FOR ADDITIONAL CAPITAL TO FINANCE GROWTH AND CAPITAL REQUIREMENTS

While the Company expects that the proceeds from this Offering, its existing cash balances and the amounts, if any, generated from operations will be sufficient to meet its cash requirements for at least the next 12 months, 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 raise such capital on acceptable terms, if at all. If the Company is unable to obtain such additional capital, the Company may be required to reduce the scope of its planned product development and introduction, which could have a material adverse effect on the Company's business and operating results. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## DEPENDENCE ON KEY PERSONNEL

The Company is highly dependent on the continued service of, and on its ability to attract and retain, qualified technical, marketing, sales and managerial personnel. The competition for such personnel is intense, particularly in Silicon Valley, where the Company's principal office is located, and the loss of any of such persons, as well as 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. See "Business -- Employees" and "Management."

#### ANTI-TAKEOVER PROVISIONS OF THE COMPANY'S CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW

Certain provisions of the Company's Certificate of Incorporation and Bylaws, as in effect upon the closing of this Offering, may have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of the Company. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of the Company's Common Stock. Certain of these provisions eliminate the right of the stockholders to act by written consent without a meeting, eliminate cumulative voting by stockholders in the election of directors and specify procedures for director nominations by stockholders and submission of other proposals for consideration at stockholder meetings. In addition, the Company's Board of Directors has the authority to issue up to 5,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions of those shares without any further vote or action by the stockholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The Company has no present plans to issue shares of Preferred Stock. Certain provisions of Delaware law applicable to the Company could also delay or make more difficult a merger, tender offer or proxy contest involving the Company, including Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years unless certain conditions are met. Additionally, the issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, may discourage bids for the Common Stock at a premium over the market price of the Common Stock and may adversely affect the market price of, and the voting and other rights of the holders of, the Common Stock. Such provisions could have the effect of delaying, deferring or preventing a change in control of the Company, including without limitation, discouraging a proxy contest or making more difficult the acquisition of a substantial block of the Company's Common Stock. These provisions could also limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock. See "Description of Capital Stock -- Preferred Stock," "Description of Capital Stock -- Anti-Takeover Provisions of Certificate of Incorporation and Bylaws" and "Description of Capital Stock -- Effect of Delaware Antitakeover Statute."

#### NO PRIOR TRADING MARKET FOR COMMON STOCK; POTENTIAL VOLATILITY OF STOCK PRICE

Prior to this Offering, there has been no public market for the Common Stock and there can be no assurance that an active trading market will develop or be sustained after this Offering. The initial public offering price will be determined through negotiations between the Company and the representatives of the Underwriters based on several factors and may not be indicative of the market price of the Common Stock after this Offering. See "Underwriting." The market price of the shares of Common Stock is likely to be highly volatile and may be significantly affected by factors such as actual or anticipated fluctuations in the Company's operating results, announcements of technical innovations, 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, certain of 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 Common Stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has 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.



## DILUTION

Purchasers of the Common Stock offered hereby will suffer immediate and substantial dilution in the net tangible book value of the Common Stock from the initial public offering price. To the extent outstanding options to purchase the Company's Common Stock are exercised, there will be further dilution. See "Dilution."

## SHARES ELIGIBLE FOR FUTURE SALE

Sale of substantial amounts of shares in the public market or the prospect of such sales could adversely affect the market price of the Company's Common Stock. Upon completion of this Offering, the Company will have outstanding 13,195,348 shares of Common Stock. Of the shares outstanding prior to this Offering, with the exception of 143,316 shares which will be immediately eligible for sale under Rule 144 promulgated pursuant to the Securities Act, all shares of Common Stock held by current stockholders are subject to lock-up agreements under which the holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this Prospectus without the prior written consent of Montgomery Securities. After the 180-day period, 9,496,071 shares held by current stockholders will be eligible for sale under Rule 144 or Rule 701. The remaining 1,055,961 shares held by existing stockholders will become eligible for sale from time to time in the future under Rule 144 or Rule 701. In addition, the Company intends to file a registration statement under the Securities Act, upon the effectiveness of this Offering or shortly thereafter, covering the sale of shares of Common Stock reserved for issuance under its Key Personnel Plan, 1992 Stock Option Plan, 1996 Stock Plan, 1996 Employee Stock Purchase Plan and 1996 Director Option Plan. As of September 30, 1996, there were outstanding options to purchase a total of 1,543,787 shares of the Company's Common Stock, all of which are subject to 180-day lock-up agreements. A total of 230,566 shares issuable upon exercise of such options, as of September 30, 1996, will be eligible for sale into the public market 180 days after the date of this Prospectus. See "Management -- Compensation Plans," "Shares Eligible for Future Sale" and "Underwriting." Certain existing stockholders holding approximately 3,726,373 shares of Common Stock, are also entitled to registration rights with respect to their shares of Common Stock. See "Description of Capital Stock -- Registration Rights."

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,500,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of \$9.00 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses, are estimated to be \$19.9 million (\$23.0 million if the Underwriters' over-allotment option is exercised in full).

The net proceeds of the Offering will be used for product development, manufacturing and marketing of the Company's products as well as for working capital and other purposes. A portion of the net proceeds may also be used for investments in or acquisitions of complementary businesses, products or technologies, although no such transactions are currently under negotiation. Pending such uses, the Company plans to invest the net proceeds in short-term, interest-bearing, investment grade securities.

## DIVIDEND POLICY

The Company has never declared or paid cash dividends on its capital stock. The Company currently does not anticipate paying any cash dividends on its capital stock in the foreseeable future.

## CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1996, (i) on an actual basis, (ii) on a pro forma basis to reflect the sale of 270,913 shares of Series D Preferred Stock by the Company in October 1996, the automatic conversion of all outstanding shares of Preferred Stock into Common Stock upon the closing of this Offering and the filing of Amended and Restated Certificate of Incorporation immediately after the closing of the Offering to eliminate the Company's currently existing classes of Preferred Stock and authorize undesignated Preferred Stock; and (iii) as adjusted to reflect the receipt by the Company of the net proceeds from the sale of the 2,500,000 shares of Common Stock offered hereby at an assumed initial public offering price of \$9.00 per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses.

	SEPTEMBER 30, 1996		
	ACTUAL	PRO FORMA	AS ADJUSTED
	(IN THOUSANDS)		
Long-term debt, including current portion.....	\$ --	\$ --	\$ --
Stockholders' equity:			
Preferred Stock, par value \$0.001 per share; actual: 5,411,820 shares authorized, 3,455,460 shares issued and outstanding; pro forma and as adjusted: 5,000,000 shares authorized, no shares issued or outstanding.....	4	--	--
Common Stock, par value \$0.001 per share; actual: 40,000,000 shares authorized, 6,968,975 shares issued and outstanding; pro forma: 40,000,000 shares authorized, 10,695,348 shares issued and outstanding; as adjusted: 40,000,000 shares authorized, 13,195,348 shares issued and outstanding (1).....	7	11	13
Additional paid in capital.....	14,520	16,010	35,883
Notes receivable from stockholders.....	(1,078)	(1,078)	(1,078)
Accumulated deficit.....	(5,702)	(5,702)	(5,702)
Total stockholders' equity.....	7,751	9,241	29,116
Total capitalization.....	\$7,751	\$ 9,241	\$ 29,116

(1) Excludes, as of September 30, 1996, (i) an aggregate of 1,543,787 shares of Common Stock issuable on the exercise of outstanding options granted under the Company's 1992 Stock Option Plan and 1996 Stock Plan and (ii) an aggregate of 1,871,330 shares of Common Stock reserved for issuance under the Company's 1992 Stock Option Plan, 1996 Stock Plan, 1996 Director Option Plan and 1996 Employee Stock Purchase Plan. See "Management -- Compensation Plans."

## DILUTION

The pro forma net tangible book value of the Company at September 30, 1996, giving effect to (i) the sale of 270,913 shares of Series D Preferred Stock by the Company in October 1996 and (ii) the conversion of all outstanding shares of Preferred Stock into Common Stock upon the closing of this Offering, was approximately \$9.2 million, or \$0.86 per share of Common Stock. "Pro forma net tangible book value" per share represents the amount of total tangible assets of the Company less total liabilities, divided by the number of shares of Common Stock outstanding. After giving effect to the sale by the Company of 2,500,000 shares of Common Stock offered hereby (and after deducting the estimated underwriting discounts and commissions and estimated offering expenses) at an assumed initial public offering price of \$9.00 per share, the pro forma net tangible book value of the Company at September 30, 1996 would have been \$29.1 million, or \$2.21 per share. This represents an immediate increase in pro forma net tangible book value of \$1.35 per share to existing stockholders and an immediate dilution of \$6.79 per share to new investors purchasing in this Offering. The following table illustrates this per share dilution:

Assumed initial public offering price.....		\$ 9.00
Pro forma net tangible book value before this Offering.....	\$0.86	
Increase per share attributable to new investors.....	1.35	
	-----	
Pro forma net tangible book value per share after this Offering.....		2.21
		-----
Dilution per share to new investors.....		\$ 6.79
		=====

The following table summarizes, on a pro forma basis as of September 30, 1996 and after giving effect to the issuance of an aggregate of 270,913 shares of Series D Preferred Stock in October 1996, the differences between the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by the Company's existing stockholders and the new investors in this Offering with respect to the 2,500,000 shares of Common Stock to be sold by the Company. The calculations in this table with respect to shares of Common Stock to be purchased by new investors in this Offering reflect an assumed initial public offering price of \$9.00 per share:

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	10,695,348	81.1%	\$16,054,000	41.6%	\$ 1.50
New investors.....	2,500,000	18.9	22,500,000	58.4	9.00
	-----	-----	-----	-----	-----
Total.....	13,195,348	100.0%	\$38,554,000	100.0%	\$ 2.92
	=====	=====	=====	=====	=====

The foregoing computations exclude as of September 30, 1996, (i) an aggregate of 1,543,787 shares of Common Stock issuable on the exercise of outstanding options granted under the Company's 1992 Stock Option Plan and 1996 Stock Plan and (ii) an aggregate of 1,871,330 shares of Common Stock reserved for issuance under the Company's 1992 Stock Option Plan, 1996 Stock Plan, 1996 Director Option Plan and 1996 Employee Stock Purchase Plan. See "Management -- Compensation Plans."

## SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data presented below for each of the years ended March 31, 1994, 1995 and 1996 and for the six months ended September 30, 1995 and 1996, and the selected consolidated balance sheet data as of March 31, 1995 and 1996 and September 30, 1996, are derived from, and are qualified by reference to, the Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus. The selected consolidated statement of operations data for the years ended March 31, 1992 and 1993 and the selected consolidated balance sheet data as of March 31, 1992, 1993 and 1994 are derived from the audited historical financial statements of the Company, which are not included herein. The Company's future operating results are expected to fluctuate as the Company proceeds with the development, introduction and marketing of its family of VideoCommunicators. Further, because of the Company's planned reliance on its VideoCommunicators, the Company's historical operating results will not be comparable to, and should not be relied upon as an indication of, future operating results. The data set forth below are qualified in their entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus.

	YEAR ENDED MARCH 31,					SIX MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1995	1996	1995	1996
	-----						
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Total revenues.....	\$36,001	\$31,082	\$34,401	\$19,929	\$28,774	\$12,122	\$10,075
Cost of revenues.....	12,492	14,137	19,469	11,904	16,668	7,925	9,207
	-----						
Gross profit.....	23,509	16,945	14,932	8,025	12,106	4,197	868
Operating expenses:							
Research and development...	6,797	7,005	6,540	8,107	7,714	3,997	3,992
Selling, general and administrative.....	9,185	11,413	8,149	6,445	7,938	3,378	2,711
Restructuring costs.....	--	--	--	--	603	603	59
	-----						
Total operating expenses.....	15,982	18,418	14,689	14,552	16,255	7,978	6,762
	-----						
Income (loss) from operations.....	7,527	(1,473)	243	(6,527)	(4,149)	(3,781)	(5,894)
Other income, net.....	264	282	189	611	952	80	127
	-----						
Income (loss) before provision for income taxes.....	7,791	(1,191)	432	(5,916)	(3,197)	(3,701)	(5,767)
Provision (benefit) for income taxes.....	2,831	(350)	780	(35)	20	--	146
	-----						
Net income (loss).....	\$ 4,960	\$ (841)	\$ (348)	\$ (5,881)	\$ (3,217)	\$ (3,701)	\$ (5,913)
	=====						
Pro forma loss per share(1)...					\$ (0.28)	\$ (0.32)	\$ (0.50)
	=====						
Shares used in pro forma per share calculations(1).....					11,654	11,585	11,800
	=====						
	MARCH 31,					SEPTEMBER 30,	
	-----					1996	
	1992	1993	1994	1995	1996	-----	
	-----						
	(IN THOUSANDS)						
CONSOLIDATED BALANCE SHEET DATA:							
Working capital.....	\$10,976	\$10,355	\$10,683	\$11,983	\$ 9,333	\$ 5,728	
Total assets.....	24,265	24,586	21,908	20,644	23,067	12,856	
Total liabilities.....	10,764	11,920	9,579	6,661	11,693	5,105	
Total stockholders' equity....	13,501	12,666	12,329	13,983	11,374	7,751	

(1) See Note 1 of the Notes to the Consolidated Financial Statements for an explanation of the method used to determine the number of shares used to compute per share amounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company was incorporated in California in February 1987 and intends to reincorporate in Delaware prior to the consummation of this Offering. The Company initially developed and sold math co-processors compatible with systems based on Intel's microprocessors. As Intel's microprocessors eliminated the need for a separate math co-processor, the Company's revenues from math co-processors declined.

In 1990, the Company began development of semiconductors and related software for the video conferencing and digital video playback markets. In fiscal 1994, 1995, 1996 and the six months ended September 30, 1996, sales of the Company's video compression semiconductors and related software accounted for 12%, 42%, 63% and 81%, respectively, of total revenues.

Since June 1995, the Company has been executing a new business strategy designed to discontinue efforts unrelated to video conferencing. As part of this strategy, the Company discontinued its efforts to develop Intel compatible x86 microprocessors in June 1995, reduced its workforce in May 1996 and sold its remaining MPEG inventory in September 1996. To address new opportunities, the Company intends to leverage its strengths in semiconductor design and related software by introducing video conferencing systems for the consumer market. The first product in the Company's planned family of VideoCommunicators is the VC100, which is currently under development. The VC100 connects to a television set and a standard touch-tone telephone adding video to an otherwise normal telephone call, without the need for a PC. The Company plans to introduce the VC100 in early 1997 targeted at the consumer market. In addition, the Company is currently developing a second VideoCommunicator, the VC200, a non-PC based POTS video telephone with a built-in liquid crystal display.

The Company's future operating results are expected to fluctuate as the Company proceeds with the development, introduction and marketing of its VideoCommunicators. Further, because of the Company's planned reliance on its VideoCommunicators, the Company's historical operating results will not be comparable to, and should not be relied upon as an indication of, future operating results. The development, introduction and marketing of the Company's VideoCommunicators are subject to a number of risks, many of which are beyond the control of the Company. See "Risk Factors."

Historically, the Company has sold its video compression semiconductors and related software to video conferencing OEMs and distributors. The Company intends to sell its VideoCommunicators through a direct marketing effort utilizing a combination of advertising, toll-free telemarketing and direct mail supported by co-marketing arrangements with third parties and resale through the retail channel.

The Company believes that the introduction of its family of VideoCommunicators may adversely impact its gross margins due in part to higher unit costs associated with initial production of its first products as well as substantially different cost and pricing structures related to the manufacture and sale of consumer products.

## RESULTS OF OPERATIONS

The following table sets forth certain items from the Company's consolidated statement of operations as a percentage of total revenues for the periods indicated. The data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

	YEAR ENDED MARCH 31,			SIX MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1995	1996
Total revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues.....	56.6	59.7	57.9	65.4	91.4
Gross margin.....	43.4	40.3	42.1	34.6	8.6
Operating expenses:					
Research and development.....	19.0	40.7	26.8	33.0	39.6
Selling, general and administrative.....	23.7	32.3	27.6	27.8	26.9
Restructuring costs.....	--	--	2.1	5.0	0.6
Total operating expenses.....	42.7	73.0	56.5	65.8	67.1
Income (loss) from operations.....	0.7	(32.7)	(14.4)	(31.2)	(58.5)
Other income (expense), net.....	0.5	3.1	3.3	0.7	1.3
Income (loss) before provision for income taxes....	1.2	(29.6)	(11.1)	(30.5)	(57.2)
Provision (benefit) for income taxes.....	2.3	(0.2)	0.1	0.0	1.5
Net (loss).....	(1.1)%	(29.4)%	(11.2)%	(30.5)%	(58.7)%

## FISCAL YEARS ENDED MARCH 31, 1994, 1995 AND 1996

**Total Revenues.** Total revenues consist of product sales and the licensing of technology. Total revenues were \$34.4 million, \$19.9 million and \$28.8 million in fiscal 1994, 1995 and 1996, respectively. Total revenues fluctuated primarily due to the declining sales of math co-processors and increasing sales of the Company's video compression semiconductors. Math co-processor total revenues declined from \$27.5 million in fiscal 1994 to \$10.9 million in fiscal 1995 and to \$2.5 million in fiscal 1996, while total revenues from video compression semiconductors increased from \$4.1 million in fiscal 1994 to \$8.3 million in fiscal 1995 and to \$18.2 million in fiscal 1996. In fiscal 1996, total revenues included \$8.1 million of technology licensing revenue, of which \$6.8 million was derived from one customer. During fiscal 1994 and 1995, the Company generated no technology licensing revenues.

**Gross Profit.** The cost of revenues consists of costs associated with wafer fabrication, assembly and testing performed by third-party vendors and direct and indirect costs associated with purchasing, scheduling and quality assurance. The Company's gross profit was \$14.9 million, \$8.0 million and \$12.1 million, or 43%, 40% and 42% of total revenues, in fiscal 1994, 1995, and 1996, respectively. The gross profit for fiscal 1996 was favorably impacted by technology licensing revenues and adversely impacted by negative margin from sales of MPEG products. The Company sold its remaining MPEG inventory in September 1996.

**Research and Development.** Research and development expenses consist primarily of personnel, mask and equipment costs necessary for the Company to conduct its development efforts. Research and development costs, including software development costs, are expensed as incurred. Research and development expenses were \$6.5 million, \$8.1 million and \$7.7 million, or 19%, 41% and 27% of total revenues, in fiscal 1994, 1995 and 1996, respectively. A significant portion of research and development expenses during these periods was attributable to the development of products that were subsequently discontinued, including an Intel compatible x86 microprocessor and graphics and MPEG semiconductors. During fiscal 1997, research and development expenses are expected to be concentrated on video compression semiconductors and VideoCommunicators.

Selling, General and Administrative. 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 shows and other marketing and promotional expenses. Selling, general and administrative expenses were \$8.1 million, \$6.4 million and \$7.9 million, or 24%, 32% and 28% of total revenues, in fiscal 1994, 1995 and 1996, respectively. In fiscal 1995, selling, general and administrative expenses decreased by \$1.7 million primarily due to decreases in advertising and sales commissions associated with the Company's math co-processor business. Selling, general and administrative expenses increased by \$1.5 million in fiscal 1996 primarily due to higher compensation expenses and, to a lesser extent, higher legal and bad debt expenses.

Restructuring costs. During fiscal 1996, the Company recorded restructuring charges related to concentrating its research and development activities on video conferencing products and eliminating certain unrelated product development efforts. The restructuring costs related primarily to a write off of equipment associated with the eliminated development efforts.

Other income, net. In fiscal 1994, 1995 and 1996, other income was \$189,000, \$611,000 and \$952,000, respectively. In fiscal 1994 and 1995, other income consisted primarily of interest income. Interest income increased in fiscal 1995 due to the increase in cash balances resulting from an equity financing that occurred in April 1994. During fiscal 1996, the Company acquired equity positions in four privately held companies. In fiscal 1996, the Company realized \$727,000 of income by selling the stock of one of these entities. The Company's investment in each of these entities represents less than 15% of the outstanding voting stock of these entities and accordingly, the Company has accounted for these investments on a cost basis. At September 30, 1996, the book value of the remaining investments totaled \$400,000.

Income Taxes. In fiscal 1995 and 1996, the Company was not profitable and incurred no material income tax expense. Income tax expense in fiscal 1994 on pre-tax income of \$432,000 was \$780,000 due to a valuation reserve primarily relating to the Company's state deferred tax assets.

The Internal Revenue Service (the "IRS") is currently conducting an examination of the Company's federal income tax return for the fiscal year ended March 31, 1992. In August 1995, the IRS asserted a deficiency against the Company for the taxable year 1992 of approximately \$1.4 million for accumulated earnings taxes, together with a penalty of approximately \$273,000 plus accrued interest. The Company has filed an appeal challenging the assessment. The outcome of this matter cannot be predicted. In addition, the IRS has requested information related to the Company's federal tax returns for the year ended March 31, 1995.

#### SIX MONTHS ENDED SEPTEMBER 30, 1995 COMPARED TO SIX MONTHS ENDED SEPTEMBER 30, 1996

Total Revenues. The Company's total revenues decreased from \$12.1 million in the first six months of fiscal 1996 to \$10.1 million in the first six months of fiscal 1997, principally as a result of declining math co-processor revenues. Math co-processor total revenues in the first six months of fiscal 1996 and 1997 were \$1.8 million and \$186,000, respectively. Total revenues from the sale of video compression semiconductors were \$8.0 million and \$8.1 million for the first six months of fiscal 1996 and 1997, respectively. The Company entered into technology licensing agreements generating \$2.3 million and \$1.8 million in licensing revenues during the first six months of fiscal 1996 and 1997, respectively.

Gross Profit. The Company's gross profit was \$4.2 million and \$868,000 in the first six months of fiscal 1996 and 1997, respectively. This significant decline in gross profit relates primarily to a \$4.0 million charge for inventories in the first six months of fiscal 1997 related to the Company's exit from the MPEG market. In September 1996, the Company sold its remaining MPEG inventory.

Research and Development. Research and development expenses were \$4.0 million and \$4.0 million in the first six months of fiscal 1996 and 1997, respectively. The research and development efforts in the six months ended September 30, 1996 were primarily focused on video conferencing products. The Company's development of new products and the enhancement of existing products is essential to its success. Accordingly,



the Company anticipates that research and developments expenses will continue to increase in the foreseeable future.

**Selling, General and Administrative.** Selling, general and administrative expenses were \$3.4 million and \$2.7 million in the first six months of fiscal 1996 and 1997, respectively. Such expenses decreased partly due to a decrease in headcount in the quarter ended June 30, 1996. The Company's selling, general and administrative expenses will increase in future periods as it expands its sales and marketing efforts in conjunction with the introduction and marketing of its family of VideoCommunicators. Additionally, the Company's general and administrative expenses will increase in future periods as the Company expands its administrative staff and assumes additional responsibilities associated with being a public company.

**Restructuring costs.** During fiscal 1997, the Company recorded an additional charge for restructuring its operations by reducing its workforce. As of September 30, 1996, the Company's restructuring actions were fully completed and there were no outstanding restructuring cost accruals.

**Income Taxes.** The provision for income taxes for the six months ended September 30, 1996 primarily represents certain foreign withholding taxes.

At September 30, 1996, the Company had approximately \$7.5 million of federal net operating loss carryforwards and approximately \$1.2 million of research and development tax credit carryforwards available to offset future taxable income; such carryforwards expire beginning in the year 2010. Under the ownership changes limitations provided by the Internal Revenue Code of 1986, as amended, the amount of, and benefit from, the net operating losses and credit carryforwards may be impaired or limited in certain circumstances. At September 30, 1996, the Company's net operating loss carryforwards were not subject to any such limitations.

At September 30, 1996, the Company had gross deferred tax assets of approximately \$7.0 million. The weight of available evidence indicates that it is more likely than not that the Company will not be able to realize its deferred tax assets and thus a full valuation reserve has been recorded at September 30, 1996.

## QUARTERLY RESULTS

The following tables set forth consolidated statements of operations data for the six quarters in the period ended September 30, 1996, both in dollar amounts and as percentages of total revenues. The data set forth has been derived from unaudited consolidated financial statements of the Company and has been prepared on the same basis as the audited financial statements, and in the opinion of management, includes all normal recurring adjustments that the Company considers necessary for a fair presentation of the results of the interim periods and should be read in conjunction with the Consolidated Financial Statements and Notes thereto. The operating results for any quarter are not necessarily indicative of results for future quarters. Further, because of the Company's planned reliance on its VideoCommunicators, the Company's historical operating results will not be comparable to, and should not be relied upon as an indication of, future operating results.

	QUARTER ENDED					
	JUNE 30, 1995	SEPT. 30, 1995	DEC. 31, 1995	MARCH 31, 1996	JUNE 30, 1996	SEPT. 30, 1996
	(IN THOUSANDS)					
Total revenues.....	\$ 4,881	\$ 7,241	\$7,083	\$ 9,569	\$ 5,703	\$ 4,372
Cost of revenues.....	4,184	3,741	3,019	5,724	7,330	1,877
Gross profit (loss).....	697	3,500	4,064	3,845	(1,627)	2,495
Operating expenses						
Research and development.....	2,296	1,701	1,633	2,084	1,854	2,138
Selling, general and administrative.....	1,803	1,575	2,243	2,317	1,520	1,191
Restructuring costs.....	603	--	--	--	59	--
Total operating expenses.....	4,702	3,276	3,876	4,401	3,433	3,329
Income (loss) from operations.....	(4,005)	224	188	(556)	(5,060)	(834)
Other income (expense), net.....	152	(72)	233	639	53	74
Income (loss) before income taxes.....	(3,853)	152	421	83	(5,007)	(760)
Provision for income taxes.....	--	--	--	(20)	(100)	(46)
Net income (loss).....	\$ (3,853)	\$ 152	\$ 421	\$ 63	\$ (5,107)	\$ (806)

	AS A PERCENTAGE OF TOTAL REVENUES					
	JUNE 30, 1995	SEPT. 30, 1995	DEC. 31, 1995	MARCH 31, 1996	JUNE 30, 1996	SEPT. 30, 1996
Total revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues.....	85.7	51.7	42.6	59.8	128.5	42.9
Gross margin.....	14.3	48.3	57.4	40.2	(28.5)	57.1
Operating expenses						
Research and development.....	47.0	23.5	23.0	21.8	32.5	48.9
Selling, general and administrative.....	36.9	21.7	31.7	24.2	26.7	27.2
Restructuring costs.....	12.4	--	--	--	1.0	--
Total operating expenses.....	96.3	45.2	54.7	46.0	60.2	76.1
Income (loss) from operations.....	(82.0)	3.1	2.7	(5.8)	(88.7)	(19.0)
Other income (expense), net.....	3.1	(1.0)	3.3	6.7	0.9	1.7
Income (loss) before income taxes.....	(78.9)	2.1	6.0	0.9	(87.8)	(17.3)
Provision for income taxes.....	--	--	--	(0.2)	(1.7)	(1.0)
Net income (loss).....	(78.9)%	2.1%	6.0%	0.7%	(89.5)%	(18.3)%

The Company's technology licensing activities have contributed to fluctuations in the Company's quarterly revenues. Technology licensing revenues for each of the six quarters in the period ended September 30, 1996, were \$0.0, \$2.3 million, \$2.8 million, \$3.0 million, \$1.0 million and \$725,000, respectively. In addition, revenues have fluctuated as the Company has introduced new or enhanced versions of its video compression semiconductors and as earlier products approached the end of their life cycle. In the quarter ended March 31, 1996, the Company realized both significant technology licensing revenues and "end of life" revenues related to the Company's prior generation of video compression semiconductors. In contrast, the quarter ended June 30, 1996 reflects licensing revenues of only \$1.0 million and insignificant revenues related to these discontinued products.

In general, favorable gross margin fluctuations in the quarters ended September 30, 1995 and December 31, 1995 reflect the impact of technology license revenues, which have no material associated costs. However, in the quarter ended June 30, 1996 the unfavorable gross margin fluctuation was due primarily to a \$4.0 million charge for inventories related to the Company's MPEG inventory. In September 1996, the Company sold its remaining MPEG inventory.

Operating expenses have fluctuated as the Company discontinued its efforts to develop an Intel compatible x86 microprocessor in the quarter ended June 30, 1995, reduced its workforce in the quarter ended June 30, 1996 and has focused its efforts on developing its video compression semiconductors and its VideoCommunicators.

The Company currently anticipates that for the quarter ending December 31, 1996 its total revenues will be lower and its operating loss will be higher than the corresponding amounts for the quarter ended September 30, 1996.

The Company's operating results have fluctuated significantly and may continue to fluctuate in the future, on an annual and a quarterly basis, as a result of a number of factors, many of which are outside the Company's control, including changes in market demand, the timing of customer orders, competitive market conditions, lengthy sales 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 level of international sales, continued compliance with industry standards and general economic conditions.

Variations in timing of sales can cause significant fluctuations in future operating results. In addition, because a significant portion of the Company's business may be derived from orders placed by a limited number of large customers, the timing of such orders can also cause significant fluctuations in the Company's operating results. Anticipated orders from customers may fail to materialize, and delivery schedules may be deferred or canceled for a number of reasons, including changes in specific customer requirements. If sales do not meet the Company's expectations in any given quarter, the adverse impact of the shortfall on the Company's operating results may be magnified by the Company's inability to adjust spending to compensate for the 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 strategic shift towards the introduction and marketing of VideoCommunicators such as the VC100 may result in substantially different patterns in operating results. For example, the Company's operating results may be subject to more heightened seasonality with sales higher during the Company's third fiscal quarter, corresponding to the Christmas shopping season. The Company intends to spend substantial additional amounts on advertising, toll-free marketing and customer support. There can be no assurance as to the amount of such spending or that revenues adequate to justify such spending will result. As a result of its shift to selling VideoCommunicators, the Company may experience different inventory, product return, price protection and warranty cost patterns.

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 Common Stock. See "Risk Factors -- Potential Fluctuations in Future Operations Results."

#### LIQUIDITY AND CAPITAL RESOURCES

Since fiscal 1993, the Company has satisfied its liquidity needs principally from proceeds generated from two issuances of its equity securities and cash generated from operations in fiscal 1993 and prior years. At March 31, 1993, the Company had cash, cash equivalents and short term investments of \$9.4 million, which decreased to \$7.5 million at September 30, 1996. As part of the Company's recent equity issuance (sold in September and October 1996), the Company received an additional \$1.5 million in October 1996. The Company currently has no bank borrowing arrangements.

The Company's operating activities generated cash of \$279,000 in fiscal 1994. The cash used for operations was \$4.1 million, \$625,000 and \$4.3 million in fiscal 1995, 1996 and the six months ended September 30, 1996, respectively. Cash used in operations in fiscal 1995 reflects a net loss of \$5.9 million that was partially offset by cash generated by changes in working capital. Cash used in operations in fiscal 1996 reflects a net loss of \$3.2 million that was substantially offset by changes in working capital. Cash used in operations in the six months ended September 30, 1996 reflects a net loss of \$5.9 million that was partially offset by reductions in inventory and accounts receivable.

During fiscal 1994, 1995, 1996 and the six months ended September 30, 1996, the Company's capital expenditures were \$451,000, \$1.5 million, \$1.0 million and \$465,000, respectively. These capital expenditures related primarily to the acquisition of machinery, equipment and software. At September 30, 1996 the Company did not have any material capital commitments outstanding.

During fiscal 1994, 1995, 1996 and the six months ended September 30, 1996, the Company's cash flows from financing activities generated cash of \$11,000, \$7.5 million, \$608,000 and \$2.3 million from the sale of the Company's equity securities.

The Company expects that the anticipated net proceeds of this Offering, its existing cash resources, and the amounts, if any, generated from operations, will be sufficient to meet the Company's cash requirements for at least the next 12 months. 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. There can be no assurance that the Company will be able to raise such capital on acceptable terms, if at all. See "Risk Factors -- Need for Additional Capital to Finance Growth and Capital Requirements."

## BUSINESS

8x8, Inc. designs, develops and markets highly integrated, proprietary video compression semiconductors and associated software to OEMs of corporate video conferencing systems. To address new opportunities, the Company intends to leverage its strengths in semiconductor design and related software by introducing video conferencing systems for the consumer market. The first product in the Company's planned family of VideoCommunicators is the VC100, which is currently under development. The VC100 connects to a television set and a standard touch-tone telephone adding video to an otherwise normal telephone call, without the need for a PC. The Company plans to introduce the VC100 in early 1997 targeted at the consumer market.

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

The Company's VideoCommunicators will be based on its proprietary semiconductor, software and systems technology. The VC100 is designed to be compliant with the H.324 international standard for video telephony over POTS and to be compatible with PC and non-PC based systems that adhere to the H.324 standard. The VC100 is designed to communicate with full duplex audio and video rates of up to 12 frames per second. In addition, the Company is currently developing a second VideoCommunicator, the VC200, a non-PC based POTS video phone with a built-in liquid crystal display ("LCD"). The Company intends to sell its VideoCommunicators through a direct marketing effort utilizing a combination of advertising, toll-free telemarketing and direct mail supported by co-marketing arrangements with third parties and resale through the retail channel.

## INDUSTRY BACKGROUND

The proliferation of video conferencing products is dependent on several factors including network bandwidth, advanced compression technologies and the acceptance of video telephony standards. Increases in available bandwidth improve the data carrying capacity of networks, while improvements in compression technologies utilize a given bandwidth more efficiently. Finally, video telephony standards are key to widespread adoption as they are designed to permit the interoperability between systems offered by different vendors.

Since the first video conferencing products were introduced in the late 1970's, users have faced a tradeoff between the cost and availability of network bandwidth and the quality of video images which can be transmitted over the network. High capacity connections, such as T1/E1 (1.5/2.0 Mbps) and ISDN (128 Kbps), provide greater bandwidth but are significantly more costly and less available than ubiquitous analog POTS lines (currently up to 33.6 Kbps). The challenge faced by developers of video conferencing systems has been to provide the best possible image quality through the efficient compression of video and audio data for transmission over available network bandwidth. The proliferation of video communications equipment has been influenced by the adoption of international video telephony standards which, if complied with, will permit interoperability between systems offered by different vendors.

To date, nearly all video conferencing products have been targeted at corporate users with access to high bandwidth connections such as T1/E1 and ISDN. However, the vast majority of consumers continue to have limited access to bandwidth beyond that provided by standard analog POTS lines. The Company believes that significant demand exists for inexpensive video phone products that would allow users to transmit video images

with audio over normal telephone lines. Several factors are contributing to the viability of consumer video phones, including:

- Improved Bandwidth. A number of technologies have been deployed or are under development which aim to increase the bandwidth available from existing copper telephone lines. These include faster POTS modems (currently up to 33.6 Kbps) and residential ISDN and ADSL service.
- Advanced Compression Techniques. The quality of transmitted video images is a function of network bandwidth and the sophistication of the hardware and software used to compress and decompress the data. Because video images contain a large amount of information, video conferencing systems must compress the video and audio data to fit the available network bandwidth while attempting to maintain the quality and synchronization of audio and video. For example, a normal television signal contains 90 Mbps of information, which must be compressed by a factor of approximately 2,700 to 1 to permit transmission over POTS at 33.6 Kbps. By using sophisticated compression algorithms and advanced DSP semiconductors, video conferencing system manufacturers can achieve improved video quality.
- Adoption of Industry-Wide Standards. Increased usage of video conferencing in the corporate market has been facilitated by the adoption of the H.320 standard, which defined the video telephony protocols used by systems connected over ISDN. The adoption of H.320 enabled interoperability between systems from different vendors, encouraged new market entrants, and contributed to significantly lower system pricing and an increased installed base. The Company believes that the H.320 standard expanded the market for business video conferencing systems over ISDN. Similarly, the H.324 standard for video telephony over POTS may result in expanded home use of video phones. Other standards, such as H.323, are being developed for communications over packet-based networks, such as LANs.

As a result of the above technological advances and the adoption of the H.324 standard, low cost consumer POTS video phones are being developed by a number of suppliers. These products may be introduced in a variety of form factors, including those based on telephones and using a television for display, such as the VC100, or using an LCD for display, such as the VC200, and those based on the PC. An increasing number of PCs are being shipped with pre-installed H.324 compliant software. An installed base of H.324 products, if achieved, should increase the usefulness of and demand for additional video phones.

#### 8X8 STRATEGY

The Company's strategy is to leverage its expertise in video compression semiconductors, software and system design and its understanding of video telephony standards to develop a family of cost effective VideoCommunicators for the consumer video conferencing market. Key elements of the Company's strategy include:

**Leverage Proprietary Technology.** The Company provides highly integrated video compression semiconductors and related software to manufacturers of video conferencing systems. The Company plans to leverage its proprietary semiconductor and software expertise to develop its non-PC based VideoCommunicators to address the consumer market. In addition, the Company intends to develop future generations of highly integrated semiconductor and software products for use in video conferencing systems developed both by the Company and its OEM customers. The Company's ongoing development efforts are targeted at reducing overall system costs continuously improving video and audio quality at varying bandwidths and ensuring compliance with emerging video telephony standards to encourage proliferation of its products.

**Broaden and Enhance VideoCommunicator Family.** The Company intends to develop a variety of consumer video conferencing products. The initial product, the VC100, is targeted at the consumer market and is based upon the Company's proprietary semiconductor and software technology. The VC100 connects to a television and standard touch-tone telephone and adds video to an otherwise normal telephone call, without the need for a PC. The Company is developing a second VideoCommunicator, the VC200, which is a POTS video telephone with a built-in LCD display. The Company plans to extend its VideoCommunicator product line in the future by developing products in new form factors and products that are designed to comply with

emerging video telephony standards. The Company further intends to differentiate its products in the future by adding features which may include picture quality enhancements, simultaneous remote and self-view picture display, Internet browsing, caller ID and movie playback.

Utilize Direct Marketing Model for VideoCommunicators. The Company plans to sell its VideoCommunicators through a direct marketing channel, utilizing a combination of advertising, toll-free telemarketing and direct mail supported by co-marketing arrangements with third parties and resale through the retail channel. The direct marketing approach generally allows more rapid establishment of brand recognition and introduction of new products, and enables competitive pricing and better management of working capital. The Company intends to continue to sell its video compression semiconductor and software products to OEMs and distributors through its existing sales and marketing force.

Drive Price/Performance Improvements. Price/performance improvements in end-user systems are important to expanding the consumer video conferencing market. By enhancing its proprietary semiconductor and software technologies, the Company intends to improve the price/performance of its consumer video phones by integrating a number of essential system functions onto future versions of its video compression semiconductors. The Company also intends to utilize off-the-shelf components when appropriate and to work closely with its key suppliers to achieve cost and performance advantages.

## PRODUCTS

The Company develops, markets and sells a variety of video compression semiconductors and related software and reference boards. The Company is currently developing a family of non-PC based VideoCommunicators, which incorporate the Company's proprietary semiconductor, software and systems technologies.

### VideoCommunicator Systems

The Company's initial VideoCommunicator, the VC100, connects to a television and standard touch-tone telephone and adds video to an otherwise normal telephone call, without the need for a PC. The Company plans to introduce the VC100 in early 1997 targeted at consumer markets. The VC100 is designed to be compliant with the H.324 international standard for video telephony over POTS and to be compatible with PC and non-PC based systems that adhere to the H.324 standard. The VC100 is designed to communicate with full duplex audio and video rates of up to 12 frames per second. The VC100, which is based on the Company's Low bit-rate Videophone Processor ("LVP") semiconductor and proprietary software, includes an integrated digital camera and a V.34/V.80 modem and displays video in either full or quarter screen format, as well as self-view mode. The VC100 is controlled through the touch-tone keypad of the user's telephone and menu driven instructions that appear on the television screen.

The Company is developing a second VideoCommunicator, the VC200, which is a non-PC based POTS video phone with a built-in LCD display. The Company plans to extend its VideoCommunicator product line in the future by developing products in new form factors and products that are designed to comply with emerging video telephony standards. The Company further intends to differentiate its products by adding features which may include picture quality enhancements, simultaneous remote and self-view display, Internet browsing, caller ID and movie playback.

The development of the Company's VideoCommunicators is at an early stage and, as a result, the Company must achieve numerous significant milestones and overcome substantial risks in order to successfully introduce its VideoCommunicators. See "Risk Factors -- Critical Dependence on Future VideoCommunicator Revenues."

### Video Compression Semiconductors

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

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

PRODUCT	DESCRIPTION	APPLICATIONS
Video Communications Processor("VCP")	H.320 compression semiconductor for ISDN video conferencing systems	- PC ISDN video conferencing add-in boards - ISDN group video conferencing systems
Low bit-rate Videophone Processor("LVP")	H.324 compression semiconductor for POTS video conferencing systems	- Consumer video telephones for POTS - PC video phone add-in boards for POTS
Multimedia Encoding Processor("MEP")	Compression semiconductor for video capture and encoding systems	- Cameras with embedded compression - Video capture PC add-in boards
Video to PCI Interface Chip("VPIC")	Interface chip which connects the VCP/LVP/MEP devices to the PCI bus	- PC (POTS or ISDN) video conferencing boards

VCP -- Video Communications Processor. The Company's VCP is an integrated video compression semiconductor, which allows OEMs to develop video conferencing systems based on the H.320 standard for ISDN video conferencing. In recent quarters, the VCP accounted for the majority of the Company's semiconductor product sales. The Company's proprietary RISC and DSP technology allows a single VCP semiconductor to output up to 24 frames per second of H.320 based video over an ISDN line. The VCP includes video processing circuitry that compresses and decompresses video images. Systems designed using multiple VCPs are capable of providing higher frame rates, thus providing for video quality approaching that of a television. The VCP can reside on PC add-in cards or non-PC based corporate conference room systems.

LVP -- Low bit-rate Videophone Processor. The LVP semiconductor is designed to support H.324 based video phones using standard POTS phone lines. Systems based on the LVP benefit from the same RISC and DSP technology found in the Company's VCP product, and are designed to deliver video at up to 12 frames per second over a standard POTS telephone line. The LVP can be designed into systems in a variety of form factors, including non-PC based systems that utilize a telephone and either television or a LCD display. The LVP can also be designed into PC video phone add-in boards. The LVP is the core compression semiconductor inside the Company's VC100 and VC200 products currently under development.

MEP -- Multimedia Encoding Processor. The MEP is designed for multimedia compression applications which require high processing power to compress high bandwidth digital video, such as cameras with embedded compression, PC add-in boards for video capture and editing and CD-ROM title development.

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

#### Application Software

The Company's semiconductors are sold with its proprietary application specific software, which addresses the unique system requirements of various international video telephony standards. This software, which is a combination of microcode assembly and C firmware, enables the Company's proprietary semiconductor architecture to implement multiple compression standards such as H.320, H.323, H.324 and MPEG. In many cases, by enhancing its application software, the Company can improve the quality of transmitted video images, address emerging standards and add user features to its existing video compression semiconductors. The Company supplies an Application Programmers Interface ("API") with its software to allow limited customization through an external microprocessor or host controller. The Company also sells non-exclusive licenses for the source code for its software to customers who wish to modify the software by



adding their own features and controls. Development kits are also licensed to customers allowing them to write, compile and develop software for the Company's proprietary semiconductor architecture.

#### Reference Boards

The Company provides a range of printed circuit boards as reference boards to its customers which serve as examples for targeted applications. Each reference board is provided with schematics, complete documentation, video processor software and board-level software diagnostics. This allows the customer to leverage the Company's systems design expertise. These reference boards enable customers to more quickly introduce new products and improve the Company's technical support capabilities. Examples of the Company's reference board designs include the DVC5, which is designed for H.320 systems, and the DVC8, which is designed for H.324 systems.

#### TECHNOLOGY

The Company has developed the following video conferencing technologies:

##### Semiconductor Architecture

The Company's video compression semiconductors share a common architectural foundation. This architecture has been specifically tailored to video conferencing applications which must simultaneously compress and transmit video and audio data from one side of a video call while receiving and decompressing video and audio data from the remote side. This architecture integrates two core processors running in parallel: a 33 MIPS 32-bit RISC microprocessor and a 128-bit Single Instruction Multiple Data ("SIMD") DSP. The Company's video compression semiconductors currently in production are manufactured using 0.5 micron, 3-layer metal CMOS process technology. Follow-on versions are being designed using 0.35 micron process technology.

The Company's RISC processor core uses a proprietary instruction set specifically designed for video conferencing applications. The RISC core controls the overall chip operation and manages the input/output interface through a variety of specialized ports which connect the chip directly to external host, audio and network subsystems. This core is programmable in the C programming language and allows customers to add their own features and functionality to the device software provided by the Company.

The second processor is a proprietary DSP core. This DSP core is a 2 BOPS (billion operations per second) SIMD processor which implements the computationally intensive video and audio processing routines. Variable length 32 and 64 bit microcode instructions of the DSP core provide the flexibility to improve algorithm performance, enhance video and audio quality and maintain compliance with changing digital video standards. Unlike many competing semiconductors which use hardwired building blocks to implement each step in the compression/decompression (codec) process, the Company's DSP core uses microcode software routines to implement the fundamental processing steps which form the basis of H.320, H.323 and H.324 standards-based video conferencing systems, thus allowing upgrades through changes in software only.

In addition to the RISC and DSP cores, all of the Company's video compression semiconductors share a common set of video processing capabilities which are fundamental to enhancing video quality. Digital video inputs directly into the chip and passes through a series of digital filters designed to resize, re-color and remove noise from the images in preparation for compression. These semiconductors also incorporate proprietary interlacing and resizing filters at the output stage.

##### Application Software Development

The Company's proprietary application specific software, sold with the Company's semiconductor products, addresses the unique system requirements of the various international video telephony standards. This software is a combination of microcode assembly (for the DSP core) and compiled C code (for the RISC core). By refining its software, the Company can enhance picture quality, address new standards and

add significant user features. In addition, several of the Company's customers have licensed source code to which they use to add proprietary features, custom interfaces and, in some cases, algorithm improvements. See "Business -- Licensing and Development Arrangements."

#### Algorithm Expertise

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

- Video Coding Efficiency and Video Quality. By improving its proprietary motion search algorithms and optional coding modes which are tuned to the capabilities of the Company's semiconductor architecture, the Company is able to enhance video quality for H.32x video conferencing applications.
- Integrated Control of Real-Time Systems. Video conferencing systems are inherently complex due to the convergence of video, audio and control information. The Company's proprietary semiconductor architecture and interrupt-driven control firmware manage these varying data streams in concert thereby reducing the complexity of the external system design.
- Proprietary Rate Buffer Control. The real-time management of video and audio buffer occupancy has a significant effect on the performance of video conferencing systems, especially at low bit-rates. The Company has developed a suite of proprietary adaptive rate-buffer control algorithms which dynamically controls the occupancy rate of these buffers and allows for efficient use of available network bandwidth.

#### SALES AND MARKETING

The Company markets its semiconductors through its own direct sales force as well as through distributors. The Company's direct sales force supports domestic and international sales and operates from the Company's headquarters in Santa Clara, California and a European office in London. As of September 30, 1996, the Company employed 17 persons in sales and marketing. These persons provide direct account support for OEM and distributor customers of the Company's semiconductors. The Company's sales and marketing personnel typically provide support to such OEM customers through sales literature, periodic training, customer symposia, pre-sales support and joint sales calls.

The Company utilizes several marketing programs to support the sale and distribution of its products, including participation in industry trade shows and conferences. The Company also publishes technical articles, distributes sales and product literature and has an active public relations plan to encourage coverage of the Company's products and technology by editors of trade journals.

The Company plans to sell its VideoCommunicators through a direct marketing effort, utilizing a combination of advertising, toll-free telemarketing and direct mail supported by co-marketing arrangements with third parties and resale through the retail channel. The direct marketing approach generally allows more rapid establishment of brand recognition and introduction of new products and enables competitive pricing and better management of working capital. The Company intends to continue to sell its video compression semiconductor and software products to OEMs and distributors through its existing sales and marketing force.

In recent years, the Company has been a provider of video compression semiconductors to OEMs of video conferencing systems. As such, the Company has not marketed commercial quantities of consumer products such as its VideoCommunicators. In order to achieve significant market penetration and brand awareness for its VideoCommunicators, the Company must expand its sales and marketing efforts and develop direct consumer marketing capabilities. There can be no assurance that the Company will be able to expand its sales and marketing efforts or develop direct consumer marketing capabilities or that the Company will be able to achieve significant market penetration with its VideoCommunicators. Failure of the Company to

successfully expand its sales and marketing efforts, or to develop direct consumer marketing capabilities or to generate significant sales of the VC100 would have a material adverse effect on the Company's business and operating results. See "Risk Factors -- No History of Direct Consumer Marketing," "Risk Factors -- Management of Growth," "Risk Factors -- Potential Fluctuations in Future Operating Results" and "Risk Factors -- Uncertainty of Market Acceptance; Limits of Existing Technology."

#### MARKETS AND CUSTOMERS

The Company provides highly integrated, proprietary semiconductors and associated software sold primarily to OEMs of corporate video conferencing systems. The Company sells its VCP semiconductors and related software and reference designs primarily to OEMs designing ISDN office video conferencing systems that use the H.320 standard, including PictureTel, Siemens, Sony, VideoServer, VCON and Vtel. The Company has sold limited quantities of its LVP semiconductors and related software and reference board designs to OEMs designing POTS video conferencing systems for the consumer market using the H.324 standard, including Sony and an affiliate of Matsushita. To address new opportunities, the Company is expanding its product lines by developing a family of non-PC based VideoCommunicators for consumer customers. The Company plans to introduce the VC100 in early 1997 with sales targeted at the consumer market.

Historically, a significant portion of the Company's sales has been to relatively few customers, although the composition of these customers has varied consistently. Product revenues from the Company's ten largest customers, in the years ended March 31, 1994, 1995 and 1996 and the six months ended September 30, 1996 accounted for approximately 55%, 44%, 39% and 53%, respectively, of its total revenues. Moreover, the Company has recently been, and will continue in the foreseeable future to be, substantially dependent on the video conferencing industry. The loss of, or any reduction in orders from, a significant customer, or any reduction in demand for the Company's video compression semiconductors (particularly prior to significant VideoCommunicator revenues) or any general decline in the market for video conferencing products, could have a material adverse effect on the Company's business and operating results. See "Risk Factors -- Dependence on Key Customers" and "Risk Factors -- Product Concentration; Potential Loss of Semiconductor Sales; Dependence on Video Conferencing Industry."

#### MANUFACTURING

The Company uses independent foundries to fabricate, assemble and test its video compression semiconductors. The Company does not have long-term purchase agreements with its semiconductor foundries, and purchases semiconductor wafers pursuant to purchase orders. Therefore these foundries are generally not obligated to supply products to the Company for any specific period, in any specific quantity or at any specific price. The Company secures assembly and test services on a purchase order basis as well.

The Company has not yet manufactured commercial quantities of any consumer system product such as the VC100. The Company plans to outsource the manufacture of its VideoCommunicators to subcontract manufacturers. The Company anticipates that these subcontract manufacturers will procure components from their suppliers and perform assembly and testing of the Company's VideoCommunicators on a turnkey basis. There can be no assurance that the Company will be able to reliably manufacture the VC100 or its other VideoCommunicators in volumes, on cost effective basis or in a timely manner. See "Risk Factors -- Lack of Experience in Manufacturing Consumer Video Telephony Products."

The Company's reliance on subcontract foundries and system subcontract manufacturers, its manufacture of semiconductors, its purchase of components from third parties and its reliance of foreign subcontract manufacturers involve a number of risks. There can be no assurance that certain risks associated with these practices and activities will not have a material adverse effect on the Company's business and operating results. See "Risk Factors -- Dependence on Third Party Manufacturers; Component Availability" and "Risk Factors -- International Operations."

#### RESEARCH AND DEVELOPMENT

As of September 30, 1996, the Company had 38 employees engaged in research and development. Research and development expenses in years ended March 31, 1994, 1995 and 1996 and the six months ended

September 30, 1996 were \$6.5 million, \$8.1 million, \$7.7 million and \$4.0 million, respectively. The Company's development of new products and the enhancement of existing products is essential to its success. Accordingly, the Company anticipates that research and development expenses will continue to increase in the foreseeable future. However, such expenses may fluctuate from quarter to quarter depending on a wide range of factors, including the status of and prospects for various development projects.

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

Research and development efforts relating to the VC100, the Company's initial VideoCommunicator, will focus on picture quality enhancements, simultaneous remote and self-view display, Internet browsing, caller ID and movie playback. To expand its family of VideoCommunicators, the Company's research and development efforts will focus on developing products in new form factors and products that are designed to comply with emerging video telephony standards.

Although the Company is a developer of video compression semiconductors and systems, the Company was previously involved in several other businesses which have since been discontinued. Prior product lines and development efforts included math co-processors, microprocessors, graphics and MPEG decoding semiconductors. The Company has discontinued its efforts in these areas in part because of rapid changes in the personal computer marketplace and severe price reduction for certain of these components.

The video compression semiconductor and video conferencing markets are characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully, the Company must continue to design, develop, manufacture and sell new and enhanced products that provide increasingly higher levels of performance and reliability, take advantage of technological advancements and changes and respond to new customer requirements in a timely manner. The Company's success in designing, developing, manufacturing and selling such products will depend on a variety of factors. In addition, the development of the Company's VideoCommunicators is at an early stage and, as a result, the Company must achieve numerous significant milestones and overcome substantial risks in order to successfully introduce its VideoCommunicators. There can be no assurance that the VC100 or VC200 or other VideoCommunicators can be successfully developed, introduced to the market or achieve market acceptance. The Company has in the past experienced delays in the development of new products and the enhancement of existing products, and such delays may 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, or if such new or enhanced products do not achieve sufficient market acceptance, it would have a material adverse effect on the Company's business and operating results. See "Risk Factors -- Rapid Technological Change; Dependence on New Product Introduction" and "Risk Factors -- Critical Dependence on Future VideoCommunicator Revenues."

#### LICENSING AND DEVELOPMENT ARRANGEMENTS

The Company from time to time enters into licensing and development arrangements with other corporations that are designed to promote the design, development, manufacture and sale of the Company's new products. Such arrangements may enable these corporations to use the Company's technology to produce products that compete directly with the Company's VideoCommunicators. See "Risk Factors -- Competition." The most significant license is with Kyushu Matsushita Electric Co., Ltd. ("KME"). This agreement provides to KME, for a license fee paid to the Company, all of the source code and object code of the H.324

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

#### COMPETITION

The Company competes with independent manufacturers of video compression semiconductors and, after the planned introduction of its VideoCommunicators, will compete with manufacturers of video conferencing 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 its planned 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 the following segments:

Large consumer electronics manufacturers. The Company will face intense competition from many well known, established suppliers of consumer electronics products, which may include Lucent Technologies, Matsushita, Philips, Samsung and Sony. Many of these potential competitors sell television and telephone products into which they may integrate video conferencing systems, thereby eliminating a consumer's need to purchase a separate video conferencing system, such as the VC100.

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

Existing manufacturers of video conferencing equipment. Manufacturers of more expensive corporate video conferencing systems may enter the market for lower cost consumer video conferencing products. Potential competitors include Compression Labs, PictureTel, Sony and Vtel.

Emerging suppliers of "Internet appliances." Potential customers for the Company's Video Communicators 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 TV-based Internet access have recently been announced or introduced by companies such as Philips and Sony.

The principal competitive factors in the market for video compression semiconductors include product definition, product design, system integration, chip size, functionality, time-to-market, adherence to industry standards and reliability. The Company has a number of direct competitors in this market, including Lucent Technologies and Texas Instruments. Certain of the Company's competitors for video compression semiconductors maintain their own semiconductor foundries and may therefore benefit from certain capacity, cost and technical advantages.

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. A number 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 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.

A number of companies have licensed portions of the Company's technology (including an affiliate of Matsushita which has licensed substantially all of the Company's technology underlying the Company's VideoCommunicators currently under development) and, therefore, may be able to use this technology to produce products that compete directly with the Company's VideoCommunicators. See "Business -- Licensing and Development Arrangements."

#### INTELLECTUAL PROPERTY

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 laws, which afford only limited protection. There can be no assurance that the steps taken by the Company will prevent misappropriation of its technology. The Company also relies in part on patent law to protect its intellectual property in the United States and abroad. The Company currently holds three United States patents, including patents relating to video compression and memory architecture technology, and has 17 United States patent applications pending. The Company has four foreign patent applications pending. There can be no assurance that any patent, trademark or copyright owned by the Company will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of the Company's pending or future patent applications will be issued with the scope of the claims sought by the Company, if at all. In addition, the laws of some foreign countries do not protect the Company's proprietary rights as fully as do the laws of the United States. Thus, effective intellectual property protection may be unavailable or limited in certain foreign countries. There can be no assurance that the Company's means of protecting its proprietary rights in the United States or abroad will be adequate or that competition 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. 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. In addition, as is common in its industry, the Company has from time to time received notification from other companies of intellectual property rights held by those companies upon which the Company's products may infringe. 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 could be required to seek licenses from other companies or to refrain from using, manufacturing or selling certain products or using certain processes. Although holders of patents and other intellectual property rights often offer licenses to their patents or other intellectual property rights, no assurance can be given that licenses would be offered to the Company, that the terms of any offered license would be acceptable to the Company or that failure to obtain a license would not have a material adverse effect on the Company's business and operating results.

The Company relies upon certain software licensed from third parties. There can be no assurance that the software licensed by the Company will continue to provide competitive features and functionality or that licenses for software currently utilized by the Company or other software which the Company may seek to license in the future will be available to the Company on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent software or suitable alternative products could be developed, identified, licensed and integrated, and the

inability to license key new software that may be developed, on commercially reasonable terms, would have a material adverse effect on the Company's business and operating results.

#### EMPLOYEES

As of September 30, 1996, the Company employed a total of 81 people, including 16 in manufacturing operations, 38 in research and development, 17 in sales and marketing and 10 in general and administrative capacities. The Company also employs a number of temporary employees and consultants on a contract basis. None of the Company's employees is represented by a labor union with respect to his or her employment by the Company. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

The Company's future success will depend, in part, upon its ability to attract and retain qualified personnel. Competition for qualified personnel in the electronics and communications industries is intense, and there can be no assurance that the Company will be successful in retaining its key employees or that it will be able to attract skilled personnel as the Company grows. See "Risk Factors -- Management of Growth" and "Risk Factors -- Dependence on Key Personnel."

#### FACILITIES

The Company's principal operations are located in an approximately 61,767 square foot facility in Santa Clara, California. A portion of this facility has been subleased. This lease expires in December 1997, and the Company has an option to extend the lease for a period of up to 5 years. The Company also leases 2,267 square feet in London, England. This lease expires in January 1999 and the Company has no option to extend the lease. The Company's existing facilities are adequate to meet its current needs.

#### LEGAL PROCEEDINGS

The IRS is currently conducting an examination of the Company's federal income tax return for the fiscal year ended March 31, 1992. In August 1995, the IRS asserted a deficiency against the Company for the taxable year 1992 of approximately \$1.4 million for accumulated earnings taxes, together with a penalty of approximately \$273,000 plus accrued interest. The Company has filed an appeal challenging the assessment. The outcome of this matter cannot be predicted. In addition, the IRS has requested information related to the Company's federal tax returns for the year ended March 31, 1995.

## MANAGEMENT

## EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information regarding the executive officers and directors of the Company as of the date of this Prospectus:

NAME	AGE	POSITION
Joe Parkinson(1)	51	Chief Executive Officer and Chairman of the Board
Y.W. Sing	42	Vice Chairman of the Board
Sandra L. Abbott	49	Chief Financial Officer, Vice President, Finance
David Harper	49	Vice President, European Operations
Bryan R. Martin	28	Chief Technical Officer and Vice President, Engineering
Chris McNiffe	35	Vice President, Marketing and Sales
Michael Noonan	33	Vice President, Business Development
Samuel Wang	47	Vice President, Process Technology and Director
Bernd Girod	38	Director
Richard M. Chang(1)	56	Director
Sada Chidambaram(2)	51	Director
Akifumi Goto(1)	53	Director
Thomas L. Humphrey(2)	58	Director
William Tai	34	Director

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

Joe Parkinson has served as Chief Executive Officer and Chairman of the Board of the Company since June 1995. From October 1994 to June 1995, Mr. Parkinson served as a consultant to Micron Technology, Inc. ("Micron"), a manufacturer of semiconductor memory products, personal computers and circuit board assemblies. From October 1985 to October 1994, he served as Chairman of the Board and Chief Executive Officer of Micron, and from July 1980 to October 1985 he served as President of Micron. Mr. Parkinson is a director of Ultratech Stepper, Inc. Mr. Parkinson received a B.A. from Columbia College, a J.D. from Tulane University and a L.L.M. in Taxation from New York University.

Dr. Y.W. Sing co-founded the Company in April 1987 and served as Vice President of Engineering until December 1989. From December 1989 to July 1995, he served as the Company's Executive Vice President, and in July 1995 became the Company's Vice Chairman of the Board. For six years prior to 1987, Dr. Sing worked for Weitek Corporation, a semiconductor manufacturer, where he served as senior technical manager. From 1979 to 1981, Dr. Sing was a member of the technical staff at the Hewlett-Packard Company. Dr. Sing holds a B.S. from National Taiwan University and a M.S. and Ph.D. in Electrical Engineering from the University of California at Berkeley.

Sandra L. Abbott joined the Company as Controller in April 1991, and was promoted to Chief Financial Officer and Vice President, Finance in June 1995. From February 1990 to March 1991, Ms. Abbott served as Controller for InfoChip Systems, Inc, a semiconductor manufacturer. Prior to 1990, Ms. Abbott held Controller positions at MRP, Inc. (a subsidiary of U.S. West), Free-Flow Packaging, Inc. and Weitek Corporation. Ms. Abbott received a B.A. from University California, Riverside and a M.B.A. from Santa Clara University.

David Harper joined the Company in May 1990 and was promoted to Vice President, European Operations in March 1991. From 1988 to 1990, Mr. Harper was Chief Executive Officer of Dialog Semiconductor, a European ASIC manufacturer. Prior to 1988, Mr. Harper held various sales management positions at GEC Plessey Semiconductor, LSI Logic Corp. and General Electric Company. Mr. Harper



received a B.S. in Electrical Engineering from the University of Manchester Institute of Science and Technology.

Bryan R. Martin was promoted to Chief Technical Officer and Vice President, Engineering of the Company in August 1995. Mr. Martin served as Video Project Manager of the Company from April 1995 to August 1995, and as an integrated circuit designer for the Company from April 1990 to August 1995. Mr. Martin received a B.S. and a M.S. in Electrical Engineering from Stanford University.

Chris McNiffe has served as Vice President, Marketing and Sales for the Company since July 1995. From June 1992 to July 1995, Mr. McNiffe held various sales & marketing management positions at the Company. From July 1986 to June 1992, Mr. McNiffe held a position as sales manager at NCR Corporation, a computer products and services provider. From 1982 to 1986, Mr. McNiffe was a design engineer at RCA Corporation. Mr. McNiffe received a B.S. in Electrical Engineering from Rutgers University.

Michael Noonan has served as Vice President, Business Development for the Company since May 1996. From February 1996 to the present, he has also served as Chief Executive Officer of VidUs, Inc., a subsidiary of the Company engaged in the design of integrated camera and video compression solutions. From July 1992 to April 1995, Mr. Noonan held various sales management positions at the Company. From August 1990 to July 1992, Mr. Noonan served as an Area Sales Manager for NCR Corporation, a computer products and services provider. Prior to 1992, Mr. Noonan was a field application engineer for Seattle Silicon Corporation, a software developer. Mr. Noonan received a B.S. in Electrical Engineering from Colorado State University.

Dr. Samuel Wang has served as Vice President, Process Technology and a director of the Company since October 1995. From 1984 to October 1995, Mr. Wang served as Executive Vice President and a director of ICT Inc., a manufacturer of programmable logic devices. From 1981 to 1983 Mr. Wang was a Senior Engineering Manager at National Semiconductor Corporation, and from 1978 to 1980 he was a staff engineer at Intel Corporation. Mr. Wang received a B.S. in Physics from the National Tsing Hua University, Taiwan, and a M.S. and Ph.D. in Solid State Electronics from Princeton University.

Dr. Bernd Girod has served as a director of Company since November 1996. Dr. Girod has been a Chaired Professor of Electrical Engineering/Telecommunications at the University of Erlangen-Nuremberg in Germany since October 1993. In May 1993, he co-founded Vivo Software, Inc., a developer of video compression software, and has served as Chief Scientist since then. From June 1990 to September 1993, Dr. Girod was Professor of Computer Graphics and Technical Director of the Academy of Media Arts in Cologne, Germany, jointly appointed with the Computer Science Section of Cologne University. From January 1988 to May 1990, he was employed at the Massachusetts Institute of Technology, first as a Visiting Scientist and then as an Assistant Professor with the Media Laboratory. Dr. Girod received a M.S. in Electrical Engineering from the Georgia Institute of Technology and a Doctoral degree (Dr.-Ing.) from the University of Hannover, Germany.

Dr. Richard M. Chang has been a director of the Company since February 1987. He has served in various marketing and manufacturing management positions at Hewlett-Packard Company, an electronics component and system manufacturer, since 1970. Dr. Chang received a B.S. in Physics from the California Institute of Technology and a Ph.D. in Applied Physics from Stanford University.

Sada Chidambaram has been a director of the Company since December 1995. He has also been a director of ASCII Corporation ("ASCII") and has served as President of ASCII of America, Inc., a subsidiary of ASCII, since February 1988. ASCII, based in Tokyo, Japan, publishes software and computer magazines and manufactures and distributes specialized semiconductors and solutions. Mr. Chidambaram also serves on the Board of Directors of several privately held companies. Mr. Chidambaram received a B.S. in Chemistry from Loyola University and a M.S. in Chemical Engineering from the Tokyo Institute of Technology.

Akifumi Goto has been a director of the Company since September 1996. He has served as President and Chief Executive Officer of Sanyo Semiconductor Corporation ("Sanyo"), a semiconductor manufacturer, since February 1993. From February 1983 to January 1993, Mr. Goto served as Executive Vice President of

Sanyo. Mr. Goto received a B.S. in Electrical Engineering from Tamagawa University and a M.B.A. from Santa Clara University.

Dr. Thomas L. Humphrey has been a director of the Company since November 1995. He has served as a Director, Corporate Business Development of National Semiconductor Corporation, a semiconductor manufacturer, since January 1992. From January 1991 to January 1992, Dr. Humphrey was an independent consultant. Dr. Humphrey received a B.S. from University of California, Los Angeles and a M.S. and Ph.D. in Electrical Engineering from Stanford University.

William Tai has been a director of the Company since April 1994. Mr. Tai has served as a General Partner of the Walden Group of Venture Capital Funds, a venture capital firm, since September 1991. From August 1987 to September 1991, Mr. Tai served as Vice President of Alex. Brown & Sons Incorporated. Mr. Tai is also a director of Network Peripherals, Inc. and Award Software International, Inc. Mr. Tai received a B.S. in Electrical Engineering from the University of Illinois and a M.B.A. from Harvard Business School.

#### BOARD COMMITTEES

The Board of Directors has a Compensation Committee and an Audit Committee. The Compensation Committee makes recommendations to the Board concerning the compensation for the Company's officers and directors and the administration of the Company's 1992 Stock Option Plan, Key Personnel Plan, 1996 Stock Plan, 1996 Director Option Plan and 1996 Employee Stock Purchase Plan. The Audit Committee reviews the Company's financial controls, evaluates the scope of the annual audit, reviews audit results, consults with management and the Company's independent auditors prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into aspects of the Company's financial affairs.

#### DIRECTOR COMPENSATION

Directors receive no cash remuneration for serving on the Board of Directors, although, in the future, directors will be reimbursed for reasonable expenses incurred by them in attending Board and Committee meetings upon approval of such reimbursement by the Board of Directors. Directors are eligible to receive stock options under the Company's 1992 Stock Option Plan, Key Personnel Plan and 1996 Stock Plan. Effective upon the closing of this Offering, the Company has adopted the 1996 Director Option Plan and, in the future, non-employee directors will be eligible to receive stock options under this plan. See "Management -- Compensation Plans."

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors currently consists of Messrs. Parkinson, Chang and Goto. No member of the Compensation Committee or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

#### LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

The Company's Amended and Restated Certificate of Incorporation limits the liability of directors to the fullest extent permitted by the Delaware General Corporation Law (the "Delaware Law"). Under the Delaware Law, a director's liability to a company or its stockholders may not be limited with respect to (i) any breach of his duty of loyalty to the company or its stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) unlawful payments or dividends or unlawful stock repurchases or redemptions or (iv) transactions from which the director derived an improper personal benefit.

The Company's Bylaws provide that the Company shall indemnify its officers and directors and may indemnify its employees and other agents to the fullest extent permitted under the Delaware Law. The

Company has also entered into agreements to indemnify its directors and executive officers. The Company's Bylaws also permit it to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions, regardless of whether the Delaware Law would permit indemnification.

There is no pending litigation or proceeding involving any director, officer, employee or agent of the Company where indemnification will be required or permitted. The Company is not aware of any pending or threatened litigation or proceeding that might result in a claim for such indemnification.

#### EXECUTIVE COMPENSATION

The following table sets forth in summary form information concerning the compensation awarded to, earned by, or paid for services rendered to the Company in all capacities during the fiscal year ended March 31, 1996 by (i) the Company's Chief Executive Officer, (ii) the Company's next four most highly compensated executive officers whose salary and bonus for such fiscal year exceeded \$100,000 and who served as executive officers of the Company at March 31, 1996 and (iii) one additional individual for whom disclosure would have been provided pursuant to (ii) above but for the fact that the individual was not serving as an executive officer of the Company on March 31, 1996 (collectively, the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG TERM	ALL OTHER
	SALARY(\$)	BONUS(\$)	OTHER ANNUAL COMPENSATION (\$)(1)	COMPENSATION SECURITIES UNDERLYING OPTIONS(#)	
Joe Parkinson, Chairman and Chief Executive Officer.....	115,384(2)	4,580	--	600,000(3)	--
Y. W. Sing, Vice Chairman.....	163,590	4,700	55,046(4)	115,000	--
Sandra L. Abbott, Chief Financial Officer.....	114,647	4,700	--	65,000	--
David Harper, Vice President, European Operations.....	97,491	47,115	22,992(5)	25,000	49,389(6)
Chris McNiffe, Vice President, Marketing and Sales.....	150,157	4,700	--	100,000	--
Michael Noonan, Vice President, Business Development.....	107,750	105,800	--	--	--

(1) Excludes perquisites and other personal benefits which for each Named Executive Officer did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus for such officer.

(2) Represents compensation for a partial year, as Mr. Parkinson joined the Company in June 1995. Mr. Parkinson's annualized salary during this period was \$150,000.

(3) Options representing 100,000 of these securities were canceled in June 1996.

(4) Represents one time payout of accrued paid time off.

(5) Represents the incremental cost to the Company of the use of a Company car.

(6) Represents contributions by the Company to a plan which provides for payments to Mr. Harper during his retirement.

## Option Grants and Holdings

The following table provides information with respect to stock option grants to each of the Named Executive Officers during the fiscal year ended March 31, 1996:

## OPTION GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SH.)	EXPIRATION DATE	5%(\$)	10%(\$)
Joe Parkinson.....	500,000(2)	16.8%	\$.50(3)	06/15/05	\$69,070	\$152,628
Joe Parkinson.....	100,000(4)	3.4%	\$.50(3)	11/20/05	\$13,814	\$ 30,526
Y.W. Sing.....	115,000(5)	3.9%	\$.50(3)	01/01/05	\$15,886	\$ 35,104
Sandra L. Abbott.....	65,000(6)	2.1%	\$.50(3)	07/10/05	\$ 8,979	\$ 19,842
David Harper.....	25,000(6)	0.8%	\$.50(3)	07/10/05	\$ 3,453	\$ 7,631
Chris McNiffe.....	100,000(6)	3.4%	\$.50(3)	07/10/05	\$13,814	\$ 30,526

- (1) Potential gains are net of the exercise price but before taxes associated with the exercise. The 5% and 10% assumed annual rates of compounded stock appreciation are mandated by the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price. Actual gains, if any, on stock option exercises are dependent on the future financial performance of the Company, overall market conditions and the option holders' continued employment through the vesting period.
- (2) The options were granted under the Key Personnel Plan and vest at a rate of 1/3 of the shares at the end of one year and 1/24 of the remaining shares at the end of each month thereafter, subject to continued service as an employee, consultant or director. The term of each option is ten years. The exercise price of each option granted is equal to the fair market value of the Common Stock of the Company on the date of grant. See "Management -- Compensation Plans."
- (3) These options were originally priced at \$2.50 per share and were cancelled and reissued at \$0.50 in June 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Certain Transactions."
- (4) The options were granted under the Key Personnel Plan and vest upon the effectiveness of the Company's initial public offering. The term of each option is ten years. The exercise price of each option granted is equal to the fair market value of the Common Stock of the Company on the date of grant. See "Management -- Compensation Plans." The options were canceled in June 1996.
- (5) The options were granted under the Key Personnel Plan and vest at a rate of 1/24 of the shares at the end of each month, subject to continued service as an employee, consultant or director. The term of each option is ten years. The exercise price of each option granted is equal to the fair market value of the Common Stock of the Company on the date of grant. See "Management -- Compensation Plans."
- (6) The options were granted under the Key Personnel Plan and vest at a rate of 1/48 of the shares at the end of each month, subject to continued service as an employee, consultant or director. The term of each option is ten years. The exercise price of each option granted is equal to the fair market value of the Common Stock of the Company on the date of grant. See "Management -- Compensation Plans."

In June 1996, the Company granted options to purchase shares of the Company's Common Stock at an exercise price of \$0.50 per share to the following executive officers: (i) Joe Parkinson received two grants of stock options to purchase 250,000 shares each, for an aggregate of 500,000 shares; and (ii) Y.W. Sing, Sandra L. Abbott, David Harper, Bryan R. Martin, Chris McNiffe, Michael Noonan and Samuel Wang each received options to purchase 57,400 shares.

One of the above-mentioned options received by Mr. Parkinson to purchase 250,000 shares of the Company's Common Stock shall vest on June 24, 2000; provided, however, that vesting shall be accelerated in the event of an initial public offering or a change of control (defined as the acquisition by an entity or individual and any related parties of at least 35% of the Company's fully diluted Common Stock) as follows: (i) all of Mr. Parkinson's 250,000 shares shall vest on December 31, 1996 in the event of an initial public offering or a change of control occurring on or before December 31, 1996, which initial public offering or change of control results in a price per share of the Company's Common Stock of at least \$11.00; (ii) 100,000 and 150,000 of Mr. Parkinson's shares shall vest on December 31, 1996 and June 24, 2000, respectively, in the event of an initial public offering or change of control occurring on or before December 31, 1996, which results in a price per share of the Company's Common Stock of at least \$6.00 and under \$11.00; (iii) 100,000 and 150,000 of Mr. Parkinson's shares shall vest on March 31, 1997 and June 24, 2000, respectively, in the event of an initial public offering or change of control occurring between December 31, 1996 and March 31, 1997, which results in a price per share of the Company's Common Stock of at least \$11.00; and (iv) 60,000 and 190,000 of Mr. Parkinson's shares shall vest on March 31, 1997 and June 24, 2000, respectively, in the event of an initial public offering or change of control occurring between December 31, 1996 and March 31, 1997, which results in a price per share of the Company's Common Stock of at least \$6.00 and under \$11.00.

The following table provides information with respect to the value of stock options held as of March 31, 1996 by each of the Named Executive Officers. There were no stock option exercises by such individuals during the year ended March 31, 1996.

## FISCAL YEAR-END OPTION VALUES

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END(1)(2)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END(3)(4)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Joe Parkinson(2).....	0	600,000(4)	\$ 0.00	\$ 0.00
Y.W. Sing (2).....	165,416	69,584	\$ 0.00	\$ 0.00
Sandra L. Abbott(2).....	10,833	54,167	\$ 0.00	\$ 0.00
David Harper(3).....	34,667	5,333	\$ 52,000.50	\$ 7,999.50
David Harper(2).....	4,167	20,833	\$ 0.00	\$ 0.00
Chris McNiffe(2).....	29,626	89,374	\$ 0.00	\$ 0.00
Michael Noonan(2).....	12,500	5,500	\$ 0.00	\$ 0.00

(1) In June 1996, these options to purchase Common Stock were cancelled and reissued at \$.50 per share. The new options became immediately exercisable subject to right of repurchase in favor of the Company, which expires ratably through June 24, 2000.

(2) Calculated by determining the difference between the fair market value of the Common Stock as of March 28, 1996 (\$2.50) and the exercise price of the underlying options as of March 28, 1996 (\$2.50).

(3) Calculated by determining the difference between the fair market value of the Common Stock as of March 28, 1996 (\$2.50) and the exercise price of the underlying options as of March 28, 1996 (\$1.00).

(4) Options representing 100,000 of these securities were canceled in June 1996.

## COMPENSATION PLANS

## 1992 Stock Option Plan

The Company's 1992 Stock Option Plan (the "1992 Plan") was adopted in January 1992. The 1992 Plan provides for the grant to employees of the Company (including officers and employee directors) of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and for the grant of nonstatutory stock options to employees and consultants of the Company. The 1992 Plan is administered by the Board of Directors or a Committee of the Board of Directors (the "Administrator"), which selects the optionees, determines the number of shares to be subject to each option

and determines the exercise price of each option. The 1992 Plan authorizes the issuance of up to 2,000,000 shares of Common Stock. As of September 30, 1996, 234,636 shares had been issued under the 1992 Plan, options for 1,382,075 shares were outstanding and 383,289 shares remained available for future grants. The exercise price of all incentive stock options granted under the 1992 Plan must be at least equal to the fair market value per share of the Common Stock on the date of grant. The exercise price of all nonstatutory stock options granted under the 1992 Plan is determined by the Administrator. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of stock of the Company, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of the option must not exceed five years. The term of all other options granted under the 1992 Plan may not exceed ten years.

In the event of a merger of the Company with or into another corporation, the 1992 Plan requires that each outstanding option be assumed or an equivalent option substituted by such successor corporation or a parent or subsidiary of such successor corporation. If the successor corporation refuses to assume or substitute for the options, the optionee will have the right to exercise the option as to all or a portion of the stock subject thereto, including shares which would not otherwise be exercisable. Unless terminated sooner, the 1992 Plan will terminate ten years from its effective date. The Board has authority to amend or terminate the 1992 Plan, provided no such action would impair the rights of the holder of any outstanding options without the written consent of such holder.

#### Key Personnel Plan

The Company's Key Personnel Plan (the "Key Personnel Plan") was adopted in July 1995. The Key Personnel Plan provides for the grant to employees of the Company (including officers and employee directors) of incentive stock options within the meaning of Section 422 of the Code, and for the grant of nonstatutory stock options to employees and consultants of the Company. The Key Personnel Plan is administered by the Board of Directors or a Committee of the Board of Directors (the "Administrator"), which selects the optionees, determines the number of shares to be subject to each option and determines the exercise price of each option. The Key Personnel Plan authorizes the issuance of up to 2,199,925 shares of Common Stock. As of November 5, 1996, 2,199,925 shares had been issued under the Key Personnel Plan and no shares remained available for future grants. The exercise price of all incentive stock options granted under the Key Personnel Plan must be at least equal to the fair market value of the Common Stock on the date of grant. The exercise price of all nonstatutory stock options granted under the Key Personnel Plan is determined by the Administrator. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of stock of the Company, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of the option must not exceed five years. The term of all other options granted under the Key Personnel Plan may not exceed ten years.

In the event of a merger of the Company with or into another corporation, the Key Personnel Plan requires that each outstanding option be assumed or an equivalent option substituted by such successor corporation or a parent or subsidiary of such successor corporation. If the successor corporation refuses to assume or substitute for the options, the optionee will have the right to exercise the option as to all or a portion of the stock subject thereto, including shares which would not otherwise be exercisable.

#### 1996 Stock Plan

The Company's 1996 Stock Plan (the "1996 Plan") was adopted in June 1996. The 1996 Plan provides for the grant to employees of the Company (including officers and employee directors) of incentive stock options within the meaning of Section 422 of the Code, and for the grant of nonstatutory stock options and stock purchase rights ("Rights") to employees and consultants of the Company. The 1996 Plan is administered by the Board of Directors or a Committee of the Board of Directors (the "Administrator"), which selects the optionees, determines the number of shares to be subject to each option or Right and determines the exercise price of each option or Right. The 1996 Plan authorizes the issuance of up to 1,000,000 shares of Common Stock, to be increased annually on the first day of each of the Company's fiscal years during the term of the plan in an amount equal to 5% of the Company's Common Stock issued and outstanding at the close of business on the last day of the immediately preceding fiscal year (the "Annual

Replenishment"), with only the initial 1,000,000 shares and subsequent annual increases in an amount equal to the lesser of (i) 1,000,000 shares, or (ii) the number of shares subject to the Annual Replenishment to be available for issuance as "incentive stock options" qualified under Section 422 of the Code. As of September 30, 1996, 247 shares had been issued under the 1996 Plan, options for 161,712 shares were outstanding and 838,041 shares remained available for future grants. The exercise price of all incentive stock options granted under the 1996 Plan must be at least equal to the fair market value of the Common Stock on the date of grant. The exercise price of all nonstatutory stock options granted under the 1996 Plan shall be determined by the Administrator. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of stock of the Company, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of an incentive stock option must not exceed five years. The term of all other options granted under the 1996 Plan may not exceed ten years.

In the event of a merger of the Company with or into another corporation, or the sale of all or substantially all of the assets of the Company, the 1996 Plan requires that each outstanding option be assumed or an equivalent option substituted by the successor corporation or a parent or subsidiary of such successor corporation. If the successor corporation refuses to assume or substitute for the options, the optionee will have the right to exercise the option or Right as to all or a portion of the stock subject thereto, including shares which would not otherwise be exercisable. Unless terminated sooner, the 1996 Plan will terminate ten years from its effective date. The Board has authority to amend or terminate the 1996 Plan, provided no such action would impair the rights of the holder of any outstanding options without the written consent of such holder.

#### 1996 Director Option Plan

The Company's 1996 Director Option Plan (the "Director Plan") was adopted in June 1996 and will become effective upon the closing of this Offering. A total of 150,000 shares of Common Stock has been reserved for issuance under the Director Plan. The Director Plan provides for the grant of nonstatutory stock options to all nonemployee directors of the Company ("Outside Directors"). The grants may be made at the discretion of the Board of Directors or a Committee appointed by the Board of Directors. In addition, grants will be made pursuant to an automatic, nondiscretionary grant mechanism. The Director Plan provides that each Outside Director shall be granted a nonstatutory stock option to purchase 16,000 shares of Common Stock on the date upon which such person first becomes an Outside Director or, if later, on the effective date of the Director Plan (the "First Option"). Thereafter, each Outside Director shall be automatically granted an option to purchase 4,000 shares of Common Stock on the date such Outside Director is reelected to the Board of Directors by the Company's stockholders at the Company's annual meeting of stockholders or otherwise (a "Subsequent Option"), if on such date, such Outside Director shall have served on the Company's Board of Directors for at least six (6) months. The Director Plan provides that each option shall become exercisable in installments over a period of four (4) years from the date of grant. The exercise price per share of all options granted under the Director Plan shall be equal to the fair market value of a share of the Company's Common Stock on the date of grant. Options granted to Outside Directors under the Director Plan have a ten year term, or shorter upon termination of an Outside Director's status as a director. In the event of the merger or sale of substantially all of the assets of the Company, all outstanding options shall be assumed or substituted by the successor corporation, or if they are not assumed or substituted for, they shall become fully vested and exercisable. If the options are assumed or substituted for, they shall also become fully exercisable if the director is terminated other than upon voluntary termination. If not terminated earlier, the Director Plan will have a term of ten years.

#### 1996 Employee Stock Purchase Plan

The Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") was adopted in June 1996 and will become effective upon the closing of this Offering. A total of 500,000 shares of Common Stock has been reserved for issuance under the Purchase Plan, to be increased annually on the first day of each of the Company's fiscal years during the term of the Purchase Plan in an amount equal to (i) 500,000 shares minus (ii) the number of shares available for issuance under the Purchase Plan as of such date, all of which share numbers are subject to adjustment upon changes in capitalization of the Company. The Purchase Plan, which

is intended to qualify under Section 423 of the Code, will be implemented by an offering commencing on the date of the closing of this Offering and ending on the last business day in the period ending October 31, 1998. Each twenty-four month offering period will consist of four purchase periods of approximately six months duration. Employees are eligible to participate if they are regularly employed by the Company for at least twenty hours per week and more than five months in any calendar year.

The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions, which may not exceed 10% of an employee's base compensation, including commissions but exclusive of bonuses and overtime, at a price equal to 85% of the fair market value of the Common Stock at the beginning of each offering period or the end of a six month purchase period, whichever is lower. In the event of a merger of the Company with or into another corporation, or the sale of all or substantially all of the assets of the Company, the Purchase Plan provides that a new exercise date shall be set for each option under the plan, which exercise date shall occur before the date of the merger or asset sale. In the event that the fair market value of the Company's Common Stock at the end of any six month purchase period is lower than the fair market value of the Company's Common Stock at the beginning of the offering period, Purchase Plan participants will be automatically withdrawn from such offering period and re-enrolled in the new offering period commencing immediately thereafter. Unless terminated sooner, the Purchase Plan will terminate ten years after its effective date. The Board of Directors has authority to amend or terminate the Purchase Plan provided no such action may adversely affect the rights of any participant.

#### Change of Control

In the event of an individual or corporate entity and any related parties cumulatively acquiring at least 35% of the Company's fully diluted stock (a "Change of Control"), all stock options or stock subject to repurchase by the Company held by officers under any stock option plan shall vest immediately without regard to the term of the option. In addition, in the event of a Change of Control, each officer shall be entitled to one (1) year severance pay and continuing medical benefits for life after leaving the Company, provided that such medical benefits shall cease should such officer accept employment with a competing company.

#### Profit Sharing Plan

In July 1995, the Company's Board of Directors approved a profit sharing plan which provides for additional compensation to all employees of the Company based on the Company's quarterly income before income taxes. The profit sharing plan is effective beginning in the year ended March 31, 1996 and provides for payments of up to 15% of the Company's quarterly income before income taxes. Additionally, the plan provides for payment of certain discretionary bonuses based on criteria established by management.



## CERTAIN TRANSACTIONS

In September 1996, the Company sold an aggregate of 363,640 shares of Series D Preferred Stock to Sanyo Semiconductor Corporation ("Sanyo"), a manufacturer of semiconductors, at a price of \$5.50 per share. Akifumi Goto, President of Sanyo, became a director of the Company in connection with this transaction.

In July 1996, certain officers and directors of the Company exercised their stock options under the Company's Key Personnel Plan pursuant to a restricted stock purchase agreement. The officers and directors exercised an aggregate of 2,156,800 shares of Common Stock at a purchase price of \$0.50 per share by payment of partial recourse promissory notes. The following officers and directors exercised shares of Common Stock under the Company's Key Personnel Plan: 122,400 shares exercised by Sandra Abbott; 122,400 shares exercised by David Harper; 160,400 shares exercised by Bryan Martin; 176,400 shares exercised by Chris McNiffe; 125,400 shares exercised by Michael Noonan; 1,000,000 shares exercised by Joe Parkinson; 292,400 shares exercised by Y.W. Sing; and 157,400 shares exercised by Samuel Wang.

In April 1994, the Company sold an aggregate of 681,820 shares of Series C Preferred Stock to National Semiconductor Corporation ("NSC"), a semiconductor manufacturer, at a price of \$11.00 per share. In connection with NSC's investment, Thomas Humphrey, Director, Corporate Business Development of NSC, became a director of the Company.

In April 1994, the Company entered into various joint development and supply agreements with NSC, which were terminated by mutual agreement between the parties in June 1996. As part of this termination, the Company licensed, on a non-exclusive, royalty free basis, its Intel compatible x86 microprocessor technology to NSC. During the year ended March 31, 1995, the company recognized contract revenue and related costs under these agreements of \$294,000 and \$229,000, respectively and purchased \$868,000 in inventory from NSC.

During the years ended March 31, 1995 and 1996 and September 30, 1996 the Company's product revenues included \$897,000, \$2,037,000 and \$959,000 in sales to ASCII Corporation ("ASCII"), or approximately 4.5%, 7.1% and 9.5% of the Company's revenues, respectively. ASCII acts as a distributor for the Company in Japan and is party to certain distributor and sales agreements with the Company. Sada Chidambaram, a director of the Company, is a director of ASCII and the President of ASCII of America, Inc., a subsidiary of ASCII.

During the years ended March 31, 1994 and 1995, the Company sold \$3,258,000 and \$795,000, respectively, of product to Mitsui Comtek, one of its stockholders. Mitsui Comtek is also the guarantor of the Company's office facilities.

In March 1996, 8x8 entered into an investment agreement (the "Agreement") with VidUs, Inc. ("VidUs"), a company whose officers include Michael Noonan ("Noonan") and Sandra L. Abbott. VidUs is currently developing technology by which a camera transfers data to a Universal Serial Bus port using the Company's MEP semiconductor and reference design video compression capabilities (the "CompressionCam Concept"). Pursuant to the Agreement, the Company and Noonan own approximately 75% and 12%, respectively, of the Common Stock of VidUs. Also in connection with the Agreement, the Company will own all patents related to the CompressionCam Concept, but has provided VidUs with a royalty free, nonexclusive, nonassignable license to make, have made, use and sell products which incorporate the CompressionCam Concept.

Y.W. Sing, Vice Chairman of the Board and a director of the Company, served as Chief Executive Officer and beneficial owner of two entities (collectively, the "Entities") until March 1994. During the year ended March 31, 1994, the Entities provided various marketing, sales and research and development services to the Company. In compensation for these services the Entities received, in the aggregate, \$940,000 from the Company. In March 1994, the Company purchased all assets and assumed all liabilities of the Entities for nominal consideration, and expensed \$50,000 previously paid for an option to acquire all of the capital stock of one of the Entities.

In June 1996, certain officers and directors had their options to buy Common Stock repriced to \$.50 per share through the cancellation of then existing options and the issuance of new options. The following summarizes the number of shares repriced, the exercise price per share before such repricing and persons associated with the repriced shares: Joe Parkinson had 500,000 shares repriced from \$2.50 per share; Y.W. Sing had 235,000 shares repriced from \$2.50 per share; Sandra L. Abbott had 65,000 shares repriced from \$2.50 per share; David Harper had 25,000 shares repriced from \$2.50 per share, and 40,000 shares repriced from \$1.00 per share; Bryan R. Martin had 103,000 shares repriced from \$2.50 per share; Chris McNiffe had 119,000 shares repriced from \$2.50 per share; Michael Noonan had 68,000 shares repriced from \$2.50 per share; Samuel Wang had 100,000 shares repriced from \$2.50 per share; and William Tai had 25,000 shares repriced from \$2.50 per share.

In June 1996, the Company granted an option to purchase 250,000 shares of its Common Stock at an exercise price of \$0.50 per share to Joe Parkinson, the Chairman and Chief Executive Officer of the Company. This option shall vest on June 24, 2000; provided, however, that vesting shall be accelerated in the event of an initial public offering or a change of control (defined as the acquisition by an entity or individual and any related parties of at least 35% of the Company's fully diluted Common Stock) as follows: (i) all of Mr. Parkinson's 250,000 shares shall vest on December 31, 1996 in the event of an initial public offering or a change of control occurring on or before December 31, 1996, which initial public offering or change of control results in a price per share of the Company's Common Stock of at least \$11.00; (ii) 100,000 and 150,000 of Mr. Parkinson's shares shall vest on December 31, 1996 and June 24, 2000, respectively, in the event of an initial public offering or change of control occurring on or before December 31, 1996, which results in a price per share of the Company's Common Stock of at least \$6.00 and under \$11.00; (iii) 100,000 and 150,000 of Mr. Parkinson's shares shall vest on March 31, 1997 and June 24, 2000, respectively, in the event of an initial public offering or change of control occurring between December 31, 1996 and March 31, 1997, which results in a price per share of the Company's Common Stock of at least \$11.00; and (iv) 60,000 and 190,000 of Mr. Parkinson's shares shall vest on March 31, 1997 and June 24, 2000, respectively, in the event of an initial public offering or change of control occurring between December 31, 1996 and March 31 1997, which results in a price per share of the Company's Common Stock of at least \$6.00 and under \$11.00.

In July 1996, the officers of the Company entered into partial recourse promissory notes in connection with the purchase of the Company's Common Stock (at a price of \$.50 per share) through the exercise of stock options granted under the Key Personnel Plan. The following summarizes the amount of the promissory note entered into by each officer and the persons associated with them: Joe Parkinson, \$500,000; Y.W. Sing, \$146,200; Sandra L. Abbott, \$61,200; David Harper, \$61,200; Bryan R. Martin, \$80,200; Chris McNiffe, \$88,200; Michael Noonan, \$62,700; and Samuel Wang, \$78,700. Each of these promissory notes have an interest rate of 6.4% per year, and are secured by the shares of the Company's Common Stock held by such respective officers. Principal and interest on these promissory notes are due and payable in June 2001.

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company than could have been otherwise obtained from unaffiliated third parties. All future transactions, including loans (if any), between the Company and its officers, directors and principal stockholders and their affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors of the Board of Directors, and will be on terms no less favorable to the Company than could have been obtained from unaffiliated third parties.

## PRINCIPAL STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of October 31, 1996, and as adjusted to reflect the sale of the shares of Common Stock offered hereby and the automatic conversion of all outstanding shares of Preferred Stock into Common Stock upon the closing of this Offering, by (i) each person (or group of affiliated persons) who is known by the Company to own beneficially 5% or more of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers and (iv) all directors and officers as a group. Except as indicated in the footnotes to the table, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable, and the address of each listed stockholder is c/o 8x8, Inc., 2445 Mission College Boulevard, Santa Clara, CA 95054.

NAME AND ADDRESS	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF TOTAL SHARES(1)(2)	
		BEFORE OFFERING	AFTER OFFERING
Y.W. Sing(3)(4).....	1,036,400	9.7%	7.9%
Joe Parkinson(3)(5).....	1,000,000	9.3	7.6
National Semiconductor Corporation(6)..... 2900 Semiconductor Drive Santa Clara, CA 95051	681,820	6.4	5.2
Thomas L. Humphrey(3)(6).....	681,820	6.4	5.2
Deby Investments, Ltd.(7)..... General Electronics Building FSSTL 96 Sheung Shui, N.T. Hong Kong	600,000	5.6	4.5
Richard M. Chang(3).....	453,334	4.2	3.4
Akifumi Goto(3)(8).....	363,640	3.4	2.8
Sada Chidambaram(3)(9).....	300,000	2.8	2.3
David Harper(10).....	222,400	2.1	1.7
Chris McNiffe(11).....	176,400	1.6	1.3
Bryan Martin(12).....	172,900	1.6	1.3
Samuel Wang(3)(13).....	157,400	1.5	1.2
Sandra L. Abbott(14).....	153,400	1.4	1.2
Michael Noonan(15).....	125,400	1.2	1.0
William Tai(3)(16).....	36,667	*	*
Bernd Girod(3).....	--	--	--
All directors and executive officers as a group (14 persons) (17).....	4,879,761	45.6	36.9

\* Less than 1%

(1)Percentage of ownership is based on (i) 10,695,348 shares of Common Stock outstanding as of October 31, 1996, plus any shares issuable pursuant to options held, as of October 31, 1996, by the person or class in question which may be exercised within 60 days of October 31, 1996, and (ii) 13,195,348 shares of Common Stock outstanding after completion of this Offering, plus any shares issuable pursuant to options held by the person or class in question which may be exercised within 60 days of October 31, 1996.

(2) Assumes no exercise of the Underwriters' over-allotment option.

(3) The named person is a director of the Company.

(4)Includes 84,646 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.

(5)Includes 776,042 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.

- (6) Includes 681,820 shares beneficially held by National Semiconductor Corporation. Mr. Humphrey is Director, Corporate Business Development of National Semiconductor Corporation.
- (7) The beneficial owner of the shares held by Deby Investments, Ltd. is Samuel Fang.
- (8) Includes 363,640 shares beneficially held by Sanyo Semiconductor Corporation. Mr. Goto is the President and Chief Executive Officer of Sanyo Semiconductor Corporation.
- (9) Includes 300,000 shares owned by ASCII Corporation. Mr. Chidambaram is a director of ASCII and the President of ASCII of America, Inc., a subsidiary of ASCII Corporation. Mr. Chidambaram disclaims beneficial ownership of shares held by ASCII.
- (10) Includes 72,853 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.
- (11) Includes 127,853 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.
- (12) Includes 127,791 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.
- (13) Includes 153,812 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.
- (14) Includes 99,854 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.
- (15) Includes 102,853 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000.
- (16) Includes (i) 11,667 shares issuable pursuant to stock options which may be exercised within 60 days of October 31, 1996, and (ii) 25,000 shares issuable upon exercise of stock options to purchase the following number of shares from the persons indicated: Y.W. Sing, 7,000 shares; Chi-Shin Wang, 7,000 shares; Samuel Fang, 7,000 shares; and Richard Chang, 4,000 shares.
- (17) Includes (i) 1,545,704 shares that are subject to a right of repurchase in favor of the Company which expires ratably through June 24, 2000, and (ii) 11,667 shares issuable pursuant to stock options which may be exercised within 60 days of October 31, 1996.

## DESCRIPTION OF CAPITAL STOCK

Upon the closing of this Offering, the authorized capital stock of the Company will consist of 40,000,000 shares of Common Stock, par value \$0.001 per share and 5,000,000 shares of Preferred Stock, par value \$0.001 per share.

## COMMON STOCK

As of September 30, 1996, as adjusted for (i) the sale of 270,913 shares of Series D Preferred Stock by the Company in October 1996 and (ii) the conversion of all outstanding shares of Preferred Stock into Common Stock upon the closing of this Offering, there were 10,695,348 shares of Common Stock outstanding held of record by approximately 180 stockholders. As of September 30, 1996, there were options to purchase 1,543,787 shares of Common Stock outstanding. The holders of Common Stock are entitled to one vote per share on all matters to be voted on by the stockholders. Subject to preferences that may be applicable to outstanding shares of Preferred Stock, if any, the holders of Common Stock are entitled to receive ratably such dividends as may be declared from time to time by the Board of Directors out of funds legally available therefor. In the event of the liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior liquidation rights of Preferred Stock, if any, then outstanding. The Common Stock has no preemptive conversion rights or other subscription rights. There are no redemption or sinking funds provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be outstanding upon completion of this Offering will be fully paid and non-assessable.

## PREFERRED STOCK

Pursuant to the Company's Amended and Restated Certificate of Incorporation, the Board of Directors has the authority, without further action by the stockholders, to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the Common Stock. The Board of Directors, without stockholder approval, can issue Preferred Stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of Common Stock. Preferred Stock could thus be issued quickly with terms calculated to delay or prevent a change in control of the Company or make removal of management more difficult. Additionally, the issuance of Preferred Stock may have the effect of decreasing the market price of the Common Stock, and may adversely affect the voting and other rights of the holders of Common Stock. At present, there are no shares of Preferred Stock outstanding and the Company has no plans to issue any of the Preferred Stock. See "Risk Factors -- Anti-Takeover Provisions of the Company's Certificate of Incorporation, Bylaws and Delaware Law."

## REGISTRATION RIGHTS

Under the terms of the Amended and Restated Registration Rights Agreement dated as of September 6, 1996 among the Company and certain holders of its securities (the "Rights Agreement"), following the closing of this Offering, the holders of 3,726,373 shares of Common Stock (the "Registrable Securities") will be entitled to certain rights with respect to the registration of such shares of Common Stock under the Securities Act. Under the Rights Agreement, if the Company proposes to register any of its Common Stock under the Securities Act, certain holders of Registrable Securities are entitled to notice of such registration and to include their Registrable Securities therein; provided, among other conditions, that the underwriters have certain rights to limit the number of shares included in any such registration. Beginning six months after the closing of this Offering, the holders of at least fifty percent (50%) of the Registrable Securities have the right to require the Company, on not more than two occasions, to file a registration statement under the Securities Act in order to register all or any part of their Registrable Securities, subject to certain conditions and limitations. The Company may, in certain circumstances, defer such registration and the underwriters have the right, subject to certain limitations, to limit the number of shares included in such registrations. Further, the holders of Registrable Securities may require the Company to register all or any portion of their

Registrable Securities on Form S-3, when such form becomes available to the Company, subject to certain conditions and limitations.

#### ANTI-TAKEOVER EFFECTS OF PROVISIONS OF CERTIFICATE OF INCORPORATION AND BYLAWS

The Company's Amended and Restated Certificate of Incorporation provides that all stockholder actions must be effected at a duly called annual or special meeting and may not be effected by written consent. The Company's Bylaws provide that, except as otherwise required by law, special meetings of the stockholders can only be called pursuant to a resolution adopted by a majority of the Board of Directors, by the chief executive officer of the Company or by stockholders holding shares in the aggregate entitled to cast not less than 10% of the votes at such meeting. In addition, the Company's Bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nomination of persons for election to the Board. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of the meeting or brought before the meeting by or at the direction of the Board of Directors or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who had delivered timely written notice in proper form to the Company's Secretary of the stockholder's intention to bring such business before the meeting.

The foregoing provisions of the Company's Amended and Restated Certificate of Incorporation and Bylaws are intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions which may involve an actual or threatened change of control of the Company. Such provisions are designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal and, accordingly, could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. Such provisions are also intended to discourage certain tactics that may be used in proxy fights but could, however, have the effect of discouraging others from making tender offers for the Company's shares and, consequently, may also inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. These provisions may also have the effect of preventing changes in the management of the Company. See "Risk Factors -- Anti-Takeover Provisions of the Company's Certificate of Incorporation, Bylaws and Delaware Law."

#### EFFECT OF DELAWARE ANTI-TAKEOVER STATUTE

The Company is subject to Section 203 of the Delaware General Corporation Law (the "Antitakeover Law"), which regulates corporate acquisitions. The Antitakeover Law prevents certain Delaware corporations, including those whose securities are listed for trading on the Nasdaq National Market, from engaging, under certain circumstances in a "business combination" with any "interested stockholder" for three years following the date that such stockholder became an interested stockholder. For purposes of the Antitakeover Law, a "business combination" includes, among other things, a merger or consolidation involving the Company and the interested stockholder and the sale of more than ten percent (10%) of the Company's assets. In general, the Antitakeover Law defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the Company and any entity or person affiliated with or controlling or controlled by such entity or person. A Delaware corporation may "opt out" of the Antitakeover Law with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from amendments approved by the holders of at least a majority of the Company's outstanding voting shares. The Company has not "opted out" of the provisions of the Antitakeover Law. See "Risk Factors -- Antitakeover Provisions of the Company's Certificate of Incorporation, Bylaws and Delaware Law."

#### TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is American Securities Transfer & Trust, Inc. Its telephone number is (303) 234-5300.

#### LISTING

The Company has applied to list its Common Stock on the Nasdaq National Market under the trading symbol "EGHT."

## SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have 13,195,348 shares of Common Stock outstanding. Of this amount, the 2,500,000 shares offered hereby and 143,316 shares will be available for immediate sale in the public market as of the date of this Prospectus. Approximately 9,500,000 additional shares will be available for sale in the public market following the expiration of the 180-day lockup agreements with the Representatives of the Underwriters or the Company, subject in some cases to compliance with the volume and other limitations of Rule 144.

DAYS AFTER DATE OF THIS PROSPECTUS	SHARES ELIGIBLE FOR SALE	COMMENT
Upon Effectiveness.....	2,643,316	Freely tradeable shares sold in Offering and shares saleable under Rule 144(k) that are not subject to 180-day lockup
180 days.....	9,496,071	Lockup released; shares saleable under Rule 144, 144(k) or 701
Thereafter.....	1,036,428	Restricted securities held for two years or less
Thereafter.....	19,533	Securities held for two years or less and not subject to 180- day lockup

In general, under Rule 144 a person (or persons whose shares are aggregated) who has beneficially owned shares for at least two years is entitled to sell within any three-month period commencing 90 days after the date of this Prospectus a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (approximately 132,000 shares immediately after this Offering) or (ii) the average weekly trading volume during the four calendar weeks preceding such sale, subject to the filing of a Form 144 with respect to such sale. A person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the 90 days immediately preceding the sale who has beneficially owned his or her shares for at least three years is entitled to sell such shares pursuant to Rule 144(k) without regard to the limitations described above. Persons deemed to be affiliates must always sell pursuant to Rule 144, even after the applicable holding periods have been satisfied.

The Company is unable to estimate the number of shares that will be sold under Rule 144, as this will depend on the market price for the Common Stock of the Company, the personal circumstances of the sellers and other factors. Prior to this Offering, there has been no public market for the Common Stock, and there can be no assurance that a significant public market for the Common Stock will develop or be sustained after this Offering. Any future sale of substantial amounts of the Common Stock in the open market may adversely affect the market price of the Common Stock offered hereby.

The Company, its directors, executive officers, stockholders with registration rights and certain other stockholders have agreed pursuant to the Underwriting Agreement and other agreements that they will not sell any Common Stock without the prior consent of Montgomery Securities for a period of 180 days from the date of this Prospectus (the "180-day Lockup Period"), except that the Company may, without such consent, grant options and sell shares pursuant to the 1992 Plan, the Key Personnel Plan, the 1996 Plan, the Director Plan and the Purchase Plan.

The Company intends to file a registration statement on Form S-8 under the Securities Act to register certain shares of Common Stock subject to outstanding options or reserved for issuance under the 1992 Plan, the Key Personnel Plan, the 1996 Plan, the Director Plan and the Purchase Plan within 180 days after the date of this Prospectus, thus permitting the resale of such shares by nonaffiliates in the public market without restriction under the Securities Act.

Any employee or consultant to the Company who purchased his or her shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701, which permits nonaffiliates to sell their Rule 701 shares without having to comply with the public information, holding period, volume limitation or notice provisions of Rule 144 and permits affiliates to sell their Rule 701 shares without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the date of this Prospectus. As of September 30, 1996, the holders of options exercisable into

approximately 230,566 shares of Common Stock will be eligible to sell their shares in reliance upon Rule 701 or pursuant to the Form S-8 upon the expiration of the 180-day Lockup Period.

In addition, after this Offering, the holders of 3,726,373 shares of Common Stock will be entitled to certain rights with respect to registration of such shares under the Securities Act. Registration of such shares under the Securities Act would result in such shares becoming freely tradeable without restriction under the Securities Act (except for shares purchased by affiliates of the Company) immediately upon the effectiveness of such registration. See "Description of Capital Stock -- Registration Rights."



## UNDERWRITING

The underwriters named below (the "Underwriters"), represented by Montgomery Securities and Donaldson, Lufkin & Jenrette Securities Corporation (the "Representatives"), have severally agreed, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase from the Company the number of shares of Common Stock indicated below opposite their respective names at the initial public offering price less the underwriting discount set forth on the cover page of this Prospectus. The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain terms and conditions precedent and that the Underwriters are committed to purchase all of such shares, if any are purchased.

UNDERWRITER	NUMBER OF SHARES
Montgomery Securities.....	
Donaldson, Lufkin & Jenrette Securities Corporation.....	
Total.....	2,500,000

The Representatives have advised the Company that the Underwriters initially propose to offer the Common Stock to the public on the terms set forth on the cover page of this Prospectus. The Underwriters may allow to selected dealers a concession of not more than \$            per share, and the Underwriters may allow, and any such dealers may reallow, a concession of not more than \$            per share to certain other dealers. After the initial public offering, the price and concessions and reallowances to dealers may be changed by the Representatives. The Common Stock is offered subject to receipt and acceptance by the Underwriters and to certain other conditions, including the right to reject orders in whole or in part.

The Company has granted an option to the Underwriters, exercisable during the 30-day period after the date of this Prospectus, to purchase up to a maximum of 375,000 additional shares of Common Stock to cover over-allotments, if any, at the same price per share as the initial 2,500,000 shares to be purchased by the Underwriters. To the extent the Underwriters exercise this option, each of the Underwriters will be committed, subject to certain conditions, to purchase such additional shares in approximately the same proportion as set forth in the above table. The Underwriters may purchase such shares only to cover over-allotments made in connection with this Offering.

The Underwriting Agreement provides that the Company will indemnify the Underwriters against certain liabilities, including civil liabilities, under the Securities Act, or will contribute to payments to the Underwriters may be required to make in respect thereof.

Each director and officer of the Company and certain of other holders of Common Stock prior to this Offering, as well as certain other holders of options, warrants or other rights to purchase Common Stock, have agreed not to sell, offer to sell, or otherwise dispose of any rights with respect to any shares of Common Stock, any options or warrants to purchase Common Stock, or any securities convertible or exchangeable for Common Stock, owned directly by such holders or with respect to which they have power of disposition for a period of 180 days after the date of this Prospectus without the prior written consent of Montgomery Securities. Montgomery Securities may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements. In addition, the Company has agreed not to sell, offer to sell, contract to sell or otherwise sell or dispose of any shares of Common Stock or any rights to acquire Common Stock, other than pursuant to the 1992 Plan, the Key Personnel Plan, the 1996 Plan, the Director Plan and the Purchase Plan, upon exercise of outstanding options and warrants, for a period of 180 days after the Effective Date without the prior consent of Montgomery Securities. See "Shares Eligible for Future Sale."

In October 1996, Montgomery Associates, an affiliate of Montgomery Securities, purchased 84,545 shares of the Company's Series D Preferred Stock at a purchase price of \$5.50 per share.

The Representatives have advised the Company that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority in excess of 5% of the number of shares of Common Stock offered hereby.

Prior to the Offering, there has been no public market for the Common Stock of the Company. Consequently, the initial public offering price will be determined through negotiations among the Company and the Representatives. Among the factors to be considered in such negotiations will be the history of, and prospects for, the Company and the industry in which it competes, an assessment of the Company's management, the present state of the Company's development, the prospects for future earnings of the Company, the prevailing market conditions at the time of this Offering, market valuations of publicly traded companies that the Company and the Representatives believe to be comparable to the Company, and other factors deemed relevant. See "Risk Factors -- No Prior Trading Market for Common Stock; Potential Volatility of Stock Price" and "Risk Factors -- Dilution."

#### LEGAL MATTERS

The validity of the issuance of shares of Common Stock offered hereby will be passed upon for the Company by Wilson Sonsini Goodrich & Rosati, P.C. ("WSGR"), Palo Alto, California. Certain legal matters in connection with this Offering will be passed upon for the Underwriters by Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, Palo Alto, California. As of the date of this Prospectus, Jeffrey D. Saper, a member of WSGR, is an Assistant Secretary of the Company and beneficially owns 4,550 shares of the Company's Preferred Stock.

#### EXPERTS

The consolidated financial statements of the Company as of March 31, 1995 and 1996 and September 30, 1996; for each of the years ended March 31, 1994, 1995 and 1996; and for the six months ended September 30, 1996 included in this Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of such firm as experts in auditing and accounting.

#### ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 with respect to the shares of Common Stock offered hereby, of which this Prospectus forms a part. In accordance with the rules of the Commission, this Prospectus omits certain information contained in the Registration Statement. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed therewith. Statements contained in this Prospectus concerning the provisions of such documents are necessarily summaries of such documents and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission as an exhibit to the Registration Statement. Copies of the Registration Statement and the exhibits and schedules thereto may be inspected, without charge, at the offices of the Commission, or obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549.

## 8X8, INC.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT ACCOUNTANTS

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

The reincorporation described in Note 10 to the Consolidated Financial Statements has not been consummated at November 1, 1996. When it has been consummated, we will be in a position to furnish the following report:

"In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of 8x8, Inc. and its subsidiaries at March 31, 1995 and 1996 and September 30, 1996 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1996 and for the six-month period ended September 30, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above."

PRICE WATERHOUSE LLP  
San Jose, California  
[November 1, 1996, except for note 10, which is as of \_\_\_\_\_, 1996.]

## 8X8, INC.

## CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MARCH 31,		SEPTEMBER 30,	PRO FORMA SEPTEMBER 30, 1996  (UNAUDITED)
	1995	1996	1996	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 890	\$ 4,652	\$ 7,373	\$ 8,863
Short-term investments.....	10,433	5,241	89	89
Accounts receivable, net.....	3,195	3,579	1,802	1,802
Inventory.....	1,482	7,270	1,211	1,211
Income taxes receivable.....	2,241	--	--	--
Prepaid expenses and other assets.....	403	284	288	288
	-----	-----	-----	-----
Total current assets.....	18,644	21,026	10,763	12,253
Property and equipment, net.....	1,829	1,526	1,579	1,579
Deposits and other assets.....	171	515	514	514
	-----	-----	-----	-----
	\$20,644	\$23,067	\$ 12,856	\$ 14,346
	=====	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable.....	\$ 1,754	\$ 5,581	\$ 388	\$ 388
Accrued compensation.....	1,204	1,779	926	926
Accrued warranty.....	1,057	1,058	1,234	1,234
Other accrued liabilities.....	1,132	1,741	953	953
Income taxes payable.....	1,514	1,534	1,534	1,534
	-----	-----	-----	-----
Total current liabilities.....	6,661	11,693	5,035	5,035
	-----	-----	-----	-----
Commitments and contingencies (Notes 4 and 5)				
Minority interest.....	--	--	70	70
	-----	-----	-----	-----
Stockholders' equity:				
Preferred stock \$0.001 par value; 5,411,820 shares authorized actual; 5,000,000 shares authorized pro forma (unaudited).....				
Series A convertible preferred noncumulative stock, \$0.001 par value; 1,260,000 shares issued and outstanding actual; none issued and outstanding pro forma (unaudited).....	1	1	1	--
Series B convertible preferred noncumulative stock, \$0.001 par value; 1,100,000 shares issued and outstanding actual; none issued and outstanding pro forma (unaudited).....	1	1	1	--
Series C convertible preferred noncumulative stock, \$0.001 par value; 681,820 shares issued and outstanding actual; none issued and outstanding pro forma (unaudited).....	1	1	1	--
Series D convertible preferred noncumulative stock, \$0.001 par value; 413,640 shares issued and outstanding actual; none issued and outstanding pro forma (unaudited).....	--	--	1	--
Common stock, \$0.001 par value; 40,000,000 shares authorized; 4,550,721, 4,782,021 and 6,968,975 shares issued and outstanding actual; 10,695,348 shares issued and outstanding pro forma (unaudited).....	5	5	7	11
Additional paid-in capital.....	10,547	11,155	14,520	16,010
Notes receivable from stockholders.....	--	--	(1,078)	(1,078)
Retained earnings/(accumulated deficit).....	3,428	211	(5,702)	(5,702)
	-----	-----	-----	-----
Total Stockholders' equity.....	13,983	11,374	7,751	9,241
	-----	-----	-----	-----
	\$20,644	\$23,067	\$ 12,856	\$ 14,346
	=====	=====	=====	=====

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



## 8X8, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	PREFERRED STOCK								COMMON STOCK		ADDITIONAL PAID-IN CAPITAL
	SERIES A		SERIES B		SERIES C		SERIES D		SHARES	AMOUNT	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	
Balance at March 31, 1993.....	1,260,000	\$ 1	1,100,000	\$ 1	--	\$ --	--	\$ --	4,579,189	\$ 5	\$ 3,009
Issuance of common stock upon exercise of options.....	--	--	--	--	--	--	--	--	4,983	1	7
Repurchase of common stock.....	--	--	--	--	--	--	--	--	(40,985)	(1)	(3)
Payment received on notes receivable from Stockholders.....	--	--	--	--	--	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--	--	--	--	--	--
Balance at March 31, 1994.....	1,260,000	1	1,100,000	1	--	--	--	--	4,543,187	5	3,013
Issuance of common stock upon exercise of options.....	--	--	--	--	--	--	--	--	14,199	--	35
Repurchase of common stock.....	--	--	--	--	--	--	--	--	(6,665)	--	--
Issuance of Series C convertible preferred noncumulative stock.....	--	--	--	--	681,820	1	--	--	--	--	7,499
Net loss.....	--	--	--	--	--	--	--	--	--	--	--
Balance at March 31, 1995.....	1,260,000	1	1,100,000	1	681,820	1	--	--	4,550,721	5	10,547
Issuance of common stock upon exercise of options.....	--	--	--	--	--	--	--	--	246,389	1	609
Repurchase of common stock.....	--	--	--	--	--	--	--	--	(15,089)	(1)	(1)
Net loss.....	--	--	--	--	--	--	--	--	--	--	--
Balance at March 31, 1996.....	1,260,000	1	1,100,000	1	681,820	1	--	--	4,782,021	5	11,155
Issuance of common stock upon exercise of options.....	--	--	--	--	--	--	--	--	2,166,954	2	1,080
Issuance of common stock.....	--	--	--	--	--	--	--	--	20,000	--	10
Issuance of Series D convertible preferred non-cumulative stock.....	--	--	--	--	--	--	413,640	1	--	--	2,275
Net loss.....	--	--	--	--	--	--	--	--	--	--	--
Balance at September 30, 1996.....	1,260,000	\$ 1	1,100,000	\$ 1	681,820	\$ 1	413,640	\$ 1	6,968,975	\$ 7	\$ 14,520

	NOTES RECEIVABLE FROM STOCKHOLDERS	RETAINED EARNINGS	TOTAL
--	---	----------------------	-------

Balance at March 31, 1993.....	\$ (7)	\$ 9,657	\$12,666
Issuance of common stock upon exercise of options.....	--	--	8
Repurchase of common stock.....	--	--	(4)
Payment received on notes receivable from Stockholders.....	7	--	7
Net loss.....	--	(348)	(348)
Balance at March 31, 1994.....	--	9,309	12,329

Issuance of common stock upon exercise of options.....	--	--	35
Repurchase of common stock.....	--	--	--
Issuance of Series C convertible preferred noncumulative stock.....	--	--	7,500
Net loss.....	--	(5,881 )	(5,881)
	-----	-----	-----
Balance at March 31, 1995.....	--	3,428	13,983
Issuance of common stock upon exercise of options.....	--	--	610
Repurchase of common stock.....	--	--	(2)
Net loss.....	--	(3,217 )	(3,217)
	-----	-----	-----
Balance at March 31, 1996.....	--	211	11,374
Issuance of common stock upon exercise of options.....	(1,078)	--	4
Issuance of common stock.....	--	--	10
Issuance of Series D convertible preferred non-cumulative stock.....	--	--	2,276
Net loss.....	--	(5,913 )	(5,913)
	-----	-----	-----
Balance at September 30, 1996.....	\$ (1,078)	\$ (5,702 )	\$ 7,751
	=====	=====	=====

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





## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## THE COMPANY

8x8, Inc. (the Company or 8x8) was incorporated in California in February 1987 as Integrated Information Technology, Inc. and formally changed its name to 8x8, Inc. on April 5, 1996. The Company develops, manufactures, and markets high-performance multimedia processors focusing on highly integrated silicon compression and decompression devices for video phones and video conferencing.

## FISCAL YEAR

The Company's fiscal year ends on the Thursday closest to March 31. Prior to the fiscal year ended March 28, 1996, the Company's fiscal year ended on March 31. The six month periods ended September 26 each included 26 weeks of operations. For purposes of these consolidated financial statements, the Company has indicated its fiscal year as ending on March 31 and its interim periods as ending on September 30.

## PRINCIPLES OF CONSOLIDATION

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

## USE OF ESTIMATES

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

## REVENUE RECOGNITION

Revenues from product sales to equipment manufacturers and other end users are recognized upon shipment. Technology license revenues are generally recognized upon the delivery of the licensed technology provided no significant future obligations exist and collection is probable. Revenues generated by sales to distributors under agreements allowing certain rights of return are deferred for financial reporting purposes until the products are sold by the distributors. Revenues generated by sales to distributors when no rights of return exist are recognized upon shipment.

## CASH, CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities." The cumulative effect as of April 1, 1994, of adopting SFAS 115 was immaterial. On March 31, 1996 and September 30, 1996, the Company classified its investments subject to SFAS 115 either as available-for-sale or as trading. On March 31, 1995, the Company's investments were classified as available-for-sale. The cost of the Company's investments are determined based on specific identification. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, if any, recorded as a separate component of stockholders' equity. At March 31, 1995 and 1996, the fair value of the Company's investments classified as available-for-sale approximated cost. The investments classified as trading are reported at fair value with realized and unrealized gains and losses from investments subject to SFAS 115 being reported in

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the statement of operations. At March 31, 1996 and September 30, 1996, the fair value of the Company's investments classified as trading approximated cost. Realized and unrealized gains and losses were immaterial for the years ended March 31, 1995 and 1996 and the six months ended September 30, 1996. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates the classification at each reporting date. At March 31, 1995 and 1996, the Company's investments were primarily comprised of commercial paper with a maturity of less than 12 months. The cost and fair value of investments classified as trading were not material at March 31, 1996 and September 30, 1996.

## INVENTORY

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

## NONMARKETABLE EQUITY INVESTMENTS

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

## PROPERTY AND EQUIPMENT

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

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

## WARRANTY EXPENSE

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

## RESEARCH AND SOFTWARE DEVELOPMENT COSTS

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

## FOREIGN CURRENCY TRANSLATION

The U.S. dollar is the functional currency of the Company's foreign subsidiary. Exchange gains and losses resulting from transactions denominated in currencies other than the U.S. dollar are included in the results of operations for the year. To date, such amounts have not been material. Total assets of the Company's foreign subsidiary were \$247,000, \$320,000, \$479,000, and \$335,000 as of March 31, 1994, 1995 and 1996 and September 30, 1996, respectively. The Company does not undertake any foreign currency hedging activities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## INCOME TAXES

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

## CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term investments and trade accounts receivable. The Company places its cash, cash equivalents and short-term investments primarily in market rate accounts, certificates of deposit, U.S. Treasury bonds and commercial paper. The Company, by policy, limits the amount of credit exposure for cash and cash equivalents to any one financial institution and to any one debt or equity instrument. The Company sells its products to original equipment manufacturers and distributors throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. At March 31, 1996 three customers accounted for 26%, 18% and 11% of accounts receivable. At September 30, 1996 two customers accounted for 36% and 12% of accounts receivable.

## PRO FORMA NET LOSS PER SHARE (UNAUDITED)

Pro forma net loss per share is computed using the weighted average number of common and common equivalent shares outstanding during the periods assuming the conversion of all shares of the Company's Convertible Preferred Stock into Common Stock which will occur upon the consummation of the offering. Pursuant to the requirements of the Securities and Exchange Commission, common equivalent shares relating to preferred stock (using the if-converted method) and stock options (using the treasury stock method and assuming an initial public offering price of \$9 per share) issued subsequent to September 30, 1995 have been included in the computations for all periods presented.

Historical net loss per share data has not been presented since such amounts are not deemed to be meaningful due to the significant change in the Company's capital structure which will occur in connection with the offering.

## PRO FORMA BALANCE SHEET (UNAUDITED)

During October 1996, the Company issued 270,913 shares of Series D convertible preferred stock and received cash of approximately \$1,490,000 (see Note 10). If the offering contemplated by this prospectus (the "Offering") is consummated, all shares of convertible preferred stock outstanding at the closing date will automatically convert into an aggregate of 3,726,373 shares of Common Stock.

The pro forma effect of the above mentioned transactions has been reflected in the accompanying unaudited pro forma balance sheet as of September 30, 1996.

## INTERIM RESULTS (UNAUDITED)

The accompanying statements of operations and of cash flows for the six months ended September 30, 1995 are unaudited. In the opinion of management, these statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the results for the interim period. The data disclosed in these notes to consolidated financial statements related to this period are unaudited.

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 2 -- BALANCE SHEET COMPONENTS (IN THOUSANDS):

	MARCH 31,		SEPTEMBER
	1995	1996	30,
	-----	-----	-----
	1995	1996	1996
	-----	-----	-----
Accounts receivable:			
Accounts receivable.....	\$ 3,592	\$ 4,099	\$ 2,248
Less: allowance for doubtful accounts.....	(397)	(520)	(446)
	-----	-----	-----
	\$ 3,195	\$ 3,579	\$ 1,802
	=====	=====	=====
Inventories:			
Raw materials.....	\$ 216	\$ 262	\$ 140
Work-in-process.....	578	6,231	784
Finished goods.....	688	777	287
	-----	-----	-----
	\$ 1,482	\$ 7,270	\$ 1,211
	=====	=====	=====
Property and equipment:			
Machinery and computer equipment.....	\$ 4,073	\$ 4,005	\$ 3,751
Furniture and fixtures.....	703	729	750
Licensed software.....	1,521	1,782	2,156
Leasehold improvements.....	499	532	554
	-----	-----	-----
	6,796	7,048	7,211
Less: accumulated depreciation and amortization.....	(4,967)	(5,522)	(5,632)
	-----	-----	-----
	\$ 1,829	\$ 1,526	\$ 1,579
	=====	=====	=====

## NOTE 3 -- TRANSACTIONS WITH RELATED PARTIES:

During fiscal 1995, the Company issued 681,820 shares of Series C Preferred Stock to a major semiconductor manufacturer for \$11.00 per share (see Note 6). This transaction resulted in the other company obtaining a seat on 8x8's Board of Directors. In addition, the Company entered into three agreements with this company. Two of these agreements involved the joint development and production of specific products and the third was a supply agreement under which 8x8 had reserved a specific level of production capacity at the other company's fabrication facilities and was obligated to make certain minimum purchases on a monthly basis. All three agreements were terminated by mutual agreement between the parties in fiscal 1996. The Company recognized, during fiscal 1995, contract revenue and related costs under these agreements of \$294,000 and \$229,000, respectively. Also, the Company purchased \$868,000 in inventory from this stockholder during 1995. Accounts receivable from this stockholder were \$252,000 at March 31, 1995.

During the years ended March 31, 1995 and 1996 and the six months ended September 30, 1996, the Company's product revenues included \$897,000, \$2,037,000 and \$959,000, respectively, in sales to a company which is one of the Company's stockholders. An executive of this company is also on the Company's Board of Directors. Accounts receivable from this stockholder aggregated \$245,000, \$628,000 and \$140,000 at March 31, 1995 and 1996 and September 30, 1996, respectively.

During the years ended March 31, 1994 and 1995, the Company sold \$3,258,000 and \$795,000, respectively, of product to one of its stockholders. The stockholder is also the guarantor of the Company's facility lease (see Note 5).

During fiscal 1994, the Company paid \$940,000 to two related entities 100% owned by a founder and officer of the Company for various marketing, sales and distribution and research and development activities undertaken on behalf of the Company. Besides providing certain marketing and research and development services to 8x8, these entities did not have any other operations or activities. At March 31, 1994, the Company

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

purchased all assets and assumed all liabilities of these companies at a nominal purchase price of \$1. The assets acquired and liabilities assumed were not material to the Company.

During fiscal 1996, the Company licensed certain technologies to a privately held entity founded by one of 8x8's former officers, in exchange for \$600,000 in cash and 10% ownership of this entity. This entity was subsequently acquired by another entity and the Company received \$727,000 for its 10% interest. The gain on sale of the stock has been included in other income, net during fiscal 1996.

During fiscal 1996, the Company licensed certain technologies to a privately held semiconductor company founded by another of 8x8's former officers, in exchange for \$1,000,000 in cash and 10% ownership in that company.

During fiscal 1996, the Company acquired for cash approximately 14% of the outstanding voting stock of a privately held company. The Company is accounting for this investment on the cost method.

In April 1996, the Company and certain of its employees formed VidUs, Inc. ("VidUs"). The Company paid \$158,000 for a 75% ownership in VidUs and the employees paid \$52,000 for a 25% ownership. VidUs is engaged in the design of integrated camera and video compression solutions. VidUs has been consolidated in the Company's financial statements since inception.

## NOTE 4 -- INCOME TAXES:

Income (loss) before income taxes includes \$50,000, \$62,000, \$51,000, and \$31,000 of income of a foreign subsidiary for the fiscal years ended March 31, 1994, 1995 and 1996 and the six months ended September 30, 1996, respectively. The components of the consolidated provision (benefit) for income taxes consisted of the following (in thousands):

	YEARS ENDED MARCH 31,			SIX MONTHS
	1994	1995	1996	ENDED SEPTEMBER 30, 1996
Current:				
Federal.....	\$ 170	\$(1,962)	\$ --	\$ --
State.....	14	--	--	--
Foreign.....	19	22	20	146
	-----	-----	-----	-----
	203	(1,940)	20	146
	-----	-----	-----	-----
Deferred:				
Federal.....	(49)	1,905	--	--
State.....	626	--	--	--
	-----	-----	-----	-----
	577	1,905	--	--
	-----	-----	-----	-----
	\$ 780	\$ (35)	\$ 20	\$ 146
	=====	=====	===	=====

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	MARCH 31,		SEPTEMBER
	1995	1996	30, 1996
Deferred revenue.....	\$ 324	\$ 85	\$ 79
Inventory reserves.....	1,291	1,543	1,102
Section 263A adjustments.....	61	292	95
Provision for doubtful accounts.....	168	220	177
Warranty reserve.....	223	449	488
Research and development.....	957	1,200	1,270
NOL carry forwards.....	--	594	3,038
Other.....	331	386	705
	3,355	4,769	6,954
Valuation allowance.....	(3,355)	(4,769)	(6,954)
Total.....	\$ --	\$ --	\$ --

Based on factors which include the lack of significant history of recent profits, the fact that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology, and the lack of carryback capacity to realize these assets, the weight of available evidence indicates that it is more likely than not that it will not be able to realize its deferred tax assets and thus a full valuation allowance has been recorded at September 30, 1996.

At September 30, 1996, the Company had approximately \$7,500,000 of federal net operating loss carryforwards for tax reporting purposes available to offset future taxable income; such carryforwards expire at various dates beginning 2011. In addition, at September 30, 1996, the Company had research and development credit carryforwards for federal and state tax reporting purposes of approximately \$446,000 and \$824,000, respectively, which begin expiring in 2010. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating losses and credits that can be carried forward may be impaired or limited in certain circumstances. Events which may cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three year period. As of September 30, 1996, the net operating loss carry forwards of the Company were not subject to any material annual limitations.

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

	YEARS ENDED MARCH 31,			SIX MONTHS
	1994	1995	1996	ENDED SEPTEMBER 30, 1996
Provision (benefit) at statutory rate.....	\$ 147	\$(2,012)	\$(1,087)	\$(1,988)
State income taxes before valuation allowance, net of federal benefit.....	24	(328)	(177)	(143)
Research and development credits.....	(591)	(366)	(243)	(70)
Valuation allowance.....	1,048	2,307	1,414	2,185
Other.....	152	364	113	162
Provision (benefit) for income taxes.....	\$ 780	\$ (35)	\$ 20	\$ 146

The Internal Revenue Service (the "IRS") is currently conducting an examination of the Company's federal income tax return for the fiscal year ended March 31, 1992. In August 1995, the IRS asserted a deficiency against the Company for the taxable year 1992 in the amount of approximately \$1,365,000, together

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

with a penalty in the amount of approximately \$273,000 plus accrued interest. The Company has filed an appeal challenging the assessment. The outcome of this matter cannot be predicted. Additionally, the IRS has requested information related to the Company's federal tax returns for fiscal year 1995.

## NOTE 5 -- LEASES AND OTHER COMMITMENTS:

## LEASES

The Company leases its facility under a non-cancelable operating lease agreement. This agreement provides for annual increments of rent in predetermined amounts, requires the Company to pay property taxes, insurance and normal maintenance costs and expires in December 1997 with an option to extend the lease for an additional five-year period. The lease has been partially guaranteed by a corporate stockholder of the Company.

For accounting purposes, the rent expense for the facility lease is based on straight-line amortization of the total minimum payments required over the lease term. Rent expense so recognized before its payment due date amounted to \$265,000, \$192,000 and \$145,000 at March 31, 1995 and 1996 and September 30, 1996, respectively, and is included in "Other accrued liabilities."

Future minimum lease payments under this non-cancelable operating lease (inclusive of the aforementioned deferred rent) as of September 30, 1996 are as follows (in thousands):

YEAR ENDING MARCH 31,	
-----	
1997.....	\$ 412
1998.....	612
	-----
Total minimum payments.....	\$1,024
	=====

Rent expense for all operating leases for the years ended March 31, 1994, 1995 and 1996 and the six months ended September 30, 1996 was \$574,000, \$776,000, \$767,000 and \$356,000, respectively.

## OTHER COMMITMENTS

As of March 31, 1996, the Company had an outstanding letter of credit in the amount of \$435,000 which expired on August 15, 1996 and was secured by certain of the Company's short-term investments.

## NOTE 6 -- STOCKHOLDERS' EQUITY:

## PREFERRED STOCK

As of September 30, 1996 the Company had issued 3,455,460 shares of non-cumulative, convertible preferred stock, of which 1,260,000 shares, 1,100,000 shares, 681,820 and 413,640 shares have been designated as Series A, B, C and D, respectively. The Series A, B, C and D preferred stock were sold for \$0.50, \$2.00, \$11.00 and \$5.50 per share, respectively, representing fair market value of the stock at the date of issuance, as determined by the Board of Directors.

Each share of preferred stock is convertible into one share of common stock, subject to adjustment for dilution, and will be automatically converted into common stock in the event of the closing of an underwritten public offering of at least \$5,000,000. The preferred stock has voting rights equal to common stock on an as-if converted basis.

Holders of the Series A, B, C and D preferred stock are entitled to receive noncumulative dividends at a rate of \$0.05, \$0.20, \$1.10 and \$0.55 per share per annum, respectively, when and as declared by the Board of Directors, prior to payment of dividends on common stock.



## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In the event of liquidation, dissolution or winding up of the Company, either voluntary or involuntary, holders of the Series A, B, C and D preferred stock shall be entitled to receive \$0.50, \$2.00, \$11.00 and \$5.50 per share, respectively, plus any declared but unpaid dividends, prior to any distribution to the holders of common stock. To date, no dividends have been declared.

The Company has reserved 3,455,460 shares of its common stock for issuance upon conversion of the outstanding preferred stock.

## 1987 INCENTIVE STOCK PLAN

In 1987, the Company adopted an Incentive Stock Plan (the 1987 Plan) which was subsequently terminated by the Board of Directors in January 1992. The Company had reserved 2,962,000 shares of its common stock for issuance under the 1987 Plan. The 1987 Plan provided for grants of stock purchase rights at prices equal to the fair market value of stock as determined by the Company's Board of Directors. Stock purchase rights granted under the plan generally vested over five years. During the years ended March 31, 1994, 1995 and 1996, unvested shares aggregating 40,985, 6,665 and 15,089, respectively, were repurchased at prices ranging from \$0.10 to \$0.40 per share. In January 1992, on termination, all unissued shares under the 1987 Plan were canceled. At September 30, 1996, all shares of common stock purchased under the 1987 Plan were fully vested.

## 1992 STOCK OPTION PLAN

In January 1992, the Board of Directors adopted the 1992 Stock Option Plan (the 1992 Plan) and reserved 1,000,000 shares of the Company's common stock for issuance under this plan. In August 1994, the Board of Directors authorized an increase in the number of shares of the common stock reserved for issuance under the 1992 Plan to 2,000,000 shares. The 1992 Plan provides for granting incentive and non-statutory stock options to employees at prices equal to the fair market value of stock at the grant dates as determined by the Company's Board of Directors. Options generally vest over periods ranging from two to four years. Vesting for certain options accelerates, if certain predefined milestones are met. The following is a summary of the activity under the 1992 Stock Option Plan during the fiscal years ended March 31, 1994, 1995 and 1996 and the six months ended September 30, 1996:

	OPTIONS AVAILABLE FOR GRANT	SHARES SUBJECT TO OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE
	-----	-----	-----
Balance at March 31, 1993.....	381,167	616,550	\$1.00-\$2.50
Granted.....	(226,800)	226,800	\$2.50
Exercised.....	--	(4,983)	\$1.00-\$2.50
Returned to plan.....	51,017	(51,017)	\$1.00-\$2.50
	-----	-----	-----
Balance at March 31, 1994.....	205,384	787,350	\$1.00-\$2.50
Increase in options available for grant.....	1,000,000	--	
Granted.....	(423,367)	423,367	\$2.50
Exercised.....	--	(14,199)	\$2.50
Returned to plan.....	98,168	(98,168)	\$1.00-\$2.50
	-----	-----	-----
Balance at March 31, 1995.....	880,185	1,098,350	\$1.00-\$2.50
Granted.....	(1,422,550)	1,422,550	\$2.50
Exercised.....	--	(203,264)	\$1.00-\$2.50
Returned to plan.....	861,879	(861,879)	\$1.00-\$2.50
	-----	-----	-----
Balance at March 31, 1996.....	319,514	1,455,757	\$1.00-\$2.50
Granted.....	(1,662,112)	1,662,112	\$0.50-\$2.50
Exercised.....	--	(9,907)	\$0.50-\$2.50
Returned to plan.....	1,725,887	(1,725,887)	\$0.50-\$2.50
	-----	-----	-----
Balance at September 30, 1996.....	383,289	1,382,075	\$0.50
	=====	=====	=====
Options exercisable at September 30, 1996.....	--	223,114	\$0.50

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## KEY PERSONNEL OPTION PLAN

In July 1995, the Board of Directors adopted the Key Personnel Option Plan (the Key Personnel Plan) and reserved 2,000,000 shares of the Company's common stock for issuance under this plan. The 1995 Key Personnel Plan provides for granting incentive and non-statutory stock options to Officers of the Company at prices equal to fair market value of stock at the grant dates as determined by the Company's Board of Directors. Options generally vest over periods ranging from two to four years. Vesting for certain options accelerates if certain predefined milestones are met. The following is a summary of the activity under the Key Personnel Stock Option Plan since inception:

	OPTIONS AVAILABLE FOR GRANT	SHARES SUBJECT TO OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE
	-----	-----	-----
Adoption of plan.....	2,000,000	--	\$2.50
Granted.....	(1,551,000)	1,551,000	\$2.50
Exercised.....	--	(43,125)	\$2.50
Returned to plan.....	402,875	(402,875)	\$2.50
	-----	-----	-----
Balance at March 31, 1996.....	851,875	1,105,000	\$2.50
Increase in options available for grant.....	200,000	--	\$0.50
Granted.....	(2,206,800)	2,206,800	\$0.50-\$2.50
Exercised.....	--	(2,156,800)	\$0.50
Returned to plan.....	1,155,000	(1,155,000)	\$2.50
	-----	-----	-----
Balance at September 30, 1996.....	75	--	--
	=====	=====	=====

At September 30, 1996, approximately 1,516,000 shares issued under this plan were not vested.

In June 1996, in connection with restructuring of the Company's operations, the Board of Directors approved a proposal under which employees could elect to cancel their options in exchange for grants of new options with exercise price of \$0.50, which was the fair value of the Company's common stock at that time. The Company has obtained an independent appraisal to support the June 1996 fair market value determination of \$0.50 by the Board of Directors. Options for the purchase of approximately 2,467,000, shares of the 1992 Plan and the Key Personnel Plan were canceled in exchange for newly issued options to purchase an equal number of shares.

## 1996 STOCK PLAN

In June 1996, the Board of Directors adopted the 1996 Stock Plan (the 1996 Plan) and reserved 1,000,000 shares of the Company's common stock for issuance. This amount is to be increased annually on the first day of each of the Company's fiscal years commencing November 1, 1997 in an amount equal to 5% of the Company's common stock issued and outstanding at the end of the immediately preceding fiscal year subject to certain maximum limitations. The 1996 Plan provides for granting incentive and nonstatutory stock options to employees at prices equal to the fair market value of the stock at the grant dates as determined by

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the Company's Board of Directors. Options generally vest over a period of not more than five years. The following is a summary of the activity of the 1996 Plan during the six months ended September 30, 1996:

	OPTIONS AVAILABLE FOR GRANT	SHARES SUBJECT TO OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE
	-----	-----	-----
Adoption of plan.....	1,000,000	--	--
Granted.....	(171,150)	171,150	\$0.50
Exercised.....	--	(247)	\$0.50
Returned to plan.....	9,191	(9,191)	\$0.50
	-----	-----	-----
Balance at September 30, 1996.....	838,041	161,712	\$0.50
	=====	=====	=====
Options exercisable at September 30, 1996.....	--	7,452	\$0.50

## 1996 DIRECTOR OPTION PLAN

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

## 1996 EMPLOYEE STOCK PURCHASE PLAN

The Company's 1996 Stock Purchase Plan (the Purchase Plan) was adopted in June 1996 and will become effective upon the closing of an initial public offering. Under the Purchase Plan a total of 500,000 shares of common stock have been reserved for issuance to participating employees who meet eligibility requirements.

The Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's base compensation, including commissions, bonuses and overtime, at a price equal to 85% of the fair market value of the common stock at the beginning of each offering period or the end of a six month purchase period, whichever is lower. In the event of a merger of the Company with or into another corporation or the sale of all or substantially all of the assets of the Company, the Purchase Plan provides that a new exercise date shall be set for each option under the plan which exercise date shall occur before the date of the merger or asset sale.

## CERTAIN PRO FORMA DISCLOSURES

The Company accounts for its employee stock option plans in accordance with the provisions of Accounting Principles Board Opinion No. 25. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Compensation" which established a fair value based method of accounting for employee stock option plans. Had compensation cost for the Company's option plans been determined based on the fair value at the grant dates, as prescribed in FAS 123, the Company's net loss and pro forma net loss per share would have been as follows:

	YEAR ENDED MARCH 31, 1996 -----	SIX MONTHS ENDED SEPTEMBER 30, 1996 -----
Net loss:		
As reported.....	\$(3,217,000)	\$ (5,913,000)
Pro forma.....	(3,517,000)	(6,248,000)
Pro forma net loss per share:		
As reported.....	\$ (0.28)	\$ (0.50)
Adjusted pro forma.....	(0.30)	(0.52)

For the purposes of above noted FAS 123 pro forma disclosures the fair value of each option grant has been estimated on the date of grant using the minimum value method with the following assumptions used for grants during the applicable period: dividend yield of 0.0% for both periods; risk-free interest rates of 5.1% to 6.7% for options granted during the year ended March 31, 1996 and 5.7% to 6.5% for options granted during the six months ended September 30, 1996; and a weighted average expected option term of five years for both periods.

Because the determination of the fair value of all options granted after the Company becomes a public entity will include an expected volatility factor in addition to the factors described in the preceding paragraph and, because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects on reported net loss for future years.

## NOTE 7 -- EMPLOYEE BENEFITS PLANS:

## 401(K) SAVINGS PLAN

In April 1991, the Company adopted a 401(k) savings plan ("Savings Plan") covering substantially all of its U.S. employees. Under the Savings Plan, eligible employees may contribute up to the maximum allowed by the IRS from their compensation to the Savings Plan with the Company matching participants' contributions up to \$300 per employee per year at a dollar for dollar rate of the employee contribution. The Company matching vests over 3 years. To date, the Company's contributions have not been material.

## PROFIT SHARING PLAN

In July 1995, the Company's Board of Directors approved a profit sharing plan which provides for additional compensation to all employees of the Company based on quarterly income before income taxes. The profit sharing plan is effective beginning in fiscal 1996 and provides for payments of up to 15% of total quarterly income before income taxes. Additionally the plan provides for payment of certain discretionary bonuses based on criterion established by management. Charges related to this plan were not material for the fiscal year ended March 31, 1996 or the six months ended September 30, 1996.

## NOTE 8 -- GEOGRAPHIC AREA AND SIGNIFICANT CUSTOMER INFORMATION:

The Company's export sales to Europe represented 21%, 26%, 17% and 23% of total revenues in fiscal years 1994, 1995, 1996 and the six months ended September 30, 1996. The Company's export sales to the Asia Pacific region represented less than 10% of total revenues in 1994, 14% of total revenues in 1995, 32% of total revenues in 1996, and 39% of total revenues in the six months ended September 30, 1996.

## 8X8, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Product sales to two different customers accounted for approximately 23% and 13%, of the Company's total revenues for the years ended March 31, 1994 and 1995, respectively. During the year ended March 31, 1996 and the six months ended September 30, 1996 product sales to no customer accounted for 10% or more of the Company's total revenues. License revenues from two different customers accounted for approximately 24% and 10% of the Company's total revenues for the year ended March 31, 1996 and the six months ended September 30, 1996, respectively.

## NOTE 9 -- RESTRUCTURING COSTS:

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

During fiscal 1997, the Company recorded an additional charge for restructuring its operations by reducing its workforce by approximately 25%. As of September 30, 1996, the Company's restructuring actions were fully completed and there were no outstanding restructuring cost accruals.

## NOTE 10 -- SUBSEQUENT EVENTS:

During October 1996, the Company issued an additional 270,913 shares of Series D Preferred Stock for cash proceeds of approximately \$1,490,000.

## DELAWARE REINCORPORATION

On October 21, 1996, the Company's Board of Directors, subject to stockholder approval, authorized the reincorporation of the Company in Delaware and the associated exchange of each series of stock of the predecessor company into 1 share of each corresponding series of stock of the Delaware successor.

The Board of Directors also approved that effective upon the closing of the initial public offering, the Company will be authorized to issue five million shares of undesignated Preferred Stock, and the Board of Directors will have the authority to issue the undesignated Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof.

The reincorporation will occur prior to the completion the Company's initial public offering. These financial statements have been prepared giving effect to the reincorporation for all periods presented.

## APPENDIX -- DESCRIPTION OF GRAPHICS

## OUTSIDE FRONT COVER

Graphic: 8x8, Inc. logo.

## INSIDE FRONT COVER

The graphic heading reads "Silicon, software and systems for video conferencing." Underneath this heading, and to the left, there is a picture of a prototype of the Company's VideoCommunicator product, the VC100, currently under development. To the right of this picture is the following text: "8x8 is developing a family of VideoCommunicator products. The initial VideoCommunicator, the VC100, is compliant with the H.324 standard for POTS video telephony and connects to a television and touch-tone phone to add video to an otherwise normal telephone call." Underneath the heading, and to the right, there is a picture of the Company's VCP and LVP semiconductor products. To the left of this picture is the following text: "8x8's video compression semiconductors combine, on a single chip, a RISC microprocessor, a digital signal processor, specialized video processing circuitry, static RAM memory and proprietary software to perform the real time compression and decompression of video and audio information and establish and maintain network connections in a manner consistent with international standards for video telephony." Underneath this picture on the left are two pictures demonstrating the use of the Company's planned VideoCommunicator product, the VC100 with a man at one location and a man and woman at the other location. Underneath the picture on the right are two pictures demonstrating the use of video conferencing products.

Underneath these four pictures is the following text: "8x8, Inc. designs, develops and markets highly integrated, proprietary video compression semiconductors and associated software to manufacturers of corporate video conferencing systems. To address new opportunities, the Company intends to leverage its strengths in semiconductor design and related software by introducing video conferencing systems for the consumer market."

## OUTSIDE BACK COVER

Graphic: 8x8, Inc. logo.



## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable in connection with the sale of the Common Stock being registered hereby. All amounts are estimates except the SEC registration fee and the NASD filing fee.

	AMOUNT TO BE PAID BY REGISTRANT
	-----
SEC Registration Fee.....	\$ 8,712
NASD Filing Fee.....	3,375
Nasdaq National Market Application Fee.....	50,000
Printing.....	125,000
Legal Fees and Expenses.....	275,000
Accounting Fees and Expenses.....	180,000
Blue Sky Fees and Expenses.....	10,000
Director and Officer Liability Insurance.....	350,000
Custodial Fees.....	2,500
Transfer Agent and Registrar Fees.....	5,000
Miscellaneous.....	40,413
	-----
Total.....	\$1,050,000
	=====

## ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law (the "Delaware Law") authorizes a court to award, or a corporation's Board of Directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). Article Ten of the Registrant's Certificate of Incorporation (Exhibit 3.1 hereto) and Article VI of the Registrant's Bylaws (Exhibit 3.3 hereto) provide for indemnification of the Registrant's directors, officers, employees and other agents to the maximum extent permitted by Delaware Law. In addition, the Registrant has entered into Indemnification Agreements (Exhibit 10.1 hereto) with its officers and directors. The Underwriting Agreement (Exhibit 1.1) also provides for crossindemnification among the Company and the Underwriters with respect to certain matters, including matters arising under the Securities Act.

## ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Since September 30, 1993, the Registrant has issued and sold the following unregistered securities:

1. Between March 3, 1994 and June 26, 1996, the Registrant sold an aggregate of 258,046 shares of Common Stock at a price of \$2.50 per share for an aggregate purchase price of \$645,115 to the following stockholders pursuant to the exercise of an option granted under the Registrant's 1992 Stock Option Plan: 183 shares to Maria Balicka; 150 shares to Yu-Chuan Liu; 83 shares to Aaron Emigh; 600 shares to Amit Gulati; 8,000 shares to David Laws; 125 shares to Kathleen Hassett; 441 shares to Norman Duong; 600 shares to Leslie Jan; 4,200 shares to Faisal Khan; 200 shares to Laura Stansfield; 1,900 shares to Xiaolin (Richard) Tang; 177 shares to Henry Hao-jan Tung; 538 shares to Deborah Rudd; 867 shares to Chiao-er Allisa Lee; 1,642 shares to Dong Ha Lim; 1,300 shares to Clyde Wright; 980 shares to Wen-Huei Adam Wang; 133,125 shares to Chi-Shin Wang; 1,042 shares to Duat Hoang Tran; 50 shares to Manu Gulati; 20,000 shares to Mark Birman; 4,000 shares to Brett Coon; 68,333 shares to Richard Johnson; 850 shares to Hay-Pang Stephen Leung; 600 shares to Ekman Tsang; 418 shares to Joanna Liu; 1,000 shares to Dawn Wang; 2,925 shares to



Arijanto Soemedi; 2,042 shares to Sehat Sutardja; 100 shares to Peter Kong; and 1,575 shares to Robin Chirico.

2. Between February 24, 1994 and November 21, 1995, the Registrant sold an aggregate of 12,100 shares of Common Stock at a price of \$1.00 per share for an aggregate purchase price of \$12,100 to the following stockholders pursuant to the exercise of an option granted under the Registrant's 1992 Stock Option Plan: 2,500 shares to Sydney Lee; 5,200 shares to Sergio Golombek; and 4,400 shares to Ramah Sutardja.

3. In May 1994, the Registrant sold 681,820 shares of Series C Preferred Stock to National Semiconductor Corporation at a purchase price of \$7,500,020.

4. In July 1996, the Registrant sold an aggregate of 2,156,800 shares to the following officers and directors at an aggregate purchase price of \$1,078,400: 122,400 shares to Sandra L. Abbott; 122,400 shares to David Harper; 160,400 shares to Bryan Martin; 176,400 shares to Chris McNiffe; 125,400 shares to Michael Noonan; 1,000,000 shares to Joe Parkinson; 292,400 shares to Y.W. Sing; and 157,400 shares to Samuel Wang.

5. Between August 24, 1996 and September 13, 1996, the Registrant sold an aggregate of 247 shares of Common Stock at a price of \$0.50 per share for an aggregate purchase price of \$123.50 to the following stockholders pursuant to the exercise of an option granted under the Registrant's 1996 Stock Option Plan: 205 shares to Scott Shengwei Zhang; and 42 shares to Richard Williams.

6. Between August 24, 1996 and September 28, 1996, the Registrant sold an aggregate of 8,232 shares of Common Stock at a price of \$0.50 per share for an aggregate purchase price of \$4,116 to the following stockholders pursuant to the exercise of an option granted under the Registrant's 1992 Stock Option Plan: 3,271 shares to Scott Shengwei Zhang; 958 shares to Richard Williams; 2,000 shares to Rong-Xiang Ni; and 2,003 shares to Carl Fong.

7. In September 1996, the Registrant sold an aggregate of 413,640 shares of Series D Preferred Stock to the following investors at an aggregate purchase price of \$2,275,020: 363,640 shares to Sanyo Semiconductor Corporation; and 50,000 shares to Guy Hecker.

8. In September 1996, the Registrant issued 20,000 shares of Common Stock to Daniel Helman at a value of \$0.50 per share for an aggregate value of \$10,000. The Registrant issued to Mr. Helman such shares in connection with services provided to the Registrant.

9. In October 1996, the Registrant sold an aggregate of 270,913 shares of Series D Preferred Stock to the following investors at an aggregate purchase price of \$2,302,760.50: 84,545 shares to Montgomery Associates; 10,364 shares to G. Farman-Farmaian; 100,000 shares to Bexley Enterprises; 26,000 shares to Alidad Farman Farma; 4,550 shares to Jeffrey D. Saper; and 45,454 shares to John Price.

There was no underwriter involved in connection with any transaction set forth above. The issuances of the securities set forth in paragraph 1, 2, 4, 5 and 6 of this Item 15 were deemed to be exempt from registration under the Securities Act in reliance upon Rule 701 promulgated thereunder. The other issuances set forth in this Item 15 were deemed to be exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder as a transaction by an issuer not involving a public offering.

In all of such transactions, the recipients of securities represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the securities issued.

## ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## (A) EXHIBITS.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
1.1+	Form of Underwriting Agreement.
3.1+	Certificate of Incorporation of Registrant.
3.2+	Form of Amended and Restated Certificate of Incorporation of Registrant.
3.3+	Bylaws of Registrant.
5.1+	Opinion of Wilson, Sonsini, Goodrich & Rosati, Professional Corporation.
10.1+	Form of Indemnification Agreement.
10.2	1992 Stock Option Plan, as amended, and form of Stock Option Agreement.
10.3	Key Personnel Plan, as amended, and form of Stock Option Agreement.
10.4	1996 Stock Plan, as amended, and form of Stock Option Agreement.
10.5	1996 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
10.6	1996 Director Option Plan, as amended, and form of Director Option Agreement.
10.7+	Amended and Restated Registration Rights Agreement dated as of September 6, 1996 among the Registrant and certain holders of the Registrant's Common Stock.
10.8+	Facility lease dated as of July 3, 1990 by and between Sobrato Interests, a California Limited Partnership, and the Registrant, as amended.
10.9*+	License Agreement dated as of May 7, 1996 by and between Kyushu Matsushita Electric Industrial Co., Ltd. and the Registrant.
10.10+	Promissory Note between Joe Parkinson and Registrant dated June 29, 1996.
10.11+	Promissory Note between Y.W. Sing and Registrant dated June 29, 1996.
10.12+	Promissory Note between Sandra L. Abbott and Registrant dated June 29, 1996.
10.13+	Promissory Note between David M. Harper and Registrant dated June 29, 1996.
10.14+	Promissory Note between Bryan R. Martin and Registrant dated June 29, 1996.
10.15+	Promissory Note between Chris McNiffe and Registrant dated June 29, 1996.
10.16+	Promissory Note between Mike Noonan and Registrant dated June 29, 1996.
10.17+	Promissory Note between Samuel T. Wang and Registrant dated June 29, 1996.
11.1+	Computation Regarding Earnings Per Share.
21.1+	Subsidiaries of Registrant.
23.1	Consent of Independent Accountants.
23.2+	Consent of Counsel (included in Exhibit 5.1).
24.1+	Power of Attorney (see page II-5 of initial filing).
27.1+	Financial Data Schedule.

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\* Confidential treatment requested as to certain portions of this exhibit.

+ Previously filed.

## (B) FINANCIAL STATEMENT SCHEDULES

Schedule II Valuation and Qualifying Accounts.

## ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this

Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of this prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing, as specified in the Underwriting Agreement, certificates in such denomination and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on November 19, 1996.

8X8, INC.

By: /s/ JOE PARKINSON

-----  
 Joe Parkinson,  
 Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1933, this Amendment No. 1 has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
*/s/ JOE PARKINSON ----- Joe Parkinson	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	November 19, 1996
*/s/ Y.W. SING ----- Y.W. Sing	Vice Chairman of the Board	November 19, 1996
*/s/ SANDRA L. ABBOTT ----- Sandra L. Abbott	Chief Financial Officer and Vice President, Finance (Principal Financial and Accounting Officer)	November 19, 1996
*/s/ SAMUEL WANG ----- Samuel Wang	Vice President, Process Technology and Director	November 19, 1996
*/s/ BERND GIROD ----- Bernd Girod	Director	November 19, 1996
*/s/ RICHARD CHANG ----- Richard Chang	Director	November 19, 1996
*/s/ SADA CHIDAMBARAM ----- Sada Chidambaram	Director	November 19, 1996
*/s/ AKIFUMI GOTO ----- Akifumi Goto	Director	November 19, 1996
*/s/ THOMAS HUMPHREY ----- Thomas Humphrey	Director	November 19, 1996
*/s/ WILLIAM TAI ----- William Tai	Director	November 19, 1996
*By: /s/ JOE PARKINSON ----- Joe Parkinson (Attorney-in-Fact)		

## 8 X 8 INC.

## SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS  
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	WRITE-OFFS/ RECOVERIES OF UNCOLLECTIBLE ACCOUNTS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts:				
March 31, 1994.....	\$681	\$137	\$ 142	\$676
March 31, 1995.....	\$676	--	\$ 279	\$397
March 31, 1996.....	\$397	\$234	\$ 111	\$520
September 30, 1996.....	\$520	--	\$ 74	\$446

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## EXHIBIT INDEX

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11.1+	Computation Regarding Earnings Per Share.
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23.1	Consent of Independent Accountants.
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24.1+	Power of Attorney (see page II-5 of initial filing).
27.1+	Financial Data Schedule.

- - - - -  
 \* Confidential treatment requested as to certain portions of this exhibit.

+ Previously filed.

8x8, INC.

1992 STOCK OPTION PLAN  
(as amended November 5, 1996)

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code, and the regulations promulgated thereunder.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be granted under the Plan.

(c) "Board" means the Board of directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the Committee appointed by the Board of Directors in accordance with Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means 8x8, Inc. a California corporation.

(h) "Consultant" means any person including an advisor who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services.

(i) "Continuous Status as an Employee" means the absence of any interruption or termination of the employment relationship by the Company or any Subsidiary. Continuous Status as an Employee shall not be considered interrupted in the case of: (i) sick

leave; (ii) military leave; (iii) any other leave of absence approved by the Board; provided that such leave is for a period of not more than ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company, its Subsidiaries or its successor.

(j) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sale price for such stock (or the closing bid, if no sales were reported, as quoted on such system or exchange for the last market trading day prior to the time of determination) as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market System thereof) or regularly quoted by a recognized securities dealer, but selling prices are not reported, its Fair Market Value shall be the mean between the high and low asked prices for the Common Stock or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.



(o) "Notice of Grant" means a written notice evidencing certain terms and conditions of an individual Option. The Notice of Grant is part of the respective Option Agreement.

(p) "Officer" means a person who is an Officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) "Option" means a stock option granted pursuant to the Plan.

(r) "Optioned Stock" means the Common Stock subject to an Option.

(s) "Optionee" means an Employee or Consultant who receives an Option.

(t) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(u) "Plan" means this 1992 Stock Option Plan.

(v) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(w) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be placed under option and sold under the Plan is 2,000,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan.

#### 4. Administration of the Plan.

##### (a) Procedure.

(i) Multiple Administrative Bodies. The Plan may be administered by different committees with respect to Directors, Officers, Consultants and Employees. To the extent that the Administrator determines it to be desirable to qualify options granted thereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(ii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") which Committee shall be constituted in such a manner as to satisfy.

(iii) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which Committee shall be constituted in such a manner as to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock;

(ii) to select the Officers, Consultants, Directors, and Employees to whom Options may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of Shares to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option granted hereunder (including, but not limited to, the price per Share and any restriction or limitation, based in each case on such factors as the Administrator shall determine, in its sole discretion);

(vii) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(f) instead of Common Stock;

(viii) to determine whether, to what extent and under what circumstances Common Stock and other amounts payable with respect to an award under this Plan shall be deferred either automatically or at the election of the participant (including providing for and determining the amount, if any, of any deemed earnings on any deferred amount during any deferral period);

(ix) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(x) to modify or amend each Option (subject to Section 14 of the Plan); and

(xi) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Committee's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options.

#### 5. Eligibility.

(a) Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option may, if he or she is otherwise eligible, be granted additional Option.

(b) Each Option shall be designated in the Notice of Grant as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options.

(c) For purposes of Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(d) The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his right or the Company's right to terminate his employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company as described in Section 19 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 15 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Notice of Grant; provided, however, that in the case of an Incentive Stock Option, the term shall be no more than ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement. However, in the case of an Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

#### 8. Option Exercise Price and Consideration.

(a) The Administrator, in its discretion, may grant Options to eligible participants and shall determine whether such Options shall be Incentive Stock Options or Nonstatutory Stock Options. Each Option shall be evidenced by a Notice of Grant which shall expressly identify such Option as an Incentive Stock Option or as a Nonstatutory Stock Option, and be in such form and contain

such provisions as the Administrator shall from time to time deem appropriate. Without limiting the foregoing, the Administrator may, at any time, or from time to time, authorize the Company, with the consent of the respective recipients, to issue Options in exchange for the surrender and cancellation of any or all outstanding Options.

(b) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(A) granted to a person who, at the time of the grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(c) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (4) authorization from the Company to retain from the total number of Shares as to which the

Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (5) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale or loan proceeds required to pay the exercise price or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

#### 9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment. In the event of termination of an Optionee's consulting relationship or Continuous Status as an Employee with the Company (as the case may be), such Optionee may, but only within thirty (30) days (or such other period of time as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option and not exceeding three (3) months) after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his Option to the extent that Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of such termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding the provisions of Section 9(b) above, in the event of termination of an Optionee's Consulting relationship or Continuous Status as an Employee as a result of his disability (as defined in the Code), Optionee may, but only within six (6) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified, the Option shall terminate.

(d) Death of Optionee.

(i) If Optionee dies during the term of the Option and is at the time of his death an Employee or Consultant of the Company who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, then the Option may be exercised, at any time within one (1) year following the date of death (or such other period of time as is determined by the Board), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant three (3) months after the date of death (or such other period of time as is determined by the Board); or

(ii) If Optionee dies within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board) after the termination of Continuous Status as an Employee, then the Option may be exercised, at any time

within one (1) year following the date of death (or such other period of time as is determined by the Board), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee.

11. Stock Withholding to Satisfy Withholding Tax Obligations. At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option, which tax liability is subject to tax withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by electing to have the Company withhold from the Shares to be issued upon exercise of the Option, if any, that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.



12. Adjustments Upon Changes in Capitalization or Merger. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

In the event of the proposed dissolution or liquidation of the Company, the Board shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it

has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if following the merger, the Option confers the right to purchase or receive for each Share of Optioned Stock subject to the Option immediately prior to the merger, the consideration (whether stock, cash or other securities or property) received in the merger by holders of Common Stock for each Share held on the effective date of the transaction (and if the holders are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger.

13. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, or such other date as is determined by the Board. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made without his consent. To the extent necessary and desirable to comply with Section 422 of the Code and any other Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Agreements. Options shall be evidenced by written agreements in such form as the Board shall approve from time to time.

18. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws.

8X8, INC.  
STOCK OPTION AGREEMENT  
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1. GRANT OF OPTION. 8x8, Inc., a California corporation (the "Company"), hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the 1992 Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. EXERCISE OF OPTION. This Option shall be exercisable during its term in accordance with the Exercise Schedule set out in the Notice of Grant and with the provisions of Section 9 of the Plan as follows:

(i) Right to Exercise.

(a) This Option may not be exercised for a fraction of a share.

(b) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitation contained in Subsection 2(i)(c).

(c) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Grant.

(ii) Method of Exercise. This Option shall be exercisable by written notice (in the form attached as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt of the Company of such written notice accompanied by the Exercise Price.

No shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes, the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such shares.

3. OPTIONEE'S REPRESENTATIONS. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company Optionee's Investment Representation Statement (in the form attached as Exhibit B) and shall read the applicable rules of the Commissioner of Corporations attached to such Investment Representation Statement.

4. METHOD OF PAYMENT. Payment of the Exercise Price shall be by any of the following, or in combination thereof, at the election of the Optionee:

(i) cash;

(ii) check; or,

(iii) surrender of other shares of Common Stock of the Company which (a) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company and (b) have a fair market value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised.

5. RESTRICTIONS ON EXERCISE. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable or regulation.

6. TERMINATION OF RELATIONSHIP. In the event of termination of Optionee's consulting relationship or Continuous Status as an Employee, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, the Option shall terminate.

7. DISABILITY OF OPTIONEE. Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's Continuous Status as an Employee as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the date of termination of employment (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), exercise the Option to the

extent otherwise so entitled at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

8. DEATH OF OPTIONEE. In the event of the death of Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Optionee could exercise the Option at the date of death.

9. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

10. TERM OF OPTION. This Option may be exercised only within the terms set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option. The limitations set out in Section 7 of the Plan regarding Options designated as Incentive Stock Options and Options granted to more than ten percent (10%) shareholders shall apply to this Option.

11. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of some of the federal and California tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(i) Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability or California income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(ii) Exercise of Non-Qualified Stock Option. If this Option does not qualify as an ISO, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(iii) Disposition of Shares. In the case of an NSO, if Shares are held for at least one (1) year, any gain realized on disposition of these Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an ISO, if

Shares transferred pursuant to the Option are held for at least one (1) year after exercise and are disposed of at least two (2) years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. If Shares purchased under an ISO are disposed of within such one (1) year period or within two (2) years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price.

(iv) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (a) the date two (2) years after the Date of Grant, or (b) the date one (1) year after transfer of such Shares to the Optionee upon exercise of the ISO, the Optionee shall immediately notify the Company, in writing, of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee from the early disposition by payment in cash or out of the current earnings paid to the Optionee.

8X8, INC.  
a California corporation.

By: \_\_\_\_\_  
Sandra L. Abbott  
Secretary of the Corporation

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE, IN ANY WAY, WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and certain information related thereto and represents that Optionee is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

\_\_\_\_\_  
Optionee (Print Name)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Optionee (Signature)

\_\_\_\_\_  
Address

\_\_\_\_\_  
City, State, Zip Code



8x8, INC.

KEY PERSONNEL STOCK OPTION PLAN  
(as amended November 5, 1996)

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code, and the regulations promulgated thereunder.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase rights are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the Committee appointed by the Board of Directors in accordance with paragraph (a) of Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means Integrated Information Technology, Inc. a California corporation.

(h) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(i) "Continuous Status as an Employee" means the absence of any interruption or termination of the employment relationship by the Company or any Subsidiary. Continuous Status as an Employee shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Board; provided that such leave is for a period of not more than ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company, its Subsidiaries or its successor.

(j) "Employee" means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sale price for such stock (or the closing bid, if no sales were reported, as quoted on such system or exchange for the last market trading day prior to the time of determination) as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market System thereof) or regularly quoted by a recognized securities dealer, but selling prices are not reported, its Fair Market Value shall be the mean between the high and low asked prices for the Common Stock or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(o) "Notice of Grant" means a written notice evidencing certain terms and conditions of an individual Option. The Notice of Grant is part of the respective Option Agreement.

(p) "Option" means a stock option granted pursuant to the Plan.

(q) "Optioned Stock" means the Common Stock subject to an Option.

(r) "Optionee" means an Employee or Consultant who receives an Option.

(s) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(t) "Plan" means this Key Personnel Stock Option Plan.

(u) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(v) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be placed under option and sold under the Plan is 2,199,925 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan.

#### 4. Administration of the Plan.

##### (a) Procedure.

##### (i) Administration With Respect to Directors and Officers.

With respect to grants of Options to Employees who are also officers or directors of the Company, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") with respect to a plan intended to qualify thereunder as a discretionary plan, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted in such a manner as to permit the Plan to comply with Rule 16b-3 with respect to a plan intended to qualify thereunder as a discretionary plan. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Rule 16b-3 with respect to a plan intended to qualify thereunder as a discretionary plan.

(ii) Multiple Administrative Bodies. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to directors, non-director officers and Employees who are neither directors nor officers.

(iii) Administration With Respect to Consultants and Other Employees. With respect to grants of Options to Employees or Consultants who are neither directors nor officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of California corporate and securities laws and of the Code (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time

the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(k) of the Plan;

(ii) to select the officers, Consultants and Employees to whom Options may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of Shares to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option granted hereunder (including, but not limited to, the price per Share and any restriction or limitation, based in each case on such factors as the Administrator shall determine, in its sole discretion);

(vii) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(f) instead of Common Stock;

(viii) to determine whether, to what extent and under what circumstances Common Stock and other amounts payable with respect to an award under this Plan shall be deferred either automatically or at the election of the participant (including providing for and determining the amount, if any, of any deemed earnings on any deferred amount during any deferral period);

(ix) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(x) to modify or amend each Option (subject to Section 14 of the Plan); and

(xi) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Committee's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options.

#### 5. Eligibility.

(a) Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option may, if he or she is otherwise eligible, be granted additional Option.

(b) Each Option shall be designated in the Notice of Grant as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options.

(c) For purposes of Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(d) The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his right or the Company's right to terminate his employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company as described in Section 19 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 15 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Notice of Grant; provided, however, that in the case of an Incentive Stock Option, the term shall be no more than ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement. However, in the case of an Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

## 8. Option Exercise Price and Consideration.

(a) The Administrator, in its discretion, may grant Options to eligible participants and shall determine whether such Options shall be Incentive Stock Options or Nonstatutory Stock Options. Each Option shall be evidenced by a Notice of Grant which shall expressly identify such Option as an Incentive Stock Option or as a Nonstatutory Stock Option, and be in such form and contain such provisions as the Administrator shall from time to time deem appropriate. Without limiting the foregoing, the Administrator may, at any time, or from time to time, authorize the Company, with the consent of the respective recipients, to issue Options in exchange for the surrender and cancellation of any or all outstanding Options.

(b) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(c) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (4) authorization from the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to

which the Option is exercised, (5) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale or loan proceeds required to pay the exercise price or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

#### 9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment. In the event of termination of an Optionee's consulting relationship or Continuous Status as an Employee with the Company (as the case may be), such Optionee may, but only within thirty (30) days (or such other period of time as is determined by the Board, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option and not exceeding three (3) months) after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his Option to the extent that Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of such termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding the provisions of Section 9(b) above, in the event of termination of an Optionee's Consulting relationship or Continuous Status as an Employee as a result of his disability (as defined in the Code), Optionee may, but only within six (6) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified, the Option shall terminate.

(d) Death of Optionee.

(i) If Optionee dies during the term of the Option and is at the time of his death an Employee or Consultant of the Company who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, then the Option may be exercised, at any time within one (1) year following the date of death (or such other period of time as is determined by the Board), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status as an Employee or Consultant three (3) months after the date of death (or such other period of time as is determined by the Board); or

(ii) If Optionee dies within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Board) after the termination of Continuous Status as an Employee, then the Option may be exercised, at any time within one (1) year following the date of death (or such other period of time as is determined by the Board), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

(e) Rule 16b-3. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee.

11. Stock Withholding to Satisfy Withholding Tax Obligations. At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option, which tax liability is subject to tax



withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by electing to have the Company withhold from the Shares to be issued upon exercise of the Option, if any, that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

12. Adjustments Upon Changes in Capitalization or Merger. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

In the event of the proposed dissolution or liquidation of the Company, the Board shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the company, each outstanding Option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administration shall notify the Optionee that the Option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if following the merger, the Option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger, the consideration (whether stock cash or other securities or property) received in the merger by holders of Common Stock for each Share held on the effective date of the transaction (and if the holders are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger.

13. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, or such other date as is determined by the Board. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made without his consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code or any other Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Agreements. Options shall be evidenced by written agreements in such form as the Board shall approve from time to time.

18. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law.

KEY PERSONNEL PLAN  
GRANT OF STOCK PURCHASE RIGHT

[Name of Key Personnel]  
[Address]

You have been granted the right to purchase Common Stock of the Company, subject to the terms and conditions of the Company's Key Personnel Plan (the "Plan") and the Stock Purchase Agreement, as follows:

Grant Number	_____
Date of Grant:	_____
Vesting Commencement Date:	_____
Price Per Share	\$ _____
Total Number of Shares Granted	_____
Total Purchase Price	\$ _____
Expiration Date of Stock Purchase Rights	_____

Vesting Schedule:

\_\_\_\_\_ percent (\_\_\_\_%) of the Shares purchased pursuant to this Grant shall vest \_\_\_\_\_ months after the Vesting Commencement Date, and \_\_\_\_\_ (\_\_\_\_%) of the Shares shall vest at the end of each twelve-month period thereafter. \_\_\_\_ years after the Vesting Commencement Date all of the Shares purchased under the Plan shall be vested, provided you shall continue to be designated Key Personnel of the Company.

Key Personnel Plan:

This Stock Purchase Right is subject in all respects to the terms and conditions of the Plan. All capitalized terms herein shall have the meanings defined in the Plan, except as the context herein suggests otherwise. In addition, your right to purchase shares pursuant to this Stock Purchase Right is subject to execution and delivery of a Stock Purchase Agreement in the form attached hereto and compliance with all Applicable Laws.

Expiration of Stock Purchase Right:

All rights granted hereby shall expire on \_\_\_\_\_, 199\_\_.

## STOCK PURCHASE AGREEMENT

THIS AGREEMENT is made as of June \_\_, 1996 between 8x8, Inc. (formerly Integrated Information Technologies, Inc.), a California corporation (the "Company"), and \_\_\_\_\_ (the "Purchaser").

WHEREAS in order to give the Purchaser an opportunity to acquire an equity interest in the Company as an incentive for the Purchaser to participate in the affairs of the Company, the Company is willing to sell to the Purchaser and the Purchaser desires to purchase shares of Common Stock according to the terms and conditions contained in the Company's Key Personnel Plan (the "Plan") and herein.

THEREFORE, the parties agree as follows:

1. Sale of Stock. The Company hereby agrees to sell to the Purchaser and the Purchaser hereby agrees to purchase an aggregate of \_\_\_\_\_ shares of the Company's Common Stock (the "Shares"), at the price of \$0.50 per share for an aggregate purchase price of \$\_\_\_\_\_.

2. Payment of Purchase Price.

(a) The purchase price for the Shares may be paid by delivery to the Company at the time of execution of this Agreement of cash, check, duly executed promissory note in the form attached hereto as Exhibit A (the "Note"), or any combination thereof.

(b) With respect to the Note, the parties agree to the following:

(1) The Note shall become payable in full upon the earlier of (1) five (5) years from the date of the Note, (B) thirty (30) days following termination of Transferor's employment with or services to the Company as an employee, member of the board of directors or consultant except for death or disability, and (C) one (1) year following any such termination as a result of death or disability.

(2) The Purchaser shall deliver to an escrow holder designated by the Company (the "Escrow Holder") all certificates representing the Shares together with two executed blank stock assignments, in the form attached hereto as Exhibit B, for use in transferring all or a portion of said Shares to the Company as required under this Section 2(b) or under any other provision of this Agreement, including Section 3, and shall enter into a set of Joint Escrow Instructions in the form attached as Exhibit C.

(3) As security for the payment of the Note and any renewal, extension or modification thereof, the Purchaser hereby grants to the Company, pursuant to the Security Agreement attached hereto as Exhibit D, a security interest in and pledges with and delivers to the Company the certificate or certificates representing the Shares.

(4) In the event of any foreclosure of the security interest, the Escrow Holder shall deliver the certificates representing the Shares to the Company in accordance with the Joint Escrow Instructions, and the Company may sell the Shares at a private sale or may itself repurchase any or all of the Shares. The parties acknowledge that, prior to the establishment of a public market for the Shares of the Company, the securities laws applicable to the sale of the Shares make a public sale of the Shares commercially unreasonable. The parties agree that the repurchasing of said Shares by the Company, or by any person to whom the Company may have assigned its rights hereunder, is commercially reasonable if made at not less than the book value per Share as recorded on the Company's books at the end of the last fiscal quarter prior to the date of sale of the Shares upon foreclosure (whether or not such book value per share is unaudited and subject to adjustment), using the fully diluted total shares outstanding common stock or options, including shares issuable upon exercise of outstanding options and shares issuable upon the conversion of any preferred stock or other convertible securities as outstanding common shares for purposes of the calculation.

(5) In the event of default in payment when due of any indebtedness under the Note, the Company may elect then, or at any time thereafter, to exercise all rights available to a secured party under the California Commercial Code, including the right to sell the Shares at a private or public sale or repurchase the Shares as provided above. The proceeds of any sale shall be applied in the following order:

- (i) To pay all reasonable expenses of the Company in enforcing this Agreement, including without limitation reasonable attorneys' fees and legal expenses incurred by the Company.
- (ii) In satisfaction of the remaining indebtedness under the Note.
- (iii) To the Purchaser, any remaining proceeds.

(6) Upon full payment by the Purchaser to the Company of all amounts due on the Note, the Escrow Holder shall deliver to the Purchaser the certificate or certificates representing the Shares in the Escrow Holder's possession belonging to the Purchaser, the blank stock assignment and the executed original Note marked "canceled" by the Company, and the Escrow Holder shall be discharged of all further obligations hereunder; provided, however, that the Escrow Holder shall nevertheless retain said certificate or certificates and stock assignment as escrow agent if so required pursuant to other restrictions imposed pursuant to this Agreement, including without limitation the provisions of Section 3.

3. Repurchase Option. In the event of any voluntary or involuntary termination of the Purchaser's employment by or services to the Company for any or no reason (including death or disability) before all of the Shares are released from the Company's repurchase option (see Section 4), the Company shall, upon the date of such termination (as reasonably fixed and determined by the Company) have an irrevocable, exclusive option for a period of 90 days from such date to repurchase all (but not less than all) of the Shares that shall constitute the Unreleased Shares (as defined in Section 4) at such time, at the original purchase price of \$0.50 per share (the "Repurchase Price"). Such option shall be exercised by the Company by written notice to the Purchaser or the Purchaser's executor (with a copy to the Escrow Holder) and, at the Company's option, (i) by delivery to the Purchaser or the Purchaser's executor with such notice of a check in the amount of the purchase price for the Shares being repurchased, or (ii) by cancellation by the Company of an amount of the Purchaser's indebtedness to the Company equal to the purchase price for the Shares being repurchased, or (iii) by a combination of (i) and (ii) so that the combined payment and cancellation of indebtedness equals the aggregate Repurchase Price. Upon delivery of such notice and the payment of the purchase price in any of the ways described above, the Company shall become the legal and beneficial owner of the Shares being repurchased and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Shares being repurchased by the Company.

4. Release of Shares From Repurchase Option. The Shares shall be released from the repurchase option according to the schedule set forth in the Grant(s) of Stock Purchase Right dated June 24, 1996.

(a) The Shares shall be released from the Company's repurchase option according to the schedule set forth in the Grant(s) of Stock Purchase Right dated June 24, 1996. Notwithstanding the foregoing, all of the Shares shall be immediately released from the Company's repurchase option in the event of a "Change in Control" of the Company. For purposes hereof, a "Change in Control" shall be deemed to occur in the event that an individual or corporate entity and related parties cumulatively acquire stock greater than or equal to 35% of the Company's fully diluted stock.

(b) Any of the Shares which have not yet been released from the Company's repurchase option are referred to herein as "Unreleased Shares".

(c) The Shares which (i) have been released from the Company's repurchase option and (ii) have been paid for in full shall be delivered to the Purchaser at the Purchaser's request (see Section 6).

5. Restriction on Transfer. None of the Shares or any beneficial interest therein shall be transferred, encumbered or otherwise disposed of in any manner, except for the deposit of the Shares into escrow pursuant to Section 2 and 6 hereof or the release of the Shares to the Company pursuant to such provisions, until the release of such Shares from the Company's repurchase option in accordance with the provisions of this Agreement.

6. Escrow of Shares. The Shares issued under this Agreement shall be held by the Escrow Holder, along with a stock assignment executed by the Purchaser in blank in the form attached hereto as Exhibit B, pursuant to the terms of the Joint Escrow Instructions attached hereto as Exhibit C and the Security Agreement attached hereto as Exhibit D.

7. Investment Representations. In connection with the purchase of the Shares, the Purchaser represents to the Company the following:

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

(b) The Purchaser understands that the securities have not been registered under the Securities Act by reason of a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Purchaser's investment intent as expressed herein. In this connection, the Purchaser understands that, in view of the Securities and Exchange Commission (the "Commission"), the statutory basis for such exemption may not be present if the Purchaser's representations meant that the Purchaser's present intention was to hold these securities for a minimum capital gains period under the tax statutes, for a deferred sale, for a market rise, for a sale if the market does not rise, or for a year or any other fixed period in the future.

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

8. Stock Certificate Legends. The share certificate evidencing the Shares issued hereunder shall be endorsed with the following legends:

(a) THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.



(b) THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(c) Any legend required by any applicable state securities laws.

9. Market Stand-Off Agreement. The Purchaser hereby agrees, if so requested by the managing underwriters in such offering, that, without the prior written consent of such managing underwriters, the Purchaser will not offer, sell, contract to sell, grant any option to purchase, make any short sale or otherwise dispose of or make a distribution of any capital stock of the Company held by or on behalf of the Purchaser or beneficially owned by the Purchaser in accordance with the rules and regulations of the Securities and Exchange Commission for a period of up to 180 days after the date of the final prospectus relating to the Company's initial public offering.

10. Adjustment for Stock Split. All references to the number of Shares and the purchase price of the Shares in this Agreement shall be appropriately adjusted to reflect any stock split, stock dividend or other change in the Shares which may be made by the Company after the date of this Agreement.

11. Tax Consequences. The Purchaser has reviewed with the Purchaser's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. The Purchaser is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Purchaser understands that the Purchaser (and not the Company) shall be responsible for the Purchaser's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. The Purchaser understands that Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), taxes as ordinary income both (i) the difference between the fair market value of the Shares when the Company granted the Purchaser the right to purchase the Shares and the fair market value of the Shares on the date of this Agreement, and (ii) the difference between the amount paid for the Shares and the fair market value of the Shares as of the date any restrictions on the Shares lapse. In this context, "restriction" includes the right of the Company to buy back the Shares pursuant to its repurchase option. In the event the Company has registered under the Exchange Act, "restriction" with respect to officers, directors and 10% shareholders also means the period after the purchase of the Shares during which such officers, directors and 10% shareholders could be subject to suit under Section 16(b) of the Exchange Act. The Purchaser understands that the Purchaser may elect to be taxed at the time the Shares are purchased rather than when and as the Company's repurchase option or the Section 16(b) period expires by filing an election under Section 83(b) of the Code in the form attached hereto as Exhibit E with the I.R.S. within 30 days from the date of purchase.

THE PURCHASER ACKNOWLEDGES THAT IT IS THE PURCHASER'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER

SECTION 83(b), EVEN IF THE PURCHASER REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE PURCHASER'S BEHALF.

12. Key Personnel Plan. This Agreement and the Purchasers' rights hereunder and with respect to the Shares shall be governed in all respects by the provisions of the Company's Key Personnel Plan. All capitalized terms used herein and not otherwise defined herein shall have the respective meanings defined in the Plan.

13. General Provisions.

(a) This Agreement shall be governed by the laws of the State of California as they apply to contracts entered into and wholly to be performed in such state. This Agreement represents the entire agreement between the parties with respect to the purchase of Common Stock by the Purchaser and may only be modified or amended in writing signed by both parties.

(b) Any notice, demand or request required or permitted to be given by either the Company or the Purchaser pursuant to the terms of this Agreement shall be in writing and shall be deemed given when delivered personally or deposited in the U.S. mail, First Class with postage prepaid, and addressed to the parties at the addresses of the parties set forth at the end of this Agreement or such other address as a party may request by notifying the other in writing.

(c) The rights and benefits of the Company under this Agreement shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of the Purchaser under this Agreement may only be assigned with the prior written consent of the Company.

(d) Either party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision or provisions, nor prevent that party thereafter from enforcing each and every other provision of this Agreement. The rights granted both parties herein are cumulative and shall not constitute a waiver of either party's right to assert all other legal remedies available to it under the circumstances.

(e) The Purchaser agrees upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.

(f) PURCHASER ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO SECTION 4 HEREOF IS EARNED ONLY BY CONTINUING SERVICE AS AN EMPLOYEE OR CONSULTANT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED AT THIS DATE, AND NOT THROUGH PURCHASING SHARES HEREUNDER). PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT

CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE OR CONSULTANT FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH PURCHASER'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE PURCHASER'S EMPLOYMENT OR CONSULTING RELATIONSHIP AT ANY TIME, WITH OR WITHOUT CAUSE.

(g) Purchaser has reviewed this Agreement in its entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first set forth above.

8x8, Inc.  
a California corporation

PURCHASER:

By: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Title: \_\_\_\_\_

\_\_\_\_\_  
(Type or Print Name)

\_\_\_\_\_  
(Address)

## CONSENT OF SPOUSE

I, \_\_\_\_\_, spouse of \_\_\_\_\_, have read and approved the foregoing Stock Purchase Agreement (the "Agreement"). In consideration of grant of the right to my spouse to purchase shares of 8x8, Inc., a California corporation (the "Company") as set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement or the Company's Key Personnel Plan (the "Plan") and agree to be bound by the provisions of the Agreement and the Plan insofar as I may have any rights in said Agreement or Plan or any shares issued pursuant thereto under the community property laws of the State of California or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: June \_\_, 1996

Signed: \_\_\_\_\_

EXHIBIT A  
PROMISSORY NOTE

## EXHIBIT B

## ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of 8x8, Inc. standing in my name of the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_, to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Stock Purchase Agreement between Key Personnel Plan and the undersigned dated June \_\_\_\_, 1996.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
(to be signed exactly as name  
is to appear on stock  
certificate)

INSTRUCTIONS: Please do not fill in the blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its "repurchase option," as set forth in the Agreement, without requiring additional signatures on the part of the Purchaser.

## EXHIBIT C

## JOINT ESCROW INSTRUCTIONS

June \_\_, 1996

Sandra Abbott  
8x8, Inc.  
2445 Mission College Blvd.  
Santa Clara, CA 95054

Dear Corporate Secretary:

As Escrow Agent for both 8x8, Inc., a California corporation (the "Company"), and the undersigned purchaser of stock of the Company (the "Purchaser"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of the Stock Purchase Agreement (the "Agreement") between the Company and the undersigned pursuant to the Company's Key Personnel Plan (the "Plan"), in accordance with the following instructions:

1. In the event the Company and/or any assignee of the Company (referred to collectively for convenience herein as the "Company") exercises the Company's repurchase option set forth in the Agreement, the Company shall give to Purchaser and you a written notice specifying the number of shares of stock to be purchased, the purchase price and the time for a closing hereunder at the principal office of the Company. Purchaser and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed (a) to date the stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver same, together with the certificate evidencing the shares of stock to be transferred, to the Company or its assignee, against the simultaneous delivery to you of the purchase price (by cash, a check, cancellation of indebtedness or some combination thereof) for the number of shares of stock being purchased pursuant to the exercise of the Company's repurchase option.

3. Purchaser irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Purchaser does hereby irrevocably constitute and appoint you as Purchaser's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Purchaser shall exercise all rights and privileges of a shareholder of the Company while the stock is held by you.

4. Upon written request of the Purchaser, but no more than once per calendar year, unless the Company's repurchase option has been exercised, you will deliver to Purchaser a certificate or certificates representing so many shares of stock as are not then subject to the Company's repurchase option, provided that such shares have been fully paid for and do not secure an unpaid promissory note or shares not fully paid for. Within 90 days after cessation of Purchaser's continuous employment by the Company or any parent or subsidiary of the Company except for death or disability and within one year after cessation for death or disability, you will deliver to Purchaser a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not purchased by the Company or its assignees pursuant to exercise of the Company's repurchase option.

5. If at the time of termination of this escrow you should have in your possession any documents, securities or other property belonging to Purchaser, you shall deliver all of the same to Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the outlawing of any rights under the Statute of Limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.



12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

COMPANY: Joe Parkinson  
8x8, Inc.  
2445 Mission College Blvd.  
Santa Clara, CA 95054

PURCHASER: \_\_\_\_\_  
\_\_\_\_\_

ESCROW AGENT: Sandra Abbott  
8x8, Inc.  
2445 Mission College Blvd.  
Santa Clara, CA 95054

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

19. You may be replaced by a person designated in writing by both the Company and the Purchaser.

Very truly yours,

8x8, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

PURCHASER

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print or type name)

ESCROW AGENT:

\_\_\_\_\_  
Sandra Abbott

EXHIBIT D  
SECURITY AGREEMENT

This Security Agreement is made as of June \_\_, 1996 between 8x8, Inc., a California corporation ("PLEDGEE"), \_\_\_\_\_ ("PLEDGOR"), and Sandra Abbott, Secretary of Pledgee, as the holder of the Securities pledged hereunder ("PLEDGEHOLDER").

Recitals

This Security Agreement is delivered pursuant to Pledgor's acquisition of Shares under a Stock Purchase Agreement dated June \_\_, 1996 (the "AGREEMENT") among Pledgor, Pledgee and Pledgor's delivery to Pledgee, under the terms of the Agreement, of Pledgor's promissory note (the "NOTE") in the amount of \$\_\_\_\_\_ plus accrued interest. The Note and the obligations thereunder are as set forth in Exhibit A to the Agreement.

NOW, THEREFORE, it is agreed as follows:

1. Creation and Description of Security Interest. In consideration of the transfer to Pledgor of \_\_\_\_\_ shares of Common Stock of Pledgee (the "SHARES") under the Agreement, Pledgor, pursuant to the California Commercial Code, hereby pledges all of such Shares (herein sometimes referred to as the "COLLATERAL") represented by certificate number \_\_\_\_, duly endorsed in blank or with an executed stock power or powers, and herewith delivers said certificate to Pledgeholder, who shall hold said certificate subject to the terms and conditions of this Security Agreement.

The pledged stock (together with an executed blank stock assignment or assignments for use in transferring all or a portion of the Shares to Pledgee if, as and when required pursuant to this Security Agreement) shall be held by Pledgeholder as security for the repayment of the Note, and any extensions or renewals thereof, to be executed by Pledgor pursuant to the terms of the Agreement, and Pledgeholder shall not encumber or dispose of such Shares except in accordance with the provisions of this Security Agreement.

2. Pledgor's Representations and Covenants. To induce Pledgee to enter into this Security Agreement, Pledgor represents and covenants to Pledgee, its successors and assigns, as follows:

a. Payment of Indebtedness. Pledgor will pay the principal sum of the Note secured hereby, and interest thereon, at the time and in the manner provided in the Note, to the extent required by the Note.

b. Encumbrances. The Shares are free of all other encumbrances, defenses and liens (other than restrictions on transfer imposed by applicable securities laws), except for (i) Pledgee's rights to repurchase Shares pursuant to Section 3 of the Agreement and (ii) the pledge of the Shares hereunder as security for payment of the Note, and Pledgor will not further encumber the Shares without the prior written consent of Pledgee.

c. Margin Regulations. In the event that Pledgee's Common Stock is now or later becomes margin-listed by the Federal Reserve Board and Pledgee is classified as a "lender" within the meaning of the regulations under Part 207 of Title 12 of the Code of Federal Regulations ("REGULATION G"), Pledgor agrees to cooperate with Pledgee in making any amendments to the Note or providing any additional collateral as may be necessary to comply with such regulations.

3. Voting Rights. During the term of this pledge and so long as all payments of principal and interest are made as they become due under the terms of the Note, Pledgor shall have the right to vote all of the Shares pledged hereunder.

4. Stock Adjustments. In the event that during the term of the pledge any stock dividend, reclassification, readjustment or other changes are declared or made in the capital structure of Pledgee, all new, substituted and additional shares or other securities issued by reason of any such change shall be delivered to and held by the Pledgee under the terms of this Security Agreement in the same manner as the Shares originally pledged hereunder. In the event of substitution of such securities, Pledgor, Pledgee and Pledgeholder shall cooperate and execute such documents as are reasonable so as to provide for the substitution of such Collateral and, upon such substitution, references to "SHARES" in this Security Agreement shall include the substituted shares of capital stock of Pledgor as a result thereof.

5. Options and Rights. In the event that, during the term of this pledge, subscription Options or other rights or options shall be issued in connection with the pledged Shares, such rights, Options and options shall be the property of Pledgor and, if exercised by Pledgor, all new stock or other securities so acquired by Pledgor as it relates to the pledged Shares then held by Pledgeholder shall be immediately delivered to Pledgeholder, to be held under the terms of this Security Agreement in the same manner as the Shares pledged.

6. Default. Pledgor shall be deemed to be in default of the Note and of this Security Agreement in the event:

a. Payment of principal or interest on the Note shall be delinquent for a period of 10 days or more; or

b. Pledgor fails to perform any of the covenants set forth in the Agreement or contained in this Security Agreement for a period of 10 days after written notice thereof from Pledgee.

In the case of an event of Default, as set forth above, Pledgee shall have the right to accelerate payment of the Note upon notice to Pledgor, and Pledgee shall thereafter be entitled to pursue its remedies under the California Commercial Code.

7. Release of Collateral. Subject to any applicable contrary rules under Regulation G, there shall be released from this pledge a portion of the pledged Shares held by Pledgeholder hereunder upon payments of the principal of the Note. The number of the pledged Shares which shall be released shall be that number of full Shares which bears the same proportion to the initial number of Shares pledged hereunder as the payment of principal bears to the initial full principal amount of

the Note. Notwithstanding the foregoing, upon any release of pledged Shares hereunder any such Shares which shall continue to constitute Unreleased Shares as defined in the Agreement shall continue to be held in escrow pursuant to Sections 3 and 6 of the Agreement.

8. Withdrawal or Substitution of Collateral. Pledgor shall not sell, withdraw, pledge, substitute or otherwise dispose of all or any part of the Collateral without the prior written consent of Pledgee.

9. Term. The within pledge of Shares shall continue until the payment of all indebtedness secured hereby, subject to the provisions for prior release of a portion of the Collateral as provided in paragraph 7 above.

10. Insolvency. Pledgor agrees that if a bankruptcy or insolvency proceeding is instituted by or against it, or if a receiver is appointed for the property of Pledgor, or if Pledgor makes an assignment for the benefit of creditors, the entire amount unpaid on the Note shall become immediately due and payable, and Pledgee may proceed as provided in the case of default.

11. Pledgeholder Liability.

a. Pledgeholder shall not be liable to any party for any of his acts, or omissions to act, as Pledgeholder unless Pledgeholder is proved to have acted in bad faith. Any act done or omitted pursuant to the advice of legal counsel, other than an act or omission involving gross or wilful negligence, shall be deemed to be done or omitted in good faith.

b. Pledgeholder shall be entitled to employ such legal counsel and other experts as Pledgeholder may deem necessary properly to advise Pledgeholder in connection with its obligations hereunder, and Pledgeholder may rely upon the advice of such counsel. Such counsel's reasonable fees and costs shall be borne 50% by Pledgor and 50% by Pledgee.

c. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by Pledgeholder hereunder, Pledgeholder is authorized and directed to retain in Pledgeholder's possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of the arbitrator provided for in Section 13 of the Agreement or of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but Pledgeholder shall be under no duty whatsoever to institute or defend any such proceedings.

d. By mutual agreement between Pledgor and Pledgee, the Pledgeholder can be replaced by a person mutually agreeable to the Pledgor and Pledgee.

In addition, upon any dispute Pledgeholder should be entitled to engage legal counsel, one-half of whose fees and expenses shall be borne by Pledgor and one-half by Pledgee.

12. Invalidity of Particular Provisions. Pledgor and Pledgee agree that the enforceability or invalidity of any provision or provisions of this Security Agreement shall not render any other provision or provisions herein contained unenforceable or invalid.

13. Successors or Assigns. Pledgor and Pledgee agree that all of the terms of this Security Agreement shall be binding on their respective successors and assigns, and that the term "PLEDGOR" and the term "PLEDGEE" as used herein shall be deemed to include, for all purposes, the respective designees, successors, assigns, heirs, executors and administrators.

14. Governing Law. This Security Agreement shall be interpreted and governed under the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

"PLEDGOR"

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print or type name)

"PLEDGEE"

8x8, INC.  
a California corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

"PLEDGEHOLDER"

By: \_\_\_\_\_  
Secretary of Pledgee

EXHIBIT E

ELECTION UNDER SECTION 83(b)  
OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to the above-referenced Federal Tax Code, to include in taxpayer's gross income for the current taxable year, the amount of any compensation taxable to taxpayer in connection with his receipt of the property described below:

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME: TAXPAYER: SPOUSE:

ADDRESS:

IDENTIFICATION NO.: TAXPAYER: SPOUSE:

TAXABLE YEAR:

2. The property with respect to which the election is made is described as follows: \_\_\_\_\_ shares (the "Shares") of the Common Stock of 8x8, Inc., a California corporation (the "Company").

3. The date on which the property was transferred is: \_\_\_\_\_

4. The property is subject to the following restrictions:

The Shares may be repurchased by the Company, or its assignee, on certain events. This right lapses with regard to a portion of the Shares over time.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is:

\$ \_\_\_\_\_

6. The amount (if any) paid for such property is:

\$ \_\_\_\_\_

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: \_\_\_\_\_  
Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: \_\_\_\_\_  
Spouse of Taxpayer

## EXHIBIT 10.4

8x8, INC.

## 1996 STOCK PLAN

(as amended November 5, 1996)

1. Purposes of the Plan. The purposes of this Stock Plan are:
  - to attract and retain the best available personnel for positions of substantial responsibility,
  - to provide additional incentive to Employees and Consultants, and
  - to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means 8x8, Inc., a California corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.



(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(k) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(n) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(o) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(p) "Notice of Grant" means a written or electronic notice evidencing certain terms and conditions of an individual Option or Stock Purchase Right grant. The Notice of Grant is part of the Option Agreement.

(q) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(r) "Option" means a stock option granted pursuant to the Plan.

(s) "Option Agreement" means an agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(t) "Option Exchange Program" means a program whereby outstanding options are surrendered in exchange for options with a lower exercise price.

(u) "Optioned Stock" means the Common Stock subject to an Option or Stock Purchase Right.

(v) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(w) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(x) "Plan" means this 1996 Stock Plan, as amended.

(y) "Restricted Stock" means shares of Common Stock acquired pursuant to a grant of Stock Purchase Rights under Section 11 below.

(z) "Restricted Stock Purchase Agreement" means a written agreement between the Company and the Optionee evidencing the terms and restrictions applying to stock purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the Notice of Grant.

(aa) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(bb) "Section 16(b)" means Section 16(b) of the Exchange Act.

(cc) "Service Provider" means an Employee, Director or Consultant.

(dd) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ee) "Stock Purchase Right" means the right to purchase Common Stock pursuant to Section 11 of the Plan, as evidenced by a Notice of Grant.

(ff) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 1,000,000 Shares, increased annually on the first day of each of the Company's fiscal years during the term of the Plan (commencing with November 1, 1997) in an amount equal to 5% of the Company's common stock issued and outstanding at the close of business on the last day of the immediately preceding fiscal year (the "Annual Replenishment"), with only the initial 1,000,000 shares and subsequent annual increases in an amount equal to the lesser of (i) 1,000,000 shares, or (ii) the number of shares subject to the Annual Replenishment to be available for issuance as "incentive stock options" qualified under Section 422 of the Internal Revenue Code. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under the Plan, whether upon exercise of an Option or Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Service Providers.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may be granted hereunder;

(iii) to determine the number of shares of Common Stock to be covered by each Option and Stock Purchase Right granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to reduce the exercise price of any Option or Stock Purchase Right to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option or Stock Purchase Right shall have declined since the date the Option or Stock Purchase Right was granted;

(vii) to institute an Option Exchange Program;

(viii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to modify or amend each Option or Stock Purchase Right (subject to Section 15(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;

(xi) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option or Stock Purchase Right previously granted by the Administrator;

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options or Stock Purchase Rights.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

#### 6. Limitations.

(a) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) Neither the Plan nor any Option or Stock Purchase Right shall confer upon an Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

7. Term of Plan. Subject to Section 19 of the Plan, the Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 15 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement. In the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Option Agreement. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

#### 10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate

entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by



the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

#### 11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the offer, including the number of Shares that the offeree shall be entitled to purchase, the price to be paid, and the time within which the offeree must accept such offer. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or Disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Administrator.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have the rights equivalent to those of a shareholder, and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Non-Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, an Option or Stock Purchase Right may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or

Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

14. Date of Grant. The date of grant of an Option or Stock Purchase Right shall be, for all purposes, the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Company shall obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to options granted under the Plan prior to the date of such termination.

16. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

17. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

19. Shareholder Approval. The Plan shall be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted. Such shareholder approval shall be obtained in the manner and to the degree required under Applicable Laws.

8X8, INC.  
STOCK OPTION AGREEMENT

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1. GRANT OF OPTION. 8x8, Inc., a California corporation (the "Company"), hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the 1996 Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. EXERCISE OF OPTION. This Option shall be exercisable during its term in accordance with the Exercise Schedule set out in the Notice of Grant and with the provisions of Section 9 of the Plan as follows:

(i) Right to Exercise.

(a) This Option may not be exercised for a fraction of a share.

(b) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitation contained in Subsection 2(i)(c).

(c) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Grant.

(ii) Method of Exercise. This Option shall be exercisable by written notice (in the form attached as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt of the Company of such written notice accompanied by the Exercise Price.

No shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes, the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such shares.

3. **OPTIONEE'S REPRESENTATIONS.** In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company Optionee's Investment Representation Statement (in the form attached as Exhibit B) and shall read the applicable rules of the Commissioner of Corporations attached to such Investment Representation Statement.

4. **METHOD OF PAYMENT.** Payment of the Exercise Price shall be by any of the following, or in combination thereof, at the election of the Optionee:

(i) cash;

(ii) check; or,

(iii) surrender of other shares of Common Stock of the Company which (a) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company and (b) have a fair market value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised.

5. **RESTRICTIONS ON EXERCISE.** This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable or regulation.

6. **TERMINATION OF RELATIONSHIP.** In the event of termination of Optionee's consulting relationship or Continuous Status as an Employee, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, the Option shall terminate.

7. **DISABILITY OF OPTIONEE.** Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's Continuous Status as an Employee as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the date of termination of employment (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), exercise the Option to the

extent otherwise so entitled at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

8. DEATH OF OPTIONEE. In the event of the death of Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Optionee could exercise the Option at the date of death.

9. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

10. TERM OF OPTION. This Option may be exercised only within the terms set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option. The limitations set out in Section 7 of the Plan regarding Options designated as Incentive Stock Options and Options granted to more than ten percent (10%) shareholders shall apply to this Option.

11. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of some of the federal and California tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(i) Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability or California income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(ii) Exercise of Non-Qualified Stock Option. If this Option does not qualify as an ISO, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(iii) Disposition of Shares. In the case of an NSO, if Shares are held for at least one (1) year, any gain realized on disposition of these Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an ISO, if

Shares transferred pursuant to the Option are held for at least one (1) year after exercise and are disposed of at least two (2) years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. If Shares purchased under an ISO are disposed of within such one (1) year period or within two (2) years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price.

(iv) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (a) the date two (2) years after the Date of Grant, or (b) the date one (1) year after transfer of such Shares to the Optionee upon exercise of the ISO, the Optionee shall immediately notify the Company, in writing, of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee from the early disposition by payment in cash or out of the current earnings paid to the Optionee.

8X8, INC.  
a California corporation.

By: \_\_\_\_\_  
Sandra L. Abbott  
Secretary of the Corporation

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE, IN ANY WAY, WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.



Optionee acknowledges receipt of a copy of the Plan and certain information related thereto and represents that Optionee is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

\_\_\_\_\_  
Optionee (Print Name)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Optionee (Signature)

\_\_\_\_\_  
Address

\_\_\_\_\_  
City, State, Zip Code

8x8, INC.

1996 EMPLOYEE STOCK PURCHASE PLAN  
(as amended November 5, 1996)

The following constitute the provisions of the 1996 Employee Stock Purchase Plan of 8x8, Inc.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean of 8x8, Inc. and any Designated Subsidiary of the Company.

(e) "Compensation" shall mean all base straight time gross earnings and commissions, but exclusive of payments for overtime shift premium, incentive compensation, incentive payments, bonuses, and other compensation.

(f) "Current Purchase Period" shall mean any Purchase Period which is scheduled to end in the current calendar year.

(g) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(h) "Employee" shall mean any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds ninety (90) days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the ninety-first (91)st day of such leave.

(i) "Enrollment Date" shall mean the first day of each Offering Period.

(j) "Exercise Date" shall mean the last day of each Purchase Period.

(k) "Fair Market Value" shall mean, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable, or;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board, or

(iv) For the purposes of the Enrollment Date under the first Offering Period under the Plan, the Fair Market Value of the Common Stock shall be the price to public as set forth in the final prospectus included within the registration statement on Form S-1 or similar form filed with the Securities and Exchange Commission for the initial public offering of the Common Stock.

(l) "New Exercise Date" shall mean the new Exercise Date set for Purchase Periods in the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation in accordance with Section 18(c).

(m) "Offering Periods" shall mean the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after May 1 and November 1 of each year and terminating on the last Trading Day in the periods ending twenty-four months later; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Company's registration statement on Form S-1 or similar form is declared effective by the Securities and Exchange Commission and shall end on the last Trading Day in the last full month of April or October, whichever is later, occurring in the period that is at least twenty months and not more than twenty-seven months later. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(n) "Plan" shall mean this Employee Stock Purchase Plan.

(o) "Purchase Price" shall mean an amount equal to eighty-five percent (85)% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(p) "Purchase Period" shall mean the approximately six (6) month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date.

(q) "Reserves" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(r) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than fifty percent (50)% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(s) "Trading Day" shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

### 3. Eligibility.

(a) Any Employee, who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive, overlapping Offering Periods. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without shareholder approval if such change is announced at least two (2) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

## 5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

## 6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding ten percent (10%) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period commencing after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at such time during any Current Purchase Period that the aggregate of all payroll deductions which were previously used to purchase stock under the Plan in a prior Purchase Period which ended during that calendar year plus all payroll deductions accumulated with respect to the Current Purchase Period equal twenty-one thousand two hundred fifty dollars (\$21,250) or at any time the limit set forth in Section 423(b)(8) of the Code is likely to be exceeded but for such decrease. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than a number of shares determined by dividing twenty-five thousand dollars (\$25,000) by the Fair Market Value of a share of the Company's Common Stock on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof and in Code Section 423(b)(8). Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option or shall cause an appropriate entry to be made in participant's brokerage account reflecting the shares purchased.

10. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participant's

payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) Upon a participant's ceasing to be an Employee for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 14 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

(c) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

12. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be five hundred thousand (500,000) shares, increased annually on the first day of each of the Company's fiscal years during the term of the Plan in an amount equal to (i) five hundred thousand (500,000) shares minus (ii) the number of shares available for issuance under the Plan as of such date, all of which share numbers are subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

## 13. Administration.

The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.

## 14. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.



16. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the Reserves, the amount of the annual Plan share replenishment, as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Periods shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

19. Amendment or Termination.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect

options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 18 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation, or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan. The Plan shall become effective upon the date upon which the Company's registration statement on Form S-1 or similar form is declared effective by the Securities and Exchange Commission. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 19 hereof.

23. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.





Employee's Social  
Security Number:

\_\_\_\_\_

Employee's Address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT  
SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: \_\_\_\_\_

\_\_\_\_\_

Signature of Employee

\_\_\_\_\_  
Spouse's Signature (If beneficiary other  
than spouse)

EXHIBIT B

8x8, INC.

1996 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the 8x8, Inc. 1996 Employee Stock Purchase Plan which began on \_\_\_\_\_, \_\_\_\_ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Signature:

\_\_\_\_\_

Date: \_\_\_\_\_

8x8, INC.

1996 DIRECTOR OPTION PLAN

(as amended November 5, 1996)

1. Purposes of the Plan. The purposes of this 1996 Director Option Plan are to attract and retain the best available personnel for service as Outside Directors (as defined herein) of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be nonstatutory stock options.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" means the Common Stock of the Company.

(d) "Company" means 8x8, Inc., a California corporation.

(e) "Director" means a member of the Board.

(f) "Employee" means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company.

(g) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(h) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;



(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(i) "Inside Director" means a Director who is an Employee.

(j) "Option" means a stock option granted pursuant to the Plan.

(k) "Optioned Stock" means the Common Stock subject to an Option.

(l) "Optionee" means a Director who holds an Option.

(m) "Outside Director" means a Director who is not an Employee.

(n) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(o) "Plan" means this 1996 Director Option Plan.

(p) "Share" means a share of the Common Stock, as adjusted in accordance with Section 10 of the Plan.

(q) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Internal Revenue Code of 1986.

3. Stock Subject to the Plan. Subject to the provisions of Section 10 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 150,000 Shares of Common Stock (the "Pool"). The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable without having been exercised in full, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan.

#### 4. Administration and Grants of Options under the Plan.

(a) Procedure for Grants. The Board or its committee may make discretionary Option grants to Outside Directors hereunder. Additionally, automatic grants hereunder shall be made in accordance with the following provisions:

(i) Each Outside Director shall be automatically granted an Option to purchase 16,000 Shares (the "First Option") on the date on which the later of the following events occurs: (A) the effective date of this Plan, as determined in accordance with Section 6 hereof, or (B) the date on which such person first becomes an Outside Director, whether through election by the shareholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director but who remains a Director shall not receive a First Option.

(ii) Each Outside Director shall be automatically granted an Option to purchase 4,000 Shares (a "Subsequent Option") on the date such person is elected or reelected, as the case may be, to the Board by the shareholders at the Company's annual meeting of shareholders or otherwise, if on such date, he or she shall have served on the Board for at least six (6) months.

(iii) Notwithstanding the provisions of subsections (ii) and (iii) hereof, any exercise of an Option granted before the Company has obtained shareholder approval of the Plan in accordance with Section 16 hereof shall be conditioned upon obtaining such shareholder approval of the Plan in accordance with Section 16 hereof.

(iv) The terms of a First Option granted hereunder shall be as follows:

(A) the term of the First Option shall be ten (10) years.

(B) the First Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 8 and 10 hereof.

(C) the exercise price per Share shall be equal to the Fair Market Value per Share on the date of grant of the First Option. In the event that the date of grant of the First Option is not a trading day, the exercise price per Share shall be the Fair Market Value on the next trading day immediately following the date of grant of the First Option.

(D) subject to Section 10 hereof, the First Option shall become exercisable as to twenty-five percent (25%) of the Shares subject to the First Option on each anniversary of its date of grant, provided that the Optionee continues to serve as a Director on such dates.

(v) The terms of a Subsequent Option granted hereunder shall be as follows:

(A) the term of the Subsequent Option shall be ten (10) years.

(B) the Subsequent Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 8 and 10 hereof.

(C) the exercise price per Share shall be equal to the Fair Market Value per Share on the date of grant of the Subsequent Option. In the event that the date of grant of the Subsequent Option is not a trading day, the exercise price per Share shall be the Fair Market Value on the next trading day immediately following the date of grant of the Subsequent Option.

(D) subject to Section 10 hereof, the Subsequent Option shall become exercisable as to 1/48th of the Shares subject to the Subsequent Option on each one month anniversary of its date of grant for a four-year period, provided that the Optionee continues to serve as a Director on such dates.

(vi) In the event that any Option granted under the Plan would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased under Options to exceed the Pool, then the remaining Shares available for Option grant shall be granted under Options to the Outside Directors on a pro rata basis. No further grants shall be made until such time, if any, as additional Shares become available for grant under the Plan through action of the Board or the shareholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

5. Eligibility. Options may be granted only to Outside Directors. All Options shall be automatically granted in accordance with the terms set forth in Section 4 hereof.

The Plan shall not confer upon any Optionee any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate the Director's relationship with the Company at any time.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company as described in Section 16 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 11 of the Plan.

7. Form of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall consist of (i) cash, (ii) check, (iii) other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (v) any combination of the foregoing methods of payment.

## 8. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times as are set forth in Section 4 hereof; provided, however, that no Options shall be exercisable until shareholder approval of the Plan in accordance with Section 16 hereof has been obtained.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 7 of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 10 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Continuous Status as a Director. Subject to Section 10 hereof, in the event an Optionee's status as a Director terminates (other than upon the Optionee's death or total and permanent disability (as defined in Section 22(e)(3) of the Code)), the Optionee may exercise his or her Option, but only within three (3) months following the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of such termination, and to the extent that the Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. In the event Optionee's status as a Director terminates as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), the Optionee may exercise his or her Option, but only within twelve (12) months following the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but

in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of termination, or if he or she does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of an Optionee's death, the Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option, but only within twelve (12) months following the date of death, and only to the extent that the Optionee was entitled to exercise it on the date of death (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of death, and to the extent that the Optionee's estate or a person who acquired the right to exercise such Option does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

9. Non-Transferability of Options. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

10. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option, and the number of Shares issuable pursuant to the automatic grant provisions of Section 4 hereof shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised, it shall terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation or the sale of substantially all of the assets of the Company, outstanding Options may be assumed or equivalent options may be substituted by the successor corporation or a Parent or Subsidiary thereof (the "Successor Corporation"). If an Option is assumed or substituted for, the Option or equivalent option shall continue to be exercisable as provided in Section 4 hereof for so long as the Optionee serves as a Director or a director of the Successor Corporation. Following such assumption

or substitution, if the Optionee's status as a Director or director of the Successor Corporation, as applicable, is terminated other than upon a voluntary resignation by the Optionee, the Option or option shall become fully exercisable, including as to Shares for which it would not otherwise be exercisable. Thereafter, the Option or option shall remain exercisable in accordance with Sections 8(c) through (e) above.

If the Successor Corporation does not assume an outstanding Option or substitute for it an equivalent option, the Option shall become fully vested and exercisable, including as to Shares for which it would not otherwise be exercisable. In such event the Board shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and upon the expiration of such period the Option shall terminate.

For the purposes of this Section 10(c), an Option shall be considered assumed if, following the merger or sale of assets, the Option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

11. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend, or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated.

12. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date determined in accordance with Section 4 hereof.

13. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act

of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

14. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

15. Option Agreement. Options shall be evidenced by written option agreements in such form as the Board shall approve.

16. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company at or prior to the first annual meeting of shareholders held subsequent to the granting of an Option hereunder. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and any stock exchange rules.

8X8, INC.

## DIRECTOR OPTION AGREEMENT

8x8, Inc. (the "Company"), has granted to \_\_\_\_\_ (the "Optionee"), an option to purchase a total of \_\_\_\_\_ (\_\_\_\_\_) shares of the Company's Common Stock (the "Optioned Stock"), at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the Company's 1996 Director Option Plan (the "Plan") adopted by the Company which is incorporated herein by reference. The terms defined in the Plan shall have the same defined meanings herein.

1. Nature of the Option. This Option is a nonstatutory option and is not intended to qualify for any special tax benefits to the Optionee.

2. Exercise Price. The exercise price is \$\_\_\_\_\_ for each share of Common Stock.

3. Exercise of Option. This Option shall be exercisable during its term in accordance with the provisions of Section 8 of the Plan as follows:

(i) Right to Exercise.

(a) This Option shall become exercisable in installments cumulatively with respect to \_\_\_\_\_ (\_\_\_\_) of the Optioned Stock six months after the date of grant, and \_\_\_\_\_ (\_\_\_\_) of the Optioned Stock at the end of each month thereafter, so that one hundred percent (100%) of the Optioned Stock shall be exercisable \_\_\_\_\_ years after the date of grant; provided, however, that in no event shall any Option be exercisable prior to the date the stockholders of the Company approve the Plan.

(b) This Option may not be exercised for a fraction of a share.

(c) In the event of Optionee's death, disability or other termination of service as a Director, the exercisability of the Option is governed by Section 8 of the Plan.

(ii) Method of Exercise. This Option shall be exercisable by written notice which shall state the election to exercise the Option and the number of Shares in respect of which the Option is being exercised. Such written notice, in the form attached hereto as Exhibit A, shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price.

4. Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Optionee:



(i) cash;

(ii) check; or

(iii) surrender of other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised; or

(iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price.

5. Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulations, or if such issuance would not comply with the requirements of any stock exchange upon which the Shares may then be listed. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Term of Option. This Option may not be exercised more than ten (10) years from the date of grant of this Option, and may be exercised during such period only in accordance with the Plan and the terms of this Option.

8. Taxation Upon Exercise of Option. Optionee understands that, upon exercise of this Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares purchased over the exercise price paid for such Shares. Since the Optionee is subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, under certain limited circumstances the measurement and timing of such income (and the commencement of any capital gain holding period) may be deferred, and the Optionee is advised to contact a tax advisor concerning the application of Section 83 in general and the availability a Section 83(b) election in particular in connection with the exercise of the Option. Upon a resale of such Shares by the Optionee, any difference between the sale price and the Fair Market Value of the Shares on the date

of exercise of the Option, to the extent not included in income as described above, will be treated as capital gain or loss.

DATE OF GRANT: \_\_\_\_\_

8x8, Inc.

By: \_\_\_\_\_

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Optionee

## EXHIBIT A

## DIRECTOR OPTION EXERCISE NOTICE

8x8, Inc.  
2445 Mission College Blvd.  
Santa Clara, CA 95054  
Attention: Sandra L. Abbott

1. Exercise of Option. The undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of 8x8, Inc. (the "Company") under and pursuant to the Company's 1996 Director Option Plan and the Director Option Agreement dated \_\_\_\_\_ (the "Agreement").

2. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Agreement.

3. Federal Restrictions on Transfer. Optionee understands that the Shares must be held indefinitely unless they are registered under the Securities Act of 1933, as amended (the "1933 Act"), or unless an exemption from such registration is available, and that the certificate(s) representing the Shares may bear a legend to that effect. Optionee understands that the Company is under no obligation to register the Shares and that an exemption may not be available or may not permit Optionee to transfer Shares in the amounts or at the times proposed by Optionee.

4. Tax Consequences. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultant(s) Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

5. Delivery of Payment. Optionee herewith delivers to the Company the aggregate purchase price for the Shares that Optionee has elected to purchase and has made provision for the payment of any federal or state withholding taxes required to be paid or withheld by the Company.

6. Entire Agreement. The Agreement is incorporated herein by reference. This Exercise Notice and the Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the

subject matter hereof. This Exercise Notice and the Agreement are governed by [state] law except for that body of law pertaining to conflict of laws.

Submitted by:

Accepted by:

OPTIONEE:

8x8, Inc.

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Address:

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated November 1, 1996, except as to the reincorporation described in Note 10 which is as of \_\_\_\_\_, 1996, relating to the consolidated financial statements of 8x8, Inc., which appears in such Prospectus. We also consent to the application of such report to the Financial Statement Schedule for the three years ended March 31, 1996 and the six months ended September 30, 1996 listed under Item 16(b) of this Registration Statement when such schedule is read in conjunction with the consolidated financial statements referred to in our report. The audits referred to in such report also included this schedule. We also consent to the reference to us under the heading "Experts" in such prospectus.

PRICE WATERHOUSE LLP  
San Jose, California  
November 18, 1996