

# 8X8 INC /DE/

## FORM 10-K (Annual Report)

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Sector	Technology
Fiscal Year	03/31

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**FORM 10-K**

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(MARK ONE)

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

**For the fiscal year ended March 31, 2002**

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 000-21783

**8X8, INC.**

(Exact name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**77-0142404**

(I.R.S. Employer Identification Number)

**2445 Mission College Blvd.**

**Santa Clara, CA 95054**

(Address of Principal Executive Offices including Zip Code)

**(408) 727-1885**

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, PAR  
VALUE \$.001 PER SHARE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. [ ]

Based on the closing sale price of the Registrant's common stock on the NASDAQ National Market System on May 13, 2002, the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$20,798,332. Shares of the Registrant's common stock held by each officer and director and by each person who owns 5% or more of the Registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's common stock outstanding as of May 13, 2002 was 28,236,372.

#### DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, and 13 of Part III incorporate information by reference from the Proxy Statement for the Annual Meeting of Stockholders to be held on July 23, 2002.



**8X8, INC.**

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## **PART I**

### **ITEM 1. BUSINESS**

#### ***OVERVIEW***

Statements contained in this Report on Form 10-K regarding our expectations, beliefs, estimates, intentions or strategies are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act and include statements regarding our plans to conduct trials of our IP voice telephony service offering with follow-on video capabilities; our research and development plans for our various product groups; our expectation concerning the adequacy of our facilities; our estimates of litigation exposure and our beliefs about the sufficiency of our manufacturing arrangements. All forward-looking statements included in this Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. You should not place undue reliance on these forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including a shifting of internal research and development focus based on changes in the market or adequacy of funding; a failure of customers to adopt iPBX systems due to concerns about VoIP technology or advances in competing systems; our business may grow in an unanticipated manner causing us to require different types of facilities; ordinary course litigation may cause a greater than anticipated impact due to factual matters or issues beyond our control; and our ability to source our products may be interrupted if our manufacturers cease operations or no longer desire to do business with us. Please also see the section entitled "Factors That May Affect Future Results" for additional risks that may impact our business.

8x8, Inc., or 8x8, and its subsidiaries (collectively, the Company) develop and market telecommunication technology for Internet Protocol, or IP, telephony and video applications. The Company has three product lines: voice and video semiconductors and related software; software that implements the functionality of a private branch exchange, or PBX, over data networks; and videophones, telephones and communication services that work over broadband networks. The Company has two primary subsidiaries, Netergy Microelectronics, Inc., or Netergy, and Centile, Inc., or Centile, that comprise two of its three product lines. In February 2002, we announced that we were beginning a new effort to add video capabilities to Netergy's existing family of voice-over-IP, or VoIP, semiconductors, along with software and systems support for the latest compression standards for video.

Netergy, formed in December 2000, provides voice and video semiconductors and related communication software to original equipment manufacturers, or OEMs, of telephones, terminal adapters, and other endpoint communication

devices and to other semiconductor companies. Netergy's technologies are used to make IP telephones and media hubs and to voice-enable cable and digital subscriber line, or DSL, modems, wireless devices, and other broadband technologies. Netergy's video semiconductors are used in applications such as communication terminals (including videophones, telephones and room videoconferencing systems) that allow video communication over telephone networks, a company's internal networks (e.g., a local area network, or LAN) and the Internet.

Centile, formed in March 2001, develops and markets hosted iPBX solutions that allow service providers to offer, to small and medium-sized businesses over broadband networks, the features and functions found in a typical business phone system. A hosted iPBX solution is a software application that implements the functionality of a business phone system over the same data connection that a business uses for connection to the Internet. The phone system software runs on servers that are located at a central data center so that the only phone system equipment that is required at the customer site are telephones. Centile's hosted iPBX solution was commercially released and became generally available in March 2001.

At the parent company level, 8x8 is developing its third product line that includes consumer videophones, telephones, and communication software and services that work over broadband networks. In January 2002, the Company announced two new consumer products, the DV324 desktop videophone, a videophone for analog phone lines, and the Behind-U privacy peripheral for personal computers. In November 2001, 8x8 announced its enhanced Service Logic Execution Environment, or eSLEE, a high-performance service logic and execution engine that provides a framework for deploying scalable telecommunications applications. The eSLEE succeeds the service creation environment, or SCE, technology that 8x8 acquired as a result of the acquisition of U|Force, Inc. in fiscal 2001. In May 2002, 8x8 announced that it was developing an end-to-end, internet-based voice and video communications platform and service, the Packet8 IP telephony platform and service, based upon 8x8's eSLEE and related technology.

The Company was founded as Integrated Information Technology, Inc. in 1987 and completed its initial public offering on July 2, 1997 under the name 8x8, Inc. In August 2000, the Company changed its name to Netergy Networks, Inc., but subsequently changed it back to 8x8, Inc. in July 2001.

## ***INDUSTRY BACKGROUND***

Traditional telecommunication networks use a fixed electrical path that travels through a series of switches across the network. These networks were designed solely to carry low-fidelity audio signals with a high level of reliability. Although these networks are indeed reliable for their initially intended use, these networks are not well suited to service the explosive growth of digital communications applications.

Traditional networks transmit data at very low rates and resolutions, making them poorly suited for delivering high-fidelity audio, entertainment-quality video or other rich multimedia content. Traditional networks are also expensive to build because each subscriber's telephone must be individually connected to the central office switch, which is usually several miles away from a typical subscriber's location. The digital component of the traditional telecommunications infrastructure is also less efficient than modern networks because it allots fixed bandwidth throughout the duration of each call, whether or not voice is actually being transmitted. Further, it is difficult for telecommunication service providers to provide new or differentiated services or functions, like video communications, that the network was not designed to accommodate.

In contrast to the traditional telecommunications infrastructure or public switched telephone network (PSTN), data networks -- such as the Internet or a corporate LAN -- utilize a "packet-switched" system in which information between two communicating terminals (for example, a PC downloading a page from a web server) is transmitted in the form of small data packets that travel through a series of switches, routers, and hubs across the network. Packet-switched networks have been built mainly for carrying non real-time data. The advantages of such networks are their efficiency, flexibility, and scalability. Bandwidth is only consumed when needed. Networks can be built in a variety of configurations to suit the number of users, client/server application requirements and desired availability of bandwidth. Furthermore, many terminals can share the same connection to the network. The exponential growth of the Internet in recent years has proven the scalability of these underlying packet networks. The most common protocol used for communicating on these packet networks is Internet Protocol, or IP.

As broadband connectivity has become more available and less expensive, it is now possible for service providers to

offer voice and video services that run over these IP networks to businesses and consumers. Providing such services has the potential to both substantially lower the cost of telephone and equipment costs to these customers and to increase the breadth of features available to the end-user. Services like full-motion, two-way video are now supported by the bandwidth spectrum commonly available to broadband customers, whether business or residential. To enable such new products to take hold, service and equipment suppliers need semiconductor products and software to connect input and output devices to the networks and the software that runs on the network that enables these input/output devices to be easily installed, operated, and managed, as well as to replace common functionalities of the legacy switched network, such as billing and operator/directory assistance.

## ***TECHNOLOGY AND PRODUCTS***

The Company has developed a broad range of communication technologies, including semiconductors, embedded software, system designs, telephony call management software, and consumer voice and video systems that enable communication services over IP networks.

The Company has leveraged its technologies to develop the following product lines: semiconductors and embedded software designed for IP telephony and videoconferencing applications, developed and marketed by Netergy; hosted iPBX solutions, developed and marketed by Centile; and consumer systems and communication software and services, developed and marketed by 8x8.

### ***SEMICONDUCTORS AND EMBEDDED SOFTWARE***

Netergy develops and markets a range of technology products, including semiconductors, embedded software, system software, and reference designs, that allow telecommunication equipment OEMs to: i) build voice and video IP phones, ii) build IP-to-analog phone adapter products, and iii) add IP telephony functions to DSL, cable, and wireless modems. Additionally, Netergy provides semiconductors and embedded software for use in videoconferencing applications. The following sections describe Netergy's technology and products in more detail.

#### **Technology**

**SEMICONDUCTOR ARCHITECTURE** -- Netergy's semiconductors are based on programmable processor architectures that enable implementation of IP telephony and videoconferencing applications in a highly efficient manner. Netergy's semiconductor architectures employ 32-bit reduced instruction set computer, or RISC, microprocessor cores, which execute the embedded applications software. Some of Netergy's semiconductors also employ a 64-bit Single Instruction Multiple Data, or SIMD, digital signal processor, or DSP, to accelerate the execution of signal processing intensive operations. Furthermore, Netergy's Audacity-T2 and T2U semiconductors benefit from the unique feature of not requiring any external SRAM or DRAM to operate.

Netergy's RISC processor cores use a proprietary instruction set specifically designed for multimedia communication applications. The RISC cores control the overall chip operation and manage the input/output interface through a variety of specialized ports that connect the chip directly to external host, audio, and network subsystems. The cores are programmable in the C programming language and allow customers to add their own features and functionality to the device software provided by Netergy. Netergy's DSP core architecture is a SIMD processor that implements computationally intensive video, audio, and graphics processing routines as well as certain digital communication protocols. The DSP cores are programmable with a proprietary instruction set consisting of variable-length 32-bit and 64-bit microcode instructions that provide the flexibility to improve algorithm performance, enhance audio and video quality, and maintain compliance with changing digital audio, video, graphics, and communication protocol standards. The DSP cores access their instructions through an internal bus that interfaces to on-chip SRAM and read-only memory, or ROM, that is pre-programmed with video and audio processing subroutines.

**EMBEDDED SOFTWARE** -- Netergy has developed a broad range of embedded application software that runs on its semiconductor products. Netergy's application software allows the use of its semiconductors in systems that conform to various emerging and established international telephony standards for audio and video encoders and decoders (also known as codecs) and call signaling protocols. By refining its software, Netergy can enhance quality, address new standards, and add significant features and functionality to systems that contain the semiconductor products. In addition, certain customers have licensed source code to which they add proprietary features and custom interfaces and,

in some cases, port to other semiconductor or processor architectures.

Call signaling protocol stacks are complex software programs required to make voice calls over IP networks, including the Internet. Codecs format and compress digital audio and video signals so they can be represented and efficiently transmitted in a digital form. Developing functional VoIP and video software and obtaining interoperability with other VoIP and video systems requires significant development time, which is why many OEMs choose to license it instead. Netergy's protocol stacks support the four most commonly deployed VoIP protocols, along with seven codecs.

Netergy is also developing new video compression algorithm technology that is based on the H.26L standard. The H.26L standard is a new algorithm being jointly specified by standards bodies in the International Teleconferencing Union, or ITU, and the Motion Pictures Expert Group, or MPEG, with the goal of improving video compression ratios by a factor of two against any current video algorithm specification at any bit rate. For a given bit rate, implementations of the new H.26L video codec are expected to improve the picture quality of video streaming, telephony, and entertainment applications beyond the quality of pictures that are available today from either the MPEG-2 or MPEG-4 algorithms.

**SYSTEM DESIGN** -- Netergy has developed expertise in integrating its semiconductors and software with peripheral components to produce complete IP telephony and multimedia communication systems. Netergy's system technology consists of modular subsystems that can be combined and rearranged to interface to various networks (such as analog telephone, ISDN, Ethernet LAN, wireless, and home networks) and to various telephony devices, such as the analog phones in a home or FAX machines in an office environment.

## **Products**

**AUDACITY-T2 IP TELEPHONY PROCESSOR** -- The Audacity-T2 semiconductor performs the digital processing functions required to build an IP phone, including formatting digital audio data for transmission over packet networks (such as Ethernet, the Internet, DSL links and digital cable systems). The chip can also be used in two-port analog telephone terminal adapters or gateway applications.

**AUDACITY-T2U IP TELEPHONY PROCESSOR** -- The Audacity-T2U semiconductor has all of the functionality of the Audacity-T2 processor but runs at faster processing speeds, features more on-chip memory, and contains an extra interface for connecting the chip to interfaces commonly found on DSL modem chipsets. The additional on-chip memory and higher processing speed enable the Audacity-T2U to address more advanced products, such as higher-end IP phones and four-port terminal adapters or gateways.

**VERACITY SOFTWARE** -- The Veracity software suite is a comprehensive package of VoIP call control protocols, standard network protocols, and audio processing functions. Veracity software stacks can run on either the Audacity family of semiconductors or on third-party VoIP processors. These stacks are designed for cost competitive, high quality applications, including VoIP/VoDSL gateways, Ethernet PBXs, and IP phones.

**VP7 AUDIO COMPRESSION ENGINE** -- The VP7 audio compression engine, or VP7, is a synthesizable core that can be integrated into custom semiconductor designs to add voice compression capability (e.g., telephony applications). For example, the VP7 has been integrated into STMicroelectronics' STV0397 semiconductor. The VP7 is based on Netergy's proprietary DSP architecture.

**REFERENCE DESIGN KITS** -- Netergy currently supplies the following reference design kits for its semiconductor products:

- The Media Hub MH2 reference design is a two-line, VoIP gateway based on the Audacity-T2 processor. It supports two analog telephone interfaces, a 10/100 Mbps Ethernet port, and a simple LCD display.
- The IP phone reference design includes plastics, keypad, display, and handset and is based on the Audacity-T2 processor.
- The Media Hub MHx reference design is similar to the MH2; however, it is based on the Audacity-T2U processor and supports up to four analog telephone interfaces.

Netergy's reference design kits are intended to serve as prototype system products and allow a customer to leverage

Netergy's system design expertise to accelerate the time to market with new products. Each reference design is provided with schematics, bills of materials, or BOMs, documentation, embedded software, and a software development environment that enables a customer to add new features and otherwise customize the software.

**VIDEOCONFERENCING SEMICONDUCTORS** -- Netergy's family of videoconferencing semiconductors includes the VCP, LVP, VPIC, and VCPex. These semiconductors are used in H.323, H.320, and H.324 videoconferencing applications, including group videoconferencing systems, personal computer, or PC, videophone add-in boards, consumer videophones, and video monitoring systems. These semiconductors are based on Netergy's proprietary architecture, which combines a custom RISC microprocessor, a high performance DSP core, SRAM, and proprietary software on a single chip. The integrated semiconductors perform the core processing functions required by LAN, ISDN, and analog telephone-based video communication and other digital video applications. Revenues derived from the sale of videoconferencing semiconductor products were \$4.1 million, \$9.5 million and \$11.3 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively. Revenues derived from videoconferencing technology licenses and related maintenance revenues, as well as royalties earned under such licenses, the majority of which were non-recurring in nature, were \$3.6 million, \$3.1 million and \$4.3 million for the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

### ***HOSTED IPBX SOLUTIONS***

Centile has developed and markets a hosted iPBX, which is a software-driven telephony solution that allows network service providers and PBX resellers to offer PBX functionality as a business communication service over broadband IP networks. The following sections describe Centile's technology and products in more detail.

#### **Technology**

Typically, today's businesses require an individual phone for each office worker. The phones include various productivity functions, such as voicemail, transfer and hold capability, and other services. Small and medium-sized enterprises will generally deploy dozens of such phones. Until recently, there were two ways that businesses could obtain this type of phone service: i) subscribe to Centrex services from their local telephone company, or ii) buy a dedicated piece of hardware that operates as a business PBX system. In a Centrex service, the telephone company provides a telephone line from its central office switch for each "extension" and associates all of the lines with a central number assigned to the business. Centrex, however, scales poorly for both regulatory and architectural reasons. It is expensive on a per-line basis when compared to enterprise-owned PBXs, which typically deliver additional functionality as well. In addition, Centrex services do not offer the ability for easy integration with computer programs, require long lead times to implement service changes, and are difficult to manage.

Rather than subscribe to individual telephone lines for each employee (as with Centrex), most companies purchase a dedicated PBX system, a telephone switch that allows dozens or hundreds of employees to share a few incoming and outgoing telephone lines, resulting in a more efficient use of those lines. Traditional PBXs use circuit-switched technology and must be installed on the enterprise premise because every phone is connected to it by an individual cable. These systems are expensive (from \$20,000 to \$200,000 or more, depending on the number of extensions), difficult to manage, maintain, and use, typically require vendor-specific telephones and cannot be easily integrated with data processing systems. Suppliers have recently offered versions of these dedicated PBXs that run over a company's LAN. Often, these offerings have the same costs and drawbacks of the legacy PBX systems.

With the availability of broadband IP connectivity to businesses, however, a third alternative has emerged: hosted iPBX services. In this model, the service provider delivers PBX functionality over an IP connection, which reduces the scaling problems by allowing many extensions to share a single connection. This solution also offers many of the advantages of an enterprise-owned PBX and further enables integration with enterprise data processing systems and support of call centers, while eliminating the capital and maintenance investments required for dedicated on-site hardware that provides the PBX functionality.

**TELEPHONY CALL MANAGEMENT SOFTWARE** -- Centile's telephony call management software (the iPBX server software, hosted iPBX, or iPBX) uses an IP network for its switching fabric and media connections, and provides the call routing, setup, and teardown necessary to establish a connection between two terminals on an IP network. It also provides a variety of more complex PBX features such as call transfers, web-based control, voice



message retrieval, and conferencing.

The iPBX software runs on a cluster of carrier-grade server platforms that are located in a data center. A cluster typically consists of both active and backup servers. Each active server runs several copies or "instances" of the iPBX software simultaneously. Each instance is dedicated to a particular enterprise end customer. The server cluster in the data center is linked to customer sites with a dedicated broadband IP link such as a T1 line. On the customer premise, terminal adapters or IP telephones are connected to the IP link via an IP router and Ethernet hubs or switches. Terminal adapters connect standard analog telephones and fax machines to the IP network.

To address scalability and reliability issues, Centile uses a modular and distributed architecture for the iPBX system. In this architecture, a single instance of the iPBX server software provides complete PBX functionality. A single instance is designed to support approximately 100 extensions. This limitation minimizes both the processing capacity and memory requirements of the server platform, allowing less powerful, less expensive servers to be used. Multiple iPBX instances can be run on each server and larger enterprises can be served by combining instances together to form a single larger PBX. The system can be scaled in overall capacity by adding more servers.

Much of the flexibility of the iPBX is due to the use of abstraction layers between the core iPBX engine and the devices with which it interfaces and controls. To allow it to interface to a variety of different telephone sets, PSTN gateways, and softswitches, the iPBX uses software drivers that support various industry standard and proprietary call setup and teardown protocols. Currently, the iPBX supports session initiation protocol, or SIP, media gateway control protocol, or MGCP, H.323v2, and a variety of third-party proprietary protocols.

To allow easy integration with computer programs (computer telephony integration, or CTI), the iPBX supports Sun Microsystems' Java Telephony Application Program Interface, or JTAPI, version 1.3 for telephony call control. JTAPI provides an industry standard series of function calls to allow computer programs to control PBXs from more than one manufacturer. Computer programs interfaced to the PBX might provide a graphical user interface to make it easier to transfer calls or initiate conference calls, or they might connect a company's customer relationship management software directly to the phone system, displaying customer information on a computer screen when that customer calls for support.

The iPBX solution was designed to address the shortcomings of traditional Centrex service offerings in a number of ways as described below:

- The use of an IP network allows the iPBX to scale relatively easily and economically because subscribers can add additional extensions without adding a new cable for each extension. Client devices such as IP phones and media hubs can be plugged into a company's existing LAN.
- The iPBX uses an IP network instead of a circuit-switched one so it can be located in the service provider's data center which may be miles away from the customer enterprise premise and connected to it by only a single broadband IP link.
- The redundancies built into the system increase its reliability, particularly when compared to enterprise owned PBXs.

## **Products**

**IPBX SERVER SOFTWARE** -- The Centile iPBX server software runs on a cluster of five Sun Microsystems carrier grade server platforms and provides software PBX functionality over IP networks. The iPBX software was designed specifically to allow service providers to deliver hosted iPBX services to small and medium-sized business customers. The Centile iPBX allows service providers to support up to eighty discrete iPBXs per cluster, each dedicated to an individual customer, and up to five thousand total extensions.

The server clusters running the iPBX server software are located in a service provider's data center. It is connected to the customer's premise using any broadband IP connection, though deployments to date have generally utilized a T1 connection. For telephone sets, customers can use terminal adapters to adapt standard analog telephones to IP service or they can use IP phones. The iPBX server software connects to the PSTN and the long- distance IP backbone through a gateway.

Service providers control and configure the iPBX server software via a Web interface, allowing the system administrator to manage the iPBX from any location using any workstation with a browser. The administrator interface is designed to provide control of phone number block assignments, dial plans, service provisioning, direct dial phone number assignments, iPBX status, and bandwidth management. The iPBX supports voicemail, interactive voice response, automatic call distribution, auto attendants, directory service, unified messaging modules, and operation, service, and support, or OSS, integration.

**MULTIPBX** - Introduced in May 2002, the MultiPBX combines the iPBX server software with a complete package of VoIP and data equipment suited for a building owner who desires to offer converged voice and data services through a multi-tenant building. The product can support thousands of user extensions in its standard configuration and can be located anywhere within the building. Regular PSTN phones can be used with the MultiPBX and all regular PSTN functions are supported with these phones: message waiting indicator, caller ID, transfer, conference and others. IP phones can also be used to enable the more advanced features of the system at the user's desktop. The MultiPBX is able to place and receive local and long distance calls via a PSTN gateway integrated with the product. Interoffice and telecommuter calls can be carried directly via a Virtual Private Network, or VPN, or directly across the Internet, thus offsetting communication costs for distant offices and remote facilities.

**MH4 & MH16 MEDIA HUBS** -- Terminal adapters and media hubs are customer premise equipment that adapt conventional telephony equipment, such as analog telephones and fax machines, for IP service. Centile's MH4 and MH16 media hub products support four and sixteen analog lines, or ports, respectively. Centile currently uses its MH4 and MH16 products, along with certain IP phones and terminal adapters developed by third parties, in its hosted iPBX and MultiPBX business communication service deployments.

Each media hub supports as many simultaneous connections as it has analog lines, and multiple media hubs can be used in an IP telephony system to provide as many lines as required. Because it uses a standard touch-tone telephone as both its audio and user interface, media hub-based systems are both reliable and cost-effective, especially when compared to proprietary digital PBX telephones.

MH4 and MH16 media hubs support the MGCP IP telephony standard with Centile extensions for auto-discovery and configuration. All media hubs deployed by Centile incorporate FLASH memory for remote upgrade capability so that the Centile iPBX server software can, as required, upgrade media hubs automatically via the network.

**IPBX USER INTERFACE SOFTWARE** -- Centile has announced three user interface applications for its hosted iPBX solution: ComCenter, Switchboard, and Administrator. All of these applications are designed to harness the graphical capabilities of personal computers and workstations to make the hosted iPBX easy to use.

The Centile ComCenter software with Call Announcer is designed for the end users of the iPBX. It provides Caller ID, call transfers, conference call setup, on-screen directories, contact management, and call logging. It also lets users set up and control their voicemail, listen to messages, set call forwarding numbers and filters, and set up personal speed dial numbers.

The Centile Switchboard software, or Switchboard, is the attendant interface for the iPBX. Switchboard runs on a personal computer or workstation to allow attendants to route incoming calls to an enterprise with a point-and-click interface. Switchboard provides caller ID for multiple incoming calls, extension status, two-click call transfers, corporate voice mailbox management, and multi-attendant support. Its graphical interface minimizes training and improves attendant productivity.

With the iPBX, customers control their own moves, adds, and changes using the Centile Administrator, or Administrator. To add additional lines, the customer simply connects an additional media hub to the IP network. The Centile Auto Discovery mechanism automatically configures the media hub. The customer then uses Administrator to assign extension numbers, associate user names, and create a voicemail account for each line. Administrator also allows the customer to define hunt groups, set user permissions, define phone button functions, and set voicemail parameters, all with a point-and-click interface.

***CONSUMER SYSTEMS AND COMMUNICATION SOFTWARE PLATFORM AND SERVICES***

## **Technology**

**COMMUNICATION SERVICES** -- In order to scale IP communication networks to large numbers of customers, the software that controls the communication network needs to incorporate the same infrastructure and switching components that have enabled the Internet to scale to its current level of deployment. Whereas the Centile iPBX system incorporates all of the configuration, network management, dial plans, and messaging facilities needed to operate the system in a single coherent package appropriate for a PBX system, an IP communication network that scales to millions and millions of users should use standard, open services that are widely deployed today. Such services include the Internet Message Access Protocol, or IMAP, a messaging interface that is used by e-mail clients; Domain Name Server, or DNS, for resolving names and addresses; and Lightweight Directory Access Protocol, or LDAP, for directory functions.

8x8 is developing a distributed service platform for IP communication networks called Packet8. Packet8 ties together these standard Internet services with a collection of multimedia endpoints, including Windows XP messenger clients, SIP phones, SIP-based 3G mobile phones, set-top boxes, and legacy video devices such as H.323 and H.324 video endpoints. Packet8 is built on Linux servers that run 8x8's eSLEE software and is composed of a collection of software packages running on the eSLEE that serve as proxies for linking Internet network resources together to form an IP communications network. These proxies are based on the Session Initiation Protocol, or SIP, and include functions for call routing, registration, messaging, firewall/network address translation, or NAT, traversal, 911 call handling, billing, and media and gateway services. This distributed architecture also has the advantage that the software proxies can manage the signaling traffic between endpoints or the Internet infrastructure and enable endpoints that would otherwise be unable to communicate with each other to be interoperable. The distributed proxy structure also allows signaling and media traffic that would otherwise be blocked by NAT or firewall configurations to traverse those obstructions without requiring any changes to the physical NAT or firewall mechanisms. Thus, a consumer broadband subscriber with a home gateway, who would otherwise be unable to access VoIP or video telephony media without constructing a Virtual Private Network, or VPN, to encapsulate the home network private IP addresses, can now connect an IP phone to the home network without any special configuration and immediately access media services via the translation services of 8x8's proxy architecture. Packet8 is being designed to comply with applicable emergency (911), eavesdropping (CALEA), and other regulatory requirements needed by any broad-based communications network.

The Packet8 architecture is designed to enable the use of video media in addition to VoIP traffic and includes a video voicemail function built into the SIP proxy that can process video messages left by video-enabled endpoints.

**CONSUMER SYSTEMS** -- 8x8 is reselling private-branded analog videophones and is planning to resell IP phones, some of which are manufactured by some of Netergy's OEM semiconductor customers. These phones incorporate certain unique software modifications to the protocol and application code that enable them to take advantage of 8x8's Packet8 distributed IP services platform. The original design of the videophone and IP phone systems is based on some of Netergy's semiconductor reference designs.

8x8 has also developed a motion detection peripheral, the Behind-U workstation alert system, that can be used to signal a personal computer or other device to detect movement and convey that information to the computing device. The Behind-U system does not use any of Netergy's semiconductor products.

## **Products**

**DV324 DESKTOP VIDEOPHONE** -- 8x8's DV324 product is a videophone with an integrated display and camera that is compatible with the H.324 standard, and therefore works over standard analog phone lines. The videophone can also be used to make a normal audio PSTN call. Controls on the videophone and the on-screen menu system enable the user to adjust the quality of the video that is sent and received, electronically pan/tilt/zoom the near-end and far-end cameras, take a high-resolution snapshot image, and turn on privacy mode to block outgoing video. The phone supports two sets of audio/video inputs (for connecting external cameras, camcorders or digital cameras) and one audio/video output port (for connecting an external TV or other display device) and supports caller-ID, auto-answer (so the phone can be used as a monitoring device), and 10 configurable speed-dial numbers.

**BEHIND-U WORKSTATION ALERT SYSTEM** -- The Behind-U system consists of an infrared motion sensor that plugs into the keyboard port on a personal computer and associated software. The Behind-U monitors an area for

motion and relays the motion information to the software application running on the PC. The software can be configured to notify the PC user that motion has been detected, or can be used to temporarily hide the information currently displayed on the computer screen.

SIP IP PHONE -- 8x8 is working with several partners to private-label an IP phone that is intended to be sold in conjunction with the Packet8 IP voice telephony services offering. The phone specifications include features to support multiple "virtual" lines of IP telephony, an integrated Ethernet interface, speakerphone capability, programmable feature buttons and on-hook dialing. The phone is designed to be compatible with other SIP protocol devices.

PACKET8 IP VOICE TELEPHONY SERVICE OFFERING -- 8x8 is planning to conduct initial trials of its Packet8 voice telephony service offering, with plans to integrate video capabilities into the service at a later date.

## ***CUSTOMERS AND MARKETING***

### **SEMICONDUCTORS AND EMBEDDED SOFTWARE**

#### **Customers**

Netergy sells its IP telephony semiconductors, embedded software, and reference designs to OEMs of VoIP and VoDSL products, such as Alcatel Microelectronics, D-Link, Ericsson and Telsey. Netergy has also separately licensed a VoIP semiconductor core and embedded VoIP software to STMicroelectronics.

Netergy sells its video semiconductors and reference board designs to OEMs of videoconferencing systems for the business, consumer, and video monitoring markets, such as GE Interlogix, Leadtek Research, Mitsubishi, Polycom, Sony, and VCON Telecommunications. Leadtek Research and GE Interlogix represented 13% and 12% of the Company's fiscal 2002 revenues, respectively.

#### **Sales and Marketing**

Netergy markets its semiconductor, embedded software, and reference design products through its own direct sales force and third-party sales representatives. Netergy supports its domestic and international direct sales efforts from its headquarters in Santa Clara, California and a European office in Marlow, United Kingdom. Netergy's sales and marketing personnel typically provide support to OEM customers through its application engineering team and periodic training sessions. Netergy sells its products to customers on an order-to-order basis and has long-term agreements with only a limited number of customers. As such, order backlog at any given time generally is not significant and may not be a reliable indicator of future revenues.

#### **Competition**

Netergy competes with both manufacturers of digital signal processing semiconductors and software products developed for the OEM VoIP marketplace. Netergy also competes with manufacturers of videoconferencing semiconductors and related firmware. Intense competition, declining average selling prices, and rapid technological changes characterize the markets for Netergy's products. The principal competitive factors in the market for IP telephony and videoconferencing semiconductors and embedded software include product definition, product design, system integration, chip size, code size, functionality, time-to-market, adherence to industry standards, price, and reliability. Netergy has a number of competitors in this market including: Agere Systems, Analog Devices, Atmel, Broadcom, DSP Group, Motorola, Radvision, Texas Instruments/Telogy Networks, TriMedia Technologies, Winbond, and Zarlink Semiconductor.

## ***HOSTED IPBX SOLUTIONS***

#### **Customers**

At the beginning of 2001, we decided that the long trials and time-to-market constraints of the CLEC and service provider market, as well as the decreasing availability of cash to certain competitive local exchange carriers, or CLECs,

in the North American market, required that we provide a hosted business communication service offering to PBX resellers in addition to its existing service provider offering. In March 2001, Centile was formed to conduct the operations of the hosted iPBX business and initiated the service in conjunction with Dialink, a CLEC based in the San Francisco Bay Area. Centile is still actively marketing the product to service providers in Europe, Asia and North America. Centile has announced licensing agreements with Song Networks AB, formerly Tele1 Europe Holding AB, and Oy Datatie AB, an ELISA group company.

### **Sales and Marketing**

Centile markets the hosted iPBX software product through a direct sales force. In addition, Centile intends to establish relationships with PBX and other system integrators that can serve as resellers. The sales force operates from the Company's headquarters in Santa Clara, California and from its European office in Sophia-Antipolis, France.

### **Competition**

Centile currently competes with suppliers of traditional PBXs, Centrex equipment, and newer generation IP-based PBX or Centrex solutions that seek to sell such products to telecommunication service providers or to the small and medium-size enterprise marketplace. The main competition includes Avaya, Commworks Corporation, Mitel, Nortel Networks, and several other providers of traditional and newer generation IP-based solutions, such as Broadsoft, Inc., Cisco Systems, Shoreline Communications, Syndeo Corporation, Sylantro, VocalData, Inc., Vocaltec Communications, and Vertical Networks.

As an IP-based solution, the hosted iPBX product competes by leveraging the innate efficiencies of IP architectures and combining those efficiencies with certain required features from competitive legacy products. The principal competitive factors in the market for hosted iPBX solutions include product reliability, product feature parity, interface design, scalability, time-to-market, adherence to standards, price, functionality, and IP network delivery/design.

## ***CONSUMER SYSTEMS AND COMMUNICATION SOFTWARE PLATFORM AND SERVICES***

### **Customers**

In May 2001, 8x8 announced the first customer license of its service creation technologies to Lucent. In January 2002, 8x8 introduced the DV324 Desktop Videophone and Behind-U products and announced that these products would be sold direct to end-users from 8x8's website. 8x8 has also announced that Michigan State University has ordered DV324 Desktop Videophones for its mental health and hospice patients. 8x8 plans to engage in early trials of its Packet8 IP communication software platform and services offering for which no customers have been announced.

### **Sales and Marketing**

8x8 markets its consumer systems through its direct sales force and third-party resellers. Sales of the products to end-users are also conducted from the 8x8's website. 8x8 plans to market its Packet8 IP communication services offering via its own direct sales force and through third-party resellers.

### **Competition**

8x8's consumer systems products compete with other providers of videophones and videoconferencing systems, including Innomedia, MotionMedia, and various software offerings that implement videophone functionality on a personal computer, such as CU-SeeMe and Intel's videophone software that is bundled with their webcam offerings. The main competitors for the Company's eSLEE and Communication Services product line are deltaThree, Dynamicsoft, Inc., GoBeam, Nortel Networks, Pagoo, Sylantro Systems, Tekelec, Telcordia, Telsis, Ubiquity Software and Vonage. This market is characterized by rapid technological change, intense competition, and first-mover advantage. Principal competitive factors in the market for 8x8's products include product feature parity, interface design, product reliability, performance, time-to-market, adherence to standards, price, functionality, and IP network delivery/design.

## ***MANUFACTURING***

Netergy outsources the manufacturing of its semiconductors to independent foundries, and its primary semiconductor wafer supplier is Taiwan Semiconductor Manufacturing Corporation, or TSMC. Netergy also relies on various independent third party companies for the assembly and testing of its semiconductors. Our reliance on overseas wafer fabrication, sort, assembly and test contractors and our maintenance of inventories at contractors' facilities entails certain political and economic risks, including political instability and expropriation, currency controls and exchange fluctuations, and changes in tariff and freight rates. Furthermore, in the event overseas wafer fabrication, sort, assembly or test operations, or air transportation to or from foreign foundries or contractors, were disrupted for any reason, our operations could be severely harmed.

The principal raw materials utilized in the semiconductor production process are polished silicon wafers, ultra-pure metals, chemicals and gases. Encapsulation materials that enclose the chip and provide the external connecting leads are provided by the independent assembly contractors. Shortages could occur in various essential materials due to interruption of supply or due to increased demand in the industry. Shortages have occurred in our history and order lead times have been extended in the industry on occasion without significantly harming us. However, future shortages, if any, could severely harm our operations. Netergy does not have long-term purchase agreements with its contract manufacturers or its component suppliers.

Centile outsources the manufacturing of its media hubs and 8x8 outsources the manufacturing of its videophones to third-party manufacturers, who are generally also semiconductor customers of Netergy. Neither Centile nor 8x8 have long-term purchase agreements with their contract manufacturers. We may not be able to obtain alternative manufacturing sources if our current subcontractors become unavailable. If we are able to find alternative subcontractors, a switchover to a new supplier would take time and might result in an interruption in sales.

## ***RESEARCH AND DEVELOPMENT***

Research and development expenses in the fiscal years ending March 31, 2002, 2001, and 2000 were \$11.6 million, \$18.7 million, and \$11.9 million, respectively. The development of new products and the enhancement of existing products by the Company and its subsidiaries are essential to their success.

The Company's current and future research and development efforts relate primarily to VoIP semiconductors and embedded software, video semiconductors and embedded software, hosted iPBX systems, and telecommunication services technologies, including the development of new endpoints. Areas of emphasis will include: enhanced versions of Netergy's Audacity semiconductor family and architecture to provide higher performance, enhanced functionality, and further integration of certain essential system functions and interfaces; enhanced versions of 8x8's video communication processor technology to provide support for H.26L and other new video compression algorithms; enhanced versions of Centile's hosted iPBX business communication service to include additional call control features, system management capabilities, additional protocol and telephony device support, and new graphical user interface and web-based applications; and enhanced versions of 8x8's eSLEE platform and Packet8 telecommunication services offering. Future developments may also focus on emerging audio and video telephony standards and protocols, quality and performance enhancements to multimedia compression algorithms, and additional features supporting all of the Company's products.

## ***INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS***

Our ability to compete depends, in part, on our ability to obtain and enforce intellectual property protection for our technology in the United States and internationally. We currently rely primarily on a combination of trade secrets, patents, copyrights, trademarks and licenses to protect our intellectual property. At this time we have forty-nine United States patents and a number of United States and foreign patents pending, none of which we consider critical to our business. Our patents expire on dates ranging from 2012 to 2018. We cannot predict whether our pending patent applications will result in issued patents. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than the various legal protections of our technology to establishing and maintaining technology leadership.

To protect our trade secrets and other proprietary information, we require our employees to sign agreements providing for the maintenance of confidentiality and also the assignment of rights to inventions made by them while in our employ. There can be no assurance that our means of protecting our 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 our technology, duplicate our technology or design around any of our patents. We are also subject to the risks of adverse claims and litigation alleging infringement of the intellectual property rights of others. The semiconductor and software industries are subject to frequent litigation regarding patent and other intellectual property rights. In addition, the laws of foreign countries in which our products are or may be sold do not protect our intellectual property rights to the same extent as do the laws of the United States. Our failure to protect our proprietary information could cause our business and operating results to suffer.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future will be available to us 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 technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.

### ***LICENSING AND DEVELOPMENT ARRANGEMENTS***

The Company has entered into licensing and development arrangements with its customers to promote the design, development, manufacture, and sale of the Company's products.

In order to encourage the use of its semiconductors, Netergy has licensed portions of its systems technology and software object code for its semiconductors to virtually all of its semiconductor customers. Moreover, many of Netergy's OEM customers have licensed portions of the software source code for its semiconductors. Netergy intends to continue to license its semiconductor, software, and systems technology to other companies, many of which are current or potential competitors. Such arrangements may enable these companies to use Netergy's technology to produce products that compete with the Company's IP telephony and video products.

Netergy has also licensed the right to manufacture certain of its videoconferencing and IP telephony semiconductor products to several original equipment manufacturers, or OEMs. These licenses generally provide for the payment of royalties; however, royalty obligations under a license of our video compression technology to ESS Technology, Inc. that provided 13% of our revenues in fiscal 2002 have now expired. Only certain of these OEM licensees may sell semiconductors based on the licensed technology to third parties, including STMicroelectronics, or STM, and Alcatel Microelectronics, while other licensees are limited to sales of such semiconductors as part of multimedia communication systems or sub-systems. Item 13 of this Report provides further information regarding the Company's license and other arrangements with STM.

Centile may, in the future, license its source code for portions or all of the hosted iPBX technology to other companies. Such arrangements may enable these companies to use the technology to produce products that compete with Centile's products.

In March 2002, 8x8 licensed certain Very Long Instruction Word, or VLIW, microprocessor cores, related tools and MPEG4 video compression firmware from STM for use in the Company's Internet protocol, or IP, video communication processor development initiatives. Additionally, 8x8 agreed to license STM certain of its existing and future H.263 and H.26L firmware implementations for use with STM's semiconductor products. The licenses are non-exclusive, non-transferable and non-assignable and provide for the sharing of updates and enhancements to the licensed technology, subject to certain limitations. The agreement includes provisions that allow the Company to manufacture semiconductor devices that contain the ST200 core at STM or at other third-party fabrication facilities. The Company is required to pay STM per-unit royalties based upon shipments of products that incorporate the VLIW technology. In addition, STM is required to pay the Company certain per-unit royalties based upon shipments of STM semiconductor products that contain the Company's H.263 and H.26L video technology.

In addition, 8x8 has licensed source code for its service creation environment, or SCE, product to Lucent. The SCE product was the predecessor of the eSLEE product. Under the agreement, Lucent has licensed the technology for use in its Enhanced Service Authoring Environment (eSAE), which enables carriers and application developers to design innovative new services for converged voice and data networks. The Company may continue to license its communication services platform and video source code to other companies. Such arrangements may enable these companies to use the technology to produce products that compete with the Company's consumer systems and communication services products.

The Company expects to continue licensing its technology to others, many of whom may be located outside of the United States. In addition to licensing its technology to others, the Company from time to time will take a license to technology owned by third parties and currently relies upon certain technology, including hardware and software, licensed from third parties.

### ***INFORMATION ABOUT SEGMENTS AND GEOGRAPHIC AREAS***

Financial information relating to our segments and information on revenues generated in different geographic areas are set forth in Note 11 to our consolidated financial statements contained in Part II, Item 8 of this Report. In addition, information regarding risks attendant to our foreign operations are set forth under the heading "Factors that May Affect Future Results" later in this Report.

### ***EMPLOYEES***

As of March 31, 2002, the Company employed 106 persons, including 6 in manufacturing operations, 60 in research and development, 17 in sales and marketing, and 23 in general and administrative capacities. None of the Company's employees are represented by a labor union or are subject to a collective bargaining arrangement. The Company believes that relations with employees are good.

### **ITEM 2. PROPERTIES**

The Company's principal operations are located in an approximately 45,000 square foot facility in Santa Clara, California that is leased through May 2003. Design, limited manufacturing, research and development, sales and marketing, and administrative activities are performed in this facility.

The Company also leases facilities for its sales office and research and development operation in Marlow, United Kingdom and for its research and development operation in Sophia-Antipolis, France. The Company believes that its existing facilities are adequate to meet its current and foreseeable future needs. For additional information regarding the Company's obligations under leases see Note 8 to the consolidated financial statements contained in Part II, Item 8.

### **ITEM 3. LEGAL PROCEEDINGS**

The Company is involved in various legal claims and litigation that have arisen in the normal course of the Company's operations. While the results of such claims and litigation cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a significantly adverse effect on the Company's financial position or results of operations. However, should the Company not prevail in any such litigation, its operating results and financial condition could be adversely impacted.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2002.

## **PART II**

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



## MATTERS

The Company completed its initial public offering on July 2, 1997 under the name 8x8, Inc. From that date through April 3, 2000, the Company's common stock, \$0.001 par value per share, was traded on the NASDAQ National Market (the NASDAQ) under the symbol "EGHT." From April 4, 2000 through July 18, 2001, the Company's common stock was traded on the NASDAQ under the symbol "NTRG." From July 19, 2001 the Company's common stock has traded under the symbol "EGHT." The Company has never paid cash dividends on its common stock and has no present plans to do so. As of May 13, 2002, there were 272 holders of record of the Company's common stock. The following table sets forth the range of high and low closing prices for each period indicated:

Period	High	Low
Fiscal 2002:		
First quarter	\$ 2.32	\$ 0.65
Second quarter	\$ 1.48	\$ 0.60
Third quarter	\$ 1.11	\$ 0.68
Fourth quarter	\$ 1.30	\$ 0.84
Fiscal 2001:		
First quarter	\$ 29.63	\$ 7.67
Second quarter	\$ 12.94	\$ 6.63
Third quarter	\$ 9.06	\$ 1.50
Fourth quarter	\$ 4.72	\$ 0.78

## ITEM 6. SELECTED FINANCIAL DATA

	Years Ended March 31, (1)				
	2002 (2)	2001(6)(3)	2000(4)(6)	1999(5)	1
	(in thousands, except per share amounts)				
Total revenues.....	\$ 14,691	\$ 18,228	\$ 25,384	\$ 31,682	\$ 4
Net income (loss).....	\$ (9,105)	\$ (74,399)	\$ (24,848)	\$ (19,224)	\$
Net income (loss) per share:					
Basic.....	\$ (0.33)	\$ (2.99)	\$ (1.38)	\$ (1.28)	\$
Diluted.....	\$ (0.33)	\$ (2.99)	\$ (1.38)	\$ (1.28)	\$
Total assets.....	\$ 19,653	\$ 39,145	\$ 59,983	\$ 28,709	\$ 4
Convertible subordinated debentures.....	\$ --	\$ 6,238	\$ 5,498	\$ --	\$
Contingently redeemable common stock.....	\$ 813	\$ --	\$ --	\$ --	\$
Accumulated deficit.....	\$ (137,276)	\$ (128,146)	\$ (53,747)	\$ (28,899)	\$ (
Total stockholders' equity.....	\$ 13,234	\$ 21,632	\$ 47,390	\$ 18,823	\$ 3

1. Fiscal 2001 was a 52 week and 2 day fiscal year. Fiscal year 2000 was a 53-week fiscal year, while fiscal 2002, 1999, and 1998 were 52-week fiscal years.
2. Net loss and net loss per share include an extraordinary gain of \$779,000 resulting from the early extinguishment of our convertible subordinated debentures.

3. Net loss and net loss per share include a restructuring charge of \$33.3 million, an in-process research and development charge of \$4.6 million, and a \$1.1 million charge for the cumulative effect of a change in accounting principle.
4. Net loss and net loss per share include a \$6.4 million charge for a discount on the issuance of common stock and an in-process research and development charge of \$10.1 million.
5. Net loss and net loss per share include a \$5.7 million charge associated with the write off of ViaTV consumer videophone inventories.
6. The convertible subordinated debentures, which had face value of \$7.5 million, are presented net of the related debt discount, which was amortized over the initial three-year term of the debentures. The debentures were redeemed in December 2001.

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

### ***FORWARD-LOOKING STATEMENTS***

This Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including our statements regarding our assumptions underlying our critical accounting determinations concerning revenue, allowances for doubtful accounts, valuation of goodwill, tax allowances and reserves for legal issues; the anticipated continued decline in videoconferencing semiconductor revenues; factors that could impact our gross margins; the sufficiency of cash to fund our ongoing obligations through at least March 31, 2003, efforts to raise additional financing, the acquisition of or investment in other businesses and products, commitment of resources, and reduction in operating costs including the possible sale or cessation of certain business segments and the possible further reduction of personnel and suspension of salary increases and capital expenditures. You should not place undue reliance on these forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including our good faith assumptions being incorrect, our business expenses being greater than anticipated due to competitive factors or unanticipated development or sales costs; revenues not resulting in the manner anticipated due to a continued slow down in technology spending, particularly in the telecommunications market; our failure to generate investor interest or to sell certain of our assets or business segments. The forward-looking statements may also be impacted by the additional risks faced by us as described in this Report, including those set forth under the section entitled "Factors that May Affect Future Results." All forward-looking statements included in this Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements.

### ***OVERVIEW***

8x8, Inc., or 8x8, and its subsidiaries (collectively, the Company) develop and market telecommunication technology for Internet Protocol, or IP, telephony and video applications. The Company has three product lines: voice and video semiconductors and related software; software that implements the functionality of a private branch exchange, or PBX, over data networks; and telephones, videophones, and communication services that work over broadband networks.

The Company has two primary subsidiaries, Netergy Microelectronics, Inc. (Netergy) and Centile, Inc. (Centile). Netergy provides voice and video semiconductors and related communication software to original equipment manufacturers, or OEMs, of telephones, terminal adapters, and other endpoint communication devices and to other semiconductor companies. Netergy's technologies are used to make IP telephones and to voice-enable cable and digital subscriber line, or DSL, modems, wireless devices, and other broadband technologies. Centile develops and markets hosted iPBX solutions that allow service providers to offer to small and medium-sized businesses over broadband networks the features and functions that are commonly found in a typical business phone system. A hosted iPBX solution is a software application that implements the functionality of a business phone system over the same data connection that a business uses for connection to the Internet. The phone system software runs on servers that are located at a central data center so that the only phone system equipment that is required at the customer site are telephones. The phone system can also be accessed and controlled from any web browser on the Internet. 8x8 is

developing its third product line that includes consumer telephones, videophones, and communication software and services that work over broadband networks, at the parent company level. 8x8 sells videophones that work over normal phone lines and is planning to initiate trials of its IP telephony software and service offering that is designed to enable customers to communicate with IP telephones and videophones using an Internet based communications software platform and service.

### *CRITICAL ACCOUNTING POLICIES*

The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. The Company does not have any ownership interest in any special purpose entities that are not wholly-owned and consolidated subsidiaries of the Company.

We have identified the policies below as some of the most critical to our business and the understanding of our results of operations. These policies require critical judgments and estimates about matters that are inherently uncertain. Although we believe our judgments and estimates are appropriate and correct, actual future results may differ from our estimates. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, see Note 1 to the consolidated financial statements in Part II, Item 8 of this Report.

#### **Use of estimates**

The preparation of our consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to litigation and other contingencies, have a material impact on our financial statements, and are discussed in detail throughout our analysis of the results of operations.

In addition to evaluating estimates relating to the items discussed above, we also consider other estimates, including, but not limited to, those related to bad debts, the valuation of inventories, goodwill, income taxes, and financing operations. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions. Additional information regarding risk factors that may impact our estimates is included below under "Factors that May Affect Future Results."

#### **Revenue recognition**

Our revenue recognition policies are described in Note 1 to the consolidated financial statements in Part II, Item 8 of this Report. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

At the time of each revenue transaction we assess whether the revenue amount is fixed and determinable and whether or not collection is reasonably assured. We assess whether the fee is fixed and determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after our normal payment terms, which are thirty to ninety days from invoice date, we account for the fee as not being fixed and determinable. In these cases, we recognize revenue as the fees become due. We assess collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We generally do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

For arrangements with multiple obligations (for example, undelivered maintenance and support), we allocate revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements, which is specific to the Company. This means that we defer revenue from the arranged fee that is equivalent

to the fair value of the undelivered elements. Fair values for the ongoing maintenance and support obligations for our technology licenses are based upon separate sales of renewals to other customers or upon renewal rates quoted in the contracts. The Company bases the fair value of services, such as training or consulting, on separate sales of these services to other customers. We recognize revenue for maintenance services ratably over the contract term. Our training and consulting services are billed based on hourly rates and we generally recognize revenue as these services are performed.

If an arrangement includes acceptance criteria, revenue is not recognized until we can objectively demonstrate that the software or service can meet the acceptance criteria. If the software license arrangement obligates us to deliver unspecified future products, revenue is recognized on a subscription basis, ratably over the term of the contract.

Our ability to enter into revenue generating transactions and recognize revenue in the future is subject to a number of business and economic risks discussed below under "Factors that May Affect Future Results."

### **Allowance for doubtful accounts**

We must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, including historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. The accounts receivable balance was \$1.2 million, net of an allowance for doubtful accounts of \$286,000 as of March 31, 2002. One customer represented \$684,000, or 45%, of our gross accounts receivable at March 31, 2002. Based upon the customer's past payment history, discussions with the customer and our review of their financial condition, outstanding balances were considered collectible and therefore no portion of this balance was specifically reserved for at March 31, 2002.

### **Valuation of inventories**

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by us, additional inventory write-downs may be required.

### **Valuation of goodwill and long-lived and intangible assets**

We assess the impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include the following:

- significant underperformance relative to projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

When we determine that the carrying value of goodwill, long-lived assets and intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Net goodwill and intangible assets amounted to \$1.5 million as of March 31, 2002. Net long-lived assets were \$3.1 million as of March 31, 2002.

Effective April 1, 2002, Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets" became effective and as a result, we will reclassify workforce related intangibles of \$11,000 to goodwill and cease to amortize approximately \$1.5 million of remaining goodwill associated with the acquisition of Odisei. We recorded approximately \$763,000 of amortization on goodwill and intangible assets related to assembled workforce during fiscal 2002 and would have recorded approximately \$707,000 of amortization during fiscal 2003. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in fiscal 2003 and an

annual impairment review thereafter. We expect to complete our initial review during the quarter ended September 30, 2002. There can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

## Accounting for income taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax expense together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. In the event that we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Significant management judgment is required in determining the valuation allowance recorded against our net deferred tax assets, which primarily consist of net operating loss and tax credit carryforwards. We have recorded a valuation allowance of \$47.3 million as of March 31, 2002, due to uncertainties related to our ability to utilize most of our deferred tax assets before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable.

## Litigation

Management's current estimated range of liability related to pending litigation involving the Company is based on claims for which our management can estimate the amount and range of loss. We have recorded the minimum estimated liability related to those claims, where there is a range of loss. Because of the uncertainties related to both the amount and range of loss on pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, we will assess the potential liability, if any, related to our pending litigation and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operation and financial position.

## RESULTS OF OPERATIONS

The following table sets forth consolidated statement of operations data for each of the years ended March 31, 2002, 2001, and 2000, expressed as the percentage of our total revenues represented by each item. Cost of product revenues is presented as a percentage of product revenues and cost of license and other revenues is presented as a percentage of license and other revenues. You should read this information in conjunction with our Consolidated Financial Statements and related notes included elsewhere in this Report:

	Year Ended March 31,		
	2002	2001	2000
Product revenues.....	41 %	70 %	82 %
License and other revenues.....	59 %	30 %	18 %
	-----	-----	-----
Total revenues.....	100 %	100 %	100 %
	-----	-----	-----
Cost of product revenues.....	43 %	41 %	41 %
Cost of license and other revenues.....	2 %	32 %	3 %
	-----	-----	-----
Total cost of revenues.....	19 %	38 %	34 %
	-----	-----	-----

Gross profit.....	81 %	62 %	66 %
	-----	-----	-----
Operating expenses:			
Research and development.....	79 %	103 %	47 %
Selling, general and administrative.....	65 %	99 %	84 %
In-process research and development.....	-- %	25 %	40 %
Amortization of intangibles.....	5 %	60 %	2 %
Restructuring charge.....	-- %	183 %	-- %
	-----	-----	-----
Total operating expenses.....	149 %	470 %	173 %
	-----	-----	-----
Loss from operations.....	(68)%	(408)%	(107)%
Other income, net.....	7 %	14 %	11 %
Interest expense.....	(6)%	(8)%	(2)%
	-----	-----	-----
Loss before provision for income taxes.....	(67)%	(402)%	(98)%
Provision for income taxes.....	-- %	-- %	-- %
	-----	-----	-----
Net loss before extraordinary gain and cumulative effect of change in accounting principle .....	(67)%	(402)%	(98)%
Extraordinary gain on extinguishment of debt....	5 %	-- %	-- %
Cumulative effect of change in accounting principle..	-- %	(6)%	-- %
	-----	-----	-----
Net loss.....	(62)%	(408)%	(98)%
	=====	=====	=====

## REVENUES

**Product revenues** were \$6.0 million in fiscal 2002, a decrease of \$6.8 million from the \$12.8 million reported in fiscal 2001. The decrease in product revenues in fiscal 2002 was due to decreases in sales of video monitoring and consumer videophone systems totaling \$969,000, resulting from our decision to terminate further development and sales of these product lines in prior years, a slight decrease in IP telephony semiconductor sales, a \$305,000 decrease in media hub system revenues, and a \$5.4 million decrease in revenue derived from our videoconferencing semiconductor products. The decrease in media hub system revenues as compared to the prior year period was due primarily to a decline in sales to a significant customer. The significant decrease in videoconferencing semiconductor revenues was due primarily to a significant decrease in unit shipments, offset partially by increases in average selling prices, or ASPs. Factors that contributed to the significant decrease in unit shipments of our videoconferencing semiconductors as compared to the prior year, and that we anticipate will result in a continued decline in revenues derived from videoconferencing semiconductors for the foreseeable future, include:

- Increased competition from other developers of semiconductors used in videoconferencing applications;
- The acquisition of two of our customers by a company that appears to have standardized its product development efforts around technology supplied by one or more of our competitors;
- Increased competition from evolving PC-based videoconferencing applications which has resulted in reduced demand for products marketed and sold by our customers that incorporate our videoconferencing semiconductors; and
- Decreased corporate and consumer spending.

Product revenues were \$12.8 million in fiscal 2001, a decrease of \$8.0 million from the \$20.8 million reported in fiscal 2000. The decrease in product revenues in fiscal 2001 was primarily due to decreases in sales of video monitoring and consumer videophone systems for the reasons discussed above, and a decrease in average selling prices for our videoconferencing semiconductors. These decreases were partially offset by an increase in IP telephony semiconductor revenues resulting from the commercial release of our Audacity-T2 product in fiscal 2001.

**License and other revenues** were \$8.6 million in fiscal 2002, an increase of \$3.2 million from the \$5.4 million recognized in fiscal 2001. License and other revenues recognized in fiscal 2002, the majority of which are considered to be non-recurring in nature, consist primarily of technology licenses and related maintenance revenues, as well as

royalties earned under such licenses. License and other revenues for fiscal 2001 also included \$1.2 million of professional service revenues associated with our Canadian operations. No professional service revenues were recognized in fiscal 2002 due to the elimination of the professional services organization as part of the restructuring of our Canadian operations in the fourth quarter of fiscal 2001. The negative impact of eliminating professional service revenues in fiscal 2002 was more than offset by the following:

- An increase in royalties earned by Netergy under a license agreement for certain of our video compression technology. Royalty revenue recognized under this agreement totaled \$2.0 million for fiscal 2002 as compared to \$768,000 for fiscal 2001. Apart from a final royalty payment of \$750,000 that we received (and will recognize as revenue) in the first quarter of fiscal 2003, the licensee has no further obligations to pay royalties on shipments of products that incorporate our technology;
- A \$1.3 million increase in license revenue associated with our embedded IP telephony firmware technology, e.g., Veracity VoIP software and Audacity-T2 based reference design kits marketed by Netergy;
- The recognition of \$309,000 of previously deferred revenue associated with our license of unified messaging technology to Milinx. See Note 8 to the Consolidated Financial Statements in Item 8 for further discussion. Also, license revenues in fiscal 2002 included \$680,000 of non-recurring revenue associated with the license of our SCE technology to Lucent;
- A \$1.6 million increase in revenue in fiscal 2002 associated with the license of our video monitoring technology to Interlogix in fiscal 2001. Recognition of the approximately \$3.9 million of revenue ascribed to the license of video monitoring technology to Interlogix had been deferred until we satisfied certain remaining obligations in the quarter ended March 31, 2001. Revenue associated with the license is being recognized ratably over the license term, which expires in May 2003. The remaining balance in deferred revenue at March 31, 2002 is approximately \$2.0 million. All cash receipts associated with this license were received in fiscal 2001;
- A decrease of approximately \$700,000 in non-recurring license and maintenance revenues associated with Netergy's videoconferencing technology.

License and other revenues increased \$853,000 from fiscal 2000 to fiscal 2001 due primarily to U|Force professional service revenues of \$1.2 million recognized in fiscal 2001 and a \$646,000 increase in revenue associated with licenses of Netergy's embedded IP telephony firmware technology, offset by a decrease in royalties earned under the video compression technology license agreement discussed above.

Revenues from our ten largest customers in the fiscal years ended March 31, 2002, 2001, and 2000 accounted for approximately 73%, 48%, and 35%, respectively, of our total revenues. Three customers represented more than 10% of our total revenues in fiscal 2002. These customers, ESS Technology, Inc., Leadtek Research, and GE Interlogix, represented 13%, 13% and 12% of our total revenues, respectively. During the fiscal years ended March 31, 2001 and 2000, no customer accounted for 10% or more of total revenues.

Sales to customers outside the United States represented 61%, 69%, and 47% of total revenues in the fiscal years ended March 31, 2002, 2001, and 2000, respectively. The following table illustrates our net revenues by geographic area. Revenues are attributed to countries based on the destination of shipment (in thousands):

	Year Ended March 31,		
	2002	2001	2000
United States.....	\$ 5,777	\$ 5,632	\$ 13,381
Europe.....	4,126	5,862	5,808
Taiwan.....	2,026	2,739	1,737
Japan.....	1,119	1,188	2,351
Other.....	1,643	2,807	2,107

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\$ 14,691	\$ 18,228	\$ 25,384
=====	=====	=====

### *COST OF REVENUES AND GROSS PROFIT*

The cost of product revenues consists of costs associated with components, semiconductor wafer fabrication, system and semiconductor assembly and testing performed by third-party vendors, and direct and indirect costs associated with purchasing, scheduling, and quality assurance. Gross profit from product revenues was \$3.4 million, \$7.6 million, and \$12.3 million for the fiscal years ended March 31, 2002, 2001, and 2000, respectively. Product gross margin was 57%, 59% and 59% for the fiscal years ended March 31, 2002, 2001, and 2000, respectively.

The \$4.1 million decrease in gross profit from fiscal 2001 to fiscal 2002 is due primarily to a significant decrease in sales of our videoconferencing semiconductors and video monitoring systems. Gross profit in fiscal 2002 was also impacted by a decrease in product gross margins due to lower average selling prices realized on sales of our IP telephony semiconductors, and to a lesser extent, an increase in inventory reserves associated with our media hub products in the first quarter of fiscal 2002. The decrease in margins was mitigated to some extent by an increase in average selling prices realized on the sale of our videoconferencing semiconductors and the reversal of \$143,000 of reserves associated with our semiconductor products in the fourth quarter of fiscal 2002 due to the sale of inventory that had been specifically reserved for in fiscal 2001. The \$4.7 million decrease in gross profit from fiscal 2000 to fiscal 2001 is due primarily to a significant decrease in sales of our video monitoring and consumer videophone products due to our exit from those businesses. Gross profit in fiscal 2001 was also impacted by lower average selling prices realized on sales of our videoconferencing semiconductors and an increase in reserves associated with our semiconductor products, offset by a significant increase in IP telephony semiconductor sales.

Gross profit from license and other revenues, which were largely nonrecurring, was \$8.4 million, \$3.7 million, and \$4.4 million in fiscal 2002, 2001, and 2000, respectively. Associated gross margins were 98%, 68%, and 97% in fiscal 2002, 2001, and 2000. The significant increase in gross margin from fiscal 2001 to fiscal 2002 was due to the elimination of our professional service organization as part of the restructuring of our Canadian operations in the fourth quarter of fiscal 2001.

Our gross margin is affected by a number of factors including, product mix, the recognition of license and other revenues for which there may be no or little corresponding cost of revenues, product pricing, the percentage of direct sales and sales to resellers, and manufacturing and component costs. The markets for our products are characterized by falling average selling prices. In the likely event that we encounter significant price competition in the markets for our products, we could be at a significant disadvantage compared to our competitors, many of whom have substantially greater resources, and therefore may be better able to withstand an extended period of downward pricing pressure. To respond to competitive pricing pressures, we will be required to introduce differentiated products and continue to reduce costs as a means of maintaining our margins. We may not be successful in our development efforts or product cost reduction measures and may face continued erosion of margins.

### *RESEARCH AND DEVELOPMENT EXPENSES*

Research and development expenses consist primarily of personnel, system prototype design and fabrication, mask, prototype wafer, and equipment costs necessary for us to conduct our development efforts. Research and development costs, including software development costs, are expensed as incurred. Research and development expenses were \$11.6 million, \$18.7 million, and \$11.9 million for fiscal 2002, 2001, and 2000, respectively. The significant decreases in research and development expenses in fiscal 2002 as compared to fiscal 2001 were due to the following:

- The elimination of our Canadian operations in the fourth quarter of fiscal 2001. Research and development expenses incurred by our Canadian operations in fiscal 2001 were approximately \$2.5 million;
- Reductions in research and development personnel staffing levels in the first and second quarters of fiscal 2002;
- Lower tooling and other project related expenses associated with semiconductor and system-level reference design projects in fiscal 2002;



- Lower third-party consulting expenses associated with development of the graphical user interface for Centile's hosted iPBX product;
- A decrease in stock compensation charges of approximately \$325,000; and
- Our overall efforts to reduce discretionary operating costs.

Higher research and development expenses during fiscal 2001 as compared to fiscal 2000 were due primarily to increases in personnel resulting from the acquisition of U|Force and increases in hosted iPBX development efforts, higher third-party consulting expenses associated with the development of a graphical user interface for the hosted iPBX product, higher depreciation and maintenance expenses as a result of additional lab equipment and computer aided design tools, and increased stock compensation charges of approximately \$325,000 related to stock option bonus programs.

#### *SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES*

Selling, general, and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, human resources, and general management. Such costs also include advertising, sales commissions, trade show, and other marketing and promotional expenses. Selling, general, and administrative expenses were \$9.5 million, \$18.1 million, and \$21.3 million in fiscal 2002, 2001, and 2000, respectively. The significant decrease in selling, general, and administrative expenses in fiscal 2002 as compared to fiscal 2001 was due to the following:

- A \$3.7 million decrease due to the elimination of our Canadian operations in the fourth quarter of fiscal 2001;
- Reductions in sales, marketing and administrative personnel staffing levels in the first quarter of fiscal 2002;
- A decrease in stock compensation charges; and
- Lower legal, financial reporting, corporate function, telephone, travel, corporate marketing, public relations and trade show expenditures resulting from our efforts to reduce discretionary operating costs.

The decrease in selling, general, and administrative expenses during the year ended March 31, 2001 as compared to the comparable period in the prior year is due primarily to a one-time \$6.4 million charge related to the sale of 3.7 million shares of our common stock to STMicroelectronics that we recorded in the fourth quarter of fiscal 2000. The charge reflected the discount from the fair market value of our common stock on the date of the related agreement. The decrease also reflected lower headcount and other costs required to support ViaTV and video monitoring sales, promotion, and support activities due to our exit from the consumer videophone and video monitoring businesses. These decreases were substantially offset by increased expenses associated with the addition of the U|Force sales, marketing, finance, and corporate organizations, costs incurred related to our name change, and increased stock compensation charges.

#### *IN-PROCESS RESEARCH AND DEVELOPMENT AND AMORTIZATION OF INTANGIBLES*

We incurred in-process research and development charges of \$4.6 million in the second quarter of fiscal 2001 related to the acquisition of U|Force, Inc. (U|Force), and \$10.1 million in the first quarter of fiscal 2000 related to the acquisition of Odisei S.A. (Odisei). A discussion of these acquisitions follows below.

#### **U|Force, Inc.**

The Company's consolidated financial statements reflect the acquisition of all of the outstanding stock of U|Force, Inc. on June 30, 2000 for a total purchase price of \$46.8 million. U|Force, based in Montreal, Canada, was a developer of IP-based software applications and a provider of professional services. U|Force was also developing a Java-based service creation environment (SCE) designed to allow telecommunication service providers to develop, deploy, and manage telephony applications and services to their customers. The purchase price was comprised of 8x8 common stock with a fair value of approximately \$38.0 million comprised of: (i) 1,447,523 shares issued at closing of the acquisition, and (ii) 2,107,780 shares to be issued upon the exchange or redemption of the exchangeable shares (the Exchangeable Shares) of Canadian entities held by former employee shareholders or indirect owners of U|Force stock. The Exchangeable Shares held by U|Force employees were subject to certain restrictions, including our right to repurchase the Exchangeable Shares if an employee departed prior to vesting. In addition, we also agreed to issue one share of preferred stock (the Special Voting Share) that provides holders of Exchangeable Shares with voting rights equivalent to the shares of common stock into which their shares are convertible. We also assumed outstanding stock

options to purchase shares of U|Force common stock for which the Black-Scholes pricing model value of approximately \$6.5 million was included in the purchase price. Direct transaction costs related to the merger were approximately \$747,000. Additionally, the Company advanced \$1.5 million to U|Force upon signing the acquisition agreement, but prior to the close of the transaction. This amount was accounted for as part of the purchase price. The following table summarizes the composition of the purchase price (in thousands):

Value of common stock and Exchangable Shares issued.....	\$	38,042
Value of stock otions assumed.....		6,546
Cash advanced to U Force prior to closing.....		1,500
Direct transaction costs.....		747
		-----
	\$	46,835
		=====

The purchase price was allocated to tangible assets acquired and liabilities assumed based on the book value of U|Force's assets and liabilities, which we believe approximated their fair value. Intangible assets acquired included amounts allocated to U|Force's in-process research and development. The in-process research and development related to U|Force's initial products, the SCE and a unified messaging application, for which technological feasibility had not been established and the technology had no alternative future use. The estimated percentage complete for the unified messaging and SCE products was approximately 44% and 34%, respectively, at June 30, 2000. The fair value of the in-process technology was based on a discounted cash flow model, similar to the traditional "Income Approach," which discounts expected future cash flows to present value, net of tax. In developing cash flow projections, revenues were forecasted based on relevant factors, including estimated aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology, and the anticipated life of the technology. Projected annual revenues for the in-process research and development projects were assumed to ramp up initially and decline significantly at the end of the in-process technology's economic life. Operating expenses and resulting profit margins were forecasted based on the characteristics and cash flow generating potential of the acquired in-process technologies. Risks that were considered as part of the analysis included the scope of the efforts necessary to achieve technological feasibility, rapidly changing customer markets, and significant competitive threats from numerous companies. We also considered the risk that if we failed to bring the products to market in a timely manner, it could adversely affect sales and profitability of the combined company in the future. The resulting estimated net cash flows were discounted at a rate of 25%. This discount rate was based on the estimated cost of capital plus an additional discount for the increased risk associated with in-process technology. The value of the acquired U|Force in-process research and development, which was expensed in the second quarter of fiscal 2001, approximated \$4.6 million. The excess of the purchase price over the net tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. Amounts allocated to goodwill, the value of an assumed distribution agreement, and workforce were being amortized on a straight-line basis over three, three, and two years, respectively. The allocation of the purchase price was as follows (in thousands):

In-process research and development.....	\$	4,563
Distribution agreement.....		1,053
Workforce.....		1,182
U Force net tangible assets.....		1,801
Goodwill.....		38,236
		-----
	\$	46,835
		=====

Our consolidated financial statements include the results of the operations of U|Force from the date of the acquisition, June 30, 2000, the beginning of our second quarter of fiscal 2001.

## Odisei S.A.

In May 1999, we acquired Odisei, a privately held, development stage company based in Sophia Antipolis, France, that was developing software for managing voice-over IP networks. The consolidated financial statements reflect the acquisition of Odisei on May 24, 1999 for approximately 2,868,000 shares of 8x8's common stock and approximately 121,000 of contingent shares, which were subsequently issued to Odisei employee shareholders in March 2000. The purchase price was approximately \$13.6 million, which includes approximately \$295,000 of acquisition-related costs. The purchase price was allocated to tangible assets acquired and liabilities assumed based on the book value of Odisei's current assets and liabilities, which we believed approximated their fair value. Intangible assets acquired included amounts allocated to Odisei's in-process research and development. The in-process research and development related to Odisei's initial product for which technological feasibility had not been established and was estimated to be approximately 60% complete. The fair value of the in-process technology was based on a discounted cash flow model, which discounted expected future cash flows to present value, net of tax. In developing cash flow projections, revenues were forecasted based on relevant factors, including estimated aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology, and the anticipated life of the technology. Projected annual revenues for the in-process research and development projects were assumed to ramp up initially and decline significantly at the end of the in-process technology's economic life. Operating expenses and resulting profit margins were forecasted based on the characteristics and estimated cash flow generating potential of the acquired in-process technology. Associated risks include the inherent difficulties and uncertainties in completing the project and thereby achieving technological feasibility, and risks related to the impact of potential changes in market conditions and technology. The resulting estimated net cash flows were discounted at a rate of 27%. This discount rate was based on the estimated cost of capital plus an additional discount for the increased risk associated with in-process technology. The value of the acquired Odisei in-process research and development, which was expensed in the fiscal year ended March 31, 2000, was \$10.1 million. The excess of the purchase price over the net tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. Until the adoption of SFAS 142 on April 1, 2002, amounts allocated to goodwill and workforce were being amortized on a straight-line basis over five and three years, respectively. The allocation of the purchase price was as follows (in thousands):

In-process research and development.....	\$	10,100
Workforce.....		200
Net tangible liabilities.....		(219)
Goodwill.....		3,481
		-----
	\$	13,562
		=====

Our consolidated financial statements for the fiscal year ended March 31, 2000 included the results of Odisei from the date of acquisition.

Amortization of goodwill and intangible assets charged to operations was \$763,000, \$11.0 million and \$614,000 during the fiscal years ended March 31, 2002, 2001 and 2000, respectively.

## *RESTRUCTURING CHARGES*

During the fourth quarter of fiscal 2001, after a significant number of employees had resigned, we discontinued our Canadian operations acquired in conjunction with the acquisition of U|Force in June 2000. We closed our offices in Montreal and Hull, Quebec and laid-off all remaining employees resulting in the cessation of the research and development efforts and the sales and marketing and professional services activities associated with the U|Force business. As a result of the restructuring, we recorded a one-time charge of \$33.3 million in the quarter ended March 31, 2001. The restructuring charges consisted of the following (in thousands):

Employee separation.....	\$	765
Fixed asset losses and impairments.....		2,084
Intangible asset impairments.....		30,247
Lease obligation and termination.....		220
		-----
	\$	33,316
		=====

Employee separation costs represent severance payments related to the 96 employees in the Montreal and Hull offices who were laid-off.

The impairment charges for fixed assets of approximately \$2.1 million included write-offs of abandoned and unusable assets of approximately \$1.4 million, a loss on sale of assets of \$567,000, and a charge for assets to be disposed of \$172,000. The loss on sale of assets of \$567,000 was attributable to the sale of office, computer, and other equipment of the Montreal office. We received common stock of the purchaser valued at approximately \$412,000 as of the date of sale. Fair value of assets to be disposed of was measured based on expected salvage value, less costs to sell. Assets to be disposed of consist of computer equipment with a fair value of \$57,000 at March 31, 2001. Substantially all of these assets were liquidated during fiscal 2002.

The impairment charges for intangible assets represented the write-off of the unamortized intangible assets recorded in connection with the acquisition of U|Force. The charges of approximately \$30.2 million included: \$28.7 million for the goodwill related to the acquisition, \$739,000 for the assembled workforce, and \$789,000 related to a distribution agreement. The impairments were directly attributable to the cessation of operations in Canada. We performed an evaluation of the recoverability of the intangible assets related to these operations in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The lack of estimated future net cash flows related to the acquired products necessitated an impairment charge to write-off the remaining unamortized goodwill. The distribution agreement asset was written off because we will no longer provide products and services to customers under that agreement.

We terminated the lease for our primary facility in Montreal in March 2001, but we were required to pay rent on the facility through May 31, 2001. We terminated the lease for our facility in Hull, Quebec in fiscal 2002. Accrued obligations related to remaining lease commitments on the Montreal and Hull facilities totaled \$212,000 at March 31, 2001. There are no remaining restructuring related accruals at March 31, 2002.

Cash payments related to the restructuring during the quarter ended March 31, 2001, which included all employee separation costs and certain lease termination costs, approximated \$920,000. The payments made in fiscal 2002 related to the terminations of the Montreal and Hull facility leases totaled \$225,000.

#### *OTHER INCOME, NET*

In fiscal 2002, 2001, and 2000, other income, net, was approximately \$1.0 million, \$2.6 million, and \$2.8 million, respectively. The decrease in other income, net, in fiscal 2002 compared to fiscal 2001 was due primarily to a significant decrease in interest income resulting from lower average cash and cash equivalent balances and lower interest rates. Gains realized on the sale of investments also decreased by approximately \$94,000 in fiscal 2002 as compared to fiscal 2001. The decrease in other income, net, in fiscal 2001 compared to fiscal 2000 was due primarily to a \$1.7 million decrease in gains realized from the sale of equity investments, offset by an increase in interest income resulting from higher average cash equivalent and short-term investment balances as compared to fiscal 2000.

#### *INTEREST EXPENSE*

Interest expense in each of the three years ended March 31, 2002 consisted mainly of charges associated with the 4% convertible subordinated debentures, or the Debentures, that we issued in December 1999, including the amortization

of the related debt discount and debt issuance costs. We redeemed the Debentures in December 2001. Interest expense for the year ended March 31, 2001 also included approximately \$128,000 associated with lease lines of credit and a bank loan assumed as part of the U|Force acquisition. All of the U|Force debt obligations were repaid in the quarter ended March 31, 2001.

### *PROVISION FOR INCOME TAXES*

The provisions of \$15,000, \$17,000 and \$120,000 for the years ended March 31, 2002, 2001 and 2000, respectively, were comprised primarily of certain foreign taxes. The provision for the year ended March 31, 2002 also reflected a \$10,000 refund of U.S. federal income taxes received in fiscal 2002.

At March 31, 2002, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$67.0 million and \$17.0 million, respectively, which expire at various dates beginning in 2005. In addition, at March 31, 2002, we had research and development credit carryforwards for federal and state tax reporting purposes of approximately \$3.0 million and \$2.5 million, respectively. The federal credit carryforwards will begin expiring in 2010 while the California credit will carryforward indefinitely. Under the ownership change limitations of the Internal Revenue Code of 1986, as amended, the amount and benefit from the net operating losses and credit carryforwards may be impaired or limited in certain circumstances.

At March 31, 2002, we had gross deferred tax assets of approximately \$47.3 million. We believe that, based on a number of factors, the weight of objective available evidence indicates that it is more likely than not that we will not be able to realize our deferred tax assets, and thus a full valuation allowance was recorded at March 31, 2002 and March 31, 2001.

### *EXTRAORDINARY GAIN*

We realized an extraordinary gain of \$779,000 in the third quarter of fiscal 2002 resulting from the early extinguishment of our convertible subordinated debentures. See Note 4 to the consolidated financial statements in Part II, Item 8 of this Report for further discussion of this transaction.

### *CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE*

In November 2000, the Emerging Issues Task Force reached several conclusions regarding the accounting for debt and equity securities with beneficial conversion features, including a consensus requiring the application of the "accounting conversion price" method, versus the use of the stated conversion price, to calculate the beneficial conversion feature for such securities. The SEC required companies to record a cumulative catch-up adjustment in the fourth quarter of calendar 2000 related to the application of the "accounting conversion price" method to securities issued after May 21, 1999. Accordingly, we recorded a \$1.1 million non-cash expense during the quarter ended December 31, 2000 to account for a beneficial conversion feature associated with the convertible subordinated debentures and related warrants issued in December 1999, and we presented it as a cumulative effect of a change in accounting principle as required by the SEC.

### *LIQUIDITY AND CAPITAL RESOURCES*

As of March 31, 2002, we had cash and cash equivalents totaling \$12.4 million, representing a decrease of \$11.7 million from March 31, 2001. We currently have no borrowing arrangements.

Cash used in operations of \$7.9 million in fiscal 2002 reflected a net loss of \$9.1 million, a decrease in accounts payable of \$839,000, a decrease in accrued compensation of \$610,000, a decrease of \$579,000 in other accrued liabilities, a \$3.5 million decrease in deferred revenue and a non-cash extraordinary gain of \$779,000 due to redemption of the convertible subordinated debentures. Cash used in operations was partially offset by a decrease in accounts receivable of \$1.7 million, a \$501,000 decrease in inventory, a \$1.6 million decrease in other current assets, and non-cash items including depreciation and amortization of \$3.9 million. Cash provided by investing activities in fiscal 2002 was attributable to proceeds from the sale of an investment in marketable equity securities of \$543,000 and proceeds from the sale of equipment of \$116,000, partially offset by capital expenditures of \$172,000. Cash used in financing activities during fiscal 2002 consisted of the \$4.6 million payment associated with the redemption of the convertible

subordinated debentures and certain costs incurred in connection with the redemption, offset partially by proceeds of \$335,000 resulting from the sale of our common stock to employees through our employee stock purchase and stock option plans.

Cash used in operations of \$24.6 million in fiscal 2001 reflected a net loss of \$74.4 million, decreases in accounts payable and accrued compensation of \$2.2 million and \$623,000, an increase in other current and non-current assets of \$1.3 million, and a non-cash adjustment for a gain on sale of investments of \$225,000. Cash used in operations was partially offset by cash provided by a decrease in accounts receivable of \$851,000, an increase in other accrued liabilities of \$378,000, and non-cash items, including restructuring charges of \$32.3 million, depreciation and amortization of \$14.4 million, in-process research and development of \$4.6 million, the cumulative effect of a change in accounting principle of \$1.1 million, and stock compensation charges of \$753,000. Cash provided by investing activities in fiscal 2001 is primarily attributable to net proceeds from the sale of assets and the license of technology associated with our video monitoring product line of \$5.2 million, offset by acquisitions of property and equipment of \$6.1 million and cash paid for acquisitions, net, of \$558,000. Cash flows from financing activities in fiscal 2000 consisted primarily of proceeds from sales of the Company's common stock totaling \$2.8 million, offset by debt repayments of \$891,000 and repurchases of common stock and Exchangeable Shares of \$514,000. For the year, cash and cash equivalents decreased \$24.5 million.

Cash used in operations of \$4.1 million in fiscal 2000 reflected a net loss of \$24.8 million, a decrease in deferred revenue of \$3.4 million, and a non-cash adjustment for a gain on sale of investments, net, of \$1.7 million. Cash used in operations was partially offset by cash provided by a decrease in accounts receivable of \$3.5 million, a decrease in inventory of \$2.5 million, and non-cash items, including depreciation and amortization of \$2.1 million, in-process research and development of \$10.1 million, and discount on issuance of common stock of \$7.4 million. Cash provided by investing activities in fiscal 2000 is attributable to proceeds from the sale of an investment of \$1.9 million, offset by acquisitions of property and equipment of \$1.7 million and cash paid for acquisitions, net, of \$149,000. Cash flows from financing activities in fiscal 2000 consisted primarily of proceeds from the sale of convertible subordinated debentures of \$7.5 million and sales of the Company's common stock totaling \$29.8 million, offset by debt issuance costs of \$617,000. For the year, cash and cash equivalents increased \$32.8 million.

As of March 31, 2002, our principal commitments consisted of obligations outstanding under noncancelable operating leases. At March 31, 2002, future minimum annual lease payments under noncancelable operating leases, net of sublease income, were as follows (in thousands):

YEAR ENDING MARCH 31,	
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2003.....	\$ 1,405
2004.....	449
2005.....	270
2006.....	256
2007.....	242
2008 and thereafter.....	889
	-----
Total minimum payments.....	\$ 3,511
	=====

As noted previously, we redeemed our convertible subordinated debentures in December 2001. The consideration included issuing 1,000,000 shares of our common stock to the lenders. We have committed to maintaining the effectiveness of the registration statement filed with the SEC covering the resale of these shares. Should we fail to maintain the effectiveness of the registration statement we may be required to pay cash penalties and redeem all or a portion of the shares at the higher of \$0.898 or the market price of our common stock at the time of the redemption which could have a material adverse effect on our cash flows. The value of the shares still held by the lenders of \$813,000 at March 31, 2002, based upon the \$0.898 per share minimum potential redemption price, is reflected as contingently redeemable common stock in the consolidated balance sheet.

Based upon our current expectations, we believe that our current cash and cash equivalents, and cash generated from operations, if any, will satisfy our expected working capital and capital expenditure requirements through at least the next 12 months. We will, however, need additional working capital during fiscal 2004. Accordingly, we will be seeking additional financing during the next twelve months in order to meet our cash requirements for fiscal 2004. We will be evaluating financing alternatives prior to that time. We may also seek to explore business opportunities, including acquiring or investing in complementary businesses or products that will require additional capital from equity or debt sources. Additionally, the development and marketing of new products could require a significant commitment of resources, which could in turn require us to obtain additional financing earlier than otherwise expected. We may not be able to obtain additional financing as needed on acceptable terms, or at all, which may require us to reduce our operating costs and other expenditures, including reductions of personnel and suspension of salary increases and capital expenditures. Alternatively, or in addition to such potential measures, we may elect to implement other cost reduction actions as we may determine are necessary and in our best interests, including the possible sale or cessation of certain of our business segments. Any such actions undertaken might limit our opportunities to realize plans for revenue growth and we might not be able to reduce our costs in amounts sufficient to achieve break-even or profitable operations. If we issue additional equity or convertible debt securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of our common stock.

### *RELATED PARTY TRANSACTIONS*

Given the currently low yields on governmental and corporate debt securities and money market funds, our Board of Directors (the Board) believes that we may benefit from investing in other classes of securities that may generate higher returns. Toward this end, in March 2002 the Board authorized us to open securities trading accounts and make investments of up to \$1.0 million on behalf of 8x8, Inc. as directed by the Company's Chairman, Joe Parkinson; Chief Executive Officer, Bryan Martin; or Chief Financial Officer, David Stoll. Mr. Parkinson has agreed to personally reimburse 8x8 on a quarterly basis for any losses resulting from his trading activities in order to maintain a minimum investment account balance of \$1.0 million. The Board has been assured of Mr. Parkinson's ability to cover any such losses; however, should he be unable to do so it could have a material impact on our cash flows and results of operations. As part of the arrangement, our Board has expressed its intent, but not obligation, to pay Mr. Parkinson a quarterly bonus in an amount equal to 25% of the profits attributable to investments made on our behalf by Mr. Parkinson to the extent such a bonus exceeds his salary for the corresponding period. The Company or Mr. Parkinson can terminate this arrangement at any time, subject to the terms of an agreement that has been filed with this Report as exhibit 10.24. As of March 31, 2002, the \$1.0 million was invested in money market accounts.

In the quarter ended March 31, 2000, the Company entered into a strategic relationship with STMicroelectronics NV, or STM. Under various agreements, STM purchased shares of 8x8 common stock and was granted certain related rights, licensed certain of the Company's intellectual property and engaged the Company to jointly develop products that enable voice and other multimedia services over internet protocol networks. Item 13 of this Report provides further information regarding the Company's license and other arrangements with STM.

### *RECENT ACCOUNTING PRONOUNCEMENTS*

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting, and also requires that certain intangible assets acquired in a business combination be recognized as assets apart from goodwill. SFAS No. 141 was effective for all business combinations initiated after June 30, 2001. Under SFAS No. 142, goodwill will no longer be amortized, but will be subject to annual impairment tests. Goodwill should be assigned to an entity's reporting units, which, under SFAS No. 142, are defined as operating segments, or one level below that. Furthermore, SFAS No. 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives, unless these lives are determined to be indefinite, and, upon adoption, requires a reassessment of the useful lives previously assigned to its recognized intangible assets. In addition, if certain recognized intangible assets do not meet certain criteria, such assets should be reclassified to goodwill. Conversely, certain intangible assets that have been reported as part of goodwill may need to be reclassified as of the date that SFAS No. 142 is initially applied in its entirety.

Goodwill that existed at June 30, 2001 was amortized through March 31, 2002. The net carrying value of goodwill at

March 31, 2002 was \$1.5 million. Upon adoption of these standards in the first quarter of fiscal 2003, the \$11,000 remaining balance of the workforce intangible asset acquired in conjunction with our acquisition of Odisei will be reclassified as goodwill. Goodwill will no longer be amortized, but will be subject to impairment tests on at least an annual basis or upon the occurrence of triggering events, if earlier, to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. An impairment loss is recognized when the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of the goodwill will be its new accounting basis. The first step of the goodwill impairment test should be performed by September 30, 2002. If an impairment is indicated, the second step of the impairment test must be completed no later than March 31, 2003. We will be required to determine if any reclassification of some portion of the goodwill to intangible assets will be required. We anticipate that our operating segments will comprise our reporting units, and, accordingly, annual impairment tests would be performed at the operating segment level. Based on acquisitions completed as of June 30, 2001, application of the goodwill non-amortization provisions of SFAS No. 142 is expected to result in a decrease in operating expenses of approximately \$707,000 for fiscal 2003.

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (i) can be distinguished from the rest of the entity and (ii) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company for all financial statements issued in fiscal 2003. The adoption of SFAS No. 144 is not expected to have a material impact on our results of operations.

## **FACTORS THAT MAY AFFECT FUTURE RESULTS**

**We will need to raise additional capital to support our operations, and failure to do so in a timely manner may cause us to implement additional cost reduction strategies**

As of March 31, 2002, we had approximately \$12.4 million in cash and cash equivalents. Although we believe that our current cash and cash equivalents will satisfy our expected working capital and capital expenditure requirements through at least the next twelve months, our business may change in ways we do not currently anticipate requiring us to raise additional funds to support our operations earlier than otherwise expected. Accordingly, we will be seeking additional financing during the next twelve months in order to meet our cash requirements in fiscal 2004. We may also seek to explore business opportunities, including acquiring or investing in complementary businesses or products that will require additional capital from equity or debt sources. Additionally, the development and marketing of new products could require a significant commitment of resources, which could in turn require us to obtain additional financing earlier than otherwise expected. We may not be able to obtain additional financing as needed on acceptable terms, or at all, which may require us to further reduce our operating costs and other expenditures, including additional reductions of personnel and suspension of salary increases and capital expenditures. Alternatively, or in addition to such potential measures, we may elect to implement other cost reduction actions as we may determine are necessary and in our best interests, including the possible sale or cessation of certain of our business segments. Any such actions undertaken might limit our opportunities to realize plans for revenue growth and we might not be able to reduce our costs in amounts sufficient to achieve break-even or profitable operations. If we issue additional equity or convertible debt securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of our common stock. If we are not successful in these actions we may be forced to cease operations.

**We have a history of losses and we are uncertain as to our future profitability**

We recorded an operating loss of approximately \$10.0 million in the fiscal year ended March 31, 2002 and we ended the period with an accumulated deficit of \$137.3 million. In addition, we recorded operating losses of \$74.5 million and \$27.1 million for the fiscal years ended March 31, 2001 and 2000, respectively. We expect that we will continue to incur operating losses for the foreseeable future, and such losses may be substantial. We will need to generate



significant revenue growth to achieve an operating profit. Given our history of fluctuating revenues and operating losses, we cannot be certain that we will be able to achieve profitability on either a quarterly or annual basis in the future.

**If we fail to meet the continued listing requirements of the Nasdaq National Market, our common stock could be delisted resulting in a decline in the liquidity of our common stock**

As of March 31, 2002, our common stock was listed on the Nasdaq National Market. The Nasdaq Stock Market's Marketplace Rules impose requirements for companies listed on the Nasdaq National Market to maintain their listing status, including: i) maintaining a minimum bid price of \$1.00 per share, subject to certain conditions, and ii) maintaining stockholders' equity of at least \$10.0 million or net tangible assets of at least \$4.0 million; however, qualifying for listing under the net tangible asset listing standard is only available until November 1, 2002.

Our stockholders' equity and net tangible assets were \$13.2 million and \$11.7 million, respectively, at March 31, 2002. Additionally, we have been notified by Nasdaq that the bid price for our common stock must close at \$1.00 per share or more for a minimum of ten consecutive trading days during the ninety calendar day period ending July 9, 2002 or we may be delisted. Should we fail to regain compliance under the Nasdaq National Market minimum bid price listing standard prior to July 9, 2002, we intend to apply for a transfer to the Nasdaq Smallcap Market. However, there is no guarantee that the Nasdaq Staff would accept our transfer application, in which case our stock would be delisted. Delisting could reduce the ability of our shareholders to purchase or sell shares as quickly and as inexpensively as they have done historically. For instance, failure to obtain listing on another market or exchange may make it more difficult for traders to sell our securities. Broker-dealers may be less willing or able to sell or make a market in our common stock. Not maintaining a listing on a major stock market may:

- result in a decrease in the trading price of our common stock due to a decrease in liquidity;
- lessen interest by institutions and individuals in investing in our common stock;
- make it more difficult to obtain analyst coverage; and
- make it more difficult for us to raise capital in the future.

**The growth of our business and future profitability depends on future IP telephony revenue**

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

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

**Our future operating results may not follow past or expected trends due to many factors and any of these could cause our stock price to fall**

Our historical operating results have fluctuated significantly and will likely continue to fluctuate in the future, and a decline in our operating results could cause our stock price to fall. On an annual and a quarterly basis, there are a number of factors that may affect our operating results, many of which are outside our control. These include, but are not limited to:

- changes in market demand;
- the timing of customer orders;
- competitive market conditions;
- lengthy sales cycles and/or regulatory approval cycles;
- new product introductions by us or our competitors;
- market acceptance of new or existing products;
- the cost and availability of components;
- the mix of our customer base and sales channels;
- the mix of products sold;
- the management of inventory;
- the level of international sales;
- continued compliance with industry standards; and
- general economic conditions.

Our gross margin is affected by a number of factors including, product mix, the recognition of license and other revenues for which there may be little or no corresponding cost of revenues, product pricing, the allocation between international and domestic sales, the percentage of direct sales and sales to resellers, and manufacturing and component costs. The markets for our products are characterized by falling average selling prices. We expect that, as a result of competitive pressures and other factors, gross profit as a percentage of revenue for our videoconferencing semiconductor products will continue to decrease for the foreseeable future. Average selling prices realized to date for our IP telephony semiconductors have been lower than those historically attained for our videoconferencing semiconductor products resulting in lower gross margins. In the likely event that we encounter significant price competition in the markets for our products, we could be at a significant disadvantage compared to our competitors, many of whom have substantially greater resources, and therefore may be better able to withstand an extended period of downward pricing pressure.

Variations in timing of sales may cause significant fluctuations in future operating results. In addition, because a significant portion of our business may be derived from orders placed by a limited number of large customers, including original equipment manufacturers, the timing of such orders can also cause significant fluctuations in our operating results. Anticipated orders from customers may fail to materialize. Delivery schedules may be deferred or canceled for a number of reasons, including changes in specific customer requirements or international economic conditions. The adverse impact of a shortfall in our revenues may be magnified by our inability to adjust spending to compensate for such shortfall. Announcements by our competitors or us of new products and technologies could cause customers to defer purchases of our existing products, which would also have a material adverse effect on our business and operating results. As a result of these and other factors, it is likely that in some or all future periods our operating results will be below the expectations of securities analysts or investors, which would likely result in a significant reduction in the market price of our common stock.

**If we fail to maintain effectiveness of a registration statement for the resale of shares of our common stock issued in connection with the redemption of our outstanding convertible debt, we may be forced to pay a cash penalty or redeem all or a portion of the shares causing our business to suffer**

Under the terms of a registration rights agreement we entered into in connection with the redemption of our outstanding convertible debt, we agreed to register the 1,000,000 shares of our common stock issued to the former note holders for resale. If we fail to maintain the effectiveness of the registration statement, we may be required to pay cash penalties and may be required to redeem all or a portion of the shares of common stock held by the former note holders. Under the agreement the redemption price would be the higher of \$0.898 or the market price of our common stock at the time of the redemption. If we are required to pay a cash penalty or to redeem any of the shares, this will deplete our cash reserves, which may cause harm to our business, results of operations and financial condition.

**We depend on purchase orders from key customers and failure to receive significant purchase orders in the future would cause a decline in our operating results**

Historically, a significant portion of our sales has been to relatively few customers, although the composition of these customers has varied. Revenues from our ten largest customers for the fiscal years ended March 31, 2002, 2001 and 2000 accounted for approximately 73%, 48% and 35%, respectively, of total revenues. Substantially all of our product

sales have been made, and are expected to continue to be made, on a purchase order basis. None of our customers has entered into a long-term agreement requiring it to purchase our products. In the future, we will need to gain purchase orders for our products to earn additional revenue. Further, substantially all of our license and other revenues are nonrecurring.

**The IP telephony market is subject to rapid technological change and we depend on new product introduction in order to maintain and grow our business**

IP telephony is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we must continue to design, develop, manufacture, and sell new and enhanced semiconductor and IP telephony software products and services that provide increasingly higher levels of performance and reliability at lower cost. These new and enhanced products must take advantage of technological advancements and changes, and respond to new customer requirements. Our success in designing, developing, manufacturing, and selling such products and services will depend on a variety of factors, including:

- the identification of market demand for new products;
- the scalability of our IP telephony software products;
- product and feature selection;
- timely implementation of product design and development;
- product performance;
- cost-effectiveness of products under development;
- effective manufacturing processes; and
- success of promotional efforts.

Additionally, we may also be required to collaborate with third parties to develop our products and may not be able to do so on a timely and cost-effective basis, if at all. We have in the past experienced delays in the development of new products and the enhancement of existing products, and such delays will likely occur in the future. If we are unable, due to resource constraints or technological or other reasons, to develop and introduce new or enhanced products in a timely manner, if such new or enhanced products do not achieve sufficient market acceptance, or if such new product introductions decrease demand for existing products, our operating results would decline and our business would not grow.

**The long and variable sales and deployment cycles for our IP telephony software products may cause our revenue and operating results to vary**

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

- the size of the network deployment;
- the complexity of our customers' network environments;
- our customers' skill sets;
- the hardware and software configuration and customization necessary to deploy our products; and
- our customers' ability to finance their purchase of our products.

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

**If our products do not interoperate with our customers' networks, orders for our products will be delayed or canceled and substantial product returns could occur, which could harm our business**

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

### **We may have difficulty identifying the source of the problem when there is a problem in a network**

Our hosted iPBX and Packet8 solutions must successfully integrate with products from other vendors, such as traditional telephone systems. As a result, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of hardware and software errors, whether caused by our hosted iPBX solution, Packet8 solution or another vendor's products, may result in the delay or loss of market acceptance of our products and any necessary revisions may force us to incur significant expenses. The occurrence of some of these types of problems may seriously harm our business, financial condition and results of operations.

### **Intense competition in the markets in which we compete could prevent us from increasing or sustaining our revenue and prevent us from achieving profitability**

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

In addition, our focus on developing a range of technology products, including semiconductors and related embedded software, hosted iPBX solutions, and eSLEE based products, places a significant strain on our research and development resources. Competitors that focus on one aspect of technology, such as software or semiconductors, may have a considerable advantage over us. In addition, many of our current and potential competitors have longer operating histories, are substantially larger, and have greater financial, manufacturing, marketing, technical, and other resources. For example, certain competitors in the market for our semiconductor products maintain their own semiconductor foundries and may therefore benefit from certain capacity, cost and technical advantages. Many also have greater name recognition and a larger installed base of products than we have. Competition in our markets may result in significant price reductions. As a result of their greater resources, many current and potential competitors may be better able than us to initiate and withstand significant price competition or downturns in the economy. There can be no assurance that we will be able to continue to compete effectively, and any failure to do so would harm our business, operating results, and financial condition.

### **If we do not develop and maintain successful partnerships for IP telephony products, we may not be able to successfully market our solutions**

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

### **Inability to protect our proprietary technology or our infringement of a third party's proprietary technology would disrupt our business**

We rely in part on trademark, copyright, and trade secret law to protect our intellectual property in the United States and abroad. We seek to protect our software, documentation, and other written materials under trade secret and copyright law, which afford only limited protection. We also rely in part on patent law to protect our intellectual property in the United States and internationally. As of the date of this filing we hold forty-nine United States patents and have a number of United States and foreign patent applications pending. We cannot predict whether such pending patent applications will result in issued patents. We may not be able to protect our proprietary rights in the United States or internationally (where effective intellectual property protection may be unavailable or limited), and competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any patent of ours. We have in the past licensed and in the future expect to continue licensing our technology to others; many of who are located or may be located abroad. There are no assurances that such licensees will protect our technology from misappropriation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition, liquidity and operating results. Any settlement or adverse determination in such litigation would also subject us to significant liability.

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

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future will be available to us 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 technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.

### **Continued reductions in levels of capital investment by telecommunication service providers might impact our ability to increase revenue and prevent us from achieving profitability**

The market for internet-based communication services provided by telecommunication service providers has only begun to emerge, and many of these service providers are still building their infrastructure and deploying their services. These telecommunication service providers require substantial capital for the development, construction, and expansion of their networks and the introduction of their services. Financing may not be available to telecommunication service providers on favorable terms, if at all. The inability of our current or potential telecommunication service provider customers to acquire and keep customers, to successfully raise needed funds, or to respond to any other trends such as price reductions for their services or diminished demand for telecommunication services generally, could adversely affect their operating results or cause them to reduce their capital spending programs. If our current or potential customers are forced to defer or further curtail their capital spending programs, sales of our hosted iPBX and eSLEE products to those telecommunication service providers and sales of our IP telephony semiconductors to manufacturers of telecommunication equipment may be adversely affected, which would negatively impact our business, financial condition, and results of operations. In addition, many of the industries in which telecommunication service providers operate have experienced consolidation. The loss of one or more of our current or potential telecommunication service provider or telecommunication equipment OEM customers, through industry consolidation or otherwise, could reduce or eliminate our sales to such a customer and consequently harm our business, financial condition, and results of

operations.

### **The failure of IP networks to meet the reliability and quality standards required for voice communications could render our products obsolete**

Circuit-switched telephony networks feature very high reliability, with a guaranteed quality of service. In addition, such networks have imperceptible delay and consistently satisfactory audio quality. Emerging broadband IP networks, such as LANs, WANs, and the Internet, or emerging last mile technologies such as cable, digital subscriber lines, and wireless local loop, may not be used for telephony unless such networks and technologies can provide reliability and quality consistent with these standards.

### **Our products must comply with industry standards and FCC regulations, and changes may require us to modify existing products**

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

### **Future regulation or legislation of the Internet could restrict our business or increase our cost of doing business**

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

### **We may transition to smaller geometry process technologies and higher levels of design integration, which could disrupt our business**

We continuously evaluate the benefits, on an integrated circuit, product-by-product basis, of migrating to smaller geometry process technologies in order to reduce costs related to the development and production of our semiconductors. We believe that the transition of our products to increasingly smaller geometries will be important for us to remain competitive. We have in the past experienced difficulty in migrating to new manufacturing processes, which has resulted and could continue to result in reduced yields, delays in product deliveries, and increased expense levels. Moreover, we are dependent on relationships with our foundries and their partners to migrate to smaller geometry processes successfully. If any such transition is substantially delayed or inefficiently implemented, we may experience delays in product introductions and incur increased expenses. As smaller geometry processes become more prevalent, we expect to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. We cannot predict whether higher levels of design integration or the use of third-party intellectual property will adversely affect our ability to deliver new integrated products on a timely basis, or at all.

### **We depend on contract manufacturers to manufacture substantially all of our products, and any delay or**

**interruption in manufacturing by these contract manufacturers would result in delayed or reduced shipments to our customers and may harm our business**

We outsource the manufacturing of our semiconductor products to independent foundries. Our primary semiconductor manufacturer is Taiwan Semiconductor Manufacturing Corporation (TSMC). While TSMC has been a valuable and capable supplier, there are no assurances or supply contracts guaranteeing that they will continue to supply us with our required wafer supply. Furthermore, Taiwan is always subject to geological or geopolitical disturbances that could instantly cut off such supply. We also rely on other third party manufacturers for packaging and testing of our semiconductors.

We do not have long-term purchase agreements with our contract manufacturers or our component suppliers. There can be no assurance that our subcontract manufacturers will be able or willing to reliably manufacture our products, in volumes, on a cost effective basis or in a timely manner. For our semiconductor products, the time to port our technology to another foundry, the time to qualify the new versions of product, and the cost of this effort as well as the tooling associated with wafer production would have a material adverse effect on our business, operating results, and financial condition.

**If we discover product defects, we may have product-related liabilities which may cause us to lose revenues or delay market acceptance of our products**

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

**We have significant international operations, which subject us to risks that could cause our operating results to decline**

Sales to customers outside of the United States during the years ended March 31, 2002, 2001 and 2000 were 61%, 69% and 47% of total revenues, respectively. The following table illustrates our net revenues by geographic area. Revenues are attributed to countries based on the destination of shipment (in thousands):

	Year Ended March 31,		
	2002	2001	2000
United States.....	\$ 5,777	\$ 5,632	\$ 13,381
Europe.....	4,126	5,862	5,808
Taiwan.....	2,026	2,739	1,737
Japan.....	1,119	1,188	2,351
Other.....	1,643	2,807	2,107
	-----	-----	-----
	\$ 14,691	\$ 18,228	\$ 25,384
	=====	=====	=====

Substantially all of our current semiconductor and system-level products are, and substantially all of our future products will be, manufactured, assembled, and tested by independent third parties in foreign countries. International sales and manufacturing are subject to a number of risks, including general economic conditions in regions such as Asia, changes in foreign government regulations and telecommunication standards, export license requirements, tariffs and taxes, other trade barriers, fluctuations in currency exchange rates, difficulty in collecting accounts receivable, and difficulty in staffing and managing foreign operations. We are also subject to geopolitical risks, such as political, social, and economic instability, potential hostilities, and changes in diplomatic and trade relationships, in connection with our international operations. Taiwan in particular is subject to a high rate of natural disasters, such as earthquakes or typhoons, which could have significant impact on our suppliers and customers due to a delay in operations within that country. In addition, Taiwan's tenuous relationship with mainland China is a source of continuing concern due to potential hostilities. A significant decline in demand from foreign markets could have a material adverse effect on our business, operating results, and financial condition.

### **We need to retain key personnel to support our products and ongoing operations**

The development and marketing of our IP telephony products will continue to place a significant strain on our limited personnel, management, and other resources. While the pace of economic growth in the San Francisco Bay Area (where our corporate headquarters are located) has slowed in recent months, competition for highly skilled engineering, sales, marketing, and support personnel has remained strong. Any failure to retain qualified personnel could adversely affect our financial results and impair our growth. We have no written employment contracts with employees but we have provided Joe Parkinson, our Chairman and former Chief Executive Officer, through a resolution of our Board of Directors, with severance benefits that vest over time as a retention device. Similarly, the Board of Directors authorized severance arrangements with Bryan R. Martin, Dr. Philip Bednarz, David M. Stoll, and certain other vice-presidents of Netergy Microelectronics, Inc., which are all fully vested. We primarily rely on equity compensation plans and compensation policies to retain our key personnel. We currently do not maintain key person life insurance policies on any of our employees.

### **We may not be able to manage our inventory levels effectively, which may lead to inventory obsolescence that would force us to lower our prices**

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

### **Our stock price has been highly volatile**

The market price of the shares of our common stock has been and is likely to be highly volatile. It may be significantly affected by factors such as:

- actual or anticipated fluctuations in our operating results;
- announcements of technical innovations;
- loss of key personnel;
- new products or new contracts by us, our competitors or their customers; and
- developments with respect to patents or proprietary rights, general market conditions, changes in financial estimates by securities analysts, and other factors which could be unrelated to, or outside our control.

The stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stocks of technology companies and that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been initiated against the issuing company. If our stock price is volatile, we may also be subject to such litigation. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would disrupt business and could cause a decline in our operating results. Any



settlement or adverse determination in such litigation would also subject us to significant liability.

### **The location of our headquarters facility subjects us to the risk of earthquakes**

Our corporate headquarters is located in the San Francisco Bay area of Northern California, a region known for seismic activity. A significant natural disaster, such as an earthquake, could have a material adverse impact on our business, operating results, and financial condition.

### **We may face interruption of production and services due to increased security measures in response to recent and potential future terrorist activities**

Our business depends on the free flow of products and services through the channels of commerce. Recently, in response to terrorists' activities and threats aimed at the United States, transportation, mail, financial and other services have been slowed or stopped altogether. Further delays or stoppages in transportation, mail, financial or other services, particularly any such delays or stoppages which harm our ability to obtain an adequate supply of wafers and products from our independent foundries, could harm our business, results of operations and financial condition. Furthermore, we may experience an increase in operating costs, such as costs for transportation, insurance and security as a result of the terrorist activities and potential activities. We may also experience delays in receiving payments from customers that have been affected by the terrorist activities and potential activities. The United States economy in general is being adversely affected by terrorist activities and potential terrorist activities. Any economic downturn could adversely impact our results of operations, impair our ability to raise capital or otherwise adversely affect our ability to grow our business. Moreover, we cannot determine whether other attacks may occur in the future and the effects of such attacks on our business.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our financial market risk consists primarily of risks associated with international operations and related foreign currencies. We derive a significant portion of our revenues from customers in Europe and Asia. In order to reduce the risk from fluctuation in foreign exchange rates, the vast majority of our sales are denominated in U.S. dollars. In addition, all of our arrangements with our semiconductor foundry and assembly vendors are denominated in U.S. dollars. We have foreign subsidiaries and are thus exposed to market risk from changes in exchange rates. We have not entered into any currency hedging activities. To date, our exposure to exchange rate volatility has not been significant; however, there can be no assurance that there will not be a material impact in the future.

We invest the majority of our surplus cash and cash equivalents in money market funds that bear variable interest rates, and, accordingly, fluctuations in interest rates do not have an impact on the fair values of such investments. However, given the currently low yields on such money market funds and other low-risk governmental and corporate debt securities, in March 2002 the Company's Board of Directors authorized us to open securities trading accounts and make investments in other classes of securities that may generate higher returns. The amount allocated for such investments was \$1.0 million to be invested on behalf of 8x8, Inc. at the direction of the Company's Chairman, Joe Parkinson; Chief Executive Officer, Bryan Martin; or Chief Financial Officer, David Stoll. Mr. Parkinson has agreed to personally reimburse 8x8 on a quarterly basis for any losses resulting from his trading activities in order to maintain a minimum investment account balance of \$1.0 million. The Board has been assured of Mr. Parkinson's ability to cover any such losses; however, should he be unable to do so it could have a material impact on our cash flows and results of operations. As part of the arrangement, our Board of Directors has expressed its intent, but not obligation, to pay Mr. Parkinson a quarterly bonus in an amount equal to 25% of the profits attributable to investments made on our behalf by Mr. Parkinson to the extent such a bonus exceeds his salary for the corresponding period. The Company or Mr. Parkinson can terminate this arrangement at any time, subject to the terms of an agreement that has been filed with this Report as exhibit 10.24. As of March 31, 2002, the \$1.0 million was invested in money market funds.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

FINANCIAL STATEMENTS:

Report of Independent Accountants	40
Consolidated Balance Sheets at March 31, 2002 and 2001	41
Consolidated Statements of Operations for each of the three years in the period ended March 31, 2002	42
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended March 31, 2002	43
Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2002	44
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FINANCIAL STATEMENT SCHEDULE:	
Schedule II -- Valuation and Qualifying Accounts	65
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Schedules other than the one listed above have been omitted because they are inapplicable, because the required information has been included in the financial statements or notes thereto, or the amounts are immaterial.

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of 8x8, Inc. and its subsidiaries at March 31, 2002 and March 31, 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, 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 our opinion.

PRICEWATERHOUSECOOPERS LLP

San Jose, California  
April 29, 2002

**CONSOLIDATED BALANCE SHEETS**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	March 31,	
	2002	2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 12,422	\$ 24,126
Accounts receivable, net of allowance of \$286 and \$389, respectively.....	1,239	2,907
Inventory.....	733	1,328
Other current assets.....	612	2,571
	15,006	30,932
Property and equipment, net.....	2,740	5,016
Intangibles and other assets.....	1,907	3,197
	\$ 19,653	\$ 39,145
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable.....	\$ 548	\$ 1,387
Accrued compensation.....	921	1,531
Accrued warranty.....	478	525
Deferred revenue.....	2,421	5,903
Other accrued liabilities.....	958	1,623
Income taxes payable.....	280	306
	5,606	11,275
Convertible subordinated debentures.....	--	6,238
	5,606	17,513
Contingently redeemable common stock.....	813	--
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value:		
Authorized: 5,000,000 shares;		
Issued and outstanding: 1 share at March 31, 2002 and March 31, 2001.....		
	--	--
Common stock, \$0.001 par value:		
Authorized: 100,000,000 shares at March 31, 2002 and March 31, 2001;		
Issued and outstanding: 28,228,215 shares of common stock at March 31, 2002 and 26,419,919 shares of common stock and 260,807 Exchangeable Shares at March 31, 2001.....		
	27	27
Additional paid-in capital.....	150,612	150,015
Notes receivable from stockholders.....	--	(1)
Deferred compensation.....	(30)	(174)
Accumulated other comprehensive loss.....	(99)	(89)
Accumulated deficit.....	(137,276)	(128,146)
	13,234	21,632
	\$ 19,653	\$ 39,145

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

**8X8, INC.**

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

	Year Ended March 31,		
	2002	2001	2000
Product revenues.....	\$ 6,044	\$ 12,808	\$ 20,817
License and other revenues.....	8,647	5,420	4,567
Total revenues.....	14,691	18,228	25,384
Cost of product revenues.....	2,626	5,225	8,448
Cost of license and other revenues.....	197	1,761	150
Total cost of revenues.....	2,823	6,986	8,598
Gross profit.....	11,868	11,242	16,786
Operating expenses:			
Research and development.....	11,565	18,736	11,909
Selling, general and administrative.....	9,554	18,113	21,307
In-process research and development.....	--	4,563	10,100
Amortization of intangibles.....	763	10,987	614
Restructuring charge.....	--	33,316	--
Total operating expenses.....	21,882	85,715	43,930
Loss from operations.....	(10,014)	(74,473)	(27,144)
Other income, net.....	1,029	2,628	2,807
Interest expense.....	(884)	(1,456)	(391)
Loss before provision for income taxes.....	(9,869)	(73,301)	(24,728)
Provision for income taxes.....	15	17	120
Net loss before extraordinary gain and cumulative effect of change in accounting principle .....	(9,884)	(73,318)	(24,848)
Extraordinary gain on extinguishment of debt, net.....	779	--	--
Cumulative effect of change in accounting principle....	--	(1,081)	--
Net loss.....	\$ (9,105)	\$ (74,399)	\$ (24,848)
Basic and diluted per share amounts:			
Net loss before extraordinary gain and cumulative effect of change in accounting principle .....	\$ (0.36)	\$ (2.95)	\$ (1.38)
Extraordinary gain on extinguishment of debt, net....	0.03	--	--
Cumulative effect of change in accounting principle..	--	(0.04)	--
Net loss.....	\$ (0.33)	\$ (2.99)	\$ (1.38)

Basic and diluted shares outstanding..... 27,271 24,846 18,071

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

**8X8, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS, EXCEPT SHARES)**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Notes Receivable from Stock- holders	Deferred Compensa- tion	Accumulated other Comprehen- sive Loss	Accumulat- ed Deficit
	Shares	Amount	Shares	Amount					
Balance at March 31, 1999.....	--	\$ --	15,425,752	\$ 15	\$ 48,363	\$ (266)	\$ (197)	\$ (193)	\$ (28,899)
Acquisition of Odisei S.A. ....	--	--	2,988,646	3	13,264	(76)	--	--	--
Issuance of common stock to STMicroelectronics, net.....	--	--	3,700,000	4	35,089	--	--	--	--
Issuance of warrants with convertible subordinated debentures.....	--	--	--	--	2,467	--	--	--	--
Issuance of common stock under stock plans.....	--	--	906,119	1	2,079	--	--	--	--
Repayment of notes receivable from stockholders.....	--	--	--	--	--	240	--	--	--
Repurchase of common stock.....	--	--	(61,596)	--	(43)	33	--	--	--
Deferred compensation related to stock options.....	--	--	--	--	340	--	(179)	--	--
Realized loss on investments...	--	--	--	--	--	--	--	193	--
Net loss.....	--	--	--	--	--	--	--	--	(24,848)
Total comprehensive loss.....	--	--	--	--	--	--	--	--	--
Balance at March 31, 2000.....	--	--	22,958,921	23	101,559	(69)	(376)	--	(53,747)
Acquisition of UForce, Inc. ...	1	--	3,555,303	4	44,584	--	--	--	--
Issuance of common stock under stock plans.....	--	--	1,206,591	1	2,761	--	--	--	--
Repayment of notes receivable from stockholders.....	--	--	--	--	--	60	--	--	--
Repurchase of common stock and Exchangeable Shares.....	--	--	(1,040,089)	(1)	(521)	8	--	--	--
Deferred compensation related to stock options.....	--	--	--	--	551	--	202	--	--
Value of beneficial conversion feature associated with the convertible subordinated debentures.....	--	--	--	--	1,081	--	--	--	--
Change in unrealized loss on investments.....	--	--	--	--	--	--	--	(24)	--
Cumulative translation adjustment.....	--	--	--	--	--	--	--	(65)	--
Net loss.....	--	--	--	--	--	--	--	--	(74,399)
Total comprehensive loss.....	--	--	--	--	--	--	--	--	--
Balance at March 31, 2001.....	1	--	26,680,726	27	150,015	(1)	(174)	(89)	(128,146)
Redemption of convertible subordinated debentures.....	--	--	1,000,000	--	321	--	--	--	(25)
Issuance of common stock under stock plans.....	--	--	457,346	--	335	--	--	--	--
Issuance of common stock to debt holders to satisfy interest obligations.....	--	--	95,699	--	97	--	--	--	--
Forgiveness of note receivable.	--	--	(5,556)	--	(1)	1	--	--	--
Deferred compensation related to stock options.....	--	--	--	--	(155)	--	144	--	--

Cumulative translation adjustment.....	--	--	--	--	--	--	--	--	(10)	--						
Net loss.....	--	--	--	--	--	--	--	--	--	(9,105)						
Total comprehensive loss.....	--	--	--	--	--	--	--	--	--	--						
Balance at March 31, 2002.....	1	\$	--	28,228,215	\$	27	\$	150,612	\$	--	\$	(30)	\$	(99)	\$	(137,276)
	=====			=====				=====				=====				=====

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

## 8X8, INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Year Ended March 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net loss.....	\$ (9,105)	\$ (74,399)	\$ (24,848)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	3,862	14,355	2,118
Extraordinary gain due to debt redemption .....	(779)	--	--
Stock compensation expense.....	(11)	753	161
Cumulative effect of change in accounting principle.....	--	1,081	--
In-process research and development.....	--	4,563	10,100
Discount on issuance of common stock.....	--	--	7,400
Gain on sale of investments, net.....	(131)	(225)	(1,687)
Non-cash restructuring charges.....	--	32,331	--
Other.....	26	(20)	--
Changes in assets and liabilities, net of effects of businesses acquired and sold:			
Accounts receivable.....	1,668	851	3,492
Inventory.....	501	(85)	2,548
Other current and noncurrent assets.....	1,607	(1,281)	(96)
Accounts payable.....	(839)	(2,197)	(71)
Accrued compensation.....	(610)	(623)	583
Accrued warranty.....	(47)	(169)	(349)
Deferred revenue.....	(3,482)	197	(3,358)
Other accrued liabilities.....	(579)	378	(48)
Income taxes payable.....	(26)	(78)	(27)
Net cash used in operating activities.....	(7,945)	(24,568)	(4,082)
Cash flows from investing activities:			
Acquisitions of property and equipment.....	(172)	(6,127)	(1,693)
Cash paid for acquisitions, net.....	--	(558)	(149)
Proceeds from sale of investments.....	543	225	1,880
Proceeds from the sale of video monitoring assets, net.....	--	5,160	--
Proceeds from the sale of equipment.....	116	--	--
Net cash provided by (used in) investing activities.....	487	(1,300)	38

Cash flows from financing activities:			
Proceeds from issuance of convertible subordinated debentures.....	--	--	7,500
Debt issuance costs.....	--	--	(617)
Debt repayments.....	(4,581)	(891)	--
Proceeds from issuance of common stock, net.....	335	2,763	29,763
Repayment of notes receivable from stockholders.....	--	60	240
Repurchase of common stock and Exchangeable Shares.....	--	(514)	(76)
Net cash (used in) provided by financing activities.	(4,246)	1,418	36,810
Net increase (decrease) in cash and cash equivalents.....	(11,704)	(24,450)	32,766
Cash and cash equivalents, beginning of year.....	24,126	48,576	15,810
Cash and cash equivalents, end of year.....	\$ 12,422	\$ 24,126	\$ 48,576
Supplemental and non-cash disclosures:			
Income taxes paid.....	\$ 12	\$ 25	\$ 34
Interest paid.....	\$ 204	\$ 308	\$ --
Common stock issued to satisfy interest obligations.....	\$ 97	\$ --	\$ --
Issuance of shares and repricing of warrants in connection with the debt extinguishment.....	\$ 1,109	\$ --	\$ --
Issuance of shares and assumption of options in connection with the acquisition of U Force.....	\$ --	\$ 44,586	\$ --
Public stock received in exchange for furniture and equipment.....	\$ --	\$ 412	\$ --
Issuance of shares in connection with the acquisition of Odisei.....	\$ --	\$ --	\$ 13,267

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

## 8X8, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### *THE COMPANY*

8x8, Inc., or 8x8, and its subsidiaries (collectively, the Company) develop and market communication technology for

Internet Protocol or, IP, telephony and video applications. The Company has three primary product lines: voice and video semiconductors and related software; hosted Internet Private Branch Exchange, or iPBX, solutions; and telecommunication services software and consumer products.

During the fiscal year ended March 31, 2001, 8x8 formed two subsidiaries, Netergy Microelectronics, Inc. (Netergy) and Centile, Inc. (Centile) and reorganized its operations more clearly along its three product lines.

- Netergy provides voice and video semiconductors and related communication software to original equipment manufacturers (OEMs) of telephones, terminal adapters, and other edge devices and to other semiconductor companies. Netergy's technologies are used to make IP telephones and to voice-enable cable and digital subscriber line modems, wireless devices, and other broadband technologies.
- Centile develops and markets hosted iPBX solutions that allow service providers to offer to small and medium-sized businesses over broadband networks the features and functions that a user commonly expects to find in a typical business phone system. A hosted iPBX solution is a software application that implements the functionality of a business phone system over the same data connection that a business uses for connection to the Internet. The phone system software runs on servers that are located at a central data center so that the only phone system equipment that is required at the customer site are telephones. The phone system can also be accessed and controlled from any web browser on the Internet.
- 8x8 has a third product line that includes consumer videophones, telephones and communication software and services that work over broadband networks.

The Company was incorporated in California in February 1987, and in December 1996 was reincorporated in Delaware. In August 2000, the Company changed its name from 8x8, Inc. to Netergy Networks, Inc. The Company changed its name back to 8x8, Inc. in July 2001.

## ***LIQUIDITY***

The Company has sustained net losses and negative cash flows from operations since fiscal 1999 that have been funded primarily through the issuance of equity securities and borrowings. Management expects to experience negative cash flows for the foreseeable future and such losses may be substantial. As of March 31, 2002, the Company had \$12.4 million of cash and cash equivalents and management believes these funds, combined with expected revenues from operations, will be sufficient to meet the Company's cash needs for fiscal 2003. The Company will be seeking additional financing during the next twelve months in order to meet its cash requirements for fiscal 2004. There is no assurance that the Company will be able to obtain financing on terms favorable to the Company, or at all. Failure to increase revenues, to manage net operating expenses and to raise additional financing through public or private equity financing or other sources of financing may result in the Company not achieving its longer term business objectives.

## ***FISCAL YEAR***

Effective beginning in fiscal 2001, the Company changed its fiscal year from a year ending on the Thursday closest to March 31 to a year ending on March 31. Fiscal 2001 was 52 weeks and 2 days, while fiscal 2002 and fiscal 2000 were 52 weeks and 53 weeks, respectively. For all periods presented in these consolidated financial statements, the Company has indicated its fiscal year ends on March 31.

## ***PRINCIPLES OF CONSOLIDATION***

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

## ***USE OF ESTIMATES***

The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of



assets, liabilities and equity and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to bad debts, investments, goodwill and intangible assets, income taxes, restructuring and impairment charges, and other contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

**REVENUE RECOGNITION**

**Product revenue** -- The Company recognizes revenue from product sales upon shipment to OEMs and end users provided that persuasive evidence of an arrangement exists, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. Reserves for returns and allowances for OEM and end user sales are recorded at the time of shipment. The Company defers recognition of revenue on sales to distributors and resellers where the right of return exists until products are resold to the end user.

**License and other revenue** -- The Company recognizes revenue from license contracts when a non-cancelable, non-contingent license agreement has been signed, the software product has been delivered, no uncertainties exist surrounding product acceptance, fees from the agreement are fixed and determinable, and collection is probable. The Company uses the residual method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If evidence of the fair value of the undelivered elements does not exist, revenue is deferred and recognized when delivery occurs. When the Company enters into a license agreement requiring that the Company provide significant customization of the software products, the license and consulting revenue is recognized using contract accounting. Revenue from maintenance agreements is recognized ratably over the term of the maintenance agreement, which in most instances is one year. The Company recognizes royalties upon notification of sale by its licensees. Revenue from consulting, training, and development services is recognized as the services are performed.

**CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates the classification at each reporting date. The cost of the Company's investments is determined based upon specific identification.

Investments classified as available-for-sale are reported at fair value, based upon quoted market prices, with unrealized gains and losses, net of related tax, if any, included in Accumulated Other Comprehensive Loss in the Consolidated Balance Sheet. At March 31, 2001, the Company classified an investment in marketable equity securities valued at \$388,000 as available-for-sale. The investment was recorded in Other Current Assets in the Consolidated Balance Sheet. The Company realized a gain of \$131,000 on the sale of this investment during the year ended March 31, 2002. The Company realized a loss on investments classified as available-for-sale of approximately \$205,000 during the year ended March 31, 2000. Realized and unrealized gains and losses for all other investments were not significant for the years ended March 31, 2002, 2001, and 2000.

**INVENTORY**

Inventory is stated at the lower of standard cost, which approximates actual cost using the first-in, first-out method, or market. Inventory at March 31, 2002 and 2001 was comprised of the following:

March 31,	
-----	-----
2002	2001
-----	-----
(in thousands)	

Raw materials and work-in-process.....	528	996
Finished goods.....	205	332
	-----	-----
	\$ 733	\$ 1,328
	=====	=====

### ***PROPERTY AND EQUIPMENT***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method. Estimated useful lives of three years are used for equipment and software and five years for furniture and fixtures. Amortization of leasehold improvements is computed using the shorter of the remaining facility lease term or the estimated useful life of the improvements. Property and equipment at March 31, 2002 and 2001 was comprised of the following components:

	March 31,	
	2002	2001
	-----	
	(in thousands)	
Machinery and computer equipment.....	\$ 8,076	\$ 7,987
Furniture and fixtures.....	1,084	1,311
Licensed software.....	4,105	4,185
Leasehold improvements.....	991	1,018
	-----	-----
	14,256	14,501
Less: accumulated depreciation and amortization...	(11,516)	(9,485)
	-----	-----
	\$ 2,740	\$ 5,016
	=====	=====

Maintenance, repairs and ordinary replacements are charged to expense. Expenditures for improvements that extend the physical or economic life of the property are capitalized. Gains or losses on the disposition of property and equipment are reflected in Other Income, net.

### ***WARRANTY EXPENSE***

The Company accrues for the estimated cost that 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***

Assets and liabilities of the Company's foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates

prevailing during the year. If the functional currency is the local currency, resulting translation adjustments are reflected as a separate component of stockholders' equity. If the functional currency is the U.S. dollar, resulting conversion adjustments are included in the results of operations. Foreign currency transaction gains and losses, which have been immaterial, are also included in results of operations. Total assets of the Company's foreign subsidiaries were \$1.6 million, \$3.8 million, and \$1.6 million as of March 31, 2002, 2001, and 2000, respectively. The Company does not undertake any foreign currency hedging activities.

### ***INCOME TAXES***

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

### ***TAX CREDITS***

Research and development and other refundable tax credits are accounted for using the cost reduction method. Under this method, tax credits relating to eligible expenditures are accounted for as a reduction of related expenses in the period during which the expenditures are incurred, provided there is reasonable assurance of realization.

### ***CONCENTRATIONS***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. At March 31, 2002, approximately 83% of the Company's cash equivalents were placed in an institutional money market fund of a reputable, U.S. based financial institution. The Company has not experienced any material losses relating to any investment instruments.

The Company sells its products to OEMs and distributors throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition, and for certain transactions does require collateral from its customers. For each of the three years ended March 31, 2002, the Company experienced minimal write-offs for bad debts and doubtful accounts. At March 31, 2002, one customer accounted for 45% of accounts receivable. At March 31, 2001, two customers accounted for 23% and 12% of accounts receivable, respectively.

The Company outsources the manufacturing, packaging, and testing of its semiconductor products to independent subcontractors located primarily in Taiwan. The inability of any manufacturer to fulfill supply requirements of the Company could materially impact future operating results, financial position and cash flows.

### ***FAIR VALUE OF FINANCIAL INSTRUMENTS***

The estimated fair value of financial instruments is determined by the Company using available market information and valuation methodologies considered to be appropriate. The carrying amounts of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short maturities.

### ***ACCOUNTING FOR STOCK-BASED COMPENSATION***

The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25) and related interpretations thereof. As required under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) the Company provides pro forma disclosure of net income and earnings per share.

### ***COMPREHENSIVE LOSS***

Comprehensive loss, as defined, includes all changes in equity (net assets) during a period from non-owner sources.

The difference between net loss and comprehensive loss is due primarily to unrealized losses on short-term investments classified as available-for-sale and foreign currency translation adjustments. Comprehensive loss is reflected in the Consolidated Statements of Stockholders' Equity.

### **RECLASSIFICATIONS**

Certain prior year balances have been reclassified to conform with the current year presentation.

### **NET LOSS PER SHARE**

Basic net loss per share is computed by dividing net loss available to common stockholders (numerator) by the weighted average number of vested, unrestricted common and Exchangeable Shares (see Note 9) outstanding during the period (denominator). Net loss available to common stockholders was as follows (in thousands):

	Year Ended March 31,		
	2002	2001	2000
Net loss.....	\$ (9,105)	\$ (74,399)	\$ (24,848)
Accretion of dividends on contingently redeemable common stock.....	(25)	--	--
Net loss available to common stockholders.....	\$ (9,130)	\$ (74,399)	\$ (24,848)
	=====	=====	=====

Due to net losses incurred for all periods presented, weighted average basic and diluted shares outstanding for the respective periods are the same. The following equity instruments were not included in the computations of net loss per share because the effect on the calculations would be anti-dilutive (in thousands):

	Year Ended March 31,		
	2002	2001	2000
Common stock options.....	9,900	7,732	4,174
Warrants.....	701	701	701
Convertible subordinated debentures....	--	638	638
Unvested restricted common stock.....	--	30	516
	-----	-----	-----
	10,601	9,101	6,029
	=====	=====	=====

### **RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires all business combinations to be accounted for using the purchase method of accounting, and also requires that certain intangible assets acquired in a business combination be recognized as assets apart from goodwill. SFAS No. 141 was effective for all business combinations initiated after June 30, 2001. Under SFAS No. 142, goodwill will no longer be amortized, but will be subject to annual impairment tests. Goodwill should be assigned to an entity's reporting units, which, under SFAS No. 142, are defined as operating segments, or one level below that. Furthermore, SFAS No. 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives, unless these lives are determined to be indefinite, and, upon adoption, requires a reassessment of the useful lives previously assigned to its recognized intangible assets. In addition, if certain recognized intangible assets

do not meet certain criteria, such assets should be reclassified to goodwill. Conversely, certain intangible assets that have been reported as part of goodwill may need to be reclassified as of the date that SFAS No. 142 is initially applied in its entirety.

Goodwill that existed at June 30, 2001 was amortized through March 31, 2002. The net carrying value of goodwill at March 31, 2002 was \$1.5 million. Upon adoption of these standards in the first quarter of fiscal 2003, the \$11,000 remaining balance of the workforce intangible asset acquired in conjunction with the Company's acquisition of Odisei will be reclassified as goodwill. Goodwill will no longer be amortized, but will be subject to impairment tests on at least an annual basis or upon the occurrence of triggering events, if earlier, to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. An impairment loss is recognized when the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of the goodwill will be its new accounting basis. The first step of the goodwill impairment test should be performed by September 30, 2002. If an impairment is indicated, the second step of the impairment test must be completed no later than March 31, 2003. The Company will be required to determine if any reclassification of some portion of the goodwill to intangible assets will be required. The Company anticipates that its operating segments will comprise its reporting units, and, accordingly, annual impairment tests would be performed at the operating segment level. Based on acquisitions completed as of June 30, 2001, application of the goodwill non-amortization provisions of SFAS No. 142 is expected to result in a decrease in operating expenses of approximately \$707,000 for fiscal 2003.

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (i) can be distinguished from the rest of the entity and (ii) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective for the Company for all financial statements issued in fiscal 2003. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's results of operations.

## NOTE 2 -- ACQUISITIONS

### *U|Force, Inc.*

The Company's consolidated financial statements reflect the purchase acquisition of all of the outstanding stock of U|Force, Inc. (U|Force) on June 30, 2000 for a total purchase price of \$46.8 million. U|Force, based in Montreal, Canada, was a developer of IP-based software applications and a provider of professional services. U|Force was also developing a Java-based service creation environment (SCE) designed to allow telecommunication service providers to develop, deploy, and manage telephony applications and services to their customers. The purchase price was comprised of 8x8 common stock with a fair value of approximately \$38.0 million comprised of: (i) 1,447,523 shares issued at closing of the acquisition, and (ii) 2,107,780 shares to be issued upon the exchange or redemption of the exchangeable shares (the Exchangeable Shares) of Canadian entities held by former employee shareholders or indirect owners of U|Force stock. See Note 9 regarding further discussion of the Exchangeable Shares. 8x8 also assumed outstanding stock options to purchase shares of U|Force common stock for which the Black-Scholes option-pricing model value of approximately \$6.5 million was included in the purchase price. Direct transaction costs related to the merger were approximately \$747,000. Additionally, the Company advanced \$1.5 million to U|Force upon signing the acquisition agreement, but prior to the close of the transaction. This amount was accounted for as part of the purchase price. The following table summarizes the composition of the purchase price (in thousands):

Value of common stock and Exchangeable Shares issued.....	\$	38,042
Value of stock options assumed.....		6,546
Cash advanced to U Force prior to closing.....		1,500
Direct transaction costs.....		747

-----  
 \$ 46,835  
 =====

The purchase price was allocated to tangible assets acquired and liabilities assumed based on the book value of U|Force's assets and liabilities, which approximated their fair value. Intangible assets acquired included amounts allocated to U|Force's in-process research and development. The in-process research and development related to U|Force's initial products, the SCE and a unified messaging application, for which technological feasibility had not been established and the technology had no alternative future use. The estimated percentage complete for the unified messaging and SCE products was approximately 44% and 34%, respectively, at June 30, 2000. The fair value of the in-process technology was based on a discounted cash flow model, similar to the traditional "Income Approach," which discounts expected future cash flows to present value, net of tax. In developing cash flow projections, revenues were forecasted based on relevant factors, including aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology, and the anticipated life of the technology. Projected annual revenues for the in-process research and development projects were assumed to ramp up initially and decline significantly at the end of the in-process technology's economic life. Operating expenses and resulting profit margins were forecasted based on the characteristics and cash flow generating potential of the acquired in-process technologies. Risks that were considered as part of the analysis included the scope of the efforts necessary to achieve technological feasibility, rapidly changing customer markets, and significant competitive threats from numerous companies. The Company also considered the risk that if the products were not brought to market in a timely manner, it could adversely affect sales and profitability of the combined company in the future. The resulting estimated net cash flows were discounted at a rate of 25%. This discount rate was based on the estimated cost of capital plus an additional discount for the increased risk associated with in-process technology. The value of the acquired U|Force in-process research and development, which was expensed in the second quarter of fiscal 2001, approximated \$4.6 million. The excess of the purchase price over the net tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. Amounts allocated to goodwill, the value of an assumed distribution agreement, and workforce were being amortized on a straight-line basis over three, three, and two years, respectively, prior to the write-off of the unamortized balances in the fourth quarter of fiscal 2001 as discussed in Note 3. The allocation of the purchase price was as follows (in thousands):

In-process research and development.....	\$	4,563
Distribution agreement.....		1,053
Workforce.....		1,182
U Force net tangible assets.....		1,801
Goodwill.....		38,236
		-----
	\$	46,835
		=====

The consolidated results of the Company include the results of the operations of U|Force from the date of the acquisition, June 30, 2000, the beginning of our second quarter of fiscal 2001. The following unaudited pro forma consolidated amounts give effect to the acquisition of U|Force as if it had occurred at the beginning of each of fiscal 2001 and 2000 (in thousands, except per share data):

	Year Ended March 31,	
	2001	2000
	-----	-----
Revenue.....	\$ 18,765	\$ 25,874
Net loss.....	\$ 74,949	\$ 41,155

Net loss per share..... \$ 2.97 \$ 2.05

The above unaudited pro forma consolidated amounts are not necessarily indicative of the actual results of operations that would have been reported if the acquisition had actually occurred as of the beginning of the periods described above, nor does such information purport to indicate the results of our future operations. In the opinion of management, all adjustments necessary to present fairly such pro forma amounts have been made.

**Odisei S.A.**

On May 24, 1999, the Company acquired Odisei S.A. (Odisei), a privately held, development stage company based in Sophia Antipolis, France, that was developing software for managing voice-over IP networks. The consolidated financial statements reflect the acquisition of Odisei for approximately 2,868,000 shares of the Company's common stock and approximately 121,000 of contingent shares, which were subsequently issued to Odisei employee shareholders in March 2000. The purchase price was approximately \$13.6 million, which includes approximately \$295,000 of acquisition-related costs. The purchase price was allocated to tangible assets acquired and liabilities assumed based on the book value of Odisei's current assets and liabilities, which approximated their fair value. Intangible assets acquired included amounts allocated to Odisei's in-process research and development. The in-process research and development related to Odisei's initial product for which technological feasibility had not been established and was estimated to be approximately 60% complete. The fair value of the in-process technology was based on a discounted cash flow model, which discounted expected future cash flows to present value, net of tax. In developing cash flow projections, revenues were forecasted based on relevant factors, including aggregate revenue growth rates for the business as a whole, characteristics of the potential market for the technology, and the anticipated life of the technology. Projected annual revenues for the in-process research and development projects were assumed to ramp up initially and decline significantly at the end of the in-process technology's economic life. Operating expenses and resulting profit margins were forecasted based on the characteristics and cash flow generating potential of the acquired in-process technology. Associated risks included the inherent difficulties and uncertainties in completing the project and thereby achieving technological feasibility, and risks related to the impact of potential changes in market conditions and technology. The resulting estimated net cash flows were discounted at a rate of 27%. This discount rate was based on the estimated cost of capital plus an additional discount for the increased risk associated with in-process technology. The value of the acquired Odisei in-process research and development, which was expensed in the fiscal year ended March 31, 2000, was \$10.1 million. The excess of the purchase price over the net tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. Until the adoption of SFAS 142 on April 1, 2002, amounts allocated to goodwill and workforce were being amortized on a straight-line basis over five and three years, respectively. The allocation of the purchase price consisted of the following (in thousands):

In-process research and development.....	\$ 10,100
Workforce.....	200
Net tangible liabilities.....	(219)
Goodwill.....	3,481
	-----
	\$ 13,562
	=====

The Company's Consolidated Statement of Operations for the fiscal year ended March 31, 2000 includes the results of Odisei from the date of acquisition. Had the acquisition taken place as of the beginning of fiscal 2000, the pro forma net loss for the year would have been substantially the same.

**NOTE 3 -- RESTRUCTURING CHARGES**

During the fourth quarter of fiscal 2001, after a significant number of employees had resigned, the Company discontinued its Canadian operations acquired in conjunction with the acquisition of U|Force in June 2000. The

Company closed its offices in Montreal and Hull, Quebec and laid-off all remaining employees resulting in the cessation of most of the research and development efforts and all of the sales and marketing and professional services activities associated with the U|Force business. As a result of the restructuring, the Company recorded a one-time charge of \$33.3 million in the quarter ended March 31, 2001. The restructuring charge consisted of the following (in thousands):

Employee separation.....	\$	765
Fixed asset losses and impairments.....		2,084
Intangible asset impairments.....		30,247
Lease obligation and termination.....		220
		-----
	\$	33,316
		=====

Employee separation costs represent severance payments related to the 96 employees in the Montreal and Hull offices who were laid-off.

The impairment charges for fixed assets approximated \$2.1 million which included write-offs of abandoned and unusable assets of approximately \$1.4 million, a loss on sale of assets of \$567,000, and a charge for assets to be disposed of \$172,000. The asset write-offs of \$1.4 million included approximately \$850,000 related to leasehold improvements and \$560,000 related to computer equipment, furniture, and software. The loss on sale of assets of \$567,000 was attributable to the sale of office, computer, and other equipment of the Montreal office. The Company received common stock of the purchaser valued at approximately \$412,000 at the date of sale. Fair value of assets to be disposed of was measured based on expected salvage value, less costs to sell. Assets to be disposed of consist of computer equipment with a fair value of \$57,000 at March 31, 2001. Substantially all of these assets were liquidated during fiscal 2002.

The impairment charges for intangible assets represented the write-off of the unamortized intangible assets recorded in connection with the acquisition of U|Force. The charges of approximately \$30.2 million included: \$28.7 million for the goodwill related to the acquisition, \$739,000 for the assembled workforce, and \$789,000 related to a distribution agreement. The impairments were directly attributable to the cessation of operations in Canada. The Company performed an evaluation of the recoverability of the intangible assets related to these operations in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The lack of estimated future net cash flows related to the acquired products necessitated an impairment charge to write-off the remaining unamortized goodwill. The distribution agreement asset was written off because the Company will no longer provide products and services to customers under that agreement.

Cash payments related to the restructuring during the quarter ended March 31, 2001, which included all employee separation costs and certain lease termination costs, approximated \$920,000. Accrued obligations related to remaining lease commitments on the Montreal and Hull facilities totaled \$212,000 at March 31, 2001. The Company terminated the lease for its primary facility in Montreal in March 2001, but was required to pay rent on the facility through May 31, 2001. The Company terminated the lease for the facility in Hull, Quebec, in fiscal 2002. The payments made in fiscal 2002 related to the terminations of the Montreal and Hull facility leases totaled \$225,000. There are no remaining restructuring related accruals at March 31, 2002.

#### **NOTE 4 -- DEBT**

##### ***Convertible Subordinated Debentures***

###### *Issuance of the Debentures*

In December 1999, the Company issued \$7.5 million of 4% Series A and Series B convertible subordinated debentures



(the Debentures) due in December 2002. In conjunction with the issuance of the Debentures, the lenders received warrants to purchase 531,915 8x8 common shares at \$7.05 per share and 105,634 shares at \$35.50 per share (the Lender Warrants). The Company also issued warrants to the placement agent to purchase 53,191 8x8 common shares at \$7.05 per share and 10,563 shares at \$35.50 per share. The exercise price of the warrants and the number of shares issuable upon exercise of the warrants are subject to potential adjustment, in certain circumstances, including in the event that the Company issues equity securities, convertible debt or other equity instruments for consideration per share that is less than the five day average closing bid price of the Company's common stock preceding such issuance. All of the warrants expire in December 2002.

Using the Black-Scholes pricing model, the Company determined that the debt discount associated with the fair value of the warrants issued to the lenders approximated \$2.2 million. The costs of issuing the Debentures totaled \$864,000, including a non-cash charge for the value of warrants issued to the placement agent. The debt discount and debt issuance costs were amortized to interest expense on a straight-line basis over the term of the Debentures.

#### *Cumulative Effect of Change in Accounting Principle - Beneficial Conversion Feature*

In November 2000, the Emerging Issues Task Force reached several conclusions regarding the accounting for debt and equity securities with beneficial conversion features, including a consensus requiring the application of the "accounting conversion price" method, versus the use of the stated conversion price, to calculate the beneficial conversion feature for such securities. The SEC required companies to record a cumulative catch-up adjustment in the fourth quarter of calendar 2000 related to the application of the "accounting conversion price" method to securities issued after May 21, 1999. Accordingly, the Company recorded a \$1.1 million non-cash expense during the quarter ended December 31, 2000 to account for a beneficial conversion feature associated with the Debentures and related warrants. The Company has presented the charge in the Consolidated Statements of Operations as a cumulative effect of a change in accounting principle.

#### *Extraordinary Item - Early Extinguishment of Debentures*

In December 2001, the Company redeemed the Debentures for \$4.5 million in cash and 1,000,000 shares of common stock. Additionally, the Company agreed to reduce the exercise price of the Lender Warrants to \$0.898 per share. This transaction resulted in an extraordinary gain of \$779,000, net of the incremental fair value of the repriced warrants, the write-off of unamortized debt discount and debt issue costs, and other costs associated with the early extinguishment of the Debentures.

#### *Contingently Redeemable Common Stock*

Under the terms of a registration rights agreement that the Company and the lenders entered into in connection with the issuance of the 1,000,000 shares of common stock, the Company agreed to register the shares for resale and maintain the effectiveness of the registration statement for specified periods of time until the shares are resold or can be resold without the registration statement (the Maintenance Requirements). The Company further agreed that if it does not comply with the Maintenance Requirements in the future, it may be required to pay cash penalties and redeem all or a portion of the shares held by the lenders at the higher of \$0.898 per share or the market price of the Company's stock at the time of the redemption. The shares held by the lenders at March 31, 2002 were recorded at their potential redemption value at March 31, 2002 of \$813,000 and classified as contingently redeemable common stock due to the redemption rights described above. The Company will not mark the contingently redeemable common stock to the higher of \$0.898 per share or market unless it becomes probable that the Company will not be able to comply with the Maintenance Requirements.

The approximately \$25,000 difference between the potential redemption value of the shares held by the lenders at March 31, 2002 and the value of those shares on the date of issuance has been treated as a deemed dividend and included as an adjustment to net income (loss) available to common stockholders for purposes of calculating the Company's net income (loss) per share.

#### *Other Debt*

The Company assumed certain capital lease and loan obligations in conjunction with the acquisition of U|Force on June

30, 2000. In February 2001, the Company paid approximately \$560,000 to purchase all equipment outstanding under the capital leases and repaid a bank loan of approximately \$146,000.

## **NOTE 5 -- DISPOSITION OF VIDEO MONITORING PRODUCT LINE**

On May 19, 2000, the Company entered into an Asset Purchase Agreement with Interlogix, Inc. (Interlogix) providing for the sale of certain assets comprising the Company's video monitoring business (the Business) to Interlogix. The assets sold included certain accounts receivable, inventories, technical information, machinery, equipment, contract rights, intangibles, records, and supplies. Concurrently with the execution of the Asset Purchase Agreement, the Company and Interlogix entered into a Technology License Agreement (the License Agreement) providing for the licensing of certain related intellectual property to Interlogix, a Development Agreement providing Interlogix continuing rights in certain products to be developed by the Company, a Transition Services Agreement providing for certain services to be rendered by the Company to Interlogix in respect of the Business, and a Supply Agreement providing for the continuing sale of certain products to Interlogix by the Company. The aggregate purchase price paid by Interlogix was approximately \$5.2 million in cash.

The Company's obligation's under the Transition Services Agreement expired in fiscal 2001. The cost of services provided under the Transition Services Agreement was reimbursed by Interlogix. Pursuant to the Asset Purchase Agreement, the Company is responsible for reimbursing Interlogix for costs they incur associated with warranty obligations related to video monitoring products manufactured prior to May 19, 2000. The Company's estimated remaining exposure to such warranty obligations is reflected in the warranty accrual at March 31, 2002.

At signing, the Company's continuing obligations under the License and Development Agreements included: (i) providing future updates and upgrades to the licensed technology, if any, over the initial three-year term of the License Agreement (the Maintenance Obligations) and (ii) certain potential obligations to assist Interlogix in the development of future products (the Development Obligations). The Company deferred the recognition of the approximately \$3.9 million of revenue ascribed to the license of video monitoring technology to Interlogix until the Development Obligations expired in the quarter ended March 31, 2001. Upon expiration of the Development Obligations, the Company commenced recognition of the previously deferred revenue and is recognizing the revenue ratably over the license term, which expires in May 2003, due to the remaining Maintenance Obligations. The remaining balance in deferred revenue at March 31, 2002 is approximately \$2.0 million.

## **NOTE 6 -- TRANSACTIONS WITH RELATED PARTIES**

### ***Strategic Relationship With STMicroelectronics***

During the fourth quarter of fiscal 2000, the Company sold 3.7 million shares of its common stock to STMicroelectronics NV (STM) at a purchase price of \$7.50 per share. In addition, the Company granted STM the right to a seat on the Company's Board of Directors as long as it holds at least 10% of the Company's outstanding shares. STM was also granted certain rights to maintain its percentage ownership interest of the Company's outstanding voting securities, including certain rights to participate in future securities offerings of the Company, or, in certain circumstances, the right to acquire additional shares through market purchases. The Company also granted to an STM subsidiary a non-exclusive, royalty-bearing license to certain technology and undertook certain joint development activities with a subsidiary of STM. Under the terms of the agreement, the STM subsidiary guaranteed certain minimum payments to the Company totaling \$1.0 million; \$500,000 for prepaid royalties and \$500,000 for certain non-recurring engineering services (the Minimum Payments). The Company received the Minimum Payments in fiscal 2001.

Net proceeds from the sale of stock were \$27.7 million, representing a discount of approximately \$7.4 million from the \$35.1 million fair market value of the stock on the date of the agreement. As there was no assurance that the Company would receive any future revenues from STM, the Company applied the discount to offset the Minimum Payments (the result of which was that no revenues were recognized related to the Minimum Payments) and expensed the balance of \$6.4 million to Selling, General, and Administrative Expense in the period of the transaction.

### ***Other Transactions***

In March 2002 the Board of Directors authorized the Company to open securities trading accounts and make investments in other classes of securities that may generate higher returns than the currently low yields on governmental and corporate debt securities and money market funds. The amount allocated for such investments was \$1.0 million to be invested on behalf of 8x8, Inc. as directed by the Company's Chairman, Joe Parkinson; Chief Executive Officer, Bryan Martin; or Chief Financial Officer, David Stoll. Mr. Parkinson has agreed to personally reimburse 8x8, Inc. on a quarterly basis for any losses resulting from his trading activities in order to maintain a minimum investment account balance of \$1.0 million. As part of the arrangement, the Company's Board of Directors has expressed its intent, but not obligation, to pay Mr. Parkinson a quarterly bonus in an amount equal to 25% of the profits attributable to investments made on the Company's behalf by Mr. Parkinson to the extent such a bonus exceeds his salary for the corresponding period. The Company or Mr. Parkinson can terminate this arrangement at any time, subject to the terms of an agreement between Mr. Parkinson and the Company. As of March 31, 2002, the \$1.0 million was invested in money market accounts.

During fiscal 2001 and 2000, Dr. Bernd Girod, a director of 8x8 and its subsidiary, Netergy Microelectronics, Inc., received \$22,000 and \$41,000, respectively, in consideration for technical consulting services that he provided to the Company. In addition, the Company contributed \$150,000 during fiscal 2001 to a Stanford University research program managed by Dr. Girod.

## NOTE 7 -- INCOME TAXES

The Company's loss before income taxes included \$161,000, \$162,000, and \$160,500 of foreign subsidiary income for the fiscal years ended March 31, 2002, 2001, and 2000, respectively.

The components of the consolidated provision for income taxes consisted of the following (in thousands):

	Year Ended March 31,		
	2002	2001	2000
Current:			
Federal.....	\$ (10)	\$ --	\$ --
State.....	--	--	--
Foreign.....	25	17	120
	-----	-----	-----
	\$ 15	\$ 17	\$ 120
	=====	=====	=====

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

	March 31,	
	2002	2001
Research and development credit carryforwards.....	\$ 4,809	\$ 4,455
Net operating loss carryforwards.....	23,954	22,625
Inventory valuation.....	569	650
Reserves and allowances.....	471	1,181
Goodwill.....	14,193	15,584
Other.....	3,335	3,155
	-----	-----
	47,331	47,650
Valuation allowance.....	(47,331)	(47,650)
	-----	-----

Total..... \$ -- \$ --  
=====

Management believes that, based on a number of factors, the weight of objective available evidence indicates that it is more likely than not that the Company will not be able to realize its deferred tax assets, and thus a full valuation allowance was recorded at March 31, 2002 and March 31, 2001.

At March 31, 2002, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$67.0 million and \$17.0 million, respectively, which expire at various dates beginning in 2005. The net operating loss carryforwards include approximately \$5.0 million resulting from employee exercises of non-qualified stock options or disqualifying dispositions, the tax benefits of which, when realized, will be accounted for as an addition to additional paid-in capital rather than as a reduction of the provision for income taxes. In addition, at March 31, 2002, the Company had research and development credit carryforwards for federal and state tax reporting purposes of approximately \$3.0 million and \$2.5 million, respectively. The federal credit carryforwards will begin expiring in 2010 while the California credit will carryforward indefinitely. Under applicable tax laws, the amount 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 loss carryforwards 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.

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):

	Year Ended March 31,		
	2002	2001	2000
Benefit at statutory rate.....	\$ (3,090)	\$ (25,296)	\$ (8,408)
State income taxes (benefit) before valuation allowance, net of federal effect.....	229	(3,909)	(251)
In-process research and development.....	--	1,551	3,434
Non-deductible goodwill.....	259	--	--
Discount on issuance of Common Stock.....	558	--	2,176
Research and development credits.....	(216)	(1,162)	(338)
Change in valuation allowance.....	2,302	29,027	3,125
Non-deductible compensation.....	(4)	256	55
Foreign rate differences.....	(30)	1	66
Other.....	7	(451)	261
	-----	-----	-----
	\$ 15	\$ 17	\$ 120
	=====	=====	=====

**NOTE 8 -- COMMITMENTS AND CONTINGENCIES**

*Leases*

The Company leases its primary facility in Santa Clara, California under a noncancelable operating lease agreement that expires in May 2003. The Company also has leased facilities in the United Kingdom, France and Canada. The facility leases include rent escalation clauses, and require the Company to pay taxes, insurance, and normal maintenance costs. At March 31, 2002, future minimum annual lease payments under noncancelable operating leases, net of sublease income, were as follows (in thousands):

YEAR ENDING MARCH 31,	
-----	
2003.....	\$ 1,405
2004.....	449
2005.....	270
2006.....	256
2007.....	242
2008 and thereafter.....	889
	-----
Total minimum payments.....	\$ 3,511
	=====

Rent expense for the years ended March 31, 2002, 2001, and 2000 was \$1.5 million, \$1.8 million, and \$1.3 million, respectively.

The Company subleases office space under operating lease agreements expiring at various dates through 2005. The total future minimum rentals to be received under these noncancelable sublease agreements are \$64,000 in fiscal 2003, \$33,000 in fiscal 2004, \$16,000 per year in each of fiscal 2005 and 2006, and \$11,000 in fiscal 2007.

### ***Legal Proceedings***

In November 2001, the Company settled a lawsuit that was filed against it in April 2001 in British Columbia, Canada by Milinx Business Services, Inc. and Milinx Business Group, Inc (collectively, Milinx). The Company was one of five named defendants in the lawsuit, the others being Sun Microsystems, Inc., Netscape Communications Canada, Inc., Burtsand, Inc., and Intraware Canada, Inc. The Company has been released of any further obligations to Milinx in exchange for returning a portion of the original license fee. As a result of the settlement agreement, the Company recognized \$309,000 of previously deferred revenue stemming from a March 2000 license agreement with Milinx.

The Company is also involved in various other legal claims and litigation that have arisen in the normal course of the Company's operations. While the results of such claims and litigation cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a significant adverse effect on the Company's financial position or results of operations. However, should the Company not prevail in any such litigation, its operating results and financial position could be adversely impacted.

## **NOTE 9 -- STOCKHOLDERS' EQUITY**

### ***Common Stock***

In August 2000, the Company's stockholders authorized an amendment to the restated certificate of incorporation to increase the authorized number of shares of common stock to 100,000,000 shares from 40,000,000 shares.

### ***Exchangeable Shares and Preferred Stock***

In conjunction with the acquisition of U|Force (see Note 2), the Company agreed to issue up to 2,107,780 shares of 8x8 common stock upon the exchange or redemption of the exchangeable shares (the Exchangeable Shares) of Canadian entities held by employee shareholders of U|Force stock. The Exchangeable Shares held by U|Force employees were subject to certain restrictions, including the Company's right to repurchase the Exchangeable Shares if an employee departed the Company prior to vesting. Upon vesting, the Exchangeable Shares were convertible into 8x8 common stock on a 1-for-1 basis. The Company also issued one share of preferred stock (the Special Voting Share) that provides holders of Exchangeable Shares with voting rights that are equivalent to the shares of common stock into which their shares are convertible.

During the fourth quarter of fiscal 2001, the Company repurchased a total of 1,034,107 unvested Exchangeable Shares at an average price of \$0.49 per share when the beneficial holders of such shares resigned from the Company. In addition, 812,866 Exchangeable Shares were converted into an equivalent number of shares of the Company's common

stock in the fourth quarter of fiscal 2001. The remaining 260,807 Exchangeable Shares were exchanged for shares of the Company's common stock during the year ended March 31, 2002.

### ***1992 Stock Option Plan***

The Board of Directors has reserved 2,000,000 shares of the Company's common stock for issuance under the 1992 Stock Option Plan (the 1992 Plan). The 1992 Plan, which has been approved by the Company's stockholders, provides for granting incentive and nonstatutory stock options to employees, directors or consultants at prices equal to the fair market value of the stock at the grant dates. The stock option price of incentive stock options granted may not be less than the determined fair market value at the date of grant. Options generally vest over four years and expire ten years after grant.

### ***Key Personnel Plan***

In July 1995, the Board of Directors adopted the Key Personnel Plan. The Board of Directors reserved 2,200,000 shares of the Company's common stock for issuance under this plan. The Key Personnel Plan provided for granting incentive and nonstatutory stock options to officers of the Company at prices equal to the fair market value of the stock at the grant dates. Options generally vest over four years. Shares issued under the Key Personnel Plan were subject to repurchase at the original issuance price of \$0.50 per share if the employee left the Company prior to vesting. During fiscal 2001 and 2000, the Company repurchased 5,982 and 46,296 unvested shares, respectively. As of March 31, 2002, all shares were vested and no shares are available for grant under the Key Personnel Plan. The Company is no longer issuing options under this plan.

### ***1996 Stock Plan***

In June 1996, the Board of Directors adopted the 1996 Stock Plan (the 1996 Plan) and reserved 1,000,000 shares of the Company's common stock for issuance under this plan. The Company's stockholders subsequently authorized increases in the number of shares of the Company's common stock reserved for issuance under the 1996 Plan of 500,000 shares in June 1997 and 2,000,000 shares in August 2000. The 1996 Plan also provides for an annual increase in the number of shares reserved for issuance under the 1996 Plan on the first day of the Company's fiscal year 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 a maximum annual increase of 1,000,000 shares. The annual increase was 1,000,000 shares in both fiscal 2002 and 2001 and 771,287 during the fiscal year ended March 31, 2000. To date, this provision has resulted in increases in shares reserved for issuance under the 1996 Plan totaling 3,535,967. The 1996 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted may not be less than the determined fair market value at the date of grant. Options generally vest over four years and expire ten years after grant.

### ***1996 Director Option Plan***

The Company's 1996 Director Option Plan (the Director Plan) was adopted in June 1996 and became effective in July 1997. A total of 150,000 shares of common stock were initially reserved for issuance under the Director Plan. The Company's stockholders subsequently authorized an increase in the number of shares of common stock reserved for issuance under the Director Plan to 500,000 shares in August 2000. The Director Plan provides for both discretionary and periodic grants of nonstatutory stock options to non-employee directors of the Company (the Outside Directors). The exercise price per share of all options granted under the Director Plan will be equal to the fair market value of a share of the Company's common stock on the date of grant. Options generally vest over a period of four years. 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.

### ***1999 Nonstatutory Stock Option Plan***

In fiscal 2000, the Company's Board of Directors approved the 1999 Nonstatutory Stock Option Plan (the 1999 Plan) with 600,000 shares initially reserved for issuance thereunder. In fiscal 2001, the number of shares reserved for issuance was increased to 3,600,000 shares by the Board of Directors. Under the terms of the 1999 Plan, options may not be issued to either officers or directors of the Company provided, however, that options may be granted to an

officer in connection with the officer's initial employment by the Company. Options generally vest over four years and expire ten years after grant. The 1999 Plan has not been approved by the stockholders of the Company.

***UForce Company -- Societe UForce Amended and Restated 1999 Stock Option Plan***

In connection with the acquisition of U|Force (see Note 2), the Company assumed the UForce Company -- Societe UForce Amended and Restated 1999 Stock Option Plan (the U|Force Plan), and reserved 1,023,898 shares of the Company's common stock related to options issued thereunder. The U|Force Plan provided for the grant of nonstatutory stock options to employees and consultants of U|Force at prices equal to the fair market value of the stock at the grant dates. Due to the cessation of the Company's Canadian operations (see Note 3), 1,016,408 and 7,490 of the options previously granted under the U|Force Plan were forfeited and returned to the U|Force Plan in fiscal 2001 and fiscal 2002, respectively. In fiscal 2002, the Company's Board of Directors terminated the U|Force Plan.

Option activity under the Company's stock option plans since March 31, 1999, excluding the Netergy and Centile stock option plans, is summarized as follows:

	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price Per Share
Balance at March 31, 1999.....	112,811	3,430,310	\$ 2.60
Change in options available for grant...	1,371,287	--	--
Granted.....	(2,105,015)	2,105,015	7.94
Exercised.....	--	(725,209)	2.12
Returned to plan.....	636,354	(636,354)	3.40
Balance at March 31, 2000.....	15,437	4,173,762	5.25
Change in options available for grant...	7,373,898	--	--
Granted or assumed.....	(8,116,100)	8,116,100	6.26
Exercised.....	--	(925,008)	2.30
Returned to plan.....	3,632,963	(3,632,963)	8.29
Balance at March 31, 2001.....	2,906,198	7,731,891	5.24
Change in options available for grant...	(23,898)	--	--
Granted.....	(4,901,073)	4,901,073	1.09
Exercised.....	--	(40,757)	0.01
Returned to plan.....	2,692,381	(2,692,381)	6.18
Balance at March 31, 2002.....	673,608	9,899,826	2.95

Significant option groups outstanding at March 31, 2002 and related weighted average exercise price and contractual life information for 8x8, Inc.'s stock option plans are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Shares	Weighted Average Exercise Price Per Share
\$ 0.01 to \$ 3.16...	7,571,210	\$ 1.44	8.9	1,472,297	\$ 2.02
\$ 3.16 to \$ 6.32...	1,030,304	3.97	7.6	730,601	4.00

\$ 6.32 to \$ 9.49...	410,812	7.43	7.6	216,191	7.34
\$ 9.49 to \$12.65...	771,500	11.60	8.1	346,821	11.58
\$12.65 to \$15.81...	38,500	14.56	8.2	17,453	14.56
\$15.81 to \$25.44...	77,500	22.10	7.9	39,423	22.04
	-----			-----	
	9,899,826	\$ 2.95	8.6	2,822,786	\$ 4.47
	=====			=====	

The Company recorded a deferred compensation charge of approximately \$7,267,000 with respect to options repriced and certain additional options granted in fiscal 1997. In addition, the Company recorded deferred compensation charges of approximately \$503,000 and \$406,000 in connection with certain options granted to non-officer employees in fiscal 2001 and 2000, respectively. The Company recognizes deferred compensation over the related vesting period of the options (which is generally forty-eight months). The Company recognized \$753,000 and \$161,000 as compensation expense in the fiscal years ended March 31, 2001 and 2000, respectively. Stock compensation expense in fiscal 2002 was not significant. At March 31, 2002, the balance of deferred compensation was \$30,000. Deferred compensation is subject to reduction for any employee who terminates employment prior to the expiration of such employee's option vesting period.

### *Netergy Microelectronics, Inc. 2000 Stock Option Plan*

Netergy's 2000 Stock Option Plan (the Netergy Plan) was adopted in December 2000 by the Netergy Board of Directors. The Netergy Plan provides for granting incentive stock options (ISO) to employees and nonstatutory stock options (NSO) to employees, directors, and consultants of Netergy. Options granted under the Netergy Plan may be granted for periods up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Netergy Board of Directors, provided, however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and (ii) the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively. To date, options granted vest over four years. However, in the event of a change in control (as defined in the Netergy Plan document) vesting for certain options will be accelerated. Option activity during fiscal 2001 and fiscal 2002 was as follows:

	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price Per Share
	-----	-----	-----
Shares reserved at Netergy Plan's inception.....	5,000,000	--	\$ --
Granted.....	(3,572,000)	3,572,000	0.50
Returned to plan.....	400,000	(400,000)	0.50
	-----	-----	
Balance at March 31, 2001.....	1,828,000	3,172,000	0.50
Granted.....	(136,000)	136,000	0.50
Exercised.....	--	--	--
Returned to plan.....	264,834	(264,834)	0.50
	-----	-----	
Balance at March 31, 2002.....	1,956,834	3,043,166	\$ 0.50
	=====	=====	

As of March 31, 2002, 900,302 options were exercisable, the weighted average remaining contractual life was 8.2 years, and the weighted average exercise price was \$0.50 per share.

### *Centile, Inc. 2001 Stock Option Plan*



Centile's 2001 Stock Option Plan (the Centile Plan) was adopted in March 2001 by the Centile Board of Directors. The Centile Plan provides for granting ISOs to employees and NSOs to employees, directors, and consultants of Centile. Options granted under the Centile Plan may be granted for periods up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Centile Board of Directors, provided, however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and (ii) the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively. To date, options granted vest over four years. Option activity during fiscal 2001 and fiscal 2002 was as follows:

	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price Per Share
	-----	-----	-----
Shares reserved at Centile Plan's inception.....	4,500,000	--	--
Granted.....	(4,107,000)	4,107,000	0.43
	-----	-----	
Balance at March 31, 2001.....	393,000	4,107,000	0.43
Granted.....	(846,000)	846,000	0.43
Exercised.....	--	--	--
Returned to plan.....	2,688,000	(2,688,000)	0.43
	-----	-----	
Balance at March 31, 2002.....	2,235,000	2,265,000	\$ 0.43
	=====	=====	

As of March 31, 2002, 237,187 options were exercisable, the weighted average remaining contractual life was 9.2 years, and the weighted average exercise price was \$0.43 per share.

### ***1996 Employee Stock Purchase Plan***

The Company's 1996 Stock Purchase Plan (the Purchase Plan) was adopted in June 1996 and became effective upon the closing of the Company's initial public offering in July 1997. Under the Purchase Plan, 500,000 shares of common stock were initially reserved for issuance. At the start of each fiscal year, the number of shares of common stock subject to the Purchase Plan increases so that 500,000 shares remain available for issuance. This provision resulted in increases of 281,583, 180,910 and 187,491 shares issuable under the Purchase Plan during the fiscal years ended March 31, 2002, 2001 and 2000, respectively. During fiscal 2002, 2001, and 2000, 416,589, 281,583, and 180,910 shares, respectively, were issued under the Purchase Plan.

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

### ***Certain pro forma disclosures***

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

	Year Ended March 31,		
	2002	2001	2000
Net loss:			
As reported.....	\$ (9,105)	\$ (74,399)	\$ (24,848)
Pro forma.....	\$ (25,149)	\$ (87,233)	\$ (30,670)
Basic and diluted loss per share:			
As reported.....	\$ (0.33)	\$ (2.99)	\$ (1.38)
Pro forma.....	\$ (0.92)	\$ (3.51)	\$ (1.70)

For the purposes of the disclosure above, the fair value of each of the Company's option grants, excluding those options issued under the Netergy and Centile Plans, has been estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Year Ended March 31,		
	2002	2001	2000
Expected volatility.....	135%	141%	70%
Expected dividend yield.....	0.0%	0.0%	0.0%
Risk-free interest rate.....	3.5% to 4.9%	4.7% to 6.8%	5.5% to 6.4%
Weighted average expected option term...	5.1 years	5 years	5.3 years
Weighted average fair value of options granted.....	\$ 0.96	\$ 5.17	\$ 5.12

The fair value of grants under the Netergy and Centile stock option plans, for purposes of the pro forma disclosure, have also been estimated on the date of grant using the Black-Scholes pricing model using the weighted average assumptions noted below. The expected volatility factors for the Netergy and Centile plans reflect the fact that the underlying shares of Netergy and Centile are not publicly traded and therefore the Company's overall volatility factor has been reduced by 50% for these plans. The various risk free interest rates used in the computations reflect the different rates in effect at the respective grant dates.

	Year Ended March 31,		
	2002	2001	2000
Expected volatility.....	67%	70%	--
Expected dividend yield.....	0.0%	0.0%	--
Risk-free interest rate.....	4.1% to 4.8%	4.7% to 5.1%	--
Weighted average expected option term...	5.25 years	5 years	--
Netergy weighted average fair value of options granted.....	\$ 0.31	\$ 0.31	\$ --
Centile weighted average fair value of options granted.....	\$ 0.26	\$ 0.26	\$ --

For the purpose of providing pro forma disclosures, the estimated fair value of stock purchase rights granted under the Purchase Plan were estimated using the Black-Scholes pricing model with the following weighted-average

assumptions:

	Year Ended March 31,		
	2002	2001	2000
Expected volatility.....	135%	141%	70%
Expected dividend yield.....	0.0%	0.0%	0.0%
Risk-free interest rate.....	3.82%	4.92%	5.84%
Weighted average expected rights term...	1.25 years	1.25 years	1.25 years
Weighted average fair value of rights granted.....	\$ 1.16	\$ 3.00	\$ 5.52

## NOTE 10 -- EMPLOYEE BENEFIT PLANS

### *401(k) Savings Plan*

In April 1991, the Company adopted a 401(k) savings plan (the Savings Plan) covering substantially all of its U.S. employees. Eligible employees may contribute to the Savings Plan from their compensation up to the maximum allowed by the Internal Revenue Service. The Company's matching contribution is \$1,500 per employee per calendar year at a dollar for dollar rate of the employee contribution. The matching contributions vest over three years. The Company contributed \$85,000, \$125,000, and \$124,000 to the Savings Plan during fiscal 2002, 2001, and 2000, respectively. The Savings Plan does not allow employee contributions to be invested in 8x8 common stock.

## NOTE 11 -- SEGMENT REPORTING

During the fourth quarter of fiscal year 2001, the Company changed its internal reporting processes and determined that it had three reportable segments: Netergy, Centile, and Corporate and Other. Inter-segment revenues between the reportable segments were not significant during the periods presented. Shared support service functions such as human resources, facilities management, and other infrastructure support and overhead are allocated between the segments. Accounting policies are applied consistently to the segments, where applicable. The Company's reportable segments have been determined based on the nature of the operations and products offered to customers:

- The Netergy segment primarily reflects the activity associated with the sale and development of semiconductors and related software focused on the IP telephony and videoconferencing markets. In addition, the Netergy segment includes revenue derived from the license of video monitoring technology to Interlogix, Inc., as well as sales of media hub systems.
- The Centile segment reflects activity associated with the development and sale of its hosted iPBX solution. Centile also markets and sells media hub systems as part of its hosted iPBX solution.
- The Corporate and Other segment represents the business activities of the parent entity, 8x8, Inc. The results for the Corporate and Other segment principally reflect activities related to the development and deployment of the service creation environment and eSLEE products, unallocated corporate overhead expenses, and revenues and certain costs associated with discontinued product lines.

Due to limitations in the Company's internal reporting systems, it was not practicable to disclose operating losses and net losses by segment for fiscal 2000. The following table illustrates results by segment for the periods during which the information was available:

	Year Ended March 31,		
	2002	2001	2000
Revenues:			
Netergy.....	\$ 13,350	\$ 15,850	\$ 16,308
Centile.....	260	198	70
Corporate and Other.....	1,081	2,180	9,006
Total revenues.....	\$ 14,691	\$ 18,228	\$ 25,384
Gross profit:			
Netergy.....	\$ 10,656	\$ 10,792	\$ 13,137
Centile.....	205	71	45
Corporate and Other.....	1,007	379	3,604
Total gross profit.....	\$ 11,868	\$ 11,242	\$ 16,786
Operating loss:			
Netergy.....	\$ (1,509)	\$ (5,668)	\$ --
Centile.....	(5,721)	(13,024)	--
Corporate and Other.....	(2,784)	(55,781)	--
Total operating loss.....	\$ (10,014)	\$ (74,473)	\$ --
Net loss:			
Netergy.....	\$ (1,318)	\$ (5,661)	\$ --
Centile.....	(5,627)	(12,955)	--
Corporate and Other.....	(2,160)	(55,783)	--
Total net loss.....	\$ (9,105)	\$ (74,399)	\$ --

There were no reconciling items between the segments for the revenue, gross profit, operating loss and net loss amounts.

The following table illustrates net revenues by geographic area. Revenues are attributed to countries based on the destination of shipment (in thousands):

	Year Ended March 31,		
	2002	2001	2000
United States.....	\$ 5,777	\$ 5,632	\$ 13,381
Europe.....	4,126	5,862	5,808
Taiwan.....	2,026	2,739	1,737
Japan.....	1,119	1,188	2,351
Other.....	1,643	2,807	2,107
	\$ 14,691	\$ 18,228	\$ 25,384

The majority of the Company's long-lived assets were located in the United States. Long-lived assets consist primarily of property and equipment and deposits. The following table illustrates long-lived assets by country (in thousands):

	March 31,	
	2002	2001
	(in thousands)	
United States.....	\$ 2,051	\$ 4,426
United Kingdom.....	602	681
France.....	452	762
	-----	-----
	\$ 3,105	\$ 5,869
	=====	=====

Three customers represented more than 10% of our total revenues in fiscal 2002. These customers represented 13%, 13% and 12% of our total revenues, respectively. During the fiscal years ended March 31, 2001 and 2000, no customer accounted for 10% or more of total revenues.

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**8X8, INC.**

**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
(IN THOUSANDS)**

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
-----	-----	-----	-----	-----
Allowance for doubtful accounts:				
Year ended March 31, 2000.....	\$ 686	\$ (200)	\$ 44	\$ 442
Year ended March 31, 2001.....	442	25	78	389
Year ended March 31, 2002.....	389	--	103	286

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**8X8, INC.**

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

(UNAUDITED)

	QUARTER ENDED							
	March 31, 2002	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	March 31, 2001	Dec. 31, 2000	Sept. 30, 2000	June 30, 2000
Total revenues.....	\$ 2,221	\$ 4,944	\$ 3,926	\$ 3,600	\$ 4,409	\$ 4,104	\$ 3,892	\$ 5,823
Cost of revenues.....	692	659	434	1,038	1,695	1,948	1,765	1,578
Gross profit.....	1,529	4,285	3,492	2,562	2,714	2,156	2,127	4,245
Operating expenses:								
Research and development.....	2,705	2,295	2,697	3,868	4,866	4,868	4,788	4,214
Selling, general, and administrative.....	1,956	2,269	2,367	2,962	5,189	4,497	4,728	3,699
In-process research and development.....	--	--	--	--	--	--	4,563	--
Amortization of intangibles.....	191	190	191	191	3,612	3,612	3,573	190
Restructuring charge.....	--	--	--	--	33,316	--	--	--
Total operating expenses.....	4,852	4,754	5,255	7,021	46,983	12,977	17,652	8,103
Loss from operations.....	(3,323)	(469)	(1,763)	(4,459)	(44,269)	(10,821)	(15,525)	(3,858)
Other income (expense), net.....	218	135	(220)	12	(94)	67	554	645
Loss before income taxes.....	(3,105)	(334)	(1,983)	(4,447)	(44,363)	(10,754)	(14,971)	(3,213)
Provision for income taxes.....	15	--	--	--	5	--	--	12
Net loss before extraordinary gain and cumulative effect of change in accounting principle .....	(3,120)	(334)	(1,983)	(4,447)	(44,368)	(10,754)	(14,971)	(3,225)
Extraordinary gain on extinguishment of debt, net.....	--	779	--	--	--	--	--	--
Cumulative effect of change in accounting principle.....	--	--	--	--	--	(1,081)	--	--
Net income (loss).....	\$ (3,120)	\$ 445	\$ (1,983)	\$ (4,447)	\$ (44,368)	\$ (11,835)	\$ (14,971)	\$ (3,225)
Net income (loss) per share:								
Basic.....	\$ (0.11)	\$ 0.02	\$ (0.07)	\$ (0.17)	\$ (1.67)	\$ (0.47)	\$ (0.60)	\$ (0.14)
Diluted.....	(0.11)	0.02	(0.07)	(0.17)	(1.67)	(0.47)	(0.60)	(0.14)
Shares used in per share calculations:								
Basic.....	28,156	27,201	26,958	26,769	26,541	25,337	24,923	22,582
Diluted.....	28,156	27,438	26,958	26,769	26,541	25,337	24,923	22,582

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**PART III**

Certain information required by Part III is omitted from this Report on Form 10-K in that the Registrant will file its definitive Proxy Statement for its Annual Meeting of Stockholders (the 2002 Proxy Statement) pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the 2002 Proxy Statement is incorporated herein by reference.

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this is included in the 2002 Proxy Statement under the captions "Election of Directors -- Nominees," "Additional Information -- Executive Officers" and "Additional Information -- Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is included in the 2002 Proxy Statement under the captions "Election of Directors -- Compensation of Directors," "Additional Information -- Executive Compensation" and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is set forth in the 2002 Proxy Statement under the captions "Additional Information -- Security Ownership" and "Additional Information -- Equity Compensation Plan Information" and are incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND TRANSACTIONS

### *Agreements with STMicroelectronics*

In the quarter ended March 31, 2000, the Company entered into a strategic relationship with STMicroelectronics NV, or STM. Under various agreements, STM purchased shares of 8x8 common stock and was granted certain related rights, licensed certain of the Company's intellectual property and engaged the Company to jointly develop products that enable voice and other multimedia services over internet protocol networks. In addition, STM and 8x8 entered into a cross license agreement in March 2002 that is more fully described below.

*Stock Purchase and Related Rights.* As part of the arrangement, STM purchased 3.7 million shares of 8x8's common stock for \$27.75 million. STM's share ownership currently represents 13.1% of our outstanding common stock making them the Company's largest shareholder. STM has been granted certain registration rights that expire upon the earlier of the date that STM can sell the remaining shares it holds in any three-month period under Rule 144, or February 2007. The registration rights allow STM to:

- require us to file a registration statement with the U.S. Securities and Exchange Commission covering the resale of some or all of the 3.7 million shares still held by STM, subject to certain conditions; and
- participate in future registration statements, including a registered public offering involving an underwriting, subject to certain conditions and limitations.

In addition, STM has preemptive rights that allow STM to purchase additional shares of common stock from the Company or receive rights to acquire shares of 8x8 common stock, in proportion to their ownership percentage, to the extent that shares of 8x8 common stock or rights to acquire 8x8 common stock are issued in connection with financing activities. STM's preemptive rights terminate on the later of the date that it owns less than 10% of 8x8's outstanding common stock or February 2003. Further, so long as STM holds at least 10% of 8x8's outstanding common stock, the Company is obligated to nominate one qualified nominee selected by STM for election to 8x8's board of directors. Christos Lagomichos, vice president and general manager of the Set-Top Box Division of STM's subsidiary, STMicroelectronics, Inc., was selected as a nominee by STM and currently serves on 8x8's board of directors.

*License and Development Agreements .* Under a non-exclusive, royalty-bearing license agreement entered into in the quarter ended March 31, 2000 in conjunction with the stock purchase and rights agreements discussed above, the Company provided a subsidiary of STM, STMicroelectronics, Inc., or STM Inc., with rights to use certain of its voice-over-internet-protocol semiconductor and embedded software technology. STM Inc. is required to pay royalties based on a percentage of the net sales price of products sold by STM Inc. that incorporate the licensed technology.

Under a separate development agreement that was also executed in the quarter ended March 31, 2000, 8x8 and STM Inc. established a framework for the joint development of semiconductor products and defined two initial projects. One project provides for the joint development of a voice-enabled chipset for cable modems and cable television set-top boxes. STM Inc. is not required to pay the Company any engineering fees associated with the development efforts necessary to support this project, which is still ongoing. STM Inc. is required to pay certain per-unit royalties based upon shipments of products that may eventually result from this development effort. The other project involves the integration of certain of our voice-over-internet protocol technology into products intended to be used in various

internet telephony applications including digital subscriber line, or DSL, modems and internet protocol telephones. In May 2000 STM Inc. paid us \$1.0 million associated with this project; \$500,000 for engineering fees associated with the development effort and \$500,000 of prepaid royalties. We have substantially completed our obligations under this project and STM Inc. is currently marketing and selling a product resulting from this joint development effort. STM Inc. is required to pay us additional per-unit royalties based upon shipments of this product only if cumulative royalties owed eventually exceed the balance of prepaid royalties. Should STM Inc. elect to have us provide extended product maintenance and support, they are required to pay us additional fees of which a portion will be considered prepaid royalties.

In March 2002, 8x8 licensed certain STM Very Long Instruction Word, or VLIW, microprocessor cores, related tools and MPEG4 video compression firmware from STM for use in the Company's Internet protocol, or IP, video communication processor development initiatives. Additionally, 8x8 agreed to license STM certain of its existing and future H.263 and H.26L video compression/decompression firmware implementations for use with STM's semiconductor products. The licenses are non-exclusive, non-transferable and non-assignable and provide for the sharing of updates and enhancements to the licensed technology, subject to certain limitations. The agreement includes provisions that allow the Company to manufacturing semiconductor devices that contain the ST200 core at STM or at other third-party fabrication facilities. The Company is required to pay STM per-unit royalties based upon shipments of products that incorporate the VLIW technology. In addition, STM is required to pay the Company certain per-unit royalties based upon shipments of STM semiconductor products that contain the Company's video technology.

Additional information required by this Item is set forth in the 2002 Proxy Statement under the captions "Additional Information -- Employment Contracts and Termination of Employment and Change in Control Arrangements," "Additional Information -- Compensation Committee Interlocks and Insider Participation," "Additional Information -- Report of the Compensation Committee of the Board of Directors" and "Additional Information -- Stock Performance Graph" and is incorporated herein by reference.

#### **PART IV**

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

**(a)(1) Financial Statements.** The information required by this item is included in Item 8.

**(a)(2) Financial Statement Schedules.** The information required by this item is included in Item 8.

**(a)(3) Exhibits.** The documents listed on the Exhibit Index appearing at pages 69-71 of this Report are filed herewith. Copies of the exhibits listed in the Exhibit Index will be furnished, upon request, to holders or beneficial owners of the Company's common stock.

**(b) Reports on Form 8-K.** On January 30, 2002, we filed an amendment to our Current Report on Form 8-K dated December 17, 2001 reporting the redemption of our convertible subordinated debentures.

On February 14, 2002, we filed a Current Report on Form 8-K also dated February 14, 2002 announcing that Bryan Martin had been named Chief Executive Officer of 8x8, Inc. and that Joe Parkinson, our former Chief Executive Officer, would continue as Chairman of 8x8's Board of Directors. We also announced a new Internet Protocol (IP) video product development initiative.

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**SIGNATURES**



Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, 8X8, Inc., a Delaware corporation, has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on May 23, 2002.

8X8, INC.

By: /s/ BRYAN R. MARTIN

Bryan R. Martin,

President & Chief Executive Officer

### **POWER OF ATTORNEY**

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ BRYAN R. MARTIN</u> Bryan R. Martin	Director, President and Chief Executive Officer (Principal Executive Officer)	May 23, 2002
<u>/s/ DAVID M. STOLL</u> David M. Stoll	Chief Financial Officer, Vice President, Finance and Secretary (Principal Financial and Accounting Officer)	May 23, 2002
<u>/s/ JOE PARKINSON</u> Joe Parkinson	Chairman of the Board	May 23, 2002
<u>/s/ BERND GIROD</u> Bernd Girod	Director	May 23, 2002
<u>/s/ GUY L. HECKER</u> Guy L. Hecker, Jr.	Director	May 23, 2002
Christos Lagomichos	Director	May 23, 2002
<u>/s/ WILLIAM TAI</u> William Tai	Director	May 23, 2002

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8X8, INC.

### **EXHIBIT INDEX**

Exhibit  
Number

Exhibit Title

- 2.1 (c) Stock Exchange Agreement, dated as of May 13, 1999, by and among 8x8, Inc. (the Registrant), Odisei S.A. and the Security Holders named therein and the agreements related thereto.
- 2.2 (g) Share Exchange Agreement, dated as of May 19, 2000, by and among the Registrant, U|Force, all of the shareholders of U|Force and indirect owners of the shares of U|Force.
- 3.1 (a) Form of Amended and Restated Certificate of Incorporation of Registrant.
- 3.2 (a) Bylaws of Registrant.
- 3.3 (l) Certificate of Amendment of Amended and Restated Certificate of Incorporation of Registrant.
- 3.4 (n) Certificate of Amendment of Amended and Restated Certificate of Incorporation of Registrant.
- 4.1 (d) Securities Purchase Agreement by and among Wingate Capital Ltd. and Fisher Capital Ltd. (collectively the Buyers) and the Registrant dated December 15, 1999, with Schedule and Exhibits.
- 4.2 (d) Registration Rights Agreement by and among the Registrant and the Buyers dated December 15, 1999.
- 4.3 (d) Form of Series A Warrant by and among the Registrant and FleetBoston Robertson Stephens, Inc. dated December 16, 1999.
- 4.4 (d) Form of Series B Warrant by and among the Registrant and FleetBoston Robertson Stephens Inc. dated December 16, 1999.
- 4.5 (d) Registration Rights Agreement by and among the Registrant and FleetBoston Robertson Stephens Inc. dated December 16, 1999.
- 4.6 (f) Common Stock Purchase Agreement by and among the Registrant and STMicroelectronics dated January 24, 2000.
- 4.7 (f) Form of Investor Rights Agreement by and among the Registrant and STMicroelectronics dated January 24, 2000.
- 4.8 (o) Form of Amendment No.1 to the Series A and Series B Warrants, dated as of December 17, 2001, by and among the Registrant, Fisher Capital Ltd. and Wingate Capital Ltd.
- 4.9 (o) Registration Rights Agreement, dated as of December 13, 2001, by and among the Registrant, Fisher Capital Ltd. and Wingate Capital Ltd.
- 10.1 (a) Form of Indemnification Agreement.
- 10.2 (a) 1992 Stock Option Plan, as amended, and form of Stock Option Agreement.
- 10.3 (a) Key Personnel Plan, as amended, and form of Stock Option Agreement.
- 10.4 (i) 1996 Stock Plan, as amended, and form of Stock Option Agreement.
- 10.5 (a) 1996 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement.
- 10.6 (j) 1996 Director Option Plan, as amended, and form of Director Option Agreement.

- 10.7 (a) Facility lease dated as of July 3, 1990 by and between Sobrato Interests, a California Limited Partnership, and the Registrant, as amended.
- 10.8 (b) Fifth Amendment to Lease dated January 26, 1998 between Sobrato Interests and the Registrant.
- 10.9 (b) Landlord's Consent to Sublease dated February 23, 1998 among Sobrato Interests, Bay Networks, Inc. and the Registrant.
- 10.10 (e) 1999 Nonstatutory Stock Option Plan, as amended, and form of Stock Option Agreement.
- 10.11 (h) Asset Purchase Agreement by and among the Registrant and Interlogix, Inc. dated May 19, 2000.
- 10.12 (h) Technology License Agreement by and among the Registrant and Interlogix, Inc. dated May 19, 2000.
- 10.13 (k) UForce Company -- Societe UForce Amended and Restated 1999 Stock Option Plan.
- 10.14 (l) Settlement Agreement and Release by and between the Registrant and Keith Barraclough dated July 10, 2000.
- 10.15 (l) Severance Agreement and Mutual Release by and between the Registrant, Netergy Networks Canada Corporation and Dominique Pitteloud dated October 13, 2000.
- 10.16 (m) Agreement by and between the Registrant and Dr. Paul Voois dated April 30, 2001.
- 10.17 (m) Agreement by and between the Registrant and Jonathan Foster dated April 30, 2001.
- 10.18 (p) Redemption and Exchange Agreement, dated as of December 13, 2001, by and among 8x8, Inc., Fisher Capital Ltd. and Wingate Capital Ltd.
- 10.19 (q) License Agreement dated as of January 24, 2000, by and between the Registrant and STMicroelectronics, Inc.
- 10.20 (q) Development Agreement dated as of January 24, 2000, by and between the Registrant and STMicroelectronics, Inc.
- 10.21 LX Video Development and License Agreement dated as of March 19, 2002, by and between the Registrant and STMicroelectronics N.V.
- 10.22 Netergy Microelectronics, Inc. 2000 Stock Option Plan, as amended, and form of Stock Option Agreement.
- 10.23 Centile, Inc. 2001 Stock Option Plan, as amended, and form of Stock Option Agreement.
- 10.24 Investment Agreement dated April 1, 2002 by and between the Registrant and Joe Parkinson.
- 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Independent Accountants.
- 24.1 Power of Attorney (see page 68).

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- (a) Incorporated by reference to identically numbered exhibits filed in response to Item 16 (a), "Exhibits," of the registrant's Registration Statement on Form S-1 (File No. 333-15627), as amended, declared effective on July 1, 1997.
- (b) Incorporated by reference to exhibits filed in response to Item 14 (a), "Exhibits," of the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 1998.
- (c) Incorporated by reference to identically numbered exhibits filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K dated June 7, 1999 and 8-K/A dated August 9, 1999.
- (d) Incorporated by reference to exhibits filed in response to Item 6(a), "Exhibits," of the Registrant's Report on Form 10-Q for the fiscal quarter ended December 31, 1999.
- (e) Incorporated by reference to exhibit 4.1 filed in response to Item 8, "Exhibits," of the Registrant's Statement on Form S-8 dated July 17, 2000.
- (f) Incorporated by reference to exhibits filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K filed on February 16, 2000.
- (g) Incorporated by reference to an exhibit filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K filed on May 23, 2000.
- (h) Incorporated by reference to exhibits filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K filed on May 26, 2000.
- (i) Incorporated by reference to exhibit 4.1 filed in response to Item 8, "Exhibits," of the Registrant's Report on Form S-8 dated November 7, 2000.
- (j) Incorporated by reference to exhibit 4.2 filed in response to Item 8, "Exhibits," of the Registrant's Report on Form S-8 dated November 7, 2000.
- (k) Incorporated by reference to exhibit 4.2 filed in response to Item 8, "Exhibits," of the Registrant's Statement on Form S-8 dated July 17, 2000.
- (l) Incorporated by reference to exhibits filed in response to Item 14 (a), "Exhibits," of the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2001.
- (m) Incorporated by reference to exhibits filed in response to Item 6(a), "Exhibits," of the Registrant's Report on Form 10-Q for the fiscal quarter ended June 30, 2001.
- (n) Incorporated by reference to exhibit 3.1 filed in response to Item 6(a), "Exhibits," of the Registrant's Report on Form 10-Q for the fiscal quarter ended September 30, 2001.
- (o) Incorporated by reference to exhibits filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K filed on December 17, 2001.
- (p) Incorporated by reference to exhibit 10.1 filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K/A filed on January 30, 2002.
- (q) Incorporated by reference to exhibits filed in response to Item 7, "Exhibits," of the Registrant's Report on Form 8-K/A filed on January 30, 2002.

**STMICROELECTRONICS N.V. AND 8X8 LX VIDEO DEVELOPMENT AND LICENSE**

This Agreement is made as of March\_\_\_\_, 2002 (the "Effective Date") between 8x8, Inc., a corporation organized and existing under the laws of the State of Delaware (hereafter "8x8") and STMicroelectronics N.V., a Dutch corporation having its principal place of business at Strawinskyiaan 1725, Tower B 17<sup>th</sup> floor, 1077 Amsterdam, The Netherlands, acting for the purpose of this Agreement through its Swiss branch, ICC Bloc A, Route de Pré-bois 20, 1215 Geneva 15, Switzerland (hereafter "ST").

1. **ST LX Technology** . Subject to the terms and conditions herein, ST is to provide 8x8 with sufficient information to enable 8x8 to develop semiconductor products that incorporate the ST LX based processor core technology.. For purposes of this Agreement, "LX Technology" shall mean the LX based processor core technology known as ST 210 and ST 220 and a specific ST220 enhanced core (hereafter known as ST220-26L) which will be for the purpose of accommodating the performance requirements of the H26L specification. For purposes of this Agreement, the "8x8 LX Chips" shall mean chips designed by 8X8 and incorporating the LX Technology, 8x8 circuitry and possibly other ST or third party circuitry. The information to be provided by ST hereunder ("LX Information") includes, but is not limited to, the following as it relates to the LX Technology and as it exists on the Effective Date or upon delivery:
  - A. All applicable netlists; schematics; layouts; software, high level, behavioral, C-, Verilog and timing models; simulation patterns, validation and test suites and test programs; and standard cell libraries and models.
  - B. All internal ROM microcodes and microcode models and tools
  - C. Documentation relating to these items to the extent presently available and in its existing form.
2. **ST LX Tools**. ST will provide 8X8 the ST220 simulator and compiler (known as the Multi-Flow tools chain) and successor simulators and compilers related to the LX Technology (the "LX Tools") in binary code format. ST will provide 8x8 with five (5) ST210 development platforms and five (5) ST220/Web-Buddy development platforms. ST will provide 8x8 with documentation relating to these items to the extent presently available and in its existing form.
3. **ST LX License** . Subject to the terms and conditions of this Agreement, ST hereby grants to 8x8, a non-exclusive, non-transferable, non-assignable, world-wide license to use, operate and copy the LX Technology, LX Information and LX Tools in order to make, have manufactured, commercialize, sell and otherwise dispose of 8x8 LX Chips and 8x8 software. The license granted herein includes any patents, trade secrets, copyrights or other intellectual property owned by ST or its Affiliates now or in the future applicable to the LX Technology, LX Information and LX Tools provided that any license or delivery of technology is only to the extent ST is legally entitled to grant rights thereto to 8x8 hereunder.
  - A. 8x8 shall have the rights to choose, at its sole discretion, at which foundry to manufacture the 8x8 LX Chips, provided that ST shall first be offered an opportunity to meet or beat all terms and conditions offered by 8x8's chosen foundry vendor including but not limited to such terms as unit pricing, tooling, capacity allocation, prototype and production delivery, quality and reliability.
    - I. 8x8 shall present to ST a request for quotation ("RFQ") that contains sufficient information with which ST can provide a quotation to 8x8 including any relevant competitive terms and conditions, without violating any existing Non Disclosure Agreements in affect between 8x8 and a 3<sup>rd</sup> party. ST will provide 8x8 with a quotation within a reasonable timeframe as mutually agreed to between the parties. If such ST quotation does not meet competitive terms and conditions or is not received by 8x8 in a timely manner , 8x8 can choose, at its sole discretion, to build the 8x8 LX Chips at alternative, non-ST foundry of its choice.
    - II. If ST does respond to the RFQ in a timely manner and with competitive terms, 8x8 may at its own discretion, still choose to manufacture the 8x8 LX Chip at another foundry. However, 8x8 will ensure that at least 80% of the annual unit volume that it purchases of such an 8x8 LX Chip is manufactured or sourced through ST provided that ST maintains competitive terms and conditions.
    - III. 8x8 acknowledges that ST may subcontract some or all of the manufacturing of the 8x8 LX Chips to an external, third party foundry. Accordingly, design package information provided by 8x8 to ST for the manufacture of the 8x8 LX Chips may be, at 8x8's sole discretion, targeted towards the appropriate third party foundry process.
  - B. Subject to the terms and conditions of this Agreement and in addition to the rights granted in Section 3 above, ST hereby grants to 8x8 the right to grant to 8x8's 8x8 LX Chip customers a non-exclusive, non-assignable, non-transferable sublicense to use the 8x8 LX Chips to develop, make, have manufactured, commercialize, sell or otherwise dispose of board, subsystem or system level products that contain the 8x8 LX Chip.
4. **LX Royalty** . In return for the license described in Item 3, 8x8 will pay ST a royalty of \$0.25 for each of the first five (5) million, \$0.15 for each of the units between five (5) and ten (10) million, and \$0.10 for each unit above ten (10) million 8x8 LX Chips not

manufactured by ST or sourced through ST that 8x8 sells either as a semiconductor product or incorporated in a system.

5. **ST MPEG4 Code.** Subject to the terms and conditions herein, ST is to provide 8x8 with its existing DIV-X MPEG4 firmware ported for execution on the LX in source and object code form ("MPEG4 Code") as it exists upon delivery and any documentation relating to the MPEG4 Code to the extent presently available and in its existing form. Specifically excluded from the license granted hereunder are any future developments, enhancements, maintenance or any other technology developed relative to MPEG1, 2,4 or MPEG standards that are unrelated to the MPEG4 Code as of the Effective Date.
6. **ST MPEG4 License.** Subject to the terms and conditions of this Agreement, ST hereby grants to 8x8 a royalty free, nonexclusive, nontransferable, non-assignable world-wide license to use, operate, copy and modify the MPEG4 Code in order to make, have manufactured, commercialize, sell and otherwise dispose of 8x8 LX Chips bundled with the MPEG4 Code or derivatives thereof provided by ST hereunder or developed by 8x8 hereunder, provided that nothing herein entitles 8x8 to distribute the MPEG4 Code except in object code form only. The license granted herein includes any patents, trade secrets, copyrights or other intellectual property owned by ST now or in the future applicable to the MPEG4 Code, provided that any license or delivery of technology is only to the extent ST is legally entitled to grant rights thereto to 8x8 hereunder.
  - A. Subject to the terms and conditions of this Agreement and in addition to the rights granted in Section 6 above, ST hereby grants to 8x8 the right to grant to 8x8's 8x8 LX Chip customers a non-exclusive, non-assignable, non-transferable sublicense to use the MPEG4 Code to develop, make, have manufactured, commercialize, sell or otherwise dispose of products that contain the MPEG4 Code as bundled with the 8x8 LX Chips and in object code form only.
7. **8x8 Code.** Subject to the terms and conditions herein, 8x8 is to provide ST with its H.263 and future H26L video codec firmware ported for execution on the LX Technology (including, if any, H.263 or H.26L codec firmware targeted for operation on a system host processor in conjunction with the LX Technology) in source and object code form ("8x8 Code") as it exists upon delivery and any documentation relating to the 8x8 Code to the extent presently available and in its existing form. The parties understand and agree that the H26L video codec firmware as referred to hereunder means the Joint Model Number 1 video compression recommendation resulting from the work of the Joint Video Team formed by ITU-T SG16 Q.6 (VCEG) and ISO/IEC JTC 1/SC 29/WG 11 (MPEG).
8. **8x8 License.** Subject to the terms and conditions of this Agreement, 8x8 hereby grants to ST a nonexclusive, nontransferable, non-assignable world-wide license to use, operate, copy and modify the 8x8 Code in order to make, have manufactured, commercialize, sell and otherwise dispose of ST semiconductor products bundled with the 8x8 Code or derivatives thereof ("ST Chip"), provided that nothing herein entitles ST to distribute the 8x8 Code except in object code form only. The license granted herein includes any patents, trade secrets, copyrights or other intellectual property owned by 8x8 now or in the future applicable to the 8x8 Code, provided that any license or delivery of technology is only to the extent 8x8 is legally entitled to grant rights thereto to ST hereunder.
  - A. Subject to the terms and conditions of this Agreement and in addition to the rights granted in Section 8 above, 8x8 hereby grants to ST the right to grant to ST's ST Chip customers a non-exclusive, non-assignable, non-transferable sublicense to use the 8x8 Code to develop, make, have manufactured, commercialize, sell or otherwise dispose of products that contain the 8x8 Code as bundled with the ST Chips and in object code form only.
9. **Third Party Technology.** Specifically excluded from the licenses granted hereunder are any developments, enhancements, maintenance or any other technology received by the licensor from third parties unless such third party has allowed the licensor to pass on such enhancements to the licensor's other licensees.
10. **Custom Development.** Specifically excluded from the licenses granted hereunder are any developments, enhancements, maintenance or any other technology developed by the licensor for a third party unless such third party has allowed the licensor to pass on such enhancements to licensor's other licensees.
11. **8x8 Code Royalty .** In return for the license described in Item 8, ST will pay 8x8 a royalty according to the below schedule for each ST Chip it sells with which the 8x8 Code is expressly sublicensed or supplied by ST to ST customers.

Volume	Royalty Per Unit
Initial 4,500,000 ST Chips bundled with the H.263 based 8x8 Code	\$0.10
Initial 4,500,000 ST Chips bundled with the H.26L based 8x8 Code	\$0.10

12. Subject to the terms of this Agreement, in the event the 8x8 Code or any derivatives of the MPEG4 code practices patents, patent applications, including with respect to patents any patent rights granted upon any reissue, division, continuation or continuation-in-part applications now or hereafter filed ("Patents") by ST , ST agrees that it will not assert these Patents against 8x8 for 8x8's making, using, and/or selling of the 8x8 Code. In any event this non-assert clause applies only in favor of 8x8 and 8x8 customers, and does not cover any third parties or partners of 8x8. NOTWITHSTANDING ANYTHING TO THE CONTRARY, This non-assert clause is non-transferable, not assignable and will automatically terminate in the event of a change of control of 8X8. For purposes of this section, a change of control shall mean one transaction or a series of related transactions that results in a change of control through direct or indirect ownership of fifty percent (50%) or more of the outstanding shares of stock entitled to vote for the election of directors (other than restricted shares of stock).
13. Subject to the terms of this Agreement, in the event the LX Technology, the MPEG4 Code, or any derivatives of the 8x8 Code practices patents, patent applications, including with respect to patents any patent rights granted upon any reissue, division, continuation or continuation-in-part applications now or hereafter filed ("Patents") by 8x8 , 8x8 agrees that it will not assert these Patents against ST for ST's making, using, or selling the LX Technology, the MPEG4 Code, or any derivatives of the 8x8 Code. In any event this non-assert clause applies only in favor of ST and ST customers and does not cover any third parties or partners of ST. NOTWITHSTANDING

ANYTHING TO THE CONTRARY, This non-assert clause is NON-Transferable, not assignable and will automatically terminate in the event of a change of control of ST. For purposes of this section, a change of control shall mean one transaction or a series of related transactions that results in a change of control through direct or indirect ownership of fifty percent (50%) or more of the outstanding shares of stock entitled to vote for the election of directors (other than restricted shares of stock).

14. All royalties payable hereunder will be due within 30 days of the end of each of the payee's fiscal quarters in which applicable product was shipped. Each party is entitled to audit the other party's records through an independent auditor. Either party shall have the right for representatives of a firm of independent accountants who shall have signed an appropriate non disclosure agreement, to which the other party shall not unreasonably object ("Auditors"), to make an examination and audit, by prior appointment agreed between the Parties, such agreement not to be unreasonably withheld, during normal business hours, not more frequently than once annually during the time that a party is required to make royalty payments to the other party hereunder and for one year thereafter, of all records and accounts as may under recognized accounting practices contain information bearing upon the royalties revenue and the number of products sold by either party under this Agreement. The Auditors will report to the auditing party only upon whether the royalties paid to it by the audited party were or were not correct, and if incorrect, what are the correct amounts for the royalties. The audited party shall be supplied with a copy of or sufficient extracts from any report prepared by the Auditors. Such audit shall be at the auditing party's expense unless it reveals an underpayment of royalties of five percent (5%) or more in which case the audited party shall reimburse the auditing party for the costs of such audit, plus interest of 12% per annum on the deficiency from the time the royalty was due until paid.
  - A. Concurrent with each royalty payment either party makes hereunder, the paying party shall provide an explanation, as mutually agreed to, of how the payment amount was calculated.
15. **Development Schedule.** ST will employ commercially reasonable efforts to deliver the LX Tools, the LX Technology and the MPEG4 Code (together "ST Technology") within one (1) month of the Effective Date. 8x8 will employ commercially reasonable efforts to deliver the initial 8x8 Code within nine (9) months from receipt of the LX Tools and the LX Technology.
16. **Tool Updates.** ST will provide 8x8 with updates and enhancements to the LX Tools developed by ST, including but not limited to the new tool chain that ST is developing that is expected to be available at the end of 2002 and any documentation as they become available for the term of this Agreement. Upon delivery, such updates and enhancements shall become part of the LX Tools as defined herein.
17. **Update and Enhancement Sharing.** ST and 8x8 will share with each other where the creating party has the legal ability to disclose, such updates and enhancements either party makes to the LX Technology, MPEG4 Code and 8x8 Code ("Enhancements") as those terms are defined herein as they become available for a period of two (2) years from the Effective Date or two (2) years from the date on which a new, major version of the relevant technology is made available whichever is later. For purposes of this agreement, the meaning of a new, major version shall be mutually agreed to but would be considered , but not limited to , for the LX Technology the initial delivery and any new version of the LX core provided hereunder and for the 8X8 Code the H263 codec or new H26L codec. After that time, Enhancement sharing is to continue unless either party indicates an interest in discontinuing to share such Enhancements at which time the parties will exchange the latest updates and no further Enhancements will be shared. Upon delivery such Enhancements will become part of the relevant LX Technology, MPEG4 Code or 8x8 Code as those terms are defined herein.
18. **Future Developments.** The parties understand that availability of the H26L based 8x8 Code assumes implementation of a mutually agreed to version of the LX Technology capable of executing the H.26L based 8x8 Code and ratification and acceptance of the relevant standard currently known as the Joint Video Team (JVT) initiative. ST and 8X8 agree to negotiate in good faith on a case-by-case basis the terms and conditions under which such a license may be provided for future cores and future codecs.
19. **Technical Support.** Each party will provide the other with sufficient applications engineering level technical support necessary to commercialize products based on the licensed technology for as long as the parties continue to share enhancements to the licensed technology.
20. **8x8 LX Chip Customers.** In the event that an 8x8 LX Chip customer wishes to license the LX Tools or the MPEG4 Code in source format, ST agrees to negotiate in good faith on a case-by-case basis the terms and conditions under which such a license may be provided.
21. **ST LX Customers.** In the event that an ST Chip customer wishes to license the 8x8 Code in source code form, 8x8 agrees to negotiate in good faith on a case by case basis the terms and conditions under which such a license may be provided.
22. **Representations and Warranties**
  - A. 8x8 represents and warrants to ST that (a) to the best of its knowledge as of the Effective Date it has full power and authority to enter into this Agreement, (b) to the best of its knowledge as of the Effective Date the terms and conditions of this Agreement, and 8x8's obligations hereunder, do not conflict with or violate any terms or conditions of any other agreement or commitment to which 8x8 is a signatory or by which it is bound, (c) to the best of its knowledge as of the Effective Date it owned or controlled the 8x8 Code that will be licensed and delivered to ST under this Agreement and (d) it will defend and indemnify ST against any third party claims arising out of or related to a breach of these warranties and representations.
  - B. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, 8x8 MAKES NO WARRANTIES OR CONDITIONS, EXPRESSED, STATUTORY, IMPLIED, OR OTHERWISE, WITH RESPECT TO THE 8x8 CODE LICENSED HEREUNDER, AND 8x8 HEREBY DISCLAIMS THE IMPLIED WARRANTIES AND CONDITIONS OF, SATISFACTORY QUALITY, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT THERETO.
  - C. ST represents and warrants to 8x8 that (a) to the best of its knowledge as of the Effective Date it has full power and authority to enter into this Agreement, (b) to the best of its knowledge as of the Effective Date the terms and conditions of this Agreement, and ST's obligations hereunder, do not conflict with or violate any terms or conditions of any other agreement or commitment to which ST is a signatory or by which it is bound, (c) to the best of its knowledge as of the Effective Date it owned or has authority to license the ST Technology that will be licensed and delivered to 8x8 under this Agreement and (d) it will defend and indemnify 8x8 against any third party claims arising out of or related to a breach of these warranties and representations.
  - D. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, ST MAKES NO WARRANTIES OR CONDITIONS, EXPRESSED, STATUTORY, IMPLIED, OR OTHERWISE, WITH RESPECT TO THE ST CODE LICENSED HEREUNDER, AND ST HEREBY DISCLAIMS THE IMPLIED WARRANTIES AND CONDITIONS OF, SATISFACTORY QUALITY, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT THERETO

### **23. 8x8 Indemnification**

- A. 8x8 shall indemnify and hold ST, their respective officers, directors, employees and agents (hereafter referred individually or collectively as "ST Indemnitees") harmless and shall pay all costs, damages, and reasonable attorneys' fees and expenses relating to ST Indemnitees defense resulting from any suit, claim, demand, or other action by a third party against ST Indemnitees based upon a finding that any 8x8 Code infringes the IP Rights of a third party ("ST Infringement Claim"), provided that: (i) ST gives written notice to 8x8 within ten (10) business days of notice of such ST Infringement Claim; (ii) ST allows 8x8 at its expense through attorneys of its own choice, to exclusively defend or control the defense of any ST Infringement Claim; and (iii) ST assists 8x8 in all reasonable aspects in such investigation and defense, and is reimbursed by 8x8 for all the reasonable costs incurred in collaborating in such investigation and defense. The foregoing indemnity obligations shall specifically not apply to any claim excluded under Section (b) below. If, as a result of a ST Infringement Claim, ST Indemnitees are enjoined from using the 8x8 Code, or selling ST Chips, 8x8 may in its sole discretion, (i) procure for ST Indemnitees the right to use the 8x8 Code under the same terms and conditions set forth in this Section or (ii) provide ST Indemnitees with modified 8x8 Code that is non-infringing while still meeting substantially the same functional specifications as the 8x8 Code.
- B. 8x8 shall have no obligation hereunder for any ST Infringement Claim which results from: (a) the combination of the 8x8 Code with other products; (b) the modification of the 8x8 Code by parties other than 8x8 (or not authorized by 8x8); (c) the Enhancements of the 8x8 Code by or for ST.
- C. THIS SECTION STATES THE ENTIRE LIABILITY OF 8x8 AND THE EXCLUSIVE REMEDY OF ST WITH RESPECT TO ANY AND ALL INFRINGEMENT CLAIMS. EXCEPT AS EXPRESSLY STATED IN THIS SECTION, ALL WARRANTIES OF NON-INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHTS ARE HEREBY DISCLAIMED BY 8x8.

### **24. ST Indemnification**

- A. ST shall indemnify and hold 8x8, their respective officers, directors, employees and agents (hereafter referred individually or collectively as "8x8 Indemnitees") harmless and shall pay all costs, damages, and reasonable attorneys' fees and expenses relating to 8x8 Indemnitees defense resulting from any suit, claim, demand, or other action by a third party against 8x8 Indemnitees based upon a finding that any ST Technology infringes the IP Rights of a third party ("8x8 Infringement Claim"), provided that: (i) 8x8 gives written notice to ST within ten (10) business days of notice of such 8x8 Infringement Claim; (ii) 8x8 allows ST at its expense through attorneys of its own choice, to exclusively defend or control the defense of any 8x8 Infringement Claim; and (iii) 8x8 assists ST in all reasonable aspects in such investigation and defense, and is reimbursed by ST for all the reasonable costs incurred in collaborating in such investigation and defense. The foregoing indemnity obligations shall specifically not apply to any claim excluded under Section (b) below. If, as a result of a 8x8 Infringement Claim, 8x8 Indemnitees are enjoined from using the ST Technology, or selling 8x8 LX Chips, ST may in its sole discretion, (i) procure for 8x8 Indemnitees the right to use the ST Technology under the same terms and conditions set forth in this Section or (ii) provide 8x8 Indemnitees with modified ST Technology that is non-infringing while still meeting substantially the same functional specifications as the ST Technology.
- B. ST shall have no obligation hereunder for any 8x8 Infringement Claim which results from: (a) the combination of the ST Technology with other products ; (b) the modification of the ST Technology by parties other than ST (or not authorized by ST); (c) the Enhancements of the ST Technology by or for 8x8.
- C. THIS SECTION STATES THE ENTIRE LIABILITY OF ST AND THE EXCLUSIVE REMEDY OF 8x8 WITH RESPECT TO ANY AND ALL INFRINGEMENT CLAIMS. EXCEPT AS EXPRESSLY STATED IN THIS SECTION, ALL WARRANTIES OF NON-INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHTS ARE HEREBY DISCLAIMED BY ST.

### **25. Term and Termination.**

- A. This Agreement shall become effective upon the Effective Date and shall continue for a period of five (5) years ("Term"), extended with additional one-year renewal periods should the parties agree in writing.
- B. This Agreement may be terminated by either party upon notice if the other party (i) breaches any material term or condition of this Agreement and fails to remedy the breach within thirty (30) days after being given notice thereof, or (ii) becomes the subject of any voluntary or involuntary proceeding under the applicable national or state bankruptcy or insolvency laws and such proceeding is not terminated within sixty (60) days of its commencement.
- C. In the event of termination of this Agreement for breach or bankruptcy as provided herein, the license rights of the non-terminated party pursuant to licenses granted hereunder shall survive such termination, and the license rights of the terminated party pursuant to the licenses granted hereunder shall survive only to the extent required to protect the interest of existing, committed customers of the terminated party, and in particular the terminated party shall have the right to (i) complete and sell or otherwise dispose of any work-in-progress existing in its manufacturing plants at the time of termination, (ii) sell and otherwise dispose of any relevant product in stock, (iii) complete any orders for relevant product existing at the time of termination and (iv) continue to provide technical support to its customers.
- D. Notwithstanding anything to the contrary herein, no expiration or termination of this Agreement shall diminish the rights of any customer who has purchased product to continue to use and/or sell or otherwise dispose of the same.
- E. Notwithstanding anything to the contrary herein, no expiration or termination of this Agreement shall relieve either party of its obligation to pay any sum due hereunder.
- F. The provisions of Sections 22, 23, 24, 25, 26, 27, and 30 shall survive any termination of this Agreement.
- G. Furthermore, unless terminated under Section 25(b) above, the provisions of Sections 3, 4, 6, 8 and 11 shall survive termination of this agreement to the extent that either party may, under the terms of this Agreement (i) complete any product development work-in-progress prior to the date of termination but not initiate any new product development effort using the technology licensed hereunder; (ii) continue to make, have manufactured, commercialize, sell or otherwise dispose of products subject to the licenses herein; and (iii) continue to sublicense the rights to its customers to develop, make, have manufactured, commercialize, sell or otherwise dispose of products that contain the technology subject to the licenses herein.

### **26. Confidentiality**

- A. For the purposes of this agreement, Confidential Information shall mean the terms of this Agreement as well as any proprietary



information and data of either party, contained in written or tangible form which is marked as "Internal Use Only", "Proprietary", "Confidential", or similar words. One party's, including its Affiliates ("Disclosing Party") Confidential Information shall also include its confidential information and data orally disclosed to the other party including its Affiliates ("Receiving Party") as long as such verbal disclosures are marked as "Confidential" or similar wording within 30 days of the verbal disclosure. However, Confidential Information shall not include any data or information which :

- I. Is or becomes publicly available through no fault of the Receiving Party;
  - II. Is already in the rightful possession of the Receiving Party prior to its receipt of such data or information;
  - III. Is independently developed by the Receiving Party without reference to the Confidential Information of the Disclosing Party;
  - IV. Is rightfully obtained by the Receiving Party from a third party or in the public domain;
  - V. Is disclosed with the written consent of the Party whose information it is; or
  - VI. Is disclosed pursuant to court order or other legal compulsion, after providing prior written notice to the Disclosing Party of the intended disclosure.
- B. The Receiving Party shall and for a period of ten (10) years following receipt of the Confidential Information, hold all Confidential Information of the Disclosing Party in confidence, not disclose such Confidential Information to any third parties except those with a need to know in connection with or during the performance of this Agreement who have executed a confidentiality agreement with terms at least as restrictive with regard to the Disclosing Party's information as those set forth herein, and in general use the same degree of care to protect the confidentiality of the Disclosing Party's Confidential Information as it uses with respect to its own information of a similar nature.
- C. Neither 8x8 nor ST shall use the other party's Confidential Information for another or other purpose than for the purposes set forth in this Agreement.
- D. Except as otherwise provided in Section 25(a) above, upon termination of this Agreement all of the Disclosing Party's Confidential Information and all copies thereof in the Receiving Party's possession or control shall be immediately returned to the Disclosing Party or destroyed by the Receiving Party at the Disclosing Party's instruction. The Receiving Party shall then certify the same in writing and that no copies have been retained by the Receiving Party, its employees, Affiliates, contractors, or other parties to whom such information is provided.
- E. The Receiving Party acknowledges that the unauthorized disclosure of the Disclosing Party Confidential Information will cause irreparable harm and significant injury, the scope of which is difficult to ascertain. Accordingly, the Receiving Party agrees that the Disclosing Party shall have the right to an immediate injunction enjoining any such unauthorized disclosure.

#### **27. Limitation of Liability**

- A. EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER OR TO ANY THIRD PARTY FOR ANY SPECIAL, INDIRECT, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS), CAUSED BY ANY BREACH OF ITS OBLIGATIONS TO THE OTHER ARISING OUT OF OR RELATING TO THIS AGREEMENT, REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT OR IN TORT, EVEN IF THE BREACHING PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.
- B. IN NO EVENT SHALL THE TOTAL LIABILITY OF 8x8 TO ST ARISING UNDER SECTION 23 "INDEMNIFICATION" HEREOF EXCEED THE TOTAL AMOUNT PAID BY ST TO 8x8 WITH RESPECT TO THE 8X8 CODE CONTAINING THE IP RIGHTS SUBJECT MATTER OF THE CLAIM, PROVIDED THAT SUCH TOTAL AMOUNT SHALL NOT EXCEED THE LESSER OF THE AMOUNT OF ROYALTIES PAID BY ST TO 8x8 HEREUNDER OR FIVE HUNDRED THOUSAND U.S. DOLLARS (\$500,000).
- C. IN NO EVENT SHALL THE TOTAL LIABILITY OF ST TO 8x8 ARISING UNDER SECTION 24 "INDEMNIFICATION" HEREOF EXCEED THE TOTAL AMOUNT PAID BY 8x8 TO ST WITH RESPECT TO THE LX TECHNOLOGY CONTAINING THE IP RIGHTS SUBJECT MATTER OF THE CLAIM, PROVIDED THAT SUCH TOTAL AMOUNT SHALL NOT EXCEED THE LESSER OF THE AMOUNT OF ROYALTIES PAID BY 8X8 TO ST HEREUNDER OR FIVE HUNDRED THOUSAND U.S. DOLLARS (\$500,000).
- D. IN NO EVENT SHALL THE TOTAL LIABILITY OF EITHER PARTY TO THE OTHER PARTY FOR ANY LOSS, DAMAGE OR LIABILITY ARISING FROM A BREACH OF THIS AGREEMENT EXCEED THE LESSER OF THE SUM TOTAL OF THE ROYALTIES PAID BY THE NON-PAYING PARTY OR FIVE HUNDRED THOUSAND DOLLARS (\$500,000) PROVIDED (1) THAT SUCH LIMIT SHALL NOT APPLY IN THE EVENT OF A WILLFUL MISUSE OR WILLFULLY UNLAWFUL DISTRIBUTION OF THE TECHNOLOGY LICENSED HEREUNDER, AND (2) PROVIDED THAT SUCH LIMITATION SHALL NOT APPLY IN THE EVENT THAT EITHER PARTY FAILS TO PAY THE ROYALTIES DUE BY ONE PARTY TO THE OTHER AS SET FORTH HEREIN, NOTWITHSTANDING THE ABOVE LANGUAGE IN (2), THE TOTAL LIABILITY OWED IN A DISPUTE FOR ROYALTIES SHALL BE THE AMOUNT OF ROYALTIES OWED PLUS ANY INTEREST OWED UNDER SECTION 14.
- 28. Affiliates.** Both parties will be able to apply this agreement and the license herein to itself and its affiliate companies. Affiliate companies shall be defined to be an entity controlling, controlled by, or under common control as of the Effective Date or thereafter during the term of this Agreement, with ST or 8x8 as the case may be, provided that such entity shall be considered an Affiliate only for the time during which such control exists. For purposes of this definition "control" shall mean ownership or control, either directly or indirectly, of greater than 50% of the voting rights of such entity.
- 29. Public Announcements.** 8x8 and ST will use reasonable efforts to issue a mutually agreeable joint press release. Otherwise, neither party shall make any announcement or press release regarding this Agreement or any terms thereof without the other Party's prior written consent. However, either party is free to file with the SEC or other relevant government agencies any document required to be filed thereon advice of counsel (redacted in a form advised by counsel).
- 30. Assignment .** This Agreement may not be assigned by either party, nor any of such party's rights or obligations hereunder, to any third party including without limitation through a U.S. Bankruptcy Code Chapter 11 reorganization, without prior written consent of the other party. For purposes of this section, a change of control of a Party resulting from one transaction or a series of related transactions shall be deemed to result in an assignment or transfer of this Agreement. Control shall mean direct or indirect ownership or control of fifty

percent (50%) or more of the outstanding shares of stock entitled to vote for the election of directors (other than restricted shares of stock). In the event that this Agreement is assigned effectively to a third party, this Agreement shall bind upon successors and assigns of the Parties hereto.

31. **Force Majeure** . Neither party shall be liable to the other party for failure of or delay in performance of any obligation under this Agreement, directly or indirectly, owing to acts of God, war, war-like condition, embargoes, riots, strike and other events beyond its reasonable control. In the event that such failure or delay occurs, the affected party shall notify the other party of the occurrence thereof as soon as possible and the parties shall discuss the best way to resolve the event of force majeure.
32. **Notices** . All notices provided for in connection with this Agreement shall be given in writing and shall be effective (i) upon receipt, when served by personal delivery; or (ii) the next day following the date of transmittal when transmitted by facsimile; or (iii) on the third day following the date of transmittal when transmitted by express mail; or (iv) on the 7th day following the date of mailing when sent by registered airmail of the sender's country with postage prepaid, addressed to the Party as follows, or to a changed address as the Party shall have specified by prior written notice: ST: ST Microelectronics, Inc. at 1310 Electronics Drive Carrollton, TX 75006 USA. Attention: General Counsel; and 8x8: 8x8, Inc. 2445 Mission College Blvd. Santa Clara, California 95054 Attention: Chief Financial Officer.
33. **Waiver** . The waiver by either party of the remedy for the other party's breach of or its right under this Agreement will not constitute a waiver of the remedy for any other similar or subsequent breach or right.
34. **Severability**. If any provision of this Agreement is or becomes, at any time or for any reason, unenforceable or invalid, no other provision of this Agreement shall be affected thereby, and the remaining provisions of this Agreement shall continue with the same force and effect as if such unenforceable or invalid provisions had not been inserted in this Agreement.
35. **Amendment**. No changes, modifications or alterations to this Agreement shall be valid unless reduced to writing and duly signed by the respective authorized representative of each party.
36. **Governing Law**. This Agreement shall be interpreted, construed and enforced in accordance with the laws of the State of Delaware, USA without respect to its conflict of law provisions.
37. **No Partnership**. In giving effect to this Agreement, no party shall be or be deemed to be an agent or employee of another party for any purpose, and that their relationship to each other shall be that of independent contractors. Nothing in this Agreement shall constitute a partnership or a joint venture between the parties. No party shall have the right to enter into contracts or pledge the credit of or incur expenses or liability on behalf of the other party.
38. 8X8 acknowledges that in consideration of the licenses granted by ST herein, 8X8 agrees that for the Term of the Agreement the 8X8 LX Chips shall be restricted to applications that include audio telephony and/or video telephony functions unless otherwise specifically agreed to in writing between the parties. In the event that ST and 8x8 determine that 8x8 is attempting to sell the 8x8 LX Chips and ST is attempting to sell ST Chips to the same prospect or customer for the same application, the parties agree to negotiate in good faith to avoid confusing such a customer.
39. **Entire Agreement** . This Agreement constitute the entire agreement between the parties and supersede all prior proposal(s) and discussions relative to the subject matter of this Agreement and neither of the parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to the subject matter other than as expressly provided herein. The terms and conditions contained herein and the appendixes attached hereto constitute the entire agreement between the parties and shall supersede all previous communications either oral or written between the parties with respect to the subject matter hereof. No oral explanation or oral information by either party hereto shall alter the meaning or interpretation of this Agreement.

IN WITNESS THEREOF , the Parties hereto have executed this Agreement on the Effective Date.

For STMicroelectronics N.V.

For 8x8, Inc.

Name: Philippe Geyres

Name: Christopher Peters

Title: Corporate Vice President, G.M. CMG

Title: Corporate Development Officer

Signature: /s/ Philippe Geyres

Signature: /s/ Christopher Peters

Exhibit 10.22

## NETERGY MICROELECTRONICS, INC.

### 2000 STOCK OPTION PLAN

1. Purposes of the Plan . The purposes of this Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors 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.
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 hereof.
- 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 other country or jurisdiction where Options are granted under the Plan.
- C. "Board" means the Board of Directors of the Company.
- D. "Change in Control" means the occurrence of any of the following events:
- I. Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or
  - II. The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or
  - III. The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.
- E. "Code" means the Internal Revenue Code of 1986, as amended.
- F. "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 hereof.
- G. "Common Stock" means the Common Stock of the Company.
- H. "Company" means Netergy Microelectronics, Inc., a California corporation.
- I. "Consultant" means any natural person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity and who satisfies the requirements of subsection (c)(1) of Rule 701 under the Securities Act of 1933, as amended.
- J. "Director" means a member of the Board.
- K. "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.
- L. "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 (90) 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, then three (3) months following the 91st 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.
- M. "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- N. "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 on the day 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, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination; 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.

- O. "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.
- P. "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.
- Q. "Option" means a stock option granted pursuant to the Plan.
- R. "Option Agreement" means a written or electronic 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.
- S. "Optioned Stock" means the Common Stock subject to an Option.
- T. "Optionee" means the holder of an outstanding Option granted under the Plan.
- U. "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
- V. "Plan" means this 2000 Stock Option Plan.
- W. "Service Provider" means an Employee, Director or Consultant.
- X. "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 below.
- Y. "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 that may be subject to option and sold under the Plan is 5,000,000 Shares. 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). However, Shares that have actually been issued under the Plan, upon exercise of an Option, 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 issued pursuant to an Option 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. Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with 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, and subject to the approval of any relevant authorities, 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 may from time to time be granted hereunder;
  - III. to determine the number of Shares to be covered by each such Option granted hereunder;
  - IV. to approve forms of agreement for use under the Plan;
  - V. to determine the terms and conditions of any Option granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options 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 the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

- VI. 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 satisfying applicable foreign laws;
- VII. 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 that number of Shares having a Fair Market Value equal to the minimum 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 Optionees 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; and
- VIII. to construe and interpret the terms of the Plan and Options granted pursuant to the Plan.

C. Effect of Administrator's Decision . All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility . Nonstatutory Stock Options may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations .

A. Incentive Stock Option Limit . 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. At-Will Employment . Neither the Plan nor any Option shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause, and with or without notice.

7. Term of Plan . Subject to shareholder approval in accordance with Section 18, the Plan shall become effective upon its adoption by the Board. Unless sooner terminated under Section 14, it shall continue in effect for a term of ten (10) years from the later of (i) the effective date of the Plan, or (ii) the date of the most recent Board approval of an increase in the number of shares reserved for issuance under the Plan.

8. Term of Option . The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock 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 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 upon exercise of an Option shall be such price as is determined by the Administrator, 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 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 exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.
- B. granted to any other 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

- A. granted to a Service Provider who, at the time of 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 exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.
- B. granted to any other Service Provider, 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 other than as required above pursuant to a merger or other corporate transaction.

B. Forms of Consideration. 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). Such consideration may consist of, without limitation, (1) cash, (2) check, (3) promissory note, (4) other Shares, provided Shares acquired directly from the Company (x) 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 such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company. Notwithstanding the foregoing, the Administrator may permit an Optionee to exercise his or her Option by delivery of a full-recourse promissory note secured by the purchased Shares. The terms of such promissory note shall be determined by the Administrator in its sole discretion.

#### 10. Exercise of Option

A. Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Except in the case of Options granted to officers, Directors and Consultants, Options shall become exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted. Unless the Administrator provides otherwise, vesting of Options granted hereunder to officers and Directors shall be suspended 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 Shares, 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 12 of the Plan.

Exercise of an Option in any manner shall result in a decrease in 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, such Optionee may exercise his or her Option within thirty (30) days of termination, or such longer period of time as 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 the Option as set forth in the Option Agreement). 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 six (6) months of termination, or such longer period of time as 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). 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 six (6) months following Optionee's death, or such longer period of time as specified in the Option Agreement, to the extent that the Option is vested on the date of death (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement) by the Optionee's designated beneficiary, provided such beneficiary has been designated prior to Optionee's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Optionee, then such Option may be exercised by the personal representative of the Optionee's estate or by the person(s) to whom the Option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution. 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. 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.

11. Limited Transferability of Options. Unless determined otherwise by the Administrator, Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Optionee, only by the Optionee. If the Administrator in its sole discretion makes an Option transferable, such Option may only be transferred by (i) will, (ii) the laws of descent and distribution, (iii) instrument to an inter vivos or testamentary trust in which the Option is to be passed to beneficiaries upon the death of the Optionee, or (iv) gift to a member of Optionee's immediate family (as such term is defined in Rule 16a-1(e) of the Exchange Act). In addition, any transferable Option shall contain additional terms and conditions as the Administrator deems appropriate.
12. Adjustments Upon Changes in Capitalization, Merger or Change in Control.
  - A. Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number and type 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, and the number and type of Shares covered by each outstanding 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 or type 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 of Common Stock effected without receipt of consideration by the Company. The 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, type or price of Shares subject to an Option.
  - 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 fifteen (15) 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 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 will terminate immediately prior to the consummation of such proposed action.
  - C. Change in Control. In the event of a Change in Control, each outstanding option shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, an outstanding option shall not so accelerate if and to the extent the acceleration of such option is subject to other limitations imposed by the Administrator at the time of the option grant.

Immediately following the consummation of the Change in Control, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

The portion of any Incentive Stock Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Stock Option only to the extent the applicable One Hundred Thousand Dollar (\$100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Nonstatutory Stock Option under Federal tax laws.

The outstanding options shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

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 later date as is determined by the Administrator. Notice of the determination shall be given to each Service Provider 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 terminate the Plan.
  - B. Shareholder Approval. The Board 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.

15. Conditions Upon Issuance of Shares.

A. Legal Compliance. 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 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, the Administrator 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.

16. 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.

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

18. 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 degree and manner required under Applicable Laws.

19. Information to Optionees. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee has one or more Options outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

**NETERGY MICROELECTRONICS, INC**

**2000 STOCK OPTION PLAN**

**STOCK OPTION AGREEMENT**

Unless otherwise defined herein, the terms defined in the 2000 Stock Option Plan (the "Plan") shall have the same defined meanings in this Stock Option Agreement.

**I. NOTICE OF STOCK OPTION GRANT**

The undersigned Optionee has been granted an Option to purchase Common Stock of Netergy Microelectronics, Inc. (the "Company"), subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Name

Date of Grant

Vesting Commencement Date

Exercise Price per Share

Total Number of Shares Granted

Total Exercise Price

Type of Option

Incentive Stock Option



## Nonstatutory Stock Option

Term/Expiration Date

### Vesting Schedule and Limitations :

The Option shall become exercisable with respect to, (i) twenty-five percent (25%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and (ii) the balance of the Option Shares in a series of thirty-six (36) successive equal monthly installments, subject to Optionee continuing to be an Employee, over the thirty-six (36) month period measured from the first anniversary of the Vesting Commencement Date.

Following an assumption or substitution of the Option Shares in connection with a merger or Change in Control, if Optionee's status as an Employee of the Corporation or the successor corporation is terminated by the Corporation or successor corporation as a result of an "Involuntary Termination" (as defined below) within two (2) years following their merger or Change in Control, Optionee shall fully vest in and have the right to exercise the option as to all of the Option Shares, including shares which would not otherwise be vested or exercisable.

For this purpose, "Involuntary Termination" means (i) without Optionee's express written consent, a significant reduction of Optionee's duties, position or responsibilities, or the removal of such Optionee from such position and responsibilities, unless the Optionee is provided with a comparable position (i.e., a position of equal or greater organizational level, duties, authority, compensation and status) relative to Optionee's duties, position or responsibilities in effect immediately prior to such reduction; (ii) without Optionee's express written consent, a material reduction by the Corporation or successor corporation of Optionee's base salary as in effect immediately prior to such reduction; (iii) without Optionee's express written consent, a material reduction by the Corporation or successor corporation in the kind or level of employee benefits to which Optionee is entitled immediately prior to such reduction with the result that Optionee's overall benefits package is significantly reduced; (iv) without Optionee's express written consent, the relocation of Optionee to a facility or a location more than fifty (50) miles from his/her current location, or (v) any purported termination of Optionee other than for "Cause" (as defined below).

For this purpose, "Cause" means (i) any act of personal dishonesty taken by Optionee in connection with his or her responsibilities as an Employee of the Corporation or successor corporation which is intended to result in personal enrichment of Optionee, (ii) Optionee's conviction of a felony, (iii) any act by Optionee that constitutes material misconduct and is injurious to the Corporation or successor corporation, or (iv) continued violations by Optionee of Optionee's obligations to the Corporation or successor corporation.

### Termination Period :

This Option shall be exercisable for thirty (30) days after Optionee ceases to be an Employee. Upon Optionee's death or Disability, this Option may be exercised for one (1) year after Optionee ceases to be an Employee. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

## **II. AGREEMENT**

1. Grant of Option . The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 14(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

### 1. Exercise of Option .

- A. Right to Exercise . This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement.
- B. Method of Exercise . This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable Laws.

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.

1. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B.
2. Lock-Up Period. Optionee hereby agrees that Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of a registration statement of the Company filed under the Securities Act.

Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Optionee agrees that any transferee of any Option shall be bound by this Section.

3. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:
  - A. cash or check;
  - B. consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or
  - C. surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.
1. 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 Law.
2. 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 Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.
3. Term of Option. This Option may be exercised only within the term 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.
4. Tax Obligations.
  - A. Withholding Taxes. Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, local and foreign income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.
  - B. 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 (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, 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.

1. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

2. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS AN EMPLOYEE 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 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 FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS AN EMPLOYEE AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan 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 has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the 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 Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE	NETERGY MICROELECTRONICS, INC.
Signature	By
Print Name	Title
Residence Address	

**EXHIBIT A**

**2000 STOCK OPTION PLAN**

**EXERCISE NOTICE**

Netergy Microelectronics, Inc.

2445 Mission College Blvd.

Santa Clara, CA 95054

Attention: [\_\_\_\_\_]

1. Exercise of Option. Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of \_\_\_\_\_. (the "Company") under and pursuant to the 2000 Stock Option Plan (the "Plan") and the Stock Option Agreement dated \_\_\_\_\_, \_\_\_\_ (the "Option Agreement").
2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. Representations of Optionee . Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.
4. Rights as Shareholder . Until the issuance of the Shares (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 Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 12 of the Plan.
5. Company's Right of First Refusal . Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "Holder") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "Right of First Refusal").
  - A. Notice of Proposed Transfer . The Holder of the Shares shall deliver to the Company a written notice (the "Notice") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("Proposed Transferee"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "Offered Price"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).
  - B. Exercise of Right of First Refusal . At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.
  - C. Purchase Price . The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non- cash consideration shall be determined by the Board of Directors of the Company in good faith.
  - D. Payment . Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within thirty (30) days after receipt of the Notice or in the manner and at the times set forth in the Notice.
  - E. Holder's Right to Transfer . If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.
  - F. Exception for Certain Family Transfers . Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.
  - G. Termination of Right of First Refusal . The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) the first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.
6. Tax Consultation . 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 consultants 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.
7. Restrictive Legends and Stop-Transfer Orders .
  - A. Legends . Optionee understands and agrees that the Company shall cause the legends set forth below or legends

substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COMPANY COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

- B. Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.
- C. Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.
8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.
9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.
10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws but not the choice of law rules, of California.
11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:	Accepted by:
OPTIONEE	NETERGY MICROELECTRONICS, INC.
Signature	By
Print Name	Title
Address	Address: 2445 Mission College Blvd Santa Clara, CA 95054
	Date Received

-

**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE:

COMPANY: NETERGY MICROELECTRONICS, INC.

SECURITY: COMMON STOCK

AMOUNT:

DATE:

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

- A. Optionee 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. Optionee is acquiring these Securities for investment for Optionee'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. Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further 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. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.
- C. Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than two years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

- D. Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances

can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

Date:

Exhibit 10.23

## CENTILE, INC.

### 2001 STOCK OPTION PLAN

1. Purposes of the Plan . The purposes of this Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors 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.
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 hereof.
  - 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 other country or jurisdiction where Options are granted under the Plan.
  - C. "Board" means the Board of Directors of the Company.
  - D. "Change in Control" means the occurrence of any of the following events:
    - I. Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities; or
    - II. The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or
    - III. The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.
  - E. "Code" means the Internal Revenue Code of 1986, as amended.
  - F. "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 hereof.
  - G. "Common Stock" means the Common Stock of the Company.
  - H. "Company" means Centile, Inc., a Delaware corporation.
  - I. "Consultant" means any natural person who is engaged by the Company or any Parent or Subsidiary to render

consulting or advisory services to such entity and who satisfies the requirements of subsection (c)(1) of Rule 701 under the Securities Act of 1933, as amended.

- J. "Director" means a member of the Board.
  - K. "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.
  - L. "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 (90) 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, then three (3) months following the 91st 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.
  - M. "Exchange Act" means the Securities Exchange Act of 1934, as amended.
  - N. "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 on the day 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, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination; 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.
  - O. "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.
  - P. "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.
  - Q. "Option" means a stock option granted pursuant to the Plan.
  - R. "Option Agreement" means a written or electronic 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.
  - S. "Optioned Stock" means the Common Stock subject to an Option.
  - T. "Optionee" means the holder of an outstanding Option granted under the Plan.
  - U. "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.
  - V. "Plan" means this 2001 Stock Option Plan.
  - W. "Service Provider" means an Employee, Director or Consultant.
  - X. "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 below.
  - Y. "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 that may be subject to option and sold under the Plan is 4,500,000 Shares. 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). However, Shares that have actually been issued under the Plan, upon exercise of an Option, 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 issued pursuant to an Option 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. Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with 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, and subject to the approval of any relevant authorities, 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 may from time to time be granted hereunder;
- III. to determine the number of Shares to be covered by each such Option granted hereunder;
- IV. to approve forms of agreement for use under the Plan;
- V. to determine the terms and conditions of any Option granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options 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 the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;
- VI. 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 satisfying applicable foreign laws;
- VII. 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 that number of Shares having a Fair Market Value equal to the minimum 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 Optionees 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; and
- VIII. to construe and interpret the terms of the Plan and Options granted pursuant to the Plan.

C. Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility. Nonstatutory Stock Options may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

### 6. Limitations.

A. Incentive Stock Option Limit. 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. At-Will Employment. Neither the Plan nor any Option shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause, and with or without notice.

7. Term of Plan. Subject to shareholder approval in accordance with Section 18, the Plan shall become effective upon its adoption by the Board. Unless sooner terminated under Section 14, it shall continue in effect for a term of ten (10) years from the later of

(i) the effective date of the Plan, or (ii) the date of the most recent Board approval of an increase in the number of shares reserved for issuance under the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock 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 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 upon exercise of an Option shall be such price as is determined by the Administrator, 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 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 exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.
- B. granted to any other 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

- A. granted to a Service Provider who, at the time of 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 exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.
- B. granted to any other Service Provider, 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 other than as required above pursuant to a merger or other corporate transaction.

B. Forms of Consideration. 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). Such consideration may consist of, without limitation, (1) cash, (2) check, (3) promissory note, (4) other Shares, provided Shares acquired directly from the Company (x) 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 such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company. Notwithstanding the foregoing, the Administrator may permit an Optionee to exercise his or her Option by delivery of a full-recourse promissory note secured by the purchased Shares. The terms of such promissory note shall be determined by the Administrator in its sole discretion.

10. Exercise of Option.

A. Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Except in the case of Options granted to officers, Directors and Consultants, Options shall become exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted. Unless the Administrator provides otherwise, vesting of Options granted hereunder to officers and Directors shall be suspended 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 Shares, 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 12 of the Plan.

Exercise of an Option in any manner shall result in a decrease in 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, such Optionee may exercise his or her Option within thirty (30) days of termination, or such longer period of time as 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 the Option as set forth in the Option Agreement). 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 six (6) months of termination, or such longer period of time as 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). 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 six (6) months following Optionee's death, or such longer period of time as specified in the Option Agreement, to the extent that the Option is vested on the date of death (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement) by the Optionee's designated beneficiary, provided such beneficiary has been designated prior to Optionee's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Optionee, then such Option may be exercised by the personal representative of the Optionee's estate or by the person(s) to whom the Option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution. 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. 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.

11. Limited Transferability of Options. Unless determined otherwise by the Administrator, Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Optionee, only by the Optionee. If the Administrator in its sole discretion makes an Option transferable, such Option may only be transferred by (i) will, (ii) the laws of descent and distribution, (iii) instrument to an inter vivos or testamentary trust in which the Option is to be passed to beneficiaries upon the death of the Optionee, or (iv) gift to a member of Optionee's immediate family (as such term is defined in Rule 16a-1(e) of the Exchange Act). In addition, any transferable Option shall contain additional terms and conditions as the Administrator deems appropriate.

12. Adjustments Upon Changes in Capitalization, Merger or Change in Control.

A. Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number and type 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, and the number and type of Shares covered by each outstanding 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 or type 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 of Common Stock effected without receipt of consideration by the Company. The 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, type or price of Shares subject to an Option.

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 fifteen (15) 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 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 will terminate immediately prior to the consummation of such proposed action.

- C. Change in Control. In the event of a Change in Control, each outstanding option shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, an outstanding option shall not so accelerate if and to the extent the acceleration of such option is subject to other limitations imposed by the Administrator at the time of the option grant.

Immediately following the consummation of the Change in Control, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

The portion of any Incentive Stock Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Stock Option only to the extent the applicable One Hundred Thousand Dollar (\$100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Nonstatutory Stock Option under Federal tax laws.

The outstanding options shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

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 later date as is determined by the Administrator. Notice of the determination shall be given to each Service Provider 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 terminate the Plan.
- B. Shareholder Approval. The Board 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.
15. Conditions Upon Issuance of Shares.
- A. Legal Compliance. 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 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, the Administrator 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.
16. 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.
17. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.
18. 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 degree and manner required under Applicable Laws.
19. Information to Optionees. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee has one or more Options outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of

annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

**CENTILE, INC**

**2001 STOCK OPTION PLAN**

**STOCK OPTION AGREEMENT**

Unless otherwise defined herein, the terms defined in the 2001 Stock Option Plan (the "Plan") shall have the same defined meanings in this Stock Option Agreement.

**I. NOTICE OF STOCK OPTION GRANT**

The undersigned Optionee has been granted an Option to purchase Common Stock of Centile, Inc. (the "Company"), subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Name	
Date of Grant	
Vesting Commencement Date	
Exercise Price per Share	
Total Number of Shares Granted	
Total Exercise Price	
Type of Option	Incentive Stock Option Nonstatutory Stock Option
Term/Expiration Date	

Vesting Schedule and Limitations :

The Option shall become exercisable with respect to, (i) twenty-five percent (25%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and (ii) the balance of the Option Shares in a series of thirty-six (36) successive equal monthly installments, subject to Optionee continuing to be an Employee, over the thirty-six (36) month period measured from the first anniversary of the Vesting Commencement Date.

Following an assumption or substitution of the Option Shares in connection with a merger or Change in Control, if Optionee's status as an Employee of the Corporation or the successor corporation is terminated by the Corporation or successor corporation as a result of an "Involuntary Termination" (as defined below) within two (2) years following their merger or Change in Control, Optionee shall fully vest in and have the right to exercise the option as to all of the Option Shares, including shares which would not otherwise be vested or exercisable.

For this purpose, "Involuntary Termination" means (i) without Optionee's express written consent, a significant reduction of Optionee's duties, position or responsibilities, or the removal of such Optionee from such position and responsibilities, unless the Optionee is provided with a comparable position (i.e., a position of equal or greater organizational level, duties, authority, compensation and status) relative to Optionee's duties, position or responsibilities in effect immediately prior to such reduction; (ii) without Optionee's express written consent, a material reduction by the Corporation or successor corporation of Optionee's base salary as in effect immediately prior to such reduction; (iii) without Optionee's express written consent, a material reduction by the Corporation or successor corporation in the kind or level of employee benefits to which Optionee is entitled immediately prior to such reduction with the result that Optionee's overall benefits package is significantly reduced; (iv) without Optionee's express written consent, the relocation of Optionee to a facility or a location more than fifty (50) miles from his/her current location, or (v) any purported termination of Optionee other than for "Cause" (as defined below).

For this purpose, "Cause" means (i) any act of personal dishonesty taken by Optionee in connection with his or her responsibilities as an Employee of the Corporation or successor corporation which is intended to result in personal enrichment of Optionee, (ii) Optionee's conviction of a felony, (iii) any act by Optionee that constitutes material misconduct and is injurious to the Corporation or successor corporation, or (iv) continued violations by Optionee of Optionee's obligations to the Corporation or successor corporation.

## Termination Period :

This Option shall be exercisable for thirty (30) days after Optionee ceases to be an Employee. Upon Optionee's death or Disability, this Option may be exercised for one (1) year after Optionee ceases to be an Employee. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

## **II. AGREEMENT**

1. Grant of Option . The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 14(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("NSO").

### 1. Exercise of Option .

- A. Right to Exercise . This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Option Agreement.
- B. Method of Exercise . This Option shall be exercisable by delivery of an exercise notice in the form attached as Exhibit A (the "Exercise Notice") which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable Laws. 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.

- 1. Optionee's Representations . In the event the Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B .
- 2. Lock-Up Period . Optionee hereby agrees that Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of a registration statement of the Company filed under the Securities Act.

Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Optionee agrees that any transferee of any Option shall be bound by this Section.

- 3. Method of Payment . Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:
  - A. cash or check;
  - B. consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

C. surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

1. 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 Law.

2. 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 Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

3. Term of Option. This Option may be exercised only within the term 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.

4. Tax Obligations.

A. Withholding Taxes. Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, local and foreign income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

B. 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 (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, 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.

1. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws but not the choice of law rules of California.

2. No Guarantee of Continued Service. OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS AN EMPLOYEE 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 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 FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS AN EMPLOYEE AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan 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 has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the 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 Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE

CENTILE, INC.

Signature

By

Print Name

Title

Residence Address

## **EXHIBIT A**

### **2001 STOCK OPTION PLAN**

#### **EXERCISE NOTICE**

Centile, Inc.

2445 Mission College Blvd.

Santa Clara, CA 95054

Attention: [\_\_\_\_\_]

1. Exercise of Option. Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of \_\_\_\_\_ (the "Company") under and pursuant to the 2001 Stock Option Plan (the "Plan") and the Stock Option Agreement dated \_\_\_\_\_, \_\_\_\_\_ (the "Option Agreement").
2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.
3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.
4. Rights as Shareholder. Until the issuance of the Shares (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 Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 12 of the Plan.
5. Company's Right of First Refusal. Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "Holder") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "Right of First Refusal").
  - A. Notice of Proposed Transfer. The Holder of the Shares shall deliver to the Company a written notice (the "Notice") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("Proposed Transferee"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "Offered Price"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).
  - B. Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.
  - C. Purchase Price. The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.
  - D. Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within thirty (30) days after receipt of the Notice or in the manner and at the times set forth in the Notice.



E. Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

F. Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

G. Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) the first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. 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 consultants 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.

7. Restrictive Legends and Stop-Transfer Orders.

A. Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COMPANY COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

B. Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

C. Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws but not the choice of law rules, of California.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:	Accepted by:
OPTIONEE	CENTILE, INC.
Signature	By
Print Name	Title
Address	Address: 2445 Mission College Blvd Santa Clara, CA 95054
	Date Received

**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE:

COMPANY: CENTILE, INC.

SECURITY: COMMON STOCK

AMOUNT:

DATE:

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

- A. Optionee 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. Optionee is acquiring these Securities for investment for Optionee'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. Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further 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. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

- C. Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than two years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

- D. Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

Date:

Exhibit 10.24

#### INVESTMENT AGREEMENT

This agreement is effective April 1, 2002 by and among 8x8, Inc. ("8x8") and Joe Parkinson, Chairman and an employee of 8x8 ("Employee").

1. **INVESTMENT POOL.** 8x8 will make available \$1 million (the "Initial Pool") of its funds to Employee for investment as he directs (though Bryan Martin, CEO and David Stoll, CFO, are also authorized to make transactions, though Employee then does not guarantee against loss below the Initial Pool in the event that they do; provided, however, that the CEO may require that Employee make any amounts available to 8x8 that the CEO deems necessary for the operation of the company or the investment pool without affecting Employee's guarantee against loss below the Initial Pool).
2. **GUARANTEE.** At the end of each calendar quarter, or upon termination of this agreement, Employee will personally replenish the Initial Pool to the extent that it has lost principal value below \$1M (but with a credit for any amounts withdrawn by 8x8) based on publicly available quotes in the determination of the CFO ("Replenishment Money"). Any subsequent increase in value over the Initial Pool will be returned to Employee at the end of subsequent calendar quarters, to the extent required to restore Employee's past Replenishment Money amounts.
3. **BONUS.** The Board of Directors of 8x8 intends (but is not obligated to do so), in its discretion, that 8x8 will pay Employee a bonus of 25% of the pre-tax net positive change in value of the investment pool at the end of each quarter, to the extent that such investment pool has exceeded the value at the beginning of the quarter, and net of any increase that is returned to Employee to restore Employee's past Replenishment Money amounts. It is anticipated that any salary paid Employee since the date that the Initial Pool ("Inception Date") is available for him to invest will reduce the amount of such bonus payable to Employee. To the extent that Employee has been paid full bonuses for gains in the pool and the pool subsequently declines at the end of a quarter compared to the beginning of the quarter, the Employee will restore (and pay back to 8x8) 25% of the loss in value for such quarter; provided that the Employee keeps what would otherwise be his salary (so there is no replenishment to the extent of salary earned, only the portion of bonus above salary). Whether the

bonus is paid or not, to the extent of the 25% of gains in each quarter, that amount of gains may be withdrawn from the pool and returned to 8x8 at the request of the CEO.

4. **AUTHORITY AND POOL ENDS.** The authority of Employee to enter into trades ends whenever the CEO in his discretion or Employee decides to terminate the arrangement. Then, all positions will be promptly liquidated, balances will be rectified according to paragraphs 2 and 3 above, and the funds returned to the bank account of 8x8 immediately.

Agreed:

8x8, Inc.

Joe Parkinson, Employee

By: /s/ Bryan Martin

/s/ Joe Parkinson

Bryan Martin, CEO

Joe Parkinson

EXHIBIT 21.1



### SUBSIDIARIES OF REGISTRANT

<b>Name</b>	<b>Jurisdiction of Incorporation</b>
3044007 Nova Scotia Company	Nova Scotia, Canada
3044869 Nova Scotia Company	Nova Scotia, Canada
Centile, Inc.	Delaware, USA
Netergy Microelectronics, Inc.	California, USA
Netergy Microelectronics, Ltd.	United Kingdom
Netergy Networks Canada Company	Nova Scotia, Canada
Netergy Networks Canada Holding Company	Delaware, USA
Odisei S.A.	France
UForce Holding Company	Delaware, USA
Visit, Inc.	California, USA

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EXHIBIT 23.1

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-32928, 333-32930, 333-32932, 333-49414, 333-80379 and 333-75402) and Form S-8 (Nos. 333-30943, 333-50519, 333-41594, 333-49410 and 333-66296) of 8x8, Inc. of our report dated April 29, 2002 relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

San Jose, California  
May 21, 2002

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**End of Filing**

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