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

FORM 10-Q

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

For the quarterly period ended September 30, 2003

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	**77-0142404**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

2445 Mission College Blvd.
Santa Clara, CA
(Address of Principal Executive Offices)

(408) 727-1885
(Registrant's Telephone Number, including Area Code)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

The number of shares of the Registrant's Common Stock outstanding as of October 23, 2003 was 30,847,084.

8x8, Inc.

FORM 10-Q
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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

8x8, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, unaudited)

	September 30, 2003	March 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,380	$ 3,371
Short-term investments	1,010	208
Accounts receivable, net	1,266	1,290
Inventory	198	352
Other current assets	635	595
Total current assets	5,489	5,816
Property and equipment, net	230	841
Intangibles and other assets	103	48
	$ 5,822	$ 6,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 433	$ 652
Accrued compensation	522	847
Accrued warranty	474	477
Deferred revenue	493	545
Other accrued liabilities	620	1,125
Income taxes payable	217	226
Total current liabilities	2,759	3,872
Commitments and contingencies (Notes 7 and 11)		
Contingently redeemable common stock	107	669
Stockholders' equity:		
Common stock	52	28
Additional paid-in capital	152,343	150,827
Deferred compensation	(7)	(12)
Accumulated deficit	(149,432)	(148,679)
Total stockholders' equity	2,956	2,164
	$ 5,822	$ 6,705

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

8x8, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts; unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Product revenues	$ 750	$ 1,301	$ 1,611	$ 2,675
License and other revenues	1,676	1,141	2,438	3,035
Total revenues	2,426	2,442	4,049	5,710
Cost of product revenues	544	702	907	1,307
Cost of license and other revenues	108	280	499	536
Total cost of revenues	652	982	1,406	1,843
Gross profit	1,774	1,460	2,643	3,867
Operating expenses:				
Research and development	656	2,078	1,700	4,470
Selling, general and administrative	1,229	1,852	2,495	4,035
Total operating expenses	1,885	3,930	4,195	8,505
Loss from operations	(111)	(2,470)	(1,552)	(4,638)
Other income, net	858	511	799	554
Net income (loss)	$ 747	$ (1,959)	$ (753)	$ (4,084)
Basic net income (loss) per share	$ 0.02	$ (0.07)	$ (0.03)	$ (0.14)
Diluted net income (loss) per share	$ 0.02	$ (0.07)	$ (0.03)	$ (0.14)
Shares used in basic share computation	30,069	28,387	30,054	28,316
Shares used in diluted share computation	31,213	28,387	30,054	28,316

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

8x8, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Six Months Ended September 30, 2003	Six Months Ended September 30, 2002
Cash flows from operating activities:		
Net loss	$ (753)	$ (4,084)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of business	(790)	--
Depreciation and amortization	469	959
Other	(45)	98
Changes in assets and liabilities, net of business sold	(55)	(949)
Net cash used in operating activities	(1,174)	(3,976)
Cash flows from investing activities:		
Purchases of property and equipment	(13)	(84)
Proceeds from sale of equipment	20	31
Short term investments -- trading activity, net	(802)	(77)
Net cash used in investing activities	(795)	(130)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	978	89
Net cash provided by financing activities	978	89
Net decrease in cash and cash equivalents	(991)	(4,017)
Cash and cash equivalents at the beginning of the period	3,371	12,422
Cash and cash equivalents at the end of the period	$ 2,380	$ 8,405

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

8x8, Inc.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

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 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. 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.

- Within the parent company, 8x8 offers the Packet8 voice and video communications service (Packet8) that enables broadband internet users to add digital voice and video communications services to their high-speed internet connection. In addition, 8x8 offers videophones for use on both traditional telephony networks and in conjunction with Packet8;

- 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, including the voice and video endpoints that are currently used by Packet8; and

- 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.

LIQUIDITY

The possibility that the Company will not be able to meet its obligations as and when they become due over the next twelve months raises substantial doubt about the Company’s ability to continue as a going concern. Accordingly, the Company has been pursuing, and will continue to pursue, among other things, the implementation of certain cost reduction strategies and the licensing or sale of its technologies or projects. Additionally, the Company plans to seek additional financing and evaluate financing alternatives during the next twelve months in order to meet its cash requirements for the next twelve months. 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. There is no assurance that the Company will be able to obtain financing on terms favorable to the Company, or at all. If the Company issues additional equity or convertible debt securities to raise funds, the ownership percentage of the Company’s existing stockholders would be reduced and they may experience significant dilution. 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. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In connection with efforts to improve its liquidity, in June 2003 Netergy entered into an agreement whereby it would license certain technology and sell certain assets and technology related to its next-generation video compression semiconductor product to a customer for cash. The closing of this transaction is subject to certain conditions beyond the Company’s control, including the buyer and STM Microelectronics NV (STM) entering into a license for a portion of the technology on which the semiconductor is based. The Company had previously licensed the technology from STM, and that license was not assignable. There can be no assurance that the transaction will close. Even if the transaction closes, additional cash resources may be necessary for the Company to sustain its operations.

2. BASIS OF PRESENTATION

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared on substantially the same basis as our annual financial statements for the fiscal year ended March 31, 2003. In the opinion of management, these financial statements reflect all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2003 and notes thereto included in the Company's fiscal 2003 Annual Report on Form 10-K. Certain prior period balances have been reclassified to conform to the current period presentation.

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

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 (loss) and income (loss) per share. If the Company had elected to recognize compensation costs based on the fair value at the date of grant of the awards, consistent with the provisions of SFAS No. 123, net income (loss) and income (loss) per share amounts would have been as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Net income (loss), as reported	$ 747	$ (1,959)	$ (753)	$ (4,084)
Add: Stock-based compensation expense included in reported net income	2	3	4	6
Deduct: Total stock-based compensation determined pursuant to SFAS No.123	(785)	(1,111)	(1,511)	(2,222)
Pro forma net income (loss)	$ (36)	$ (3,067)	$ (2,260)	$ (6,300)
Basic net income (loss) per share:				
As reported	$ 0.02	$ (0.07)	$ (0.03)	$ (0.14)
Pro forma	$ --	$ (0.10)	$ (0.08)	$ (0.21)
Diluted net income (loss) per share:				
As reported	$ 0.02	$ (0.07)	$ (0.03)	$ (0.14)
Pro forma	$ --	$ (0.10)	$ (0.08)	$ (0.21)

3. SALE OF CENTILE EUROPE S.A.

On July 1, 2003, Centile, Inc. sold its European subsidiary, Centile Europe SA (Centile Europe), to Sunleigh Investments Ltd., now Eurotel SAS (Eurotel), for a purchase price of 1,100,000 Euros or approximately $1,250,000. Eurotel acquired substantially all the assets and liabilities of the business, and the Company was obligated to pay certain liabilities incurred by Centile Europe prior to the closing date, which were not material. In addition, Eurotel received a non-exclusive license to Centile's IPBX technology, and also received exclusivity for the European market for one year subsequent to the closing date. Correspondingly, Eurotel agreed that Centile, Inc. would have exclusivity for the North American market for the same period. Under the acquisition agreement, Eurotel was obligated to pay the purchase price, net of amounts withheld for pre-closing obligations, in installments through December 31, 2003. The Company and Eurotel are currently engaged in a dispute over certain adjustments that Eurotel has made to the purchase price, but neither party has commenced arbitration or litigation proceedings. The Company recognized a gain on this transaction of $790,000 during the quarter ended September 30, 2003. In October 2003 the Company collected $460,000, which has been reflected in the gain computation, and will recognize any additional payments if and when collected. The additional $330,000 recognized was due to net liabilities assumed by Eurotel as part of the Centile Europe acquisition.

Revenues attributable to the operations of Centile Europe approximated $20,000 for the quarter ended June 30, 2003, and $446,000 for the year ended March 31, 2003. Operating losses attributable to the operations of Centile Europe approximated $400,000 for the quarter ended June 30, 2003, and $1.4 million for the year ended March 31, 2003. The Company continues to operate the Centile, Inc. business in the United States.

4. PRIVATE PLACEMENT

In July 2003, the Company completed a private placement of 2,260,000 shares of common stock at $0.434 (the average closing price for the five days prior to the sale) per share for aggregate net proceeds of $859,000. The investors also received warrants with terms of five years to purchase 2,260,000 shares at $0.60, 565,000 shares at $0.75 and 565,000 shares at $1.00. In addition, the investors were also granted certain preemptive rights that allow the investors to purchase additional shares of common stock from the Company, in proportion to their ownership percentage, to the extent that shares of the Company's common stock are issued in connection with financing activities.

5. SHORT-TERM INVESTMENTS

The Company's short-term investments primarily comprise publicly traded corporate equity securities. All short-term investments are held in the Company's name and are custodied with major financial institutions. The specific identification method is used to compute the gains and losses on equity securities. At September 30, 2003, all of the Company's short-term investments were classified as trading securities. Unrealized gains and losses on these investments are included in Other Income, net, in the condensed consolidated statements of operations.

In March 2002, 8x8's board of directors (the Board) authorized the Company to open securities trading accounts with two brokerage firms and make investments of up to $1.0 million on behalf of 8x8, Inc. as directed by our Chairman, Joe Parkinson, Chief Executive Officer, or Chief Financial Officer. 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. Since the formation of these accounts in 2002, neither the Company's Chief- Executive Officer nor Chief Financial Officers have made any trades in the investment accounts as these officers had not agreed to reimburse us for any losses incurred as a result of their trading activity. Mr. Parkinson did not have use of any of the investment account funds for his personal benefit. The funds have always been held in investment accounts in the Company's name and all benefits belong to 8x8. The Company invests in mutual funds, money market funds, and equity and debt securities and options of publicly traded corporations. The investment accounts are not used to trade in the Company's own stock. As part of the arrangement, the 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 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 8x8 and Mr. Parkinson. Under the arrangement, the Company is required to return to Mr. Parkinson the amount representing the increase in value of the investment account over $1.0 million to the extent required to restore replenishment payments made by Mr. Parkinson in prior quarters. Through March 31, 2003, Mr. Parkinson had made cumulative replenishment payments of approximately $137,000 to offset losses incurred. As of September 30, 2003, 8x8 had made replenishment payments to Mr. Parkinson of approximately $126,000 and had a payable of approximately $9,800 to Mr. Parkinson , which was paid in October 2003. After the Company made the $9,800 payment in October, all of the replenishment payments made by Mr. Parkinson during fiscal 2003 had been returned to him .

6. BALANCE SHEET DETAIL

	September 30, 2003	March 31, 2003
Inventory (in thousands):		
Raw materials and work-in-process	$ 177	$ 147
Finished goods	21	205
	$ 198	$ 352

7. 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. All of the warrants expired in December 2002.

Redemption of the Debentures and the Issuance of Contingently Redeemable Common Stock

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.

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 through December 2003, 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 Company was in compliance with the Maintenance Requirements at September 30, 2003 and classified the shares as contingently redeemable common stock due to the redemption rights described above. If the Company falls out of compliance, the potential redemption value of the remaining shares held by the lenders approximates $150,000 based on the market price of the Company’s common stock at September 30, 2003. 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.

8. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Net income (loss)..	$ 747	$ (1,959)	$ (753)	$ (4,084)
Denominator:				
Common Shares	30,069	28,387	30,054	28,316
Denominator for basic calculation	30,069	28,387	30,054	28,316
Employee stock options	404	--	--	--
Warrants	740	--	--	--
Denominator for Diluted Calculation	31,213	28,387	30,054	28,316
Net income (loss) per share:				
Basic...	$ 0.02	$ (0.07)	$ (0.03)	$ (0.14)
Diluted...	$ 0.02	$ (0.07)	$ (0.03)	$ (0.14)

Due to net losses incurred for the six month period ended September 30, 2003 and three and six month periods ended September 30, 2002, basic and diluted shares outstanding for each of the respective periods are the same. The following equity instruments were not included in the computations of net income (loss) per share because the effect on the calculations would be anti-dilutive (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Common stock options	6,634	9,789	7,889	9,789
Warrants..	--	701	3,390	701
	6,634	10,490	11,279	10,490

9. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), as defined, includes all changes in equity (net assets) during a period from non-owner sources. The difference between net income (loss) and comprehensive income (loss) is due primarily to unrealized gains and losses on short-term investments classified as available-for-sale and foreign currency translation adjustments. Comprehensive income (loss) for the three months ended September 30, 2003 and 2002 approximated net income (loss) for those periods. Comprehensive income (loss) for the six month periods ended June 30, 2003 and 2002, was as follows (in thousands):

	Six Months Ended September 30,	
	2003	2002
Net income (loss), as reported........................	$ (753)	$ (4,084)
Cumulative translation adjustment.................	--	7
Comprehensive income (loss)........................	$ (753)	$ (4,077)

10. SEGMENT REPORTING

The Company has three reportable segments: Packet8, Netergy, and Centile . 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 costs 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 Packet8 segment represents the business activities of the parent entity, 8x8, Inc. The results for the Packet8 segment principally reflect activities related to the Packet8 IP voice and video communications service, sale of videophones, unallocated corporate overhead expenses, and revenues and certain costs associated with discontinued product lines.
- The Netergy segment primarily reflects the activity associated with the sale and development of semiconductors, related software, and product reference designs focused on the IP telephony and videoconferencing markets. In addition, the Netergy segment includes revenue derived from the license of video monitoring technology to GE Interlogix, Inc. (formerly Interlogix, Inc.).
- The Centile segment reflects activity associated with the development and sale of its hosted iPBX solution, as well as media hub systems.

The following table illustrates results by segment (in thousands):

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Six Months Ended September 30, 2003	Six Months Ended September 30, 2002
Revenues				
Netergy	$ 2,158	$ 2,044	$ 3,565	$ 5,098
Centile	54	325	213	476
Packet8	214	73	271	136
Total revenues	$ 2,426	$ 2,442	$ 4,049	$ 5,710
Gross profit (loss)				
Netergy	$ 1,833	$ 1,140	$ 2,572	$ 3,424
Centile	38	285	166	369
Packet8	(97)	35	(95)	74
Total gross profit	$ 1,774	$ 1,460	$ 2,643	$ 3,867
Operating income (loss)				
Netergy	$ 1,289	$ (1,127)	$ 1,393	$ (1,662)
Centile	(326)	(508)	(863)	(1,276)
Packet8	(1,074)	(835)	(2,082)	(1,700)
Total operating loss	$ (111)	$ (2,470)	$ (1,552)	$ (4,638)
Net income (loss)				
Netergy	$ 1,292	$ (1,119)	$ 1,404	$ (1,569)
Centile	463	(513)	(135)	(1,346)
Packet8	(1,008)	(327)	(2,022)	(1,169)
Total net income (loss)	$ 747	$ (1,959)	$ (753)	$ (4,084)

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

11. COMMITMENTS AND CONTINGENCIES

Guaranties and Product Warranties

In the normal course of business, the Company indemnifies other parties, including customers, lessors and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from: i) a breach of representations or covenants or ii) out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors.

It is not possible to determine the maximum potential amount of the Company's exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on the Company's operating results or financial position.

The Company accrues for the estimated costs that may be incurred under its product warranties upon revenue recognition. Changes in the Company's product warranty liability during the quarter ended September 30, 2003 were not material.

Leases

At September 30, 2003, future minimum annual lease payments under noncancelable operating leases, net of estimated sublease income, were as follows (in thousands):

Year ending March 31:		
Remaining 2004	$	158
2005		213
2006		2
Total minimum payments	$	373

Legal Proceedings

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

12. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires financial instruments within its scope be classified as a liability (or an asset in some circumstances). Many of those financial instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31,2003. For financial instruments created before and still existing as of the issuance of this statement, a cumulative effect of change in accounting principle shall be reported upon implementation in the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on the Company's financial position or results of operations.

ITEM 2. 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 factors that could impact our gross margins; our cost estimates under contracts accounted for using the percentage of completion method; efforts to raise additional financing; 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 or we) develop and market telecommunication technology for IP telephony and video applications. We have three product lines: i) internet protocol telephone devices, videophones, and internet communication services; ii) voice and video semiconductors and related software; and iii) software that implements the functionality of a private branch exchange, or PBX, over data networks.

Our first product line includes consumer telephones, videophones, and communication software and services that work over broadband networks. 8x8 sells internet protocol telephony software and services that enable customers to provision and use voice and video communication services with IP telephones and videophones. The service is marketed under the brand name Packet8. 8x8 also sells videophones that work over normal phone lines.

We have 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.

On a going-forward basis, we will be devoting more of our resources to the promotion of our Packet8 voice and video communications service than to our Netergy semiconductor business and our Centile iPBX business. The Netergy semiconductor business has not provided sufficient revenues to operate profitably, and we have completed the end-of-life of our videoconferencing semiconductor products during the quarter ended June 30, 2003. During the first and second quarters of fiscal 2004, we also entered into agreements that will further reduce the VoIP operations of Netergy through the proposed license by Netergy and sale of certain assets relating to its VIP-1 semiconductor development effort to a customer and Netergy's non-exclusive license of its VoIP semiconductor and software technology to another customer. In addition, in July 2003, Centile sold its European subsidiary, Centile Europe S.A. and licensed, on a non-exclusive basis, its iPBX technology to the purchaser. During fiscal 2003 and 2002, Netergy's revenues represented approximately 88% and 91%, respectively, of consolidated revenues, and Centile's revenues represented approximately 8% and 2%, respectively, of consolidated revenues. Netergy and Centile are continuing operations and will continue to generate revenue in the future, although we expect the amounts to decrease, both on an absolute basis and as percentage of consolidated revenues.

RESULTS OF OPERATIONS

The following table sets forth condensed consolidated statements of operations data for the three and six month periods ended September 30, 2003 and 2002, respectively, expressed as a 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.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
Product revenues	31 %	53 %	40 %	47 %
License and other revenues	69 %	47 %	60 %	53 %
Total revenues	100 %	100 %	100 %	100 %
Cost of product revenues	73 %	54 %	56 %	49 %
Cost of license and other revenues	6 %	25 %	20 %	18 %
Total cost of revenues	27 %	40 %	35 %	32 %
Gross profit	73 %	60 %	65 %	68 %
Operating expenses:				
Research and development	27 %	85 %	41 %	78 %
Selling, general and administrative	51 %	76 %	62 %	71 %
Total operating expenses	78 %	161 %	103 %	149 %
Loss from operations	(5)%	(101)%	(38)%	(81)%
Other income, net	35 %	21 %	20 %	10 %
Net income (loss)	30 %	(80)%	(18)%	(71)%

The following discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto:

Revenues

Product revenues were $750,000 in the second quarter of fiscal 2004, a decrease of approximately $550,000 from the $1.3 million reported in the second quarter of fiscal 2003. Product revenues were $1.6 million for the six months ended September 30, 2003, a decrease of approximately $1.1 million from the $2.7 million for the six months ended September 30, 2002. The decreases in the three and six month periods ended September 30, 2003 as compared to the corresponding periods in the prior year was due primarily to a decline in sales of our videoconferencing semiconductors due to the end of life of those products and completion of final shipments of such products in the quarter ended June 30, 2003. We also experienced decreases in average selling prices (ASPs) and unit shipments of our IP telephony semiconductors.

Due to reduced demand and difficulties in ensuring supply, in July 2002, we announced the end of life of our existing videoconferencing semiconductor products, including VCP, VCPex, and LVP, that have historically generated substantially all of our videoconferencing semiconductor product revenues. We fulfilled all anticipated last time buy orders from customers for the aforementioned products, and product shipments were completed during the quarter ended June 30, 2003. Total videoconferencing semiconductor product revenues were zero and $520,000 for the three month and six month periods ended September 30, 2003, respectively, and $400,000 and $1.1 million for the three and six month periods ended September 30, 2002, respectively.

License and other revenues were $1.7 million in the second quarter of fiscal 2004, an increase of $600,000 as compared to $1.1 million for the second quarter of fiscal 2003. License and other revenues, 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, and revenue derived under contracts to perform development services. The increase of approximately $600,000 quarter over quarter was due to the following:

- A $1.4 million increase in license revenues related to Netergy's IP telephony technology, primarily attributable to a July 2003 license of the Audacity T2 and T2U semiconductor products and Veracity software to a single customer; and

- A $160,000 increase in revenues attributable to 8x8's Packet8 service.

This increase was offset by:

- A $429,000 decrease in license revenues associated with the sale of our video monitoring business in June 2000; all revenues associated with that transaction were recognized as of May 31, 2003;

- A decrease of approximately $285,000 in revenues recognized by Netergy under a contract to develop our next-generation video compression semiconductor product that is accounted for using the percentage of completion method. No revenues were recognized under this contract during the first quarter of fiscal 2004. Profit estimates on this contract are revised periodically based on changes in facts; any loss would be recognized immediately. We have recognized $140,000 of cumulative losses to date, and changes in our cost estimates could require us to recognize additional losses in future periods as the revenues under this contract are fixed. In connection with efforts to improve its liquidity, in June 2003 Netergy entered into an agreement whereby it would sell certain assets and license/sell certain technology related to its next-generation video compression semiconductor product for cash. The closing of this transaction is subject to certain conditions beyond the Company's control and there can be no assurance that the transaction will close; and

- A decrease of $230,000 in license and maintenance revenues associated with Centile's hosted iPBX product.

License and other revenues were $2. 4 million for the six months ended September 30, 2003, a decrease of $600,000 from the $3 million reported for the six months ended September 30, 2002, primarily due to the $429,000 reduction in revenues associated with the June 2000 sale of our video monitoring business.

Three customers represented more than 10% of our total revenues for the quarter ended September 30, 2003. These customers represented 55%, 11% and 11% of our total revenues, respectively. During the same period in the prior year four customers represented greater than 10% of our total revenues. Those percentages were 18%, 13%, 12% and 12%, respectively. Our revenue distribution by geographic region (based upon the destination of shipments) was as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
United States	12%	32%	22%	41%
Europe	74%	30%	59%	33%
Asia Pacific	14%	38%	19%	26%
	100%	100%	100%	100%

Cost of Revenues and Gross Profit

The cost of product revenues consists of costs associated with network operations, systems, 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 decreased to approximately $200,000 for the second quarter of fiscal 2004 from approximately $600,000 for the quarter ended September 30, 2002, and product gross margins decreased from 46% in the second quarter of fiscal 2003 to 27% in the second quarter of fiscal 2004. The decrease in product gross profit is primarily due to a decrease in units and product mix, as fiscal 2004 includes significantly less high margin video semiconductor sales. In addition, the decrease reflects the cost of DTA 310 media hubs shipped to Packet8 subscribers below cost as part of the initial sign-on program. In addition, the Company released approximately $72,000 of inventory reserves related to its VoIP semiconductor product and Centile systems products, as the Company sold this product during the second quarter of fiscal 2004. This reserve release was offset by an increase in 8x8 videophone reserves of approximately $67,000 during the second quarter of fiscal 2004.

Our product gross margin is affected by a number of factors including product mix, 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. 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. To respond to competitive pricing pressures, we may be required to introduce differentiated products and continue to reduce costs as a means of maintaining or improving our margins. We may not be successful in our development efforts or product cost reduction measures and may face continued erosion of margins.

Gross profit from license and other revenues, which were largely nonrecurring, was approximately $1.6 million and $900,000 in the second quarters of fiscal 2004 and 2003, respectively. Associated gross margins were 94% and 75% in the second quarters of fiscal 2004 and fiscal 2003, respectively. The increase in gross margin from fiscal 2003 to fiscal 2004 was due primarily to a reduction in costs incurred to perform development services under revenue generating contracts that were included in the Cost of License and Other Revenues line item in the condensed consolidated statements of operations. Gross margins associated with license and other revenues may be adversely impacted in the future if revenues derived from our existing contract to perform non-recurring engineering services associated with the development of our next-generation video compression semiconductor product increase as a percentage of total license and other revenues or if a change in our cost estimates requires us to recognize additional losses on this contract, as the revenues under this contract are fixed. We recognized cumulative losses on this contract through June 30, 2003 of approximately $140,000. As discussed elsewhere in this report, Netergy has entered into an agreement with the customer for this contract whereby it would sell certain assets and license/sell certain technology related to its next-generation video compression semiconductor product. Upon closing of such a transaction, the contract would terminate.

Gross profit from license and other revenues decreased to $1.9 million for the first six months of fiscal 2004 from $2.5 million for the first six months of fiscal 2003, a decrease of approximately $600,000. Gross margins were 80% and 82% for the first six months of fiscal 2004 and 2003, respectively. The decrease in gross profit and gross margin was primarily attributable to a decrease in royalty revenues received that was related to the final $750,000 payment received from a single customer of our MPEG video compression technology in the first quarter of fiscal 2003.

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 decreased by approximately $1.4 million in the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003, and decreased by approximately $2.8 million for the first six months of fiscal 2004 as compared to the first six months of fiscal 2003. The significant decrease in research and development expenses for the three and six month periods ended September 30, 2003 as compared to the comparable periods in the prior year was due to the following:

- The shift in engineering resources from research and development functions to revenue generating contracts; these costs were zero and $248,000 for the quarters ended September 30, 2003 and 2002, respectively, and $360,000 and $480,000 for the six months ended September 30, 2003 and 2002, respectively, and were included in cost of license and other revenue;
- Lower compensation costs due to a reduction in research and development personnel as compared to the comparable prior year periods;
- The closure of Netergy's office in the United Kingdom in the fourth quarter of fiscal 2003;
- The sale of Centile Europe SA on July 1, 2003;
- Lower depreciation expense due to the end of decpreciable life of assets; and
- Our overall efforts to reduce discretionary operating costs.

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 sales commissions, trade show, advertising and other marketing and promotional expenses. Selling, general and administrative expenses decreased by $623,000 in the second quarter of fiscal 2004 as compared to the same period in the prior year, and decreased by approximately $1.5 million for the six months ended September 30, 2003 as compared to the six months ended September 30, 2002. The decrease in selling, general and administrative expenses for the first quarter of fiscal 2004 was primarily attributable to:

- Lower compensation costs due to a reduction in sales, marketing and administrative personnel; and
- Lower financial reporting, legal, public relations, consulting, and recruiting expenditures resulting from our efforts to reduce discretionary operating costs.

The significant cost reductions were slightly offset by an increase in various sales and marketing expenses associated with our Packet8 voice and video communications service that was launched in November 2002.

Other Income, Net

Other income, net was $858,000 and $511,000 for the three month periods ended September 30, 2003 and 2002, respectively. The $347,000 increase in other income was primarily due to the recognition of a $790,000 gain on the sale of Centile Europe and a $23,000 unrealized gain on trading securities. These increases were offset by a $496,000 decrease in other income attributable to our former Canadian operations, primarily related to the collection of refundable tax credits in fiscal 2003, and decreases in interest income due to our lower average cash balances.

For the six month periods ended September 30, 2003 and 2002, other income, net was $799,000 and $554,000, respectively. The increase of $245,000 was primarily attributable to the reasons discussed above, offset by an increase in foreign exchange losses related to our international subsidiaries.

Provision for Income Taxes

There were no tax provisions recorded during the three and six month periods ended September 30, 2003 and 2002, due to year to date net losses incurred. In addition, no tax benefit has been recorded for any period presented, as we believe that, based on the history of our operating losses and other factors, the weight of available evidence indicates that it is more likely than not that we will not be able to realize the benefit of our net operating losses, and thus a full valuation reserve has been recorded against our deferred tax assets.

Related Party Transactions

During the fourth quarter of fiscal 2000, the Company sold 3.7 million shares of its common stock to STMicroelectronics NV at a purchase price of $7.50 per share and received net proceeds of $27.7 million. In June 2002, STMicroelectronics NV and subsidiaries (STM), an affiliate of the Company, acquired Alcatel Microelectronics NV (AME). AME, now a wholly owned subsidiary of STM, was a customer of Netergy and supplier of semiconductors. The Company now purchases semiconductors from STM. During the first six months of fiscal 2004, we purchased semiconductors from a subsidiary of STM, and such purchases approximated $39,000. In addition, during fiscal 2003 we contracted with a subsidiary of STM for non-recurring engineering services related to the development of our new semiconductor product. As of September 30, 2003, we had recorded liabilities to STM of approximately $88,000 for semiconductor purchase commitments.

In March 2002, the Board authorized us to open securities trading accounts with two brokerage firms and make investments of up to $1.0 million on behalf of 8x8, Inc. as directed by our Chairman, Joe Parkinson, Chief Executive Officer, or Chief Financial Officer. 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. Since the formation of these accounts in 2002, neither our chief executive officer nor chief financial officers have made any trades in the investment accounts as these officers had not agreed to reimburse us for any losses incurred as a result of their trading activity. Mr. Parkinson did not have use of any of the investment account funds for his personal benefit. The funds have always been held in investment accounts in our name and all benefits belong to us. We invest in mutual funds, money market funds, and equity and debt securities and options of publicly traded corporations. The investment accounts are not used to trade in our own stock. 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 between 8x8 and Mr. Parkinson. Under the arrangement, we are required to return to Mr. Parkinson the amount representing the increase in value of the investment account over $1.0 million to the extent required to restore replenishment payments made by Mr. Parkinson in prior quarters. Through March 31, 2003, Mr. Parkinson had made cumulative replenishment payments of approximately $137,000 to offset losses incurred. As of September 30, 2003we had made replenishment payments to Mr. Parkinson of approximately $126,000 and we had a payable of approximately $9,800 to Mr. Parkinson, which was paid in October 2003. After we made the $9,800 payment in October, all of the replenishment payments made by Mr. Parkinson during fiscal 2003 had been returned to him.

Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires financial instruments within its scope be classified as a liability (or an asset in some circumstances). Many of those financial instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31,2003. For financial instruments created before and still existing as of the issuance of this statement, a cumulative effect of change in accounting principle shall be reported upon implementation in the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material impact on our financial position or results of operations.

Liquidity and Capital Resources

As of September 30, 2003, we had cash and cash equivalents and short-term investments approximating $3.4 million, representing a decrease of approximately $200,000 from March 31, 2003, the end of our last fiscal year. We currently have no bank borrowing arrangements.

Cash used in operations of approximately $1.2 million for the first six months of fiscal 2004 was primarily attributable to the net loss of $753,000, adjusted for the $790,000 gain on the sale of Centile Europe and $469,000 of depreciation and amortization, and net cash used in changes in operating assets and liabilities of $55,000. Cash used in operations of approximately $4 million for the first six months of fiscal 2003 was primarily attributable to the net loss of $ 4.1 million, adjusted for $ 959,000 of depreciation and amortization and net cash used in changes in operating assets and liabilities of $ 949,000. Our negative operating cash flows primarily reflect our net losses resulting from the same factors affecting our revenues and expenses as described above. Cash used in investing activities in the six months ended September 30, 2003 was primarily attributable to net purchases of marketable equity securities and mutual funds of $802,000 and purchases of fixed assets of $13,000, offset by $20,000 of proceeds from the sale of fixed assets. Cash used in investing activities for the six months ended September 30, 2002 was attributable to net purchases of marketable equity securities of $77,000 and capital expenditures of $84,000, partially offset by proceeds from the sale of equipment of $31,000.

Cash provided by financing activities during the first six months of fiscal 2003 consisted primarily of $978,000 of proceeds resulting from the sale of common stock in a private placement transaction and to employees through our employee stock option and stock purchase plans. Cash provided by financing activities during the first six months of fiscal 2002 consisted primarily of $204,000 of proceeds resulting from the sale of common stock through our employee stock option and stock purchase plans.

As of September 30, 2003, our principal commitments consisted of obligations outstanding under noncancelable operating leases. At September 30, 2003, future minimum annual lease payments under noncancelable operating leases, net of sublease income, were as follows (in thousands):

Year ending March 31:	
Remaining 2004	$ 158
2005	213
2006	2
Total minimum payments	$ 373

As noted previously, we redeemed our convertible subordinated debentures in December 2001. The consideration included the issuance of 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 Securities and Exchange Commission 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 and results of operations. The Company was in compliance with the maintenance requirements at September 30, 2003 and classified the shares as contingently redeemable common stock in the condensed consolidated balance sheet due to the redemption rights described above. If the Company falls out of compliance, the potential redemption value of the remaining shares held by the lenders approximates $150,000 based on the market price of the Company’s common stock at September 30, 2003.

In July 2003, we completed a private placement of 2,260,000 shares of common stock at $0.434 (the average closing price for the five days prior to the sale) per share for aggregate net proceeds of $859,000. The investors also received warrants with terms of five years to purchase 2,260,000 shares at $0.60, 565,000 shares at $0.75 and 565,000 shares at $1.00. In addition, the investors were also granted certain preemptive rights that allow the investors to purchase additional shares of common stock from us, in proportion to their ownership percentage, to the extent that shares of our common stock are issued in connection with financing activities.

Based upon our current expectations, we believe that our current cash and cash equivalents and short-term investments, together with cash generated from operations, are not sufficient to satisfy our expected working capital and capital expenditure requirements for the next twelve months. The possibility that we will not be able to meet our obligations as and when they become due over the next twelve months raises substantial doubt about our ability to continue as a going concern. Accordingly, we have been pursuing, and will continue to pursue, the implementation of certain cost reduction strategies. Additionally, we plan to seek additional financing and evaluate financing alternatives during the next twelve months in order to meet our cash requirements for fiscal years 2004 and 2005. 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 and they may experience significant dilution. 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.

ITEM 3. 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 and our system product vendors are denominated in U.S. dollars. We have foreign subsidiaries and are exposed to market risk from changes in exchange rates. We have not entered into any currency hedging activities. To date, our exposure to exchange rate volatility has not been significant; however, there can be no assurance that there will not be a material impact in the future.

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 our 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, the Chief Executive Officer, or the Chief Financial Officer. 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. Since the formation of these accounts in 2002, neither our Chief Executive Officer nor Chief Financial Officers have made any trades in the investment accounts as these officers had not agreed to reimburse us for any losses incurred as a result of their trading activity. Mr. Parkinson did not have use of any of the investment account funds for his personal benefit. The funds have always been held in investment accounts in our name and all benefits belong to us. We invest in mutual funds, money market funds, and equity and debt securities and options of publicly traded corporations. The investment accounts are not used to trade in our own stock.

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 September 30, 2003, we had approximately $3.4 million in cash and cash equivalents and short-term investments. The possibility that we will not be able to meet our obligations as and when they become due over the next twelve months raises substantial doubt about our ability to continue as a going concern. Accordingly, we have been pursuing, and will continue to pursue, the implementation of certain cost reduction strategies. Additionally, we are seeking additional financing and evaluating financing alternatives in order to meet our cash requirements for fiscal 2004. 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 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 and they may experience significant dilution. 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 $ 1.6 million for the six months ended September 30, 2003 and we ended the period with an accumulated deficit of $149 million. In addition, we recorded operating losses of $12 million, $10 million and $74.5 million for the fiscal years ended March 31, 2003, 2002 and 2001, 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.

We may not be able to maintain our listing on the Nasdaq SmallCap Market

Our common stock trades on the Nasdaq SmallCap Market, which has certain compliance requirements for continued listing of common stock.

During the last year, we moved from the Nasdaq National Market to the Nasdaq SmallCap Market, and we were threatened with being delisted from Nasdaq altogether. In April 2002, we were notified by the Nasdaq staff 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 might be delisted. As we were not in compliance under the Nasdaq National Market minimum bid price listing standard by July 9, 2002, we transferred to and began trading on the Nasdaq SmallCap Market on July 26, 2002. As a result of our transfer to the Nasdaq SmallCap Market, our delisting determination was extended an additional ninety days until October 7, 2002. Although our common stock did not achieve a closing bid price of $1.00 for at least ten consecutive trading days before October 7, 2002, we met the initial listing criteria for the Nasdaq SmallCap Market as of October 7, 2002. As a result, we remained eligible to be quoted on the Nasdaq SmallCap Market for an additional 180-calendar day grace period, which expired on April 7, 2003, subject to our compliance with the continued listing requirements during the extended grace period. On April 8, 2003, the Nasdaq staff notified us that we had been granted an additional ninety days, or until July 7, 2003 to regain compliance with the minimum bid price listing standard. On July 11, 2003, the Nasdaq staff notified us that we had not, by July 7, 2003, regained compliance with the minimum $1.00 closing bid price per share requirement, as set forth in Marketplace Rule 4310(c)(4), and that, accordingly, our securities would be subject to delisting from The Nasdaq SmallCap Market at the opening of business on July 22, 2003. Furthermore, we were notified by the Nasdaq Staff that we are not in compliance with Marketplace Rule 4310(c)(2)(B), which requires that we have a minimum of $2,500,000 in stockholders' equity or $35,000,000 market value of listed securities or $500,000 of net income from continuing operations for the most recently completed fiscal year (or two of the three most recently completed fiscal years). In September 2003, we were notified by the Nasdaq staff that we had fully regained compliance with the Nasdaq SmallCap Market's continued listing requirements.

If our minimum closing bid price per share falls below $1.00 for a period of 30 consecutive business days in the future, we may again be subject to delisting procedures. As of the close of business on October 8, 2003, our common stock had a closing bid price of $1.40 per share. We must also meet additional continued listing requirements contained in Nasdaq Marketplace Rule 4310(c)(2)(b), which requires that we have a minimum of $2,500,000 in stockholders' equity or $35,000,000 market value of listed securities or $500,000 of net income from continuing operations for the most recently completed fiscal year (or two of the three most recently completed fiscal years). As of October 23, 2003, based on our closing price as of that day, the market value of our securities approximated $45,000,000 and we were in compliance with Nasdaq Marketplace Rule 4310(c)(2)(b). There can be no assurance that we will continue to meet the continued listing requirements.

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;
- 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.

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;
- 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; and
- the potential delisting of our common stock.

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.

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 previously 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 through December 2003, 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 significant harm to our business, results of operations and financial condition.

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

We believe that our business and future profitability will be dependent on widespread market acceptance of our IP telephony technology and products, specifically our Packet8 voice and video communications service.

On a going-forward basis, we will be devoting more of our resources to the promotion of our Packet8 service than to our Netergy Microelectronics, Inc. (Netergy) semiconductor business and our Centile iPBX business. Our Netergy semiconductor business has not provided sufficient revenues to profitably operate our business, and we have completed the end end-of of-life of our videoconferencing semiconductor products during the quarter ended June 30, 2003. During the first and second quarters of fiscal 2004, we also entered into agreements that will further reduce the VoIP operations of Netergy through the proposed license by Netergy and sale of certain assets by Netergy relating to its VIP-1 semiconductor development effort to a customer and Netergy's non-exclusive license of its VoIP semiconductor and software technology to another customer. During fiscal 2003 and 2002, Netergy's revenues represented approximately 88% and 91%, respectively, of consolidated revenues. In addition, in July 2003, Centile, Inc. (Centile) sold its European subsidiary, Centile Europe S.A. and licensed, on a non-exclusive basis, its IPBX technology to the purchaser. During fiscal 2003 and 2002, Netergy's revenues represented approximately 88% and 91%, respectively, of consolidated revenues, and Centile's revenues represented approximately 8% and 2%, respectively, of consolidated revenues. Netergy and Centile are continuing operations and will continue to generate revenue in the future, although we expect the amounts to decrease, both on an absolute basis and as percentage of consolidated revenues.

We have only been selling our Packet8 service for a limited period and there is no guarantee that Packet8 will gain broad market acceptance

We have only been selling our Packet8 service since November 2002. Given our limited history with offering this product, there are many difficulties that we may encounter, including regulatory hurdles, discussed below, and other problems that we may not anticipate. To date, we have not generated significant revenue from the sale of our IP telephony products and services, including our Packet8 service, and there is no guarantee that we will be successful in generating significant revenues or achieving profitability. If we are not able to generate significant revenues selling into the IP telephony market, our business and operating results would be seriously harmed.

The success of our Packet8 service is dependent on the growth and public acceptance of IP telephony

The success of our Packet8 voice and video communications service is dependent upon 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 and services must achieve a similar level of 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 business has been adversely affected by the downturn in the telecommunications industry and these developments will continue to impact our revenues and operating results

Through the end of 2000, the telecommunications market was experiencing rapid growth spurred by a number of factors including deregulation in the industry, entry of a large number of new emerging service providers, growth in data traffic and the availability of significant capital from the financial markets. In 2001, the telecommunications industry began a reversal of some of these trends, marked by a dramatic reduction in current and projected future capital expenditures by service providers, financial difficulties and, in some cases, bankruptcies experienced by emerging service providers, as well as a sharp contraction in the availability of capital. These conditions caused a substantial reduction in demand for telecommunications equipment and related software, which has had a resulting impact on demand for Netergy's IP telephony semiconductor and software products and for Centile's hosted iPBX solution. If our current or potential customers are forced to defer or further curtail their capital spending programs, sales of our hosted iPBX product and Packet8 service to telecommunication service providers and sales of our IP telephony semiconductors to manufacturers of telecommunication equipment may continue to 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.

We expect the developments described above to continue to affect our business for at least the next several quarters in the following manner:

- our ability to accurately forecast revenue will be diminished;
- our revenues could be reduced; and
- our losses may increase because operating expenses are largely based on anticipated revenue trends and a high percentage of our expenses are and will continue to be fixed in the short-term.

Our business, operating results and financial condition could be materially and adversely impacted by any one or a combination of the above.

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 percentages 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, our product end of life announcement, and other factors, gross profit as a percentage of revenue for our videoconferencing semiconductor products will continue to decrease. 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. 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 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 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 investors, which would likely result in a significant reduction in the market price of our common stock.

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 quarters ended September 30, 2003 and 2002, accounted for approximately 86% and 81%, respectively, of total revenues in each quarter. Revenues from our ten largest customers for the fiscal years ended March 31, 2003, 2002 and 2001, accounted for approximately 62%, 73% and 48%, 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 products may cause our revenue and operating results to vary

Our IP telephony software and semiconductor products, including our hosted iPBX, Packet8 service 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. We do not possess the capital infrastructure required to invest in extensive marketing or advertising campaigns that may be required in order to sell these products. 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 products, and our revenue and operating results may vary significantly from quarter to quarter.

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, competition for highly-skilled engineering, sales, marketing, and support personnel has remained strong. Our future success depends upon the continued services of our executive officers and other key employees who have critical industry experience and relationships that we rely on to implement our business plan. None of our officers or key employees are bound by employment agreements for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell our products which could adversely affect our financial results and impair our growth. We currently do not maintain key person life insurance policies on any of our employees.

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 and as such do not have internal manufacturing capabilities to meet our customers' demands. We have shifted the manufacture of our voice over IP semiconductors to an affiliate of STMicroelectronics NV, or STM, from Taiwan Semiconductor Manufacturing Corporation, or TSMC. STM or its contract manufacturer, TSMC, will be the sole manufacturer of our semiconductor products. Furthermore, to the extent TSMC is utilized, 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. For our consumer videophones, IP telephones and media hub devices that are used with our hosted iPBX and Packet8 voice and video IP telephone service, we rely on the availability of these semiconductor products. These devices are also sourced solely from certain overseas contract manufacturers and partners, and are not available from any other manufacturer.

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. For instance, our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of our products could result in legal action from our customers, loss of customers or harm to our ability to attract new customers. Any of these factors could have a material adverse effect on our business, operating results, and financial condition.

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 product and Packet8 voice and video communications service have requested that our products and services 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. Our Packet8 service depends on the availability of third party network service providers that provide telephone numbers and PSTN call termination and origination services for our customers. Many of these network service providers are financially affected by the downturn in the telecommunications industry and may be forced to terminate the services that we depend on. The time to interface our technology to another network service provider, if available, and qualify this new service could have a material adverse effect on our business, operating results, and financial condition.

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

Our hosted iPBX and Packet8 IP service must successfully integrate with products from other vendors, such as gateways to 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 service 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 the Packet8 service 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 few, if any, companies possess 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. We hold fifty-four 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, 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.

The failure of IP networks to meet the reliability and quality standards required for voice and video 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 suitable for telephony unless such networks and technologies can provide reliability and quality consistent with these standards.

Our products must comply with industry standards, FCC regulations, state, country-specific and international 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. Our IP telephony products rely heavily on standards such as SIP, H.323, 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. These standards, as well as audio and video compression standards, continue to evolve. We also must comply with certain rules and regulations of the Federal Communications Commission (FCC) 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 legislation or regulation of the internet and/or voice and video over IP services could restrict our business, prevent us from offering service or increase our cost of doing business

At present there are few laws, regulations or rulings 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 taxes related to internet communications, imposing tariffs or regulations based on encryption concerns or the characteristics and quality of products and services, imposing regulations and requirements related to the handling of emergency 911 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 or other legislative bodies 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.

Many regulatory actions are under way or are being contemplated by federal and state authorities, including the Federal Communications Commission, or FCC, and other state regulatory agencies. There is risk that a regulatory agency requires us to conform to rules that are unsuitable for IP communications technologies, or rules that cannot be complied with due to the nature and efficiencies of IP routing, or are unnecessary or unreasonable in light of the manner in which Packet8 offers service to its customers. It is not possible to separate the Internet, or any service offered over it, into intrastate and interstate components. While suitable alternatives may be developed in the future, the current IP network does not enable us to identify the geographic nature of the traffic traversing the Internet. There is also risk that certain specific E911 requirements imposed by a regulatory agency may impede our ability to offer service in a manner that conforms to these requirements. While we are developing technologies that seek to provide access to emergency services in conjunction with our IP communications offerings, the existing requirements, which are tethered to and dependent upon the legacy PSTN network, neither work in an IP environment nor take advantage of the significantly enhanced capabilities of the IP network.

The effects of federal or state regulatory actions could have a material adverse effect on our business, financial condition and operating results.

Increasing interest by U.S. states in the regulation of voice over IP services could result in laws or regulatory actions that harm our business

Several states have recently shown an interest in regulating the voice over IP, or VoIP, services, as they do for providers of traditional telephone service. If this trend continues, and if state regulation is not preempted by action by the U.S. federal government, our business, operating results and future prospects will be adversely affected.

On September 11, 2003, we received a letter from the "Public Service Commission of Wisconsin (the "WPSC")" notifying us that the WPSC believes that we, via our Packet8 voice and video communications service, are offering intrastate telecommunications services in the state of Wisconsin without certification of the WPSC. According to the WPSC's letter, it believes that we cannot legally provide Packet8-based resold intrastate services in Wisconsin without certification of the WPSC. In addition, the Commission believes that Packet8 bills for intrastate services to Wisconsin customers are void and not collectible. The letter also states that if we do not obtain certification to offer intrastate telecommunications services, the matter will be referred to the State of Wisconsin Attorney General for enforcement action. The letter also states that even if the Company were certified by the WPSC, the previous operation without certification may still subject the Company to referral to the State of Wisconsin Attorney General for enforcement action and possible forfeitures. We consulted with counsel and have responded to the WPSC and disputed their assertions. While we do not believe that the potential amounts of any forfeitures would be material to us, if we are subject to an enforcement action, we may become subject to liabilities and may incur expenses that adversely effect our results of operations.

On September 17, 2003, we were contacted by the Ohio Public Utilities Commission ("OPUC") and asked to respond to a questionnaire on Voice over IP technologies that the OPUC is conducting. We responded to this questionnaire on October 20, 2003.

On September 22, 2003, we also received a letter from the California Public Utilities Commission ("CPUC"). The correspondence alleges that we are offering intrastate telecommunications services for profit in California without having received formal certification from the CPUC to provide such service. The CPUC also requested that we file an application with the CPUC for authority to conduct business as a telecommunications utility no later than October 22, 2003. The letter does not mention any penalties or consequences related to the CPUC's position that we should be certified in California. We consulted with counsel and have responded to the CPUC and disputed their assertions and did not file the requested application.

Potential regulation of internet service providers could adversely affect our operations

To date, the FCC has treated internet service providers as data service providers. Information service providers are currently exempt from federal and state regulations governing common carriers, including the obligation to pay access charges and contribute to the universal service fund. The FCC is currently examining the status of internet service providers and the services they provide. If the FCC were to determine that internet service providers, or the services they provide, are subject to FCC regulation, including the payment of access charges and contribution to the universal service funds, it could have a material adverse effect on our business, financial condition and operating results.

We may lose customers if we experience system failures that significantly disrupt the availability and quality of the services that it provides

The operation of our Packet8 voice and video service depends on our ability to avoid and mitigate any interruptions in service or reduced capacity for customers. Interruptions in service or performance problems, for whatever reason, could undermine confidence in our services and cause us to lose customers or make it more difficult to attract new ones. In addition, because our services may be critical to the businesses of our customers, any significant interruption in service could result in lost profits or other loss to our customers. Although we attempt to disclaim liability in our service agreements, a court might not enforce a limitation on liability, which could expose us to financial loss. In addition, we may provide our customers with guaranteed service level commitments. If we are unable to meet these guaranteed service level commitments as a result of service interruptions, we may be obligated to provide credits, generally in the form of free service for a short period of time, to our customers, which could negatively affect our operating results.

The failure of any equipment or facility on our network, or those of our partners or customers, could result in the interruption of customer service until necessary repairs are made or replacement equipment is installed. Network failures, delays and errors could also result from natural disasters, terrorist acts, power losses, security breaches and computer viruses. These failures, faults or errors could cause delays, service interruptions, expose us to customer liability or require expensive modifications that could have a material adverse effect on our business, financial condition and operating results.

We could be liable for breaches of security on our web site, fraudulent activities of our users, or the failure of third-party vendors to deliver credit card transaction processing services

A fundamental requirement for operating an internet-based, worldwide voice and video communications service and electronically billing our Packet8 customers is the secure transmission of confidential information over public networks. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. The law relating to the liability of providers of online payment services is currently unsettled. We rely on third party providers to process and guarantee payments made by Packet8 subscribers up to certain limits, and we may be unable to prevent our users from fraudulently receiving goods and services. Our liability risk will increase if a larger fraction of our Packet8 transactions involve fraudulent or disputed credit card transactions. Any costs we incur as a result of fraudulent transactions could harm our business. In addition, the functionality of our current billing system relies on certain third-party vendors delivering services. If these vendors are unable or unwilling to provide services, we will not be able to charge for our Packet8 services in a timely or scalable fashion.

Intellectual property and proprietary rights of others could prevent us from using necessary technology to provide IP voice and video services

While we do not know of any technologies that are patented by others that we believe are necessary for us to provide our services, certain necessary technology may in fact be patented by other parties either now or in the future. If such technology were held under patent by another person, we would have to negotiate a license for the use of that certain technology. We may not be able to negotiate such a license at a price that is acceptable. The existence of such a patents, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using such technology and offering products and services incorporating such technology.

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

For the first three and six months of fiscal 2004, sales to customers outside of the United States represented 89% and 78%, respectively, of our total sales. Sales to customers outside of the United States during the years ended March 31, 2003, 2002 and 2001 were 62%, 61% and 69%, respectively, of total revenues. The following table illustrates our net revenues by geographic area expressed as a percentage of total revenues for the corresponding period. Revenues are attributed to countries based on the destination of shipment:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2003	2002	2003	2002
United States	12%	32%	22%	41%
Europe	74%	30%	59%	33%
Asia Pacific	14%	38%	19%	26%
	100%	100%	100%	100%

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 other trade barriers, potentially adverse tax consequences, fluctuations in currency exchange rates, greater difficulty in collecting accounts receivable and longer collection periods, the impact of recessions in economies outside of the United States, 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.

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 products from our independent suppliers, 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.

These risk factors could cause actual results to differ materially from the results anticipated in forward-looking statements

The reports that we file with the SEC and our other communications may contain forward-looking statements that involve risks and uncertainties. We consider forward-looking statements to be those statements that describe intentions, beliefs, and current expectations with respect to future operating performance. Our actual results could differ materially from those anticipated in our forward-looking statements as a result of certain factors.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

The Company’s 2003 Annual Meeting of Stockholders was held on August 12, 2003 at the Company’s principal executive offices in Santa Clara, California. At the meeting, shares of the Company’s common stock were present in person and by proxy. The number of votes present in person or by proxy represented approximately 72% of eligible votes associated with outstanding votable securities.

The voting results by proposal were as follows:

PROPOSAL 1. Each person elected as a director will serve until the next annual meeting of stockholders or until such person's successor is elected and qualified. The following nominees for director were elected:

Name of Nominee	Votes Cast For	Votes Withheld
Dr. Bernd Girod	20,044,114	505,427
Guy Hecker	20,044,114	505,427
Christos Lagomichos	20,038,604	510,937
Bryan R. Martin	20,029,779	519,762
Joe Parkinson	20,023,557	525,984

PROPOSAL 2. The ratification and appointment of PricewaterhouseCoopers LLP as independent auditors of the Company for the fiscal year ending March 31, 2004 was approved by the stockholders with 20,386,489 voting in favor, 103,541 voting against and 59,511 abstaining.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.25 Agreement between Centile, Inc. and Sunleigh Investments Ltd. relating to the sale of Centile Europe SA.

31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

On July 28, 2003, the Company furnished a Form 8-K regarding the Company's financial results for the quarter ended June 30, 2003.

On July 31, 2003, the Company filed a Form 8-K regarding the consummation of the Company's private placement.

SIGNATURE

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

Date: October 30, 2003

8X8, INC.

(Registrant)

By: /s/ James Sullivan /

James Sullivan

Chief Financial Officer, Vice President of Finance and Secretary
(Principal Financial and Accounting Officer)