

8X8 INC /DE/
Form 10-Q
July 25, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 000-21783

[8X8, INC.](#)

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

77-0142404

(I.R.S. Employer Identification Number)

2125 O'Nel Drive
San Jose, CA 95131

(Address of Principal Executive Offices)

(408) 727-1885

(Registrant's Telephone Number, including Area Code)

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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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
<input checked="" type="checkbox"/>				(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The number of shares of the Registrant's Common Stock outstanding as of July 23, 2014 was 88,727,860.

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Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,073	\$ 59,159
Short-term investments	126,937	47,181
Accounts receivable, net	5,947	5,503
Inventory	753	811
Deferred cost of goods sold	106	263
Deferred tax asset	1,732	2,065
Other current assets	2,201	1,951
Total current assets	192,749	116,933
Long-term investments	-	72,021
Property and equipment, net	8,339	7,711
Intangible assets, net	14,670	15,095
Goodwill	38,802	38,461
Non-current deferred tax asset	47,520	47,797
Other assets	1,074	1,185
Total assets	\$ 303,154	\$ 299,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,217	\$ 6,789
Accrued compensation	5,264	4,583
Accrued warranty	619	660
Accrued taxes	2,453	2,323
Deferred revenue	1,741	1,857
Other accrued liabilities	1,492	1,909
Total current liabilities	19,786	18,121
Non-current liabilities	1,555	1,619
Non-current deferred revenue	1,072	1,285
Total liabilities	22,413	21,025
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock	89	88
Additional paid-in capital	386,340	384,325
Accumulated other comprehensive gain	969	430
Accumulated deficit	(106,657)	(106,665)
Total stockholders' equity	280,741	278,178
Total liabilities and stockholders' equity	\$ 303,154	\$ 299,203

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

8X8, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts; unaudited)

	Three Months Ended June 30,	
	2014	2013
Service revenue	\$ 34,276	\$ 26,499
Product revenue	3,637	2,752
Total revenue	37,913	29,251
Operating expenses:		
Cost of service revenue	6,997	4,786
Cost of product revenue	3,969	3,347
Research and development	3,406	2,336
Sales and marketing	19,160	13,072
General and administrative	3,878	2,772
Total operating expenses	37,410	26,313
Income from operations	503	2,938
Other income, net	177	15
Income from continuing operations before provision for income taxes	680	2,953
Provision for income taxes	672	961
Income from continuing operations	8	1,992
Income from discontinued operations, net of income tax provision	-	147
Net income	\$ 8	\$ 2,139
Income per share - continuing operations:		
Basic	\$ 0.00	\$ 0.03
Diluted	\$ 0.00	\$ 0.03
Income per share - discontinued operations:		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00
Net income per share:		
Basic	\$ 0.00	\$ 0.03
Diluted	\$ 0.00	\$ 0.03
Weighted average number of shares:		
Basic	88,592	72,510
Diluted	91,445	75,756

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

8X8, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, unaudited)

	Three Months Ended June 30,	
	2014	2013
Net income	\$ 8	\$ 2,139
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on investments in securities	86	(65)
Foreign currency translation adjustment	453	-
Comprehensive income	\$ 547	\$ 2,074

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)

	Three Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 8	\$ 2,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	755	675
Amortization of intangible assets	567	340
Amortization of capitalized software	85	-
Net accretion of discount and amortization of premium on marketable securities	192	-
Stock-based compensation	1,847	907
Deferred income tax provision	610	873
Other	9	158
Changes in assets and liabilities:		
Accounts receivable, net	(402)	132
Inventory	47	(61)
Other current and noncurrent assets	(175)	(306)
Deferred cost of goods sold	157	30
Accounts payable	988	(316)
Accrued compensation	674	82
Accrued warranty	(41)	22
Accrued taxes and fees	128	192
Deferred revenue	(352)	373
Other current and noncurrent liabilities	(447)	(7)
Net cash provided by operating activities	4,650	5,233
Cash flows from investing activities:		
Purchases of property and equipment	(1,026)	(466)
Cost of capitalized software	-	(328)
Proceeds from maturity of investments	3,300	-
Sales of investments - available for sale	18,992	-
Purchases of investments - available for sale	(30,134)	-
Net cash used in investing activities	(8,868)	(794)
Cash flows from financing activities:		
Capital lease payments	(46)	(5)
Repurchase of common stock	(48)	(120)
Proceeds from issuance of common stock under employee stock plans	170	1,296
Net cash provided by financing activities	76	1,171
Effect of exchange rate changes on cash	56	-
Net (decrease) increase in cash and cash equivalents	(4,086)	5,610
Cash and cash equivalents at the beginning of the period	59,159	50,305
Cash and cash equivalents at the end of the period	\$ 55,073	\$ 55,915
Supplemental cash flow information		
Income taxes paid	\$ 85	\$ 156
Interest paid	1	1

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. ("8x8" or the "Company") develops and markets a comprehensive portfolio of cloud-based communications and collaboration solutions that include hosted cloud telephony, unified communications, contact center, video conferencing and virtual desktop software and services. These unified communications and collaboration services are offered from the Internet cloud via a software-as-a-service subscription. The Company also provides cloud-based computing services. As of June 30, 2014, the Company had 39,340 business customers.

The Company was incorporated in California in February 1987 and was reincorporated in Delaware in December 1996. The Company's fiscal year ends on March 31 of each calendar year. Each reference to a fiscal year in these notes to the condensed consolidated financial statements refers to the fiscal year ending March 31 of the calendar year indicated (for example, fiscal 2015 refers to the fiscal year ending March 31, 2015).

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 consolidated financial statements for the fiscal year ended March 31, 2014. In the opinion of the Company's management, these interim condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement 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 revenue and expenses during the reporting periods. Actual results could differ from these estimates.

The March 31, 2014 year-end condensed consolidated balance sheet data in this document was derived from audited consolidated financial statements and does not include all of the disclosures required by U.S. generally accepted accounting principles. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the fiscal year ended March 31, 2014 and notes thereto included in the Company's fiscal 2014 Annual Report on Form 10-K.

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

Reclassification

Certain amounts previously reported within the Company's consolidated statements of income have been reclassified to conform to the current period presentation. The reclassification included certain prior-period amounts related to the Company's discontinued operations.

The reclassification had no impact on the Company's previously reported net income or basic and diluted net income per share amounts.

Service and Product Revenue

The Company recognizes service revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured. The Company defers recognition of service revenues in instances when cash receipts are received before services are delivered and recognizes deferred revenues ratably as services are provided.

The Company recognizes revenue from product sales for which there are no related services to be rendered upon shipment to customers provided that persuasive evidence of an arrangement exists, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. Gross outbound shipping and handling charges are recorded as revenue, and the related costs are included in cost of goods sold. Reserves for returns and allowances for customer sales are recorded at the time of shipment. In accordance with the ASC 985-605, the Company records shipments to distributors, retailers, and resellers, where the right of return exists, as deferred revenue. The Company defers recognition of revenue on sales to distributors, retailers, and resellers until products are resold to the customer.

The Company records revenue net of any sales-related taxes that are billed to its customers. The Company believes this approach results in consolidated financial statements that are more easily understood by users.

Under the terms of the Company's typical subscription agreement, new customers can terminate their service within 30 days of order placement and receive a full refund of fees previously paid. The Company has determined that it has sufficient history of subscriber conduct to make a reasonable estimate of cancellations within the 30-day trial period. Therefore, the Company recognizes new subscriber revenue in the month in which the new order was shipped, net of an allowance for expected cancellations.

Multiple Element Arrangements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-25 requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. The provisioning of the 8x8 cloud service with the accompanying 8x8 IP telephone constitutes a revenue arrangement with multiple deliverables. For arrangements with multiple deliverables, the Company allocates the arrangement consideration to all units of accounting based on their relative selling prices. In such circumstances, the accounting principles establish a hierarchy to determine the relative selling price to be used for allocating arrangement consideration to units of accounting as follows: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("BESP").

VSOE generally exists only when the Company sells the deliverable separately, on more than a limited basis, at prices within a relatively narrow range. When VSOE cannot be established, the Company attempts to establish the selling price of deliverables based on relevant TPE. TPE is determined based on manufacturer's prices for similar deliverables when sold separately, when possible. When the Company is unable to establish selling price using VSOE or TPE, it uses a BESP for the allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service was sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. The Company determines BESP for a product or service by considering multiple factors including, but not limited to:

- the price list established by its management which is typically based on general pricing practices and targeted gross margin of products and services sold; and
- analysis of pricing history of new arrangements, including multiple element and stand-alone transactions.

In accordance with the guidance of ASC 605-25, when the Company enters into revenue arrangements with multiple deliverables the Company allocates arrangement consideration, including activation fees, among the 8x8 IP telephones and subscriber services based on their relative selling prices. Arrangement consideration allocated to the IP telephones that is fixed or determinable and that is not contingent on future performance or future deliverables is recognized as product revenues during the period of the sale less the allowance for estimated returns during the 30-day trial period. Arrangement consideration allocated to subscriber services that is fixed or determinable and that is not contingent on future performance or future deliverables is recognized ratably as service revenues as the related services are provided, which is generally over the initial contract term.

Deferred Cost of Goods Sold

Deferred cost of goods sold represents the cost of products sold for which the end customer or distributor has a right of return. The cost of the products sold is recognized contemporaneously with the recognition of revenue, when the subscriber has accepted the service.

Cash, Cash Equivalents and Investments

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

The Company's investments are comprised of mutual funds, commercial paper, corporate debt, municipal securities, asset backed securities, mortgage backed securities, international government securities and money market funds. At June 30, 2014 and March 31, 2014, all investments were classified as available-for-sale and reported at fair value, based either upon quoted prices in active markets, quoted prices in less active markets, or quoted market prices for similar investments, with unrealized gains and losses, net of related tax, if any, included in other comprehensive loss and disclosed as a separate component of consolidated stockholders' equity. Realized gains and losses on sales of all such investments are reported within the caption of other income, net in the consolidated statements of income and computed using the specific identification method. The Company classifies its investments as current based on the nature of the investments and their availability for use in current operations. The Company's investments in marketable securities are monitored on a periodic basis for impairment. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. These available-for-sale investments are primarily held in the custody of a major financial institution.

Available-for-sale investments were (in thousands):

As of June 30, 2014	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Money market funds	\$ 25,020	\$ -	\$ -	\$ 25,020
Fixed income				
Mutual funds	1,909	21	-	1,930
Commercial paper	24,583			