

8X8 INC /DE/
Form 10-Q
July 24, 2012

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, 2012

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)

810 West Maude Avenue
Sunnyvale, CA 94085

(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. x 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

x 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 Accelerated filer x Non-accelerated filer " Smaller reporting company
" (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 x

The number of shares of the Registrant's Common Stock outstanding as of July 18, 2012 was 71,086,655.

FORM 10-Q PDF as a courtesy
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Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,274	\$ 22,426
Short-term investments	1,968	1,942
Accounts receivable, net	2,837	2,279
Inventory	593	581
Deferred cost of goods sold	136	122
Deferred tax asset	1,952	7,730
Other current assets	810	806
Total current assets	44,570	35,886
Property and equipment, net	5,240	3,820
Intangible assets, net	11,265	11,622
Goodwill	25,150	25,150
Non-current deferred tax asset	53,977	53,977
Other assets	422	278
Total assets	\$ 140,624	\$ 130,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,375	\$ 5,476
Accrued compensation	3,083	3,105
Accrued warranty	405	387
Accrued taxes	1,584	1,472
Deferred revenue	708	891
Other accrued liabilities	825	884
Total current liabilities	12,980	12,215
Non-current liabilities	39	68
Total liabilities	13,019	12,283
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock	71	71
Additional paid-in capital	242,067	241,555
Accumulated other comprehensive loss	(32)	(58)
Accumulated deficit	(114,501)	(123,118)
Total stockholders' equity	127,605	118,450
Total liabilities and stockholders' equity	\$ 140,624	\$ 130,733

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,	
	2012	2011
Service revenues	\$ 23,172	\$ 17,021
Product revenues	2,080	1,486
Total revenues	25,252	18,507
Operating expenses:		
Cost of service revenues	5,686	3,815
Cost of product revenues	2,710	2,270
Research and development	1,826	1,407
Sales and marketing	10,541	8,184
General and administrative	2,064	1,225
Gain on patent sale	(11,965)	-
Total operating expenses	10,862	16,901
Income from operations	14,390	1,606
Other income, net	8	20
Income before provision (benefit) for income taxes	14,398	1,626
Provision (benefit) for income taxes	5,781	(321)
Net income	\$ 8,617	\$ 1,947
Net income per share:		
Basic	\$ 0.12	\$ 0.03
Diluted	\$ 0.12	\$ 0.03
Weighted average number of shares:		
Basic	70,717	62,264
Diluted	74,110	65,808

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,	
	2012	2011
Net income	\$ 8,617	\$ 1,947
Other comprehensive income, net of tax		
Unrealized gain on investments in securities	26	15
Comprehensive income	\$ 8,643	\$ 1,962

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,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 8,617	\$ 1,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	505	338
Amortization	357	26
Stock-based compensation	556	266
Deferred income tax provision (benefit)	5,778	(336)
Other	75	60
Changes in assets and liabilities:		
Accounts receivable, net	(626)	(255)
Inventory	(19)	527
Other current and noncurrent assets	(148)	60
Deferred cost of goods sold	(14)	5
Accounts payable	(35)	(1,085)
Accrued compensation	(22)	207
Accrued warranty	18	16
Accrued taxes and fees	112	123
Deferred revenue	(183)	(144)
Other current and noncurrent liabilities	(45)	385
Net cash provided by operating activities	14,926	2,140
Cash flows from investing activities:		
Purchases of property and equipment	(1,048)	(185)
Acquisition of businesses, net of cash acquired	-	(715)
Net cash used in investing activities	(1,048)	(900)
Cash flows from financing activities:		
Capital lease payments	(43)	(9)
Repurchase of common stock	(74)	(1,038)
Proceeds from issuance of common stock under employee stock plans	87	267
Net cash used in financing activities	(30)	(780)
Net increase in cash and cash equivalents	13,848	460
Cash and cash equivalents at the beginning of the period	22,426	16,474
Cash and cash equivalents at the end of the period	\$ 36,274	\$ 16,934
Supplemental cash flow information		
Issuance of common stock in connection with acquisitions	\$ -	\$ 750
Acquisition of net assets in connection with acquisitions	-	17

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 Voice over Internet protocol ("VoIP") technology delivered as a cloud-based service to business customers enabling telephony and video applications as well as web-based conferencing, unified communications services, managed hosting and cloud-based computing services. As of June 30, 2012, the Company had approximately 30,000 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 consolidated financial statements refers to the fiscal year ending March 31 of the calendar year indicated (for example, fiscal 2013 refers to the fiscal year ending March 31, 2013).

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, 2012. In the opinion of the Company's management, these 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, 2012 year-end condensed consolidated balance sheet data in this document were derived from audited consolidated financial statements and do not include all of the disclosures required by U.S. generally accepted accounting principles. These 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, 2012 and notes thereto included in the Company's fiscal 2012 Annual Report on Form 10-K.

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.

VoIP Service and Product Revenue

The Company's VoIP service and product revenue is derived from the sale of IP business telephones and VoIP service.

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. In addition, arrangement consideration must be allocated among the separate units of accounting based on their relative fair values, with certain limitations. The provisioning of the 8x8 service with the accompanying 8x8 IP telephone constitutes a revenue arrangement with multiple deliverables. In accordance with the guidance of ASC 605-25, the Company allocates 8x8 revenues, including activation fees, among the 8x8 IP telephones and subscriber services. Revenues allocated to these devices are recognized as product revenues during the period of the sale less the allowance for estimated returns during the 30-day trial period. All other revenues are

recognized as license and service revenues when the related services are provided. The Company records revenue net of any sales-related taxes that are billed to its customers. The Company believes this approach results in 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.

Product Revenue

The Company recognizes revenue from product sales for which there are no related services to be rendered upon shipment to partners and end users provided that persuasive evidence of an arrangement exists, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. 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 partner and end user 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 end user.

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.

Goodwill and Other Intangible Assets

Amortization expense for the customer relationship intangible asset is included in sales and marketing expenses. Amortization expense for technology is included in cost of service revenue. The carrying values of intangible assets were as follows (in thousands):

	June 30, 2012			March 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology	\$ 8,242	\$ (638)	\$ 7,604	\$ 8,242	\$ (432)	\$ 7,810
Customer relationships	3,305	(601)	2,704	3,305	(450)	2,855
Trade names/domains	957	-	957	957	-	957
Total acquired identifiable intangible assets	\$ 12,504	\$ (1,239)	\$ 11,265	\$ 12,504	\$ (882)	\$ 11,622

At June 30, 2012, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following (in thousands):

	Amount
Remaining 2013	\$ 1,071
2014	1,334
2015	1,325
2016	1,325
2017	1,318
Thereafter	3,935
Total	\$ 10,308

Option and Stock Purchase Right Activity

Stock purchase right activity since March 31, 2012 is summarized as follows:

	Number of Shares	Weighted Average Grant-Date Fair Market Value	Weighted Average Remaining Contractual Term (in Years)
Balance at March 31, 2012	966,400	\$ 2.50	2.61
Granted	52,500	4.09	
Released	(84,576)	1.82	
Forfeited	(5,000)	4.55	
Balance at June 30, 2012	929,324	\$ 2.64	2.48

Option activity since March 31, 2012 is summarized as follows:

Shares	Weighted Average
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