

8X8 INC /DE/
Form 10-Q
January 26, 2015

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 December 31, 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)

Edgar Filing: 8X8 INC /DE/ - Form 10-Q

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 checked="" 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 January 21, 2015 was 89,867,601.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	<u>Page No.</u>
Item 1. Financial Statements:	
Condensed Consolidated Balance Sheets at December 31, 2014 and March 31, 2014	<u>3</u>
Condensed Consolidated Statements of Income for the three and nine months ended December 31, 2014 and 2013	<u>4</u>
Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended December 31, 2014 and 2013	<u>5</u>
Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013	<u>6</u>
Notes to Unaudited Condensed Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>24</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>31</u>
Item 4. Controls and Procedures	<u>31</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>32</u>
Item 1A. Risk Factors	<u>32</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>32</u>
Item 6. Exhibits	<u>33</u>
Signature	<u>34</u>

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,598	\$ 59,159
Short-term investments	135,291	47,181
Accounts receivable, net	7,233	5,503
Inventory	532	811
Deferred cost of goods sold	411	263
Deferred tax asset	1,731	2,065
Other current assets	2,521	1,951
Total current assets	200,317	116,933
Long-term investments	-	72,021
Property and equipment, net	10,179	7,711
Intangible assets, net	13,032	15,095
Goodwill	37,497	38,461
Non-current deferred tax asset	45,686	47,797
Other assets	1,307	1,185
Total assets	\$ 308,018	\$ 299,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,272	\$ 6,789
Accrued compensation	6,612	4,583
Accrued warranty	423	660
Accrued taxes	2,879	2,323
Deferred revenue	1,491	1,857
Other accrued liabilities	1,375	1,909
Total current liabilities	20,052	18,121
Non-current liabilities	1,425	1,619
Non-current deferred revenue	760	1,285
Total liabilities	22,237	21,025
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock	90	88
Additional paid-in capital	391,766	384,325
Accumulated other comprehensive gain (loss)	(1,153)	430
Accumulated deficit	(104,922)	(106,665)
Total stockholders' equity	285,781	278,178
Total liabilities and stockholders' equity	\$ 308,018	\$ 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		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Service revenue	\$ 37,802	\$ 29,737	\$ 108,199	\$ 84,062
Product revenue	3,570	3,008	10,684	8,749
Total revenue	41,372	32,745	118,883	92,811
Operating expenses:				
Cost of service revenue	7,544	5,584	22,046	15,579
Cost of product revenue	3,959	4,041	11,690	11,171
Research and development	3,868	3,325	10,770	8,301
Sales and marketing	20,559	16,051	59,159	42,868
General and administrative	4,617	5,547	12,388	11,444
Gain on patent sale	-	-	(1,000)	-
Total operating expenses	40,547	34,548	115,053	89,363
Income (loss) from operations	825	(1,803)	3,830	3,448
Other income, net	246	586	623	602
Income (loss) from continuing operations before provision (benefit) for income taxes	1,071	(1,217)	4,453	4,050
Provision (benefit) for income taxes	627	(1,306)	2,710	481
Income from continuing operations	444	89	1,743	3,569
Income from discontinued operations, net of income tax provision	-	-	-	301
Gain on disposal of discontinued operations, net of income tax provision of \$463	-	-	-	589
Net income	\$ 444	\$ 89	\$ 1,743	\$ 4,459
Income per share - continuing operations:				
Basic	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.05
Diluted	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.05
Income per share - discontinued operations:				
Basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01
Diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01
Net income per share:				
Basic	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.06
Diluted	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.06
Weighted average number of shares:				
Basic	89,594	79,742	89,107	75,071
Diluted	91,974	83,182	91,752	78,389

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

8X8, Inc.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net income	\$ 444	\$ 89	\$ 1,743	\$ 4,459
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on investments	(122)	(8)	(87)	(63)
Foreign currency translation adjustment	(1,005)	326	(1,496)	326
Comprehensive income (loss)	\$ (683)	\$ 407	\$ 160	\$ 4,722

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)

	Nine Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,743	\$ 4,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,513	1,888
Amortization of intangible assets	1,687	1,074
Amortization of capitalized software	255	92
Net accretion of discount and amortization of premium on marketable securities	659	-
Gain on disposal of discontinued operations	-	(589)
Gain on escrow settlement	-	(565)
Stock-based compensation	6,489	5,245
Deferred income tax provision	2,444	87
Other	268	490
Changes in assets and liabilities:		
Accounts receivable, net	(2,062)	(1,104)
Inventory	235	(245)
Other current and noncurrent assets	(505)	(570)
Deferred cost of goods sold	(179)	211
Accounts payable	(736)	(1,290)
Accrued compensation	2,044	1,217
Accrued warranty	(237)	182
Accrued taxes and fees	561	62
Deferred revenue	(840)	757
Other current and non-current liabilities	(564)	172
Net cash provided by operating activities	13,775	11,573
Cash flows from investing activities:		
Purchases of property and equipment	(4,523)	(2,081)
Cost of capitalized software	(456)	(590)
Acquisition of business, net of cash acquired	-	(18,474)
Proceeds from disposition of discontinued operations, net of transaction costs	-	3,000
Proceeds from maturity of investments	31,400	-
Sales of investments - available for sale	29,580	-