8X8 INC /DE/
Form 10-Q
August 03, 2017

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 June 30, 2017

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)

2125 O'Nel Drive
San Jose, CA 95131

(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. 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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 26, 2017 was 91,828,699.

FORM 10-Q
TABLE OF CONTENTS

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2017	March 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,175	$ 41,030
Short-term investments	124,630	133,959
Accounts receivable, net	14,478	14,264
Other current assets	9,818	8,101
Total current assets	202,101	197,354
Property and equipment, net	26,973	24,061
Intangible assets, net	15,950	17,038
Goodwill	46,926	46,136
Non-current deferred income taxes	67,764	48,859
Other assets	432	407
Total assets	$ 360,146	$ 333,855
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,512	$ 18,631
Accrued compensation	12,203	11,508
Accrued taxes	6,730	5,354
Deferred revenue	2,116	2,144
Other accrued liabilities	4,864	5,707
Total current liabilities	46,425	43,344
Non-current liabilities	1,904	1,910
Total liabilities	48,329	45,254
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock	91	91
Additional paid-in capital	418,685	412,762
Accumulated other comprehensive loss	(7,824)	(9,642)
Accumulated deficit	(99,135)	(114,610)
Total stockholders' equity	311,817	288,601
Total liabilities and stockholders' equity	$ 360,146	$ 333,855

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 June 30, 2017	Three Months Ended June 30, 2016
Service revenue	$ 65,091	$ 55,296
Product revenue	4,007	4,745
Total revenue	69,098	60,041
Operating expenses:		
Cost of service revenue	11,662	10,235
Cost of product revenue	4,884	5,505
Research and development	7,943	6,710
Sales and marketing	41,110	31,691
General and administrative	8,956	6,801
Total operating expenses	74,555	60,942
Loss from operations	(5,457)	(901)
Other income, net	2,052	410
Loss before provision (benefit) for income taxes	(3,405)	(491)
Provision (benefit) for income taxes	(1,236)	37
Net loss	$ (2,169)	$ (528)
Net loss per share:		
Basic	$ (0.02)	$ (0.01)
Diluted	$ (0.02)	$ (0.01)
Weighted average number of shares:		
Basic	91,643	89,434
Diluted	91,643	89,434

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 June 30, 2017	Three Months Ended June 30, 2016
Net loss	$ (2,169)	$ (528)
Other comprehensive income (loss), net of tax		
Unrealized gain on investments in securities	27	146
Foreign currency translation adjustment	1,791	(2,784)
Comprehensive loss	$ (351)	$ (3,166)

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, 2017	Three Months Ended June 30, 2016
Cash flows from operating activities:		
Net loss	$ (2,169)	$ (528)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,897	1,471
Amortization of intangible assets	1,522	960
Amortization of capitalized software	308	146
Stock-based compensation	6,351	5,051
Deferred income tax benefit	(1,492)	(44)
Gain on escrow settlement	(1,393)	-
Other	101	290
Changes in assets and liabilities:		
Accounts receivable, net	(147)	(1,043)
Other current and noncurrent assets	(1,623)	(575)
Accounts payable and accruals	2,889	597
Deferred revenue	(61)	211
Net cash provided by operating activities	6,183	6,536
Cash flows from investing activities:		
Purchases of property and equipment	(2,293)	(1,604)
Proceeds from escrow settlement	1,393	-
Cost of capitalized software	(2,122)	(707)
Proceeds from maturity of investments	25,450	17,025
Sales of investments - available for sale	5,252	15,324
Purchases of investments - available for sale	(21,327)	(42,625)
Net cash provided by (used in) investing activities	6,353	(12,587)
Cash flows from financing activities:		
Capital lease payments	(351)	(182)
Payment of contingent consideration	-	(200)
Repurchase and withholding of common stock	(1,054)	(629)
Proceeds from issuance of common stock under employee stock plans	720	1,039
Net cash (used in) provided by financing activities	(685)	28
Effect of exchange rate changes on cash	294	(87)
Net increase (decrease) in cash and cash equivalents	12,145	(6,110)
Cash and cash equivalents at the beginning of the period	41,030	33,576
Cash and cash equivalents at the end of the period	$ 53,175	$ 27,466
Supplemental cash flow information		
Income taxes paid	$ 69	$ 87
Interest paid	7	7
Property and equipment acquired under capital leases	765	-

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 BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

8x8, Inc. (8x8 or the Company) is a provider of cloud-based, enterprise-class software solutions that transform the way businesses communicate and collaborate globally. The Company's integrated, "pure-cloud" offering combines global voice, conferencing, messaging and video with integrated workflows and big data analytics on a single platform to enable increased team productivity, better customer engagement and real-time insights into business performance.

BASIS OF PRESENTATION

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 ended March 31 of the calendar year indicated (for example, fiscal 2018 refers to the fiscal year ended March 31, 2018).

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, 2017. 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, liabilities, 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, 2017 year-end condensed consolidated balance sheet data in this document were 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, 2017 and notes thereto included in the Company's fiscal 2017 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 software development costs capitalized in accordance with ASC 350-40, *Internal Use Software* (ASC 350-40), that were presented in other long-term assets in the Company's consolidated balance sheets as of March 31, 2017 are presented as property and equipment for the consolidated balance sheet as of June 30, 2017. Assets in the amount of $7.7 million, net of accumulated amortization, have been reclassified in the balance sheet as of March 31, 2017 to conform to the current period presentation. The reclassification had no impact on the Company's previously reported consolidated net income (loss), cash flows, or basic or diluted net income per share amounts. Total net capitalized software development costs were $12.5 million and $10.4 million as of June 30, 2017 and March 31, 2017.

Certain amounts previously reported within the Company's consolidated balance sheets and statements of cash flows have been reclassified to conform to the current period presentation. The reclassification had no impact on the

Company's previously reported net loss, cash flows, or basic or diluted net loss per share amounts.

ACQUISITIONS

In May 2015, the Company entered into a share purchase agreement with the shareholders of DXI Limited for a purchase price of $22.5 million, consisting of $18.7 million in cash paid to the DXI shareholders at closing and $3.8 million in cash deposited into escrow to be held for two years as security against indemnity claims made by the Company after the closing date. During the fiscal quarter ended June 30, 2017, $1.4 million of the cash held in escrow was returned to the Company and the escrow fund was closed. Since the purchase accounting for the acquisition was finalized by March 31, 2016, the proceeds are realized as a gain and reported as other income in the consolidated statements of operations.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of 8x8 and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparation of these condensed consolidated financial statements are disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 filed with the SEC on May 30, 2017, and there have been no changes to the Company's significant accounting policies during the three months ended June 30, 2017, except as described in the "Recently Adopted Accounting Pronouncements" section below.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Stock-based Payment Accounting*, which simplified certain aspects of accounting for stock-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The following is the impact of the adoption on the Company's consolidated financial statements:

- In recording stock-based compensation expense, the ASU allows companies to make a policy election as to whether they will include an estimate of awards expected to be forfeited or whether they will account for forfeitures as they occur. The Company has elected to continue to include an estimate of forfeitures in its stock-based compensation expense. Therefore, there was no impact to the Company's consolidated financial statements.

- The ASU requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statements of cash flows. Previously, the Company already included these cash flows in financing activities. Therefore, the adoption of this provision had no impact.

- The ASU requires previously unrecognized excess tax benefits from stock-based compensation to be recognized on a modified retrospective basis. Unrecognized tax benefits result when a deduction for stock-based compensation does not reduce taxes payable. The impact to deferred tax assets is disclosed in Note 7.

- The ASU also requires excess tax benefits to be presented as an operating activity on the statement of cash flows rather than as a financing activity on either a retrospective or prospective basis. The Company has elected to apply this provision of the standard on a prospective basis.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. Under this guidance, entities utilizing the first-in-first-out or average cost method should measure inventory at the lower of cost or net realizable value, where net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, along with amendments issued in 2015 and 2016, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will become effective for the Company on April 1, 2018 and permits the use of either the retrospective or cumulative effect transition method. The Company has preliminary selected the modified retrospective method as the transition method.

7

The Company is in the initial stages of the assessment of the impact of the new standard on the Company's accounting policies, processes and system requirements. The Company has assigned internal resources and engaged third-party service providers to assist with the assessment and implementation. The Company currently believes the most significant impact relates to:

- The allocation of consideration in a contract between product and service performance obligations; and
- The determination of performance obligations for professional services.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718) - Scope of Modification Accounting.* The amendments in the update provide guidance on types of changes to the terms or conditions of share-based payment awards would be required to apply modification accounting under ASC 718, *Compensation-Stock Compensation*. The amendments are effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. Upon adoption, the amendment is not expected to have a material impact to the consolidated financial statements.

2. FAIR VALUE MEASUREMENTS

Cash, cash equivalents, and available-for-sale investments, and contingent consideration were (in thousands):

As of June 30, 2017	**Amortized Costs**	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Cash and Cash Equivalents**	**Short-Term Investments**
Cash	$ 31,482	$ -	$ -	$ 31,482	$ 31,482	$ -
Level 1:						
Money market funds	21,693	-	-	21,693	21,693	-
Mutual funds	2,000	-	(185)	1,815	-	1,815
Subtotal	55,175	-	(185)	54,990	53,175	1,815
Level 2:						
Commercial paper	7,894	-	-	7,894	-	7,894
Corporate debt	86,835	63	(40)	86,858	-	86,858
Asset backed securities	28,078	2	(17)	28,063	-	28,063
Subtotal	122,807	65				