



8x8, Inc.

UPDATE -- 8x8, Inc. Announces Record Third Quarter Fiscal 2012 Results

Quarterly Revenue Increases 31% Year-Over-Year to \$23.3 Million and Net Income Increases 73% to \$2.6 Million, or \$0.04 Per Share

SUNNYVALE, Calif., Jan. 18, 2012 (GLOBE NEWSWIRE) -- 8x8, Inc. (Nasdaq:EGHT), provider of innovative business communications and cloud computing solutions, today reported record financial results for the third quarter of fiscal 2012, the period ended December 31, 2011.

Total revenue for the third quarter of fiscal 2012 was \$23.3 million, a 31% increase compared to the same period last year and a 17% sequential increase compared to revenue of \$19.8 million in the prior quarter. Total revenue from business customers, including hosted communications service revenue as well as cloud data revenue, grew 42% year-over-year and represented 93% of total revenue.

Net income for the third quarter grew 73% vs. the same period last year to \$2.6 million or \$0.04 per share. Operating income was \$2.6 million in the third quarter of fiscal 2012, an 80% increase compared to \$1.4 million in the same period last year. Depreciation, amortization and stock-based compensation expenses were approximately \$385,000, \$357,000 and \$418,000, respectively.

Hosted service margin from recurring revenue remained strong at 77% and capital expenditures as a percentage of total revenue was 2.3%.

Business customer churn decreased to a record low of 2.0%, compared to a churn rate of 2.2% in the same period last year and 2.1% in the prior period. The Company ended the quarter with 27,677 business customers. The average new customer added during the December quarter purchased 14.1 services.

"We continue to see robust and accelerating growth in new business revenue, while simultaneously reducing churn, and this is contributing to strong overall organic growth across all segments of our business," said 8x8 Chairman & CEO Bryan Martin. "The acquisition of Contactual, which was completed at the end of the September quarter, has rounded out our portfolio of cloud communications services extremely well and now gives us the ability to better serve the needs of larger customers with both on-site and distributed call center operations. I am especially encouraged by the momentum we are seeing on the hosting side of our business and the continued success we are experiencing winning larger businesses and government organizations that are moving toward cloud-based solutions."

As of December 31, 2011, the Company had \$21.9 million in cash, cash equivalents and investments compared to \$19.1 million on September 30, 2011.

Q3FY'12 Business Highlights:

- Record overall revenue of \$23.3 million, up 31% compared to the same period last year
- 42% year-over-year increase in revenue from business customers representing 93% of total revenue
- Net income of \$2.6 million or \$0.04 per share, compared to \$1.5 million, or \$0.02 per share, for the same period last year
- Business customer average service revenue of \$239 per month, compared to \$207 in the prior quarter
- Average services of 14.1 for new customers and 9.4 across the entire customer base, compared to 12.4 and 9.0, respectively, in the prior quarter
- New monthly recurring revenue (MRR) from 8x8 cloud data services sold during the quarter comprised 10% of total new MRR and represented 3.2% of total revenue
- Record low churn of 2.0% vs. 2.1% in the prior quarter
- Business subscriber acquisition cost decreased to \$92 per service, compared to \$101 in the prior quarter and \$99 in the same period last year
- Launched new Virtual Office Account Manager web portal to streamline subscribers' customization and management of their 8x8 cloud communications services
- Announced partnership with AT&T to deliver AT&T Call International mobile VoIP calling service
- Introduced new Windows Cloud Server hosting solution for businesses on Windows-based networks and provisioned first VBlock customer for our enterprise VMWare-based solution

Management will host a conference call to discuss these results and other matters related to the Company's business today, January 18, 2012, at 4:30 p.m. ET. The call is accessible via the following numbers and webcast links:

Dial In: (877) 843-0417, domestic
(408) 427-3791, international
Replay: (855) 859-2056, domestic (Conference ID 37639647)
(404) 537-3406, international (Conference ID 37639647)
Webcast: <http://investors.8x8.com/>
Additional presentation materials: <http://virtualmeeting.8x8.com/Q3FY2012Earnings>

About 8x8, Inc.

8x8, Inc. (Nasdaq:EGHT) is a leading provider of cloud communications and computing solutions. With a portfolio of SaaS and IaaS solutions encompassing hosted communications, contact center, unified communications, video web conferencing, managed dedicated hosting, virtual private servers and more, 8x8 is uniquely positioned as a business' one-stop shop for everything cloud. 8x8 has been delivering cloud services since 2002 and has garnered a reputation for technological excellence and outstanding reliability, backed by a commitment to exceptional customer support. 8x8 customers include small to medium sized businesses, distributed enterprise organizations and government agencies. For additional information, visit www.8x8.com, or connect with 8x8 on [Facebook](#) and [Twitter](#).

Forward Looking Statements

This news release contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. These statements include, without limitation, information about future events based on current expectations, potential product development efforts, near and long-term objectives, potential new business, strategies, organization changes, changing markets, future business performance and outlook. Such statements are predictions only, and actual events or results could differ materially from those made in any forward-looking statements due to a number of risks and uncertainties. Actual results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors. These factors include, but are not limited to, customer acceptance and demand for our products and services, the reliability of our services, the prices for our services, customer renewal rates, customer acquisition costs, actions by our competitors, including price reductions for their telephone services, potential federal and state regulatory actions, compliance costs, potential warranty claims and product defects, our needs for and the availability of adequate working capital, our ability to innovate technologically, the timely supply of products by our contract manufacturers, potential future intellectual property infringement claims that could adversely affect our business and operating results, and our ability to retain our listing on the NASDAQ Capital Market. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's reports on Forms 10-K and 10-Q, as well as other reports that 8x8, Inc. files from time to time with the Securities and Exchange Commission. All forward-looking statements are qualified in their entirety by this cautionary statement, and 8x8, Inc. undertakes no obligation to update publicly any forward-looking statement for any reason, except as required by law, even as new information becomes available or other events occur in the future.

NOTE: 8x8, the 8x8 logo, 8x8 Virtual Office and 8x8 Virtual Office Pro are trademarks of 8x8, Inc. All other trademarks are the property of their respective owners.

8x8, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts; unaudited)

| | Three Months Ended | | Nine Months Ended | |
|------------------|--------------------|--------------|-------------------|--------------|
| | December 31, | December 31, | December 31, | December 31, |
| | 2011 | 2010 | 2011 | 2010 |
| Service revenues | \$21,200 | \$16,664 | \$56,234 | \$48,098 |
| Product revenues | 2,078 | 1,114 | 5,370 | 3,881 |
| Total revenues | 23,278 | 17,778 | 61,604 | 51,979 |

Operating expenses:

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Cost of service revenues | 4,890 | 3,819 | 12,764 | 10,790 |
| Cost of product revenues | 2,584 | 1,840 | 7,467 | 5,897 |
| Research and development | 1,955 | 1,131 | 4,902 | 3,628 |
| Selling, general and administrative | <u>11,297</u> | <u>9,570</u> | <u>31,448</u> | <u>27,453</u> |
| Total operating expenses | <u>20,726</u> | <u>16,360</u> | <u>56,581</u> | <u>47,768</u> |
| Income from operations | 2,552 | 1,418 | 5,023 | 4,211 |
| Other income, net | 49 | 78 | 58 | 112 |
| Income on change in fair value of warrant liability | <u>--</u> | <u>--</u> | <u>--</u> | <u>167</u> |
| Income before provision for income taxes | 2,601 | 1,496 | 5,081 | 4,490 |
| Provision (benefit) for income taxes | <u>15</u> | <u>--</u> | <u>(284)</u> | <u>7</u> |
| Net income | <u>\$2,586</u> | <u>\$1,496</u> | <u>\$5,365</u> | <u>\$4,483</u> |

Net income per share:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | \$0.04 | \$0.02 | \$0.08 | \$0.07 |
| Diluted | \$0.04 | \$0.02 | \$0.08 | \$0.07 |

Weighted average number of shares:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 69,445 | 63,281 | 65,165 | 63,365 |
| Diluted | 73,214 | 66,873 | 69,013 | 65,622 |

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

| | <u>December 31,</u> <u>2011</u> | <u>March 31,</u> <u>2011</u> |
|---|------------------------------------|---------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 20,004 | \$ 16,474 |
| Restricted cash | 28 | -- |
| Investments | 1,912 | 1,927 |
| Accounts receivable, net | 1,917 | 863 |
| Inventory | 539 | 2,105 |
| Other current assets | <u>948</u> | <u>707</u> |
| Total current assets | 25,348 | 22,076 |
| Property and equipment, net | 3,483 | 2,398 |
| Other assets | <u>37,776 (1)</u> | <u>2,110</u> |
| Total assets | <u>\$ 66,607</u> | <u>\$ 26,584</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 4,481 | \$ 4,551 |
| Accrued compensation | 3,296 | 1,722 |
| Accrued warranty | 396 | 362 |
| Deferred revenue | 1,013 | 835 |
| Other accrued liabilities | <u>3,164</u> | <u>3,214</u> |
| Total current liabilities | 12,350 | 10,684 |

| | | |
|--|-------------------------|-------------------------|
| Other liabilities | 400 | 39 |
| Total liabilities | <u>12,750</u> | <u>10,723</u> |
| Total stockholders' equity | <u>53,857</u> | <u>15,861</u> |
| Total liabilities and stockholders' equity | <u><u>\$ 66,607</u></u> | <u><u>\$ 26,584</u></u> |

(1) The year to date change in other assets includes purchase accounting increases to goodwill of \$22.7 million and intangibles of \$11.2 million from the acquisition of Contactual, Inc.

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

| | Nine Months Ended | |
|---|--------------------------|----------------|
| | December 31, | |
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 5,365 | \$ 4,483 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,532 | 960 |
| Stock-based compensation | 1,013 | 228 |
| Change in fair value of warrant liability | -- | (167) |
| Deferred income tax benefit | (336) | -- |
| Other | 130 | 57 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (642) | (231) |
| Inventory | 1,596 | (458) |
| Other current and noncurrent assets | 405 | (75) |
| Deferred cost of goods sold | (6) | 2 |
| Accounts payable | (2,059) | 1,272 |
| Accrued compensation | 319 | 239 |
| Accrued warranty | 34 | 86 |
| Accrued taxes and fees | (396) | 301 |
| Deferred revenue | (75) | (271) |
| Other current and noncurrent liabilities | <u>(472)</u> | <u>548</u> |
| Net cash provided by operating activities | <u>6,408</u> | <u>6,974</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,743) | (1,891) |
| Purchases of investment | -- | (2,000) |
| Purchase of strategic investment | -- | (315) |
| Acquisition of businesses, net of cash acquired | (713) | (998) |
| Sale of property and equipment | <u>--</u> | <u>2</u> |
| Net cash used in investing activities | <u>(2,456)</u> | <u>(5,202)</u> |
| Cash flows from financing activities: | | |
| Capital lease payments | (273) | (28) |
| Repurchase of common stock | (1,038) | (4,026) |
| Buyback of employee stock options | -- | (101) |
| Proceeds from exercise of warrants | -- | 880 |

| | | |
|---|------------------|------------------|
| Proceeds from issuance of common stock, net of issuance costs | (60) | 278 |
| Proceeds from issuance of common stock under employee stock plans | <u>949</u> | <u>1,755</u> |
| Net cash used in financing activities | <u>(422)</u> | <u>(1,242)</u> |
| Net increase in cash and cash equivalents | 3,530 | 530 |
| Cash and cash equivalents at the beginning of the period | <u>16,474</u> | <u>18,056</u> |
| Cash and cash equivalents at the end of the period | <u>\$ 20,004</u> | <u>\$ 18,586</u> |

8x8, Inc.
Selected Operating Statistics

| | <u>FQ311</u> | <u>FQ411</u> | <u>FQ112</u> | <u>FQ212</u> | <u>FQ312</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| Gross business customer additions (1) | 2,798 | 3,009 | 2,897 | 3,176 | 2,836 |
| Gross business customer cancellations (less cancellations within 30 days of sign-up) | 1,524 | 1,645 | 1,593 | 1,620 | 1,642 |
| Business customer churn (less cancellations within 30 days of sign-up) (2) | 2.2% | 2.3% | 2.1% | 2.1% | 2.0% |
| Total business customers (3) | 23,251 | 24,385 | 25,455 | 26,727 | 27,677 |
| Business customer average monthly service revenue per customer (4) | \$ 209 | \$ 204 | \$ 200 | \$ 207 | \$ 239 |
| Overall service margin | 77% | 78% | 78% | 77% | 77% |
| Overall product margin | -65% | -73% | -53% | -45% | -24% |
| Overall gross margin | 68% | 67% | 67% | 66% | 68% |
| Business subscriber acquisition cost per service (5) | \$ 99 | \$ 91 | \$ 89 | \$ 101 | \$ 92 |
| Average number of services subscribed to per business customer | 7.8 | 8.0 | 8.4 | 9.0 | 9.4 |
| Business customer subscriber acquisition cost (6) | \$ 768 | \$ 725 | \$ 743 | \$ 906 | \$ 867 |

(1) Includes 49 and 250 customers acquired directly from our acquisitions in the first quarter of fiscal 2011 and second fiscal quarter of 2012 from Central Host, Inc. and Contactual, Inc., respectively, and does not include customers of Virtual Office Solo or Zerigo, Inc. ("Zerigo").

(2) Business customer churn is calculated by dividing the number of business customers that terminated (after the expiration of the 30 day trial) during that period by the simple average number of business customers during the period and dividing the result by the number of months in the period. The simple average number of business customers during the period is the number of business customers on the first day of the period plus the number of business customers on the last day of the period divided by two.

(3) Business customers are defined as customers paying for service. Customers that are currently in the 30 day trial period are considered to be customers that are paying for service. Customers subscribing to Virtual Office Solo or Zerigo services are not included as business customers.

(4) Business customer average monthly service revenue per customer is service revenue from business customers in the period divided by the number of months in the period divided by the simple average number of business customers during the period.

(5) Business subscriber acquisition cost per service is defined as the combined costs of advertising, marketing, promotions, commissions and equipment subsidies for business services sold during the period divided by the number of gross business services added during the period.

(6) Business customer subscriber acquisition cost is business subscriber acquisition cost per service times the average number of services subscribed to per business customer.

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