8X8 INC /DE/
Form 10-K
May 27, 2014

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

FORM 10-K

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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2014

Commission file number 000-21783

(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 including Zip Code)

(408) 727-1885

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, PAR VALUE $.001 PER	

SHARE

NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 x 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. x

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

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

Based on the closing sale price of the Registrant's common stock on the NASDAQ Capital Market System on September 30, 2013, the aggregate market value of the voting stock held by non-affiliates of the Registrant was $716,570,616. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status for this purpose is not necessarily a conclusive determination for any other purpose.

The number of shares of the Registrant's common stock outstanding as of May 21, 2014 was 88,561,088.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the Proxy Statement to be filed within 120 days of March 31, 2014 for the 2014 Annual Meeting of Stockholders.

8X8, INC.

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ANNUAL REPORT ON FORM 10-K
FOR YEAR ENDED MARCH 31, 2014

PART I

Forward-Looking Statements and Risk Factors

Statements contained in this annual report on Form 10-K, or Annual Report, regarding our expectations, beliefs, estimates, intentions or strategies are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends," and similar expressions are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. 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, market acceptance of new or existing services and features, success of our efforts to target mid-market and larger distributed enterprises, changes in the competitive dynamics of the markets in which we compete, customer cancellations and rate of churn, impact of current economic climate and adverse credit markets on our target customers, our ability to scale our business, our reliance on infrastructure of third-party network services providers, risk of failure in our physical infrastructure, risk of failure of our software, our ability to maintain the compatibility of our software with third-party applications and mobile platforms, continued compliance with industry standards and regulatory requirements, risks relating to our strategies and objectives for future operations, including the execution of integration plans and realization of the expected benefits of our acquisitions, the amount and timing of costs associated with recruiting, training and integrating new employees, introduction and adoption of our cloud communications and collaboration services in markets outside of the United States, and general economic conditions that could adversely affect our business and operating results. The forward-looking statements may also be impacted by the additional risks faced by us as described in this Report, including those set forth under the section entitled "Risk Factors." All forward-looking statements included in this Annual Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Our fiscal year ends on March 31 of each calendar year. Each reference to a fiscal year in this Annual Report, refers to the fiscal year ended March 31 of the calendar year indicated (for example, fiscal 2014 refers to the fiscal year ended March 31, 2014). Unless the context requires otherwise, references to "we," "us," "our," "8x8" and the "Company" refer to 8x8, Inc. and its consolidated subsidiaries.

ITEM 1. BUSINESS

Overview

We are a leading provider of unified communications and collaboration, or UCC, services in the cloud for small and medium businesses, or SMBs, and mid-market and distributed enterprises. We deliver a broad suite of UCC services to in-office and mobile devices spanning cloud telephony, virtual contact center and virtual meeting through our proprietary unified software as a service, or SaaS, platform. We currently serve approximately 38,000 business customers with over 500,000 subscriptions, making us a leading provider of UCC services in the cloud. Our software abstracts complex networking, redundancy, security and interconnection requirements to provide a seamless and easy-to-use solution for our customers. Our software also integrates with leading enterprise resource planning, or ERP, customer relationship management, or CRM, human capital management, or HCM, and other third-party application suites, such as Salesforce.com and NetSuite, to provide organizations an integrated, fully functional business communications and collaboration experience that is critical to operate their businesses.

Our customers range from startups to large, distributed enterprises. We offer customers a secure, turnkey solution which can be deployed easily through our proprietary integrated cloud services, spans the breadth of communications and collaboration needs and is provided reliably and at an affordable cost. This allows customers to focus on their business instead of trying to manage the complexities of deploying UCC platforms and integrating these platforms with other applications that have already been outsourced to the cloud, such as ERP, CRM and/or HCM.

Available Information

We were incorporated in California in February 1987 and reincorporated in Delaware in December 1996. We maintain a corporate Internet website at the address http://www.8x8.com. The contents of this website are not incorporated in or otherwise to be regarded as part of this Annual Report. We file reports with the Securities and Exchange Commission, or SEC, which are available on our website free of charge. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, each of which is provided on our website as soon as reasonably practical after we electronically file such materials with or furnish them to the SEC. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1.800.SEC.0330. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including 8x8.

Our Industry

Businesses are increasingly focused on utilizing mobility and UCC solutions to enable increased productivity, improve interactions with customers and partners, and enhance organizational agility and responsiveness. Legacy solutions have proven to be increasingly expensive and cumbersome and do not meet these evolving business requirements. Companies of all sizes are managing an increasingly mobile and globally distributed workforce that seeks to leverage multiple means of communications and collaboration, including voice, text, video and desktop. The rapid rise of mobile devices in the enterprise has created demand for "bring your own device," or BYOD, provisioning capabilities. Additionally, companies are looking to increase their competitive edge by integrating ERP, CRM and HCM applications and other back-office information technology, or IT, systems with their communications and collaboration systems. Finally, as cyber threats proliferate and hackers become more sophisticated, voice and data security and compliance are at the forefront of business requirements. Legacy providers have struggled to keep up with the new business paradigm and continue to require long, high-touch sales and setup cycles in an effort to solve carrier and hardware complexity. New cloud-based providers deliver point solutions and typically do not provide a secure, comprehensive UCC platform in the cloud.

Cloud Market Opportunity

We believe that the addressable market for our unified cloud communications and collaboration services is large, growing and underpenetrated. Our services directly address multiple markets. According to TechNavio, an independent research firm, the worldwide Unified Communications as a Service, or UCaaS market will grow at a 24.6% CAGR from $2.0 billion in 2012 to $4.9 billion in 2016. Gartner forecasts that the cloud-based Contact Center market will grow at an 18.5% CAGR from $467 million in 2012 to $921 million in 2016. The global web event services market is forecasted by Frost & Sullivan to grow at a 15.4% CAGR from $354 million in 2012 to $628 million in 2016. We address these markets with our Virtual Office, Virtual Contact Center and Virtual Meeting solutions, respectively.

We believe the market has reached an inflection point where existing legacy providers are unable to provide a broad UCC solution, and the adoption of cloud-based UCC services will increase as companies embrace its significant benefits.

Legacy Approaches are Cumbersome and Expensive

Companies are facing increasing complexity with deployments of communications and collaboration services. The exponential growth and variety of mobile devices (with employees seeking to import their personal devices into the workplace environment), a globally distributed workforce, demand for full functionality with third-party applications and other back office IT systems and increasing security and regulatory concerns create numerous challenges for companies seeking a comprehensive UCC solution, including:

• ***Hardware/Software Vendor, Carrier and Sub-Carrier Complexity.***

Establishing connectivity and communications through the myriad of hardware and software vendors, carriers, sub-carriers and international carriers is becoming ever more complex. Companies need reliable connectivity without complex configurations that require long lead times to implement.

• ***Device Proliferation / BYOD.***

The exponential growth of mobile devices has resulted in BYOD in the workplace and, as a result, has increased companies' need for communications and collaboration services in order to improve employee productivity. Furthermore, companies need to manage and secure voice and data while protecting customer privacy.

• ***Globally Distributed Enterprises and Workforces.***

Companies of all sizes and their employees are distributed globally and there is a need to support communications and collaboration across locations and between employees on a unified system that can be easily deployed and work reliably.

• ***Applications Requirements.***

As companies look to gain an edge in an increasingly competitive environment, ERP applications help improve efficiency while CRM applications help manage and streamline customer interactions and HCM applications facilitate communication with companies' employees. Many of these applications provide additional benefits and improved productivity when integrated with a communications and collaborations suite, allowing employees to communicate information quickly.

• ***Compliance.***

Increasing regulations and compliance procedures add complexity to the already difficult task of managing communications for dozens or hundreds of employees. Companies need a way to secure data and prevent fraudulent use of communication services. Additionally, a continually evolving regulatory environment requires complex software to secure voice and data communications and comply with privacy protection regulations.

• ***Cost of Deployment***

. In addition to these complex requirements, chief information officers are facing increased budget scrutiny and a need to implement a scalable solution at an affordable cost.

Shortcomings of Existing Solutions

The current market is primarily comprised of two categories of solutions that are unable to adequately address today's business communications and collaboration requirements:

• ***Legacy Providers.***

Legacy providers typically provide on-premise solutions that require a long, complex and high-touch sales and setup process with proprietary hardware. These on-premise solutions are difficult to deploy and expensive to maintain in multiple locations for a globally distributed workforce. In addition, the legacy solutions do not provide the resiliency and business continuity capabilities required by customers.

• ***Point Solution Cloud Providers.***

New cloud providers have emerged to address the need for rapid provisioning and simple deployment of communications or collaboration software. However, these solutions are typically siloed and do not currently provide a comprehensive communications and collaboration suite.

The 8x8 Solution

The 8x8 solution runs on our unified software platform. At the core of our platform are two central technologies delivering functionality for today's business requirements. Our Infrastructure Manager abstracts complex global interconnectivity between VoIP and traditional PSTN to provide easy-to-use connectivity for our customers. Our Integration Manager integrates with third-party applications, including Salesforce.com, Microsoft Dynamics, NetSuite and many others, to provide integrated applications functionality within our communications and collaboration services. We have been awarded 92 United States patents. Our solution provides the following key benefits:

• ***Comprehensive SaaS Suite.***

Our services consist of Virtual Office, Virtual Contact Center and Virtual Meeting, providing a single platform for our customers' UCC needs. Our platform is integrated and enables cross-suite functionality. Our customers receive transparent subscription pricing without the billing complexities and minute overages typically associated with traditional providers. Furthermore, software updates and related services are delivered without complex hardware or on-premise infrastructure upgrade cycles and can significantly reduce set-up times.

• ***Rapid Cloud Provisioning.***

Our UCC in the cloud solution allows for rapid provisioning of business phones and mobile devices globally. Customers only need to install our application on their mobile device or plug in our pre-configured IP phones to use a turnkey cloud telephony solution and access our software platform.

- ***Applications Integration.***

We integrate with third-party applications including Salesforce.com, Microsoft Dynamics, NetSuite, Zendesk, SugarCRM, eAgent and many others to provide enhanced functionality within our UCC services.

- ***Security and Compliance.***

We have invested heavily in complying with state and federal regulations including FISMA, HIPAA, HITECH and PCI DSS.

• ***Affordability.***

Our cloud UCC services are typically more affordable than traditional services and offer more UCC functionality at a fraction of the cost of traditional providers, even before including additional system integration costs that are likely to be incurred when deploying traditional services.

Our Strategy

Our objective is to provide our reliable, scalable and profitable cloud UCC solutions globally. We leverage our proprietary, standards-based, unified software platform to deliver innovative, easy-to-deploy, highly secure and competitively priced offerings to small and medium size business ("SMBs") and mid-market and large distributed enterprises. We intend

to bring high-quality cloud telephony, virtual contact center, and virtual meeting services to businesses at an affordable price. Our cloud UCC solution enhances the way our customers communicate and collaborate. We intend to continue to focus our marketing primarily towards our business customer services.

Our Growth Initiatives

Our growth initiatives reflect our goal to be the leading global provider of UCC in the cloud. The following are key elements of our growth strategy:

- Upsell our Products and Services.

  Our services provide additional benefits when used in concert, and we intend to upsell our products and services by educating our customers on the additional functionality that can be achieved with our UCC platform.

- Increase Mid-Market and Distributed Enterprise Adoption.

  We plan to capitalize on the increasing penetration of cloud-based communications and collaboration solutions in mid-market and distributed enterprises by increasing focus on our direct and channel sales strategy.

- Expand Globally.

  We intend to focus on penetrating select markets outside the United States in order to capture more of the growing global market for UCC in the cloud which we believe is underpenetrated and lends itself to a cost effective and easily deployable cloud solution.

- Build New Products and Service Offerings on our Platform.

  We believe our unified software platform can be leveraged to offer additional products and services. We intend to integrate our service offerings further and provide additional functionality for our customers.

- Pursue Strategic Acquisitions.

We intend to identify, acquire and integrate strategic technologies, assets and businesses that we believe will build out our breadth of SaaS offerings and drive growth, both domestically and internationally.

Our Platform

Our unified software platform delivers a comprehensive, easy-to-use communications and collaboration solution for SMBs and mid-market and distributed enterprises. Our Infrastructure Manager software abstracts complex global interconnectivity between VoIP and traditional PSTN, enabling a turnkey UCC solution for our customers. Additionally, our Integration Manager software integrates with third-party applications and other back-end IT systems, allowing our customers to access important data while communicating with their clients or collaborating with colleagues. These core components of our software platform enable rapid workspace and phone provisioning and seamless deployment of our UCC solutions globally. Furthermore, we have invested heavily in complying with state and federal regulations, including FISMA, HIPAA, HITECH and PCI DSS. Although we cannot ever be certain that our systems fully comply with these complex regulations, we have expended significant resources on developing software and obtaining third party risk assessments that enable us to serve customers that are required to comply with these regulations.

Our services work on smartphones, tablets, PCs, IP phones and mobile phones. In addition, our platform integrates with third party applications such as Salesforce.com, NetSuite, Microsoft Dynamics, SugarCRM, Zendesk, eAgent and many others to provide enhanced functionality.

Our Services

Virtual Office

Virtual Office, our flagship service, was launched in March 2004 and is targeted at the SMB and mid-market and distributed enterprise markets. Virtual Office is an affordable, easy-to-use alternative to traditional business phone, PBX systems or Centrex class services from legacy telecommunications providers that offers features and services neither provide. Virtual Office allows users with a broadband Internet connection anywhere in the world to be part of a virtual PBX that includes automated attendants to assist callers, conference bridges, extension-to-extension dialing and ring groups, in addition to a rich variety of other business class PBX features typically found on premise based PBX equipment. The service is provided through our proprietary software that runs on our UCC platform located in our host data centers. In some instances, we sell pre-configured office phones used in connection with our services to our customers.

As a completely cloud-based service, Virtual Office enables SMB customers to rapidly deploy and easily manage enterprise-grade PBX and business telephony capabilities, including full mobility, with no upfront capital expense and no requirement for in-house IT resources. Furthermore, our cloud-based delivery model provides seamless connectivity across multiple offices and facilities, worldwide, for our larger mid-market and distributed enterprise customers.

Virtual Office subscribers have the ability to choose any phone number available to our subscribers regardless of a user's geographic location. Subscribers also can port existing telephone numbers, including toll-free numbers, from other service providers at no additional cost. Each extension in the virtual PBX can be located anywhere in the world that is serviced by a high-speed Internet connection. Virtual Office extension-to-extension calls and transfers are accomplished over the Internet, anywhere in the world, free of extra charges from third party telecommunications carriers. Virtual Office offers the following features:

- Auto-attendant providing dial by extension, name or group;
- Unlimited calling to the US, Canada, certain additional countries and other subscribers to our services, as well as low international rates;
- Phone numbers in more than 50 countries with any desired area code for each extension;
- Conference bridge, three-way calling, music on hold, call park/pick-up, call transfer, hunt groups, and do not disturb;
- Business-class voice mail including email alerts and direct transfer to mailbox;
- Call waiting / Caller-ID;
- Distinctive tone ringing;
- Optional receptionist console application offering:
    - ♦ Multiple call viewing and handling;
    - ♦ Direct transfer to extension's voicemail;
    - ♦ Supervised transfers; and
    - ♦ View of extension status.

In order to meet the needs of our growing mid-market and distributed enterprise customers, we provide an enterprise offering of Virtual Office called Virtual Office Pro. Virtual Office Pro is a powerful unified communications service that allows subscribers to manage essential, advanced business communications functions online through a centralized web-based portal via a PC, laptop, tablet or smartphone. Integrated with Virtual Office, Virtual Office Pro enhances business productivity by providing users with a comprehensive, rapidly accessible suite of communication tools used in everyday business interactions. We also sell the Virtual Office Pro service on a standalone basis so that a business customer would no longer be required to buy a physical VoIP telephone from us in order to access our Virtual Office services. Virtual Office Pro offers the following features:

- A visual overview and online control of Virtual Office business calling activity including point-and-click access to inbound and outbound calls and call management features such as call transfer, do not disturb ("DND") and call forwarding;
- Microsoft Outlook Contacts and Corporate Directory integration;
- Virtual Meeting - allows subscribers to create, join and invite participants to web, audio and video meetings;

- Virtual Office Mobile extension - to place and receive VoIP calls and access common Virtual Office services and functions from an iPhone/iPod Touch/iPad/Android mobile handset;

- Fax - enables users to send and receive unlimited faxes using either a separate phone number for fax or the same number as your 8x8 extension;
- Call recording - enables any inbound or outbound call to be recorded and later reviewed, downloaded or deleted;
- Presence management - tells other co-workers whether a user is logged in, logged off, on the phone, off the phone or currently unavailable; and
- My Inbox overview - gives a comprehensive view of all voicemails, recordings, FAX messages, calls, and chat history.

Virtual Contact Center

We introduced the Virtual Contact Center service in July 2007. Virtual Contact Center is a fully integrated cloud-based call center solution that works with any broadband Internet connection and provides enterprise class contact center functionality combined with Virtual Office calling features. The Virtual Contact Center allows companies to quickly deploy and operate multi-channel contact centers within our Virtual Office infrastructure without the time and expense of purchasing, installing and maintaining costly, specialized equipment. Delivered entirely as a cloud service, the Virtual Contact Center requires no specialized hardware or software, no telecom equipment and no up-front capital expenditures by the customer. Virtual Contact Center offers features such as skills-based routing, multi-media management, real time monitoring and reporting, voice recording and logging, historical reporting, Interactive Voice Response, integration with third party CRM and ERP solutions, and contact and case management tools.

Virtual Meeting

We launched our Virtual Meeting service in September 2009 as an affordable, easy-to-use web event service that allows businesses to meet with customers, share and edit documents collaboratively, conduct training classes or deliver presentations from any computer with any browser from any location. Virtual Meeting allows unlimited meetings of unlimited duration for up to 50 participants per meeting. Additionally, Virtual Meeting seamlessly integrates with Virtual Office so users can easily search the corporate directory or share their workspace with other meeting participants. Virtual Meeting also enables meeting recording and management. Delivered as a cloud-based service, Virtual Meeting requires nothing more than a web browser for customers to create web events. Additionally, we offer Virtual Room, a video collaboration service, which is a low-cost alternative to traditional tele-presence solutions.

Sales, Marketing and Promotional Activities

We currently sell and market our services to end users through our direct sales force, website, and channel partners. Our sales force primarily handles inbound telephone calls and website leads which are generated from third party lead generation sources and direct web advertising such as Google, or traditional advertising channels such as in-flight magazines and billboards. Sales representatives are paid a base salary or hourly rate and monthly commission for selling our products and services. The commission is based on new sales made by the sales representative. Our sales department employs more than 100 people.

Competition

Given the breadth of our communications and collaboration platform, we face competition from a variety of firms, none of whom currently competes directly with our entire set of cloud UCC services, but who separately compete with us on one or more of such services. We believe that the principal competitive factors affecting our ability to attract and retain customers are price, call quality, reliability, customer service, and breadth of services delivered via the Internet. For more information regarding the risks associated with such competition, please refer to our "Risk Factors" below.

Incumbent Telephone Companies and Alternative Voice Communications Providers

In telephony, we face competition from incumbent telephone companies, cable companies and alternative voice and video communication providers, including cloud telephony providers. Because most of our target customers are already purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract these customers away from their existing providers.

The incumbent telephone companies are our primary competitors in telephony. These competitors include AT&T, CenturyLink and Verizon Communications. These competitors are substantially larger and better capitalized than we are and have the advantage of a large existing customer base, and larger marketing budgets than we have. Moreover, they also provide some of the broadband services that are required to use our service, which is a significant competitive advantage. However, the services offered by these competitors are typically more expensive to adopt, typically require on-premise implementations and require regular hardware and IT infrastructure upgrades. Furthermore, these competitors typically provide limited functionality needed for our customers to integrate their communication systems with their IT infrastructure, therefore requiring additional system integration investments and set up.

Competitors of our cloud telephony and contact center service also include traditional PBX providers including Cisco Systems, Inc. and Avaya Holdings Corp. and other cloud telephony and contact center providers such as Comcast Corporation, inContact, Inc., Microsoft Corporation and RingCentral, Inc. These competitors have services offerings primarily limited to telephony and do not offer the breadth nor deployment simplicity of our cloud UCC services.

We believe our integrated UCC services compete favorably with our competitors because a deployment of a collection of their services offered that is equivalent to a similar deployment of our services is likely to be more expensive and difficult to manage. In addition, in a distributed office setting, on-premise solutions typically will be more expensive due to the requirement to locate on-premise equipment in each office location. Furthermore, the incumbent telephone companies may not have service offerings across the customer's entire office footprint due to the geographic centric business model of traditional telecommunications companies that limits their terrestrial service offering to geographies where they have physical network facilities. By way of example, the largest incumbent telephone exchange carriers do not have nationwide coverage across the United States for their traditional fixed line telephony service.

Communications and Collaboration Software Vendors

We also face competition from communications and collaboration vendors, including Citrix, Microsoft, VMware, Cisco and other companies. These competitors provide software solutions that compete with our cloud-based services offering in contact center, unified communications, and virtual meeting. While none of these competitors currently have services offerings that span the entire breadth of our services offerings, they each have strong software solutions for their respective communications and/or collaboration silos. Many of these competitors are substantially larger and better capitalized than we are and have the advantage of a large existing customer base, and larger marketing budgets than we have. However, we believe that a deployment of a collection of their software solutions that is equivalent to a similar deployment of our services is likely to be more expensive for the customer.

Operations

Our Infrastructure Manager consists of data management, monitoring, control and billing systems that support all of our products and services. We have invested substantial resources to develop and implement our real-time call management information system. Key elements of our Infrastructure Manager include a prospective customer quotation portal, customer provisioning, customer access, fraud control, network security, call routing, call monitoring, media processing and normalization, call reliability, detailed call record storage and billing and integration with third-party applications. We maintain a call switching platform in software that manages call admission, call control, call rating and routes calls to an appropriate destination or customer premise equipment.

Network Operations Center

We maintain a network operations center at our headquarters in San Jose, California and employ a staff of approximately 50 individuals with experience in voice and data operations to provide 24-hour operations support, seven days per week. We use various tools to monitor and manage all elements of our network and our partners' networks in real-time. We also monitor the network elements of some of our larger business customers. Additionally, our network operations center provides technical support to troubleshoot equipment and network problems. We also rely upon the network operations centers and resources of our telecommunications carrier partners such as Level 3 Communications, Inc. and data center providers such as Equinix, Inc. to augment our monitoring and response efforts.

Customer and Technical Support

We maintain a call center at our headquarters in San Jose, California and have a staff of more than 100 employees and contractors that provide customer service and technical support to customers. In addition, we have outsourced some customer support activities to third parties. Customers who access our services directly through our web site receive customer service and technical support through multilingual telephone communication, web-based and "chat" sessions, and e-mail support.

Interconnection Agreements

We are a party to telecommunications interconnect and service agreements with VoIP providers and PSTN telecommunications carriers, such as Level3 Communications, Verizon Communications and Inteliquent. Pursuant to these agreements, VoIP calls originating on our network can be terminated on other VoIP networks or the PSTN. Correspondingly, calls originating on other VoIP networks and the PSTN can be terminated on our network.

Research and Development

The UCC in the cloud market is characterized by rapid technological changes and advancements. Accordingly, we make substantial investments in the design and development of new products and services, as well as the development of enhancements and features to our existing products and services. Future development also will focus on the use and interoperability of our products and services with emerging audio and video telephony standards and protocols, quality and performance enhancements to multimedia compression algorithms, support of new customer premise equipment, new unified software services and the enhancement of existing products and services that are essential to our success.

We currently employ more than 75 individuals in research, development and engineering activities in our facilities in San Jose, California as well as outsourced software development consultants. Research and development expenses in each of the fiscal years ended March 31, 2014, 2013 and 2012 were $11.6 million, $8.1 million and $6.7 million, respectively.

Regulatory Matters

VoIP and other communications and collaboration services, like ours, have been subject to less regulation at the state and federal levels than traditional telecommunications services. Providers of traditional telecommunications services are subject to the highest degree of regulation, while providers of information services are largely exempt from most federal and state regulations governing traditional common carriers. The FCC has subjected VoIP service providers to a smaller subset of regulations that apply to traditional telecommunications service providers and has not yet classified VoIP services as either telecommunications or information. The FCC is currently examining the status of VoIP service providers and the services they provide in multiple open proceedings. In addition, many state regulatory agencies impose taxes on VoIP services, and certain states take the position that offerings by VoIP providers are intrastate telecommunications services and therefore subject to state regulation. These states argue that if the beginning and end points of communications are known, and if some of these communications occur entirely within the boundaries of a state, the state can regulate that offering. We believe that the FCC has preempted states from regulating VoIP offerings in the same manner as providers of traditional telecommunications services. However, this issue has not been resolved definitively as a matter of law, and it remains possible that the FCC could determine that such services are not information services, or that there could be a judicial or legislative determination that the states are not preempted from regulating VoIP services as traditional telecommunications services. We cannot predict how this issue will be resolved or its future impact on our business at this time.

The effect of any future laws, regulations and orders on our operations, including, but not limited to, our cloud-based communications and collaboration services, cannot be determined. But as a general matter, increased regulation and the imposition of additional funding obligations increases service costs that may or may not be recoverable from our customers, which could result in making our services less competitive with traditional telecommunications services if we increase our prices or decreasing our profit margins if we attempt to absorb such costs.

In addition to regulations addressing Internet telephony and broadband services, other regulatory issues relating to the Internet, in general, could affect our ability to provide our services. Congress has adopted legislation that regulates certain aspects of the Internet including online content, user privacy, taxation, liability for third party activities and jurisdiction. In addition, a number of initiatives pending in Congress and state legislatures would prohibit or restrict advertising or sale of certain products and services on the Internet, which may have the effect of raising the cost of doing business on the Internet generally.

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate and/or tax applications running over the Internet. We cannot predict whether new taxes will be imposed on our services, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition and results of operations. Please refer to Part I, Item 1A. "Risk Factors" for a discussion of regulatory risks, proceedings and issues that could adversely affect our business and operating results in the future.

Intellectual Property and Proprietary Rights

Our ability to compete depends, in part, on our ability to obtain and enforce intellectual property protection for our technology in the United States and internationally. We currently rely primarily on a combination of trade secrets, patents, copyrights, trademarks and licenses to protect our intellectual property. As of March 31, 2014, we have been awarded 92 United States patents, more than 60 of which we currently hold and which we expect to expire between 2014 and 2032. We have additional United States and foreign patents pending. We cannot predict whether our pending patent applications will result in issued patents.

To protect our trade secrets and other proprietary information, we require our employees to sign agreements providing for the maintenance of confidentiality and also the assignment of rights to inventions made by them while in our employ. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competition will not independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any of our patents. In addition, the laws of foreign countries in which our products are or may be sold do not protect our intellectual property rights to the same extent as do the laws of the United States. Our failure to protect our proprietary information could cause our business and operating results to suffer.

We are also subject to the risks of adverse claims and litigation alleging infringement of the intellectual property rights of others. Such claims and litigation could require us to expend substantial resources and distract key employees from their normal duties, which could have a material adverse effect on our operating results, cash flows and financial condition. The communications and software industries are subject to frequent litigation regarding patent and other intellectual property rights. Moreover, the VoIP service provider community has historically been a target of patent holders. There is a risk that we will be a target of assertions of patent rights and that we may be required to expend significant resources to investigate and defend against such assertions of patent rights. For information about specific claims, please refer to Part I, Item 1A, Risk Factors - "Our infringement of a third party's proprietary technology could disrupt our business" and Part I, Item 3. "LEGAL PROCEEDINGS."

We rely upon certain technology, including hardware and software, licensed from third parties. These licenses are on standard commercial terms made generally available by the companies providing the licenses. To date, the cost and terms of these licenses individually has not been material to our business. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future will be available to us on commercially reasonable terms or at all, however. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business.

Geographic Areas

Most of our customers and substantially all of our revenues are in the U.S. Revenue from customers outside the United States was not material for the fiscal years ended March 31, 2014, 2013 and 2012. We have only one reportable segment. Financial information relating to revenues generated in different geographic areas are set forth in Note 7 to our consolidated financial statements contained in Part II, Item 8 of this Report.

Employees

As of March 31, 2014, our workforce consisted of 484 employees. None of our employees are represented by a labor union or are subject to a collective bargaining arrangement.

Executive Officers of the Registrant

Our executive officers as of the date of this report are listed below.

Vikram Verma, Chief Executive Officer.

Vikram Verma, age 49, has served as Chief Executive Officer since September 2013 and as a director since January 2012. From October 2008 through August 2013, Mr. Verma was President of Strategic Venture Development for Lockheed Martin. From 2006 through 2008, Mr. Verma was President of the IS&GS Savi Group, a division of Lockheed Martin. Mr. Verma received a B.S.E.E. degree from Florida Institute of Technology, an M.S.E. degree from the University of Michigan in electrical engineering, and a graduate degree of Engineer in Electrical Engineering from Stanford University.

Bryan Martin, Chairman and Chief Technology Officer.

Bryan Martin, age 46, has served as Chairman of the Board of Directors since December 2003, has served as the Chief Technology Officer since September 2013 and as a director since February 2002. From February 2002 to September 2013, he served as the Chief Executive Officer. From March 2007 to November 2008, and again from April 2011 to December 2011, he served as President. From February 2001 to February 2002, he served as our President and Chief Operating Officer. He served as our Senior Vice President, Engineering Operations from July 2000 to February 2001 and as Chief Technical Officer from August 1995 to August 2000. He also served as a director of the Company from January 1998 through July 1999. In addition, Mr. Martin served in various technical roles for the Company from April 1990 to August 1995. He received a B.S. and an M.S. in Electrical Engineering from Stanford University.

Dan Weirich, Chief Financial Officer.

Dan Weirich, age 40, has served as our Chief Financial Officer since July 2006. From November 2008 to March 2011, Mr. Weirich also served as our President. From June 2006 to July 2006, Mr. Weirich served as our Acting Chief Financial Officer. He was our Vice President of Operations from April 2006 to June 2006 and Director of Strategic Sales from March 2004 to April 2006. Prior to joining us, Mr. Weirich served in various roles for iAsiaWorks, Qwest Communications and Phoenix Network. He received a B.S. in International Business from the University of Colorado at Boulder.

Darren Hakeman, Senior Vice President of Product and Strategy.

Darren Hakeman, age 44, has served as our Senior Vice President of Product and Strategy since September 2013. From 2009 to 2013, Hakeman worked as a strategic advisor to leading Silicon Valley companies and emerging start-ups including Authentication Metrics, Inc. (now Agari), Blackfire Research, and a major global security company. Prior to 2009, he served as Senior Vice President of Operations for a SaaS Business Unit of Lockheed Martin that emerged following Lockheed's acquisition of Savi Technology, Inc. He received a B.S. and an M.S. in Electrical Engineering from Stanford University.

Huw Rees, Senior Vice President of Business Development.

Huw Rees, age 53, has served as Senior Vice President of Business Development and Vice President of Business Development since November 2008. From January 2001 to November 2008, Mr. Rees served as our Vice President, Sales and Marketing. He served as the Chairman and Chief Executive Officer of the Company's wholly owned subsidiary, Centile, Inc., from July 2001 until September 2003. Additionally, he served as Vice President, Sales and Business Development of Centile from March 2001 to July 2001. He served as Vice President, Sales of the Solutions Group of the Company from August 2000 until February 2001 and as Director, North American Sales of the Company from April 1999 to August 2000. He previously worked at Mitel Corporation as Sales Manager of the Western Region and also in sales management roles at GEC Plessey Inc. and Marconi PLC. He received a B.Sc. (Hons) from the University of Manchester, Institute of Science and Technology in Electrical and Electronic Engineering and a M.B.A. from the University of LaVerne.

ITEM 1A. RISK FACTORS

If any of the following risks actually occur, our business, results of operations and financial condition could suffer significantly.

Our success depends on the growth and customer acceptance of our services.

Our future success depends on our ability to significantly increase revenue generated from our cloud communications and collaboration services to business customers, including SMBs and mid-market and larger distributed enterprises. To increase our revenue, we must add new customers and encourage existing customers to continue their subscriptions on terms favorable to us, increase their usage of our services, and purchase additional services from us. For customer demand and adoption of our cloud communications and collaboration services to grow, the quality, cost and feature benefits of these services must be sufficient to cause customers to adopt them. For example, our cloud telephony and contact center services must continue to evolve so that high-quality service and features can be consistently provided at competitive prices. As our target markets mature, or as competitors introduce lower cost and/or differentiated products or services that are perceived to compete with ours, our ability to sell new customers and obtain renewals from existing customers could be impaired. As a result, we may be unable to extend our agreements with existing customers or attract new customers or new business from existing customers on terms that would be favorable or comparable to prior periods, which could have an adverse effect on our revenue and growth.

Historically, our core service offerings have been our cloud telephony and contact center services, which contributed a substantial majority of our revenues in fiscal years ended March 31, 2014, 2013 and 2012. Marketing and selling new and enhanced features and services, and additional communications and collaboration offerings, may require increasingly sophisticated and costly sales efforts. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions and their reactions to any price changes related to these additional features and services. If our efforts to upsell to our customers are not successful and negative reaction occurs, our business may suffer.

To support the successful marketing and sale of our services to new and existing customers, we must continue to offer high-quality education and customer support. Providing this education and support requires that our customer support personnel have specific technical knowledge and expertise, making it more difficult and costly for us to hire qualified personnel and to scale up our support operations due to the extensive training required. The importance of high-quality customer support will increase as we expand our business and pursue new mid-market and distributed enterprise customers. If we do not help our customers quickly resolve post-deployment issues and provide effective ongoing support, our ability to sell additional functionality and services to existing customers will suffer and our reputation with existing or potential customers will be harmed.

Furthermore, we operate in an industry that is subject to significant federal and state regulation in the United States and regulation by various governments and governmental bodies in other countries in which we offer our communications and collaboration services. Regulations may impede the growth of our business, impose significant additional costs, and require substantial changes to software and other technology. Also, new regulations may be adopted that materially reduce demand for our services by businesses.

We face significant risks in our strategy to target mid-market and larger distributed enterprises for sales of our services and, if we do not manage these efforts effectively, our business and results of operations could be materially and adversely affected.

We currently derive a minority of our revenues from sales of our cloud communications and collaboration services to mid-market and larger distributed enterprises, but we believe penetrating these customers is key to our future growth. As we target more of our sales efforts to mid-market and larger distributed enterprises, our sales cycle may become more time-consuming and expensive, we may encounter pricing pressure and implementation and customization challenges, and revenue recognition may be delayed for some complex transactions, all of which could harm our business and operating results. In this market segment, the customer's decision to use our service may be an enterprise-wide decision and, if so, these types of sales would require us to provide greater levels of education regarding the use and benefits of our service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. As a result of these factors, these sales opportunities may require us to devote greater sales support and engineering services resources to individual customers, driving up costs and time required to complete sales and diverting our own sales and engineering resources to a smaller number of larger transactions, while potentially delaying revenue recognition on transactions for which we must meet technical or implementation requirements. Furthermore, we may invest significant time and resources with no assurance that a sale will ever be made. We also face challenges building and training an integrated sales force capable of fully addressing the services and features contained in all of the components in our communications and collaboration suite, as well as a staff of expert engineering and customer support personnel capable of addressing the full range of installation and deployment issues that can arise with a comprehensive suite of services like ours. Also, we have only limited experience in developing and managing sales channels and distribution arrangements for larger businesses. If we fail to effectively execute our strategy to target mid-market and larger distributed enterprises, our results of operations and our overall ability to grow our customer base could be materially and adversely affected.

In addition, larger customers may demand more features, integration services and customization. We have a limited history of selling our services to larger businesses and have experienced and may continue to experience new challenges in providing our cloud communications and collaboration services to large customers. If a customer is not satisfied with the quality of work performed by us or a third party or with the type of services or solutions delivered, then we might incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction with our services could damage our ability to obtain additional work from that customer. In addition, negative publicity related to our customer relationships, regardless of its accuracy, could further damage our business by affecting our ability to compete for new business with current and prospective customers.

Intense competition in the markets in which we compete could prevent us from increasing or sustaining our revenue and increasing or maintaining profitability.

The business of cloud communications and collaboration services is competitive, and we expect it to become increasingly competitive in the future. We may also face competition from large Internet companies, any of which might launch its own cloud-based business communications services or acquire other cloud-based business communications companies in the future.

In connection with our cloud telephony services, we face competition from incumbent telephone companies, cable companies and alternative voice and video communication providers, including other providers of cloud telephony services. Because most of our target customers are already purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract these customers away from their existing providers. The incumbent telephone companies are our primary competitors in cloud communications and collaboration. These competitors include AT&T, CenturyLink and Verizon Communications as well as rural incumbents, such as Windstream. In addition, in connection with all of our collaboration and communications services, we face competition from traditional private branch exchange, or PBX, providers, including Cisco Systems and Avaya and other providers of cloud telephony and contact center services, such as Comcast, inContact, Microsoft and RingCentral.

Many of our current and potential competitors have longer operating histories, significantly greater resources and brand awareness, and a larger base of customers than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours. Our competitors may also offer bundled service arrangements that offer a more complete or better integrated product to customers. Competition could decrease our prices, reduce our sales, lower our gross profits or decrease our market share. In addition, our customers are not subject to long-term contractual commitments to purchase our services and can terminate our service and switch to competitors' offerings on short notice.

Given the significant price competition in the markets for our services, we are at a significant disadvantage compared with many of our competitors, especially those with substantially greater resources who may be better able to withstand an extended period of downward pricing pressure. The adverse impact of a shortfall in our revenues may be magnified by our inability to adjust our expenses to compensate for such shortfall. Announcements, or expectations, as to the introduction of new products and technologies by our competitors or us could cause customers to defer purchases of our existing products, which also could have a material adverse effect on our business, financial condition or operating results.

Because we recognize revenue from customer subscriptions over the term of the relevant contract, the effects of customer additions, cancellations and changes in subscribed services are not immediately reflected in full in our operating results.

As a subscription-based business, we recognize revenue over the term of each of our contracts, which generally range from one to five years. As a result, much of the revenue we report each quarter results from contracts entered into during previous quarters. Consequently, a shortfall in demand for our cloud communications and collaboration services or a decline in new or renewed contracts in any one quarter may not significantly reduce our revenue for that quarter but could negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in new sales or cancellations of our services and subscriptions from new customers or for additional services from existing customers will impact our ongoing monthly recurring revenue but will not be reflected fully in our operating results until future periods. Our revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable term of the contracts.

We have a history of losses and are uncertain of our future profitability.

We recorded operating income of $3.1 million for the fiscal year ended March 31, 2014 and ended the period with an accumulated deficit of $106.7 million. We recorded operating income adjusted for discontinued operations of approximately $22.7 million and $8.6 million for the fiscal years ended March 31, 2013 and 2012, respectively. Although we have achieved operating income in each of our four most recent fiscal years, we suffered operating losses in each of the three prior fiscal years and may incur operating losses in the future, which may be substantial. As we expand our geographic reach and service offerings, and further invest in research and development and sales and marketing, we will need to increase revenues in order to generate sustainable operating profit. Given our history of fluctuating revenues and operating losses, we cannot be certain that we will be able to maintain operating profitability on an annual basis or on a quarterly basis in the future.

A higher rate of customer cancellations would negatively affect our business by reducing our revenue or requiring us to spend more money to grow our customer base.

Our customers generally do not have long-term contracts with us and may discontinue their subscriptions for our services after the expiration of their subscription period, which range from one to five years. In addition, our customers may renew for lower subscription amounts or for shorter contract lengths. We may not accurately predict cancellation rates for our customers. Our cancellation rates may increase or fluctuate as a result of a number of factors, including customer usage, pricing changes, number of applications used by our customers, customer satisfaction with our service, the acquisition of our customers by other companies and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or decrease the amount they spend with us, our revenue will decline and our business will suffer.

Our average monthly business service revenue churn was 1.3% for the fiscal year ended March 31, 2014 compared with 1.7% for the fiscal year ended March 31, 2013. Our churn rate could increase in the future if customers are not satisfied with our service. Other factors, including increased competition from other providers of communications and collaborations services, alternative technologies, and adverse business conditions also influence our churn rate.

Because of churn, we must acquire new customers on an ongoing basis to maintain our existing level of customers and revenues. As a result, marketing expenditures are an ongoing requirement of our business. If our churn rate increases, we will have to acquire even more new customers in order to maintain our existing revenues. We incur significant costs to acquire new customers, and those costs are an important factor in determining our net profitability. Therefore, if we are unsuccessful in retaining customers or are required to spend significant amounts to acquire new customers beyond those budgeted, our revenue could decrease and our net income could decrease.

Although the majority of our billing arrangements with customers are prepaid, we regularly monitor the percentage of customers who cease to pay for our services due to closing or downsizing their business. Even though our customer churn rates improved in fiscal 2014, we believe that between 25% and 50% of our total customer churn is related to customers' financial condition and we cannot be certain that we will continue to experience the same improvement in churn rates given current economic conditions. Due to the length of our sales cycle, especially in adding new mid-market and larger distributed enterprises as customers, we may experience delays in acquiring new customers to replace those that have terminated our services. Such delays would be exacerbated if general economic conditions worsen. An increase in churn, particularly in challenging economic times, could have a negative impact on the results of our operations.

The impact of the current economic climate and adverse credit markets may impact demand for our products and services by our targeted customers.

The majority of our existing and target customers are in the SMB and mid-market business sectors. These businesses may be more likely to be significantly affected by economic downturns than larger, more established businesses. They also may be more likely to require working capital financing from local and regional banks whose lending activities have been reduced substantially since 2008, as a result of which many of our existing and target customers may lack the funds necessary to add new equipment and services such as ours. Additionally, these customers often have limited discretionary funds which they may choose to spend on items other than our products and services. If small and medium businesses continue to experience economic hardship, this could negatively affect the overall demand for our products and services, delay and lengthen sales cycles and lead to slower growth or even a decline in our revenue, net income and cash flows.

The market for cloud communications and collaboration services is subject to rapid technological change, and we depend on new product and service introductions in order to maintain and grow our business.

We operate in an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we must continue to design, develop, manufacture, and sell new and enhanced cloud communications and collaboration products and services that provide higher levels of performance and reliability at lower cost. If we are unable to develop new services that address our customers' needs, to deliver our applications in one seamless integrated product offering that addresses our customers' needs, or to enhance and improve our services in a timely manner, we may not be able to achieve or maintain adequate market acceptance of our services. Our ability to grow is also subject to the risk of future disruptive technologies. Access and use of our services is provided via the cloud, which, itself, has been disruptive to the previous premise-based model. If new technologies emerge that are able to deliver communications and collaboration services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete.

Maintaining adequate research and development personnel and resources is essential to new product development and continued innovation, and we intend to increase our investment in research and development activities to add new features and services to our offerings. If we are unable to develop new features and services internally due to certain constraints, such as high employee turnover, lack of management ability or a lack of other research and development resources, we may miss market opportunities. Further, many of our competitors expend a considerably greater amount of funds on their research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. In addition, there is no guarantee that our research and development efforts will succeed, or that our new products and services will enable us to maintain or grow our revenue or recover our development costs. Our failure to maintain adequate research and development resources, to compete effectively with the research and development programs of our competitors and to successfully monetize our research and development efforts could materially and adversely affect our business and results of operations.

We may not be able to scale our business quickly enough to meet our customers' growing needs and if we are not able to grow efficiently, our operating results could be harmed.

As usage of our communications and collaboration services by mid-market and larger distributed enterprises expands and as customers continue to integrate our services across their enterprises, we will need to devote additional resources to improving our application architecture, integrating our products and applications across our technology platform, integrating with third-party systems, and maintaining infrastructure performance. As our customers gain more experience with our services, the number of users and transactions managed by our services, the amount of data transferred, processed and stored by us, the number of locations where our service is being accessed, and the volume of communications managed by our services have in some cases, and may in the future, expand rapidly. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and services, to serve our growing customer base. Any failure of or delay in these efforts could cause impaired system performance and reduced customer satisfaction. These issues could reduce the attractiveness of our cloud communications and collaboration services to customers, resulting in decreased sales to new customers, lower renewal rates by existing customers, the issuance of service credits, or requested refunds, which could hurt our revenue growth and our reputation. Even if we are able to upgrade our systems and expand our staff, any such expansion will be expensive and complex, requiring management time and attention and increasing our operating expenses. We could also face inefficiencies or operational failures as a result of our efforts to scale our infrastructure. Moreover, there are inherent risks associated with upgrading, improving and expanding our information technology systems. We cannot be sure that the expansion and improvements to our infrastructure and systems will be fully or effectively implemented on a timely basis, if at all. These efforts may reduce revenue and our margins and adversely impact our financial results.

To provide our services, we rely on third parties for all of our network connectivity and co-location facilities.

We currently use the infrastructure of third-party network service providers, including the services of Equinix, Inc., and Level 3 Communications, Inc., to provide all of our cloud services over their networks rather than deploying our own networks.

We also rely on third-party network service providers to originate and terminate substantially all of the PTSN calls using our cloud-based services. We leverage the infrastructure of third party network service providers to provide telephone numbers, PSTN call termination and origination services, and local number portability for our customers rather than deploying our own network throughout the United States. This decision has resulted in lower capital and operating costs for our business in the short-term, but has reduced our operating flexibility and ability to make timely service changes. If any of these network service providers cease operations or otherwise terminate the services that we depend on, the delay in switching our technology to another network service provider, if available, and qualifying this new service provider could have a material adverse effect on our business, financial condition or operating results. The rates we pay to our network service providers may also increase, which may reduce our profitability and increase the retail price of our service.

While we believe that relations with our current service providers are good, and we have contracts in place, there can be no assurance that these service providers will be able or willing to supply cost-effective services to us in the future or that we will be successful in signing up alternative or additional providers. Although we believe that we could replace our current providers, if necessary, our ability to provide service to our subscribers could be impacted during this any such transition, which could have an adverse effect on our business, financial condition or results of operations. The loss of access to, or requirement to change, the telephone numbers we provide to our customers also could have a material adverse effect on our business, financial condition or operating results.

Due to our reliance on these service providers, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of hardware and software errors, whether caused by our service or products or those of another vendor, may result in the delay or loss of market acceptance of our products and any necessary revisions may force us to incur significant expenses. The occurrence of some of these types of problems may seriously harm our business, financial condition or operating results.

Our physical infrastructure is concentrated in a few facilities and any failure in our physical infrastructure or services could lead to significant costs and disruptions and could reduce our revenue, harm our business reputation and have a material adverse effect on our financial results.

Our leased network and data centers are subject to various points of failure. Problems with cooling equipment, generators, uninterruptible power supply, routers, switches, or other equipment, whether or not within our control, could result in service interruptions for our customers as well as equipment damage. Because our services do not require geographic proximity of our data centers to our customers, our infrastructure is consolidated into a few large data center facilities. Any failure or downtime in one of our data center facilities could affect a significant percentage of our customers. The total destruction or severe impairment of any of our data center facilities could result in significant downtime of our services and the loss of customer data. Because our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions in our service could harm our reputation. Additionally, in connection with the expansion or consolidation of our existing data center facilities from time to time, there is an increased risk that service interruptions may occur as a result of server relocation or other unforeseen construction-related issues.

We have experienced interruptions in service in the past. While we have not experienced a material increase in customer attrition following these events, the harm to our reputation is difficult to assess. We have taken and continue to take steps to improve our infrastructure to prevent service interruptions, including upgrading our electrical and mechanical infrastructure. However, service interruptions continue to be a significant risk for us and could materially impact our business.

Any future service interruptions could:

- cause our customers to seek damages for losses incurred;
- require us to replace existing equipment or add redundant facilities;
- affect our reputation as a reliable provider of hosting services;
- cause existing customers to cancel or elect to not renew their contracts; or
- make it more difficult for us to attract new customers.

Any of these events could materially increase our expenses or reduce our revenue, which would have a material adverse effect on our operating results.

We may also be required to transfer our servers to new data center facilities in the event that we are unable to renew our leases on acceptable terms, or at all, or the owners of the facilities decide to close their facilities, and we may incur significant costs and possible service interruption in connection with doing so. In addition, any financial difficulties, such as bankruptcy or foreclosure, faced by our third-party data center operators, or any of the service providers with which we or they contract, may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our increasing needs for capacity, our ability to grow our business could be materially and adversely impacted.

We depend on third-party vendors for IP phones and software endpoints, and any delay or interruption in supply by these vendors would result in delayed or reduced shipments to our customers and may harm our business.

We rely on third-party vendors for IP phones and software endpoints required to utilize our service. We currently do not have long-term supply contracts with any of these vendors. As a result, most of these third-party vendors are not obligated to provide products or services to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. The inability of these third-party vendors to deliver IP phones of acceptable quality and in a timely manner, particularly the sole source vendors, could adversely affect our operating results or cause them to fluctuate more than anticipated. Additionally, some of our products may require specialized or high-performance component parts that may not be available in quantities or in time frames that meet our requirements.

If we do not or cannot maintain the compatibility of our communications and collaboration software with third-party applications and mobile platforms that our customers use in their businesses, our revenue will decline.

The functionality and popularity of our communications and collaboration services depends, in part, on our ability to integrate our services with third-party applications and platforms, including enterprise resource planning, customer relations management, human capital management and other proprietary application suites. Third-party providers of applications and application programmable interfaces, or APIs, may change the features of their applications and platforms, restrict our access to their applications and platforms or alter the terms governing use of their applications and APIs and access to those applications and platforms in an adverse manner. Such changes could functionally limit or terminate our ability to use these third-party applications and platforms in conjunction with our services, which could negatively impact our offerings and harm our business. If we fail to integrate our software with new third-party back- end enterprise applications and platforms used by our customers, we may not be able to offer the functionality that our customers need, which would negatively impact our ability to generate revenue and adversely impact our business.

Our services also allow our customers to use and manage our cloud communications and collaboration services on smartphones, tablets and other mobile devices. As new smart devices and operating systems are released, we may encounter difficulties supporting these devices and services, and we may need to devote significant resources to the creation, support, and maintenance of our mobile applications. In addition, if we experience difficulties in the future integrating our mobile applications into smartphones, tablets or other mobile devices or if problems arise with our relationships with providers of mobile operating systems, such as those of Apple Inc. or Google Inc., our future growth and our results of operations could suffer.

If our software fails due to defects or similar problems, and if we fail to correct any defect or other software problems, we could lose customers, become subject to service performance or warranty claims or incur significant costs.

Our customers use our service to manage important aspects of their businesses, and any errors, defects, disruptions to our service or other performance problems with our service could hurt our reputation and may damage our customers' businesses. Our services and the systems infrastructure underlying our communications and collaboration platform incorporate software that is highly technical and complex. Our software has contained, and may now or in the future contain, undetected errors, bugs, or vulnerabilities. Some errors in our software code may only be discovered after the code has been released. Any errors, bugs, or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of users, loss of revenue, or liability for damages, any of which could adversely affect our business and financial results. We implement bug fixes and upgrades as part of our regularly scheduled system maintenance, which may lead to system downtime. Even if we are able to implement the bug fixes and upgrades in a timely manner, any history of defects, or the loss, damage or inadvertent release of confidential customer data, could cause our reputation to be harmed, and customers may elect not to purchase or renew their agreements with us and subject us to service performance credits, warranty claims or increased insurance costs. The costs associated with any material defects or errors in our software or other performance problems may be substantial and could materially adversely affect our operating results.

Our inability to use software licensed from third parties, or our use of open source software under license terms that interfere with our proprietary rights, could disrupt our business.

Our technology platform incorporates software licensed from third parties, including some software, known as open source software, which we use without charge. Although we monitor our use of open source software, the terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide our platform to our customers, content creators and brand advertisers. In the future, we could be required to seek licenses from third parties in order to continue offering our platform, which licenses may not be available on terms that are acceptable to us, or at all. Alternatively, we may need to re-engineer our platform or discontinue use of portions of the functionality provided by our platform. In addition, the terms of open source software licenses may require us to provide software that we develop using such software to others on unfavorable license terms. Our inability to use third party software could result in disruptions to our business, or delays in the development of future offerings or enhancements of existing offerings, which could impair our business.

Our business depends on continued, unimpeded access to the Internet by us and our users, but Internet access providers and Internet backbone providers may be able to block, degrade or charge for access to or bandwidth use of certain of our products and services, which could lead to additional expenses and the loss of users.

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. In addition, users who access our services and applications through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as Wi-Fi, 3G, 4G or LTE, to use our services and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers offer products and services that directly compete with our own offerings, which give them a significant competitive advantage. Some of these providers have stated that they may take measures that could degrade, disrupt or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings, while others, including some of the largest providers of broadband Internet access services, have committed to not engaging in such behavior. These providers have the ability generally to increase their rates, which may effectively increase the cost to our customers of using our cloud communications and collaboration services.

On January 14, 2014, the United States Court of Appeals for the District of Columbia Circuit vacated and remanded part of the Commission's Open Internet rules. Subsequently, on May 15, 2014, the Federal Communications Commission or FCC released a Notice of Proposed Rulemaking to consider new rules. We cannot predict the outcome of this rulemaking or predict whether any new rules will be subject to a legal appeal. Although we believe interference with access to our products and services is unlikely, broadband Internet access provider interference has occurred in limited circumstances in the United States and could result in a loss of existing users and increased costs, and could impair our ability to attract new users, thereby negatively impacting our revenue and growth.

Vulnerabilities to security breaches, cyber intrusions and other malicious acts could adversely impact our business.

Our operations depend on our ability to protect our network from interruption by damage from unauthorized entry, computer viruses or other events beyond our control. In the past, we may have been subject to denial or disruption of service, or DDOS, attacks by hackers intent on bringing down our services, and we may be subject to DDOS attacks in the future. We cannot assure you that our backup systems, regular data backups, security protocols, DDOS mitigation and other procedures that are currently in place, or that may be in place in the future, will be adequate to prevent significant damage, system failure or data loss.

Critical to our provision of service is the storage, processing, and transmission of confidential and sensitive data. We store, process and transmit a wide variety of confidential and sensitive information including credit card, bank account and other financial information, proprietary, trade secret or other data that may be protected by intellectual property laws, customers' and employees' personally identifiable information, as well as other sensitive information. We, along with others in the industry, will be subject to cyber threats and security breaches, either by third parties or employees, given the nature of the information we store, process and transmit. Our continued ability to securely store, process and transmit data is essential to our business.

We are aware of the risks associated with cyber threats and we have implemented a number of measures to protect ourselves from cyber attacks. Specifically, we have redundant servers such that if we suffer equipment or software failures in one location or on one set of servers, we have the ability to provide continuity of service. We actively monitor our network for cyber threats and implement protective measures periodically. We conduct vulnerability assessments and penetration testing and engage in remedial action based on such assessments. Depending on the evolving nature of cyber threats and the measures we may have to implement to continue to maintain the security of our networks and data, our profitability may be adversely be impacted or we may have to increase the price of our services that may make our offerings less competitive with other communications providers.

But, like all other companies in the marketplace, there is no guarantee that we will not be adversely impacted by cyber attacks. If our employees or third parties obtain unauthorized access to our network, or if our network is penetrated, our service could be disrupted and sensitive information could be lost, stolen or disclosed which could have a variety of negative impacts, including legal liability, investigations by federal and state law enforcement agencies, and exposure to fines or penalties, any of which could harm our business reputation and have a material negative impact on our business. In addition, to the extent we market our services as compliant with particular laws governing data privacy and security, such as HIPAA, a security breach that exposes protected information may make us susceptible to claims of false advertising and unfair trade practices for misrepresenting our level of compliance, in addition to any liability we may have for the breach itself.

Many governments have enacted laws requiring companies to notify individuals of data security incidents involving certain types of personal data. In addition, some of our customers contractually require notification of any data security compromise. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

There can be no assurance that any limitations of liability provisions in our contracts for a security breach would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and operating results.

Failure to comply with laws and contractual obligations related to data privacy and protection could have a material adverse effect on our business, financial condition and operating results.

We are subject to the data privacy and protection laws and regulations adopted by federal, state and foreign governmental agencies. Data privacy and protection is highly regulated, and may become the subject of additional regulation in the future. Privacy laws restrict our storage, use, processing, disclosure, transfer and protection of non-public personal information, including credit card data, provided to us by our customers. We strive to comply with all applicable laws, regulations, policies and legal obligations relating to privacy and data protection. However, it is possible that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We are also subject to the privacy and data protection-related obligations in our contracts with our customers and other third parties. Any failure, or perceived failure, by us to comply with federal, state, or international laws, including laws and regulations regulating privacy, data or consumer protection, or to comply with our contractual obligations related to privacy, could result in proceedings or actions against us by governmental entities or others, which could result in significant liability to us as well as harm to our reputation.

We could be liable for breaches of security on our website, fraudulent activities of our users, or the failure of third party vendors to deliver credit card transaction processing services.

A fundamental requirement for operating an Internet-based, worldwide communication and collaboration service and electronically billing our customers is the secure transmission of confidential information and media over public networks. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. The law relating to the liability of providers of online payment services is currently unsettled and states may enact their own rules with which we may not comply. We rely on third party providers to process and guarantee payments made by our subscribers up to certain limits, and we may be unable to prevent our customers from fraudulently receiving goods and services. Our liability risk will increase if a larger fraction of transactions effected using our cloud-based services involve fraudulent or disputed credit card transactions. Any costs we incur as a result of fraudulent or disputed transactions could harm our business. In addition, the functionality of our current billing system relies on certain third party vendors delivering services. If these vendors are unable or unwilling to provide services, we will not be able to charge for our services in a timely or scalable fashion, which could significantly decrease our revenue and have a material adverse effect on our business, financial condition and operating results.

We must maintain Payment Card Industry Data Security Standard, or PCI DSS, compliance to bill our customers via credit card. If we fail to meet minimum-security standards for PCI DSS compliance, credit card providers such as American Express Company or Visa Inc. could refuse to process credit card transactions on our behalf and our ability to collect payments from our customers would be adversely impacted.

We may also experience losses due to subscriber fraud and theft of service. Subscribers have, in the past, obtained access to our service without paying for monthly service and international toll calls by unlawfully using our authorization codes or by submitting fraudulent credit card information. To date, such losses from unauthorized credit card transactions and theft of service have not been significant. We have implemented anti-fraud procedures in order to control losses relating to these practices, but these procedures may not be adequate to effectively limit all of our exposure in the future from fraud. If our procedures are not effective, consumer fraud and theft of service could significantly decrease our revenue and have a material adverse effect on our business, financial condition and operating results. In addition, software and security flaws in our software can result in unauthorized access to our core network resulting in damages such as fraudulent toll usage on our network.

Additionally, third parties have attempted in the past, and may attempt in the future, to fraudulently induce domestic and international employees, consultants or customers into disclosing sensitive information, such as user names, passwords or customer proprietary network information, or CPNI, or other information in order to gain access to our customers' data or to our data. CPNI includes information such as the phone numbers called by a consumer, the frequency, duration, and timing of such calls, and any services/features purchased by the consumer, such as call waiting, call forwarding, and caller ID, in addition to other information that may appear on a consumer's bill.

Natural disasters, war, terrorist attacks or malicious conduct could adversely impact our operations that could degrade or impede our ability to offer services.

As a provider of "cloud-based" services, our services rely on uninterrupted connection to the Internet through data centers and networks. Any interruption or disruption to our network, or the third parties on which we rely, could adversely impact our ability to provide service. Our network could be disrupted by circumstances outside of our control including natural disasters, acts of war, terrorist attacks or other malicious acts including, but not limited to, cyber attacks. Our headquarters, global networks operations center and one of our third- party data center facilities are located in the San Francisco Bay Area, a region known for seismic activity. Should any of these events occur and interfere with our ability to operate our network even for a limited period of time, we could incur significant expenses, lose substantial amounts of revenue, suffer damage to our reputation, and lose customers. Such an event may also impede our customers' connections to our network, since these connections also occur over the Internet, and would be perceived by our customers as an interruption of our services, even though such interruption would be beyond our control. Any of these events could have a material adverse impact on our business.

We license technology from third parties that we do not control and cannot be assured of retaining.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future, will be available to us on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in delays or reductions in the installation and deployment of our cloud communications and collaboration services until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. Software defects in the core IP and networking hardware we license from vendors, over which we have little or no control, can adversely affect our ability to deliver services to our customers and could harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.

Our infringement of a third party's proprietary technology could disrupt our business.

There has been substantial litigation in the communications, cloud telephony services, semiconductor, electronics, and related industries regarding intellectual property rights and, from time to time, third parties may claim that we, our customers, our licensees or parties' indemnified by us are infringing, misappropriating or otherwise violating their intellectual property rights. Third parties may also claim that our employees have misappropriated or divulged their former employers' trade secrets or confidential information. Our broad range of current and former technology, including IP telephony systems, digital and analog circuits, software, and semiconductors, increases the likelihood that third parties may claim infringement by us of their intellectual property rights. For example, on May 2, 2008, we received a letter from AT&T Intellectual Property, L.L.C., or AT&T IP, expressing the belief that we must license a specified patent for use in our 8x8 broadband telephone service, as well as suggesting that we obtain a license to its portfolio of MPEG-4 patents for use with our video telephone products and services. At the same time, we began an evaluation of whether AT&T IP's affiliated entities may need to license any of our patents or other intellectual property. We have continued to engage in discussions with AT&T IP to explore a mutually agreeable resolution of the parties' respective assertions regarding these intellectual property issues. We are unable at this time to state whether we will enter into any license or cross-license agreements with AT&T IP or whether we ultimately anticipate any material effects on our operating results or financial condition as a consequence of these matters.

Certain technology necessary for us to provide our services may, in fact, be patented by other parties either now or in the future. If such technology were held under patent by another person, we would have to negotiate a license for the use of that technology, which we may not be able to negotiate at a price that is acceptable or at all. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using such technology and offering products and services incorporating such technology.

We have recently been named as defendants in four patent infringement lawsuits. On February 22, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with 20 other defendants. On October 25, 2011, we were named a defendant in a lawsuit, Klausner Technologies, Inc. v. Oracle Corporation et al., along with 30 other defendants. On March 31, 2014, we were named a defendant in a lawsuit, CallWave Communications LLC v. 8x8, Inc. On April 23, 2014, we were named but not served as a defendant in a lawsuit, TQP Development LLC v. 8x8, Inc. On April 30, 2014 (and before any service of the complaint), TQP Development filed papers to dismiss this lawsuit and other lawsuits that were filed on or about the same time. If we are found to be infringing on the intellectual property rights of any third party in these lawsuits or other claims and proceedings that may be asserted against us in the future, we could be subject to monetary liabilities for such infringement, which could be material. We could also be required to refrain from using, manufacturing or selling certain products or using certain processes, either of which could have a material adverse effect on our business and operating results. From time to time, we have received, and may continue to receive in the future, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. There can be no assurance that we will prevail in these discussions and actions or that other actions alleging infringement by us of third party patents will not be asserted or prosecuted against us. Furthermore, lawsuits like these may require significant time and expense to defend, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition and cash flows. More information regarding the four pending suits is provided under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Inability to protect our proprietary technology would disrupt our business.

We rely, in part, on trademark, copyright, and trade secret law to protect our intellectual property in the United States and abroad. We seek to protect our software, documentation, and other written materials under trade secret and copyright law, which afford only limited protection. We also rely, in part, on patent law to protect our intellectual property in the United States and internationally. As of March 31, 2014, we had been awarded 92 United States patents, more than 60 of which we currently hold and which we expect to expire between 2014 and 2032. We have additional United States and foreign patents pending. We cannot predict whether such pending patent applications will result in issued patents, and if they do, whether such patents will effectively protect our intellectual property. The intellectual property rights we obtain may not be sufficient to provide us with a competitive advantage, and could be challenged, invalidated, infringed or misappropriated. We may not be able to protect our proprietary rights in the United States or internationally (where effective intellectual property protection may be unavailable or limited), and competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any patent of ours.

We attempt to further protect our proprietary technology and content by requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements. These agreements may not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property or technology.

Litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of our proprietary rights or the rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition, and operating results. Any settlement or adverse determination in such litigation would also subject us to significant liability.

We may also be required to protect our proprietary technology and content in an increasing number of jurisdictions, a process that is expensive and may not be successful, or which we may not pursue in every location. In addition, effective intellectual property protection may not be available to us in every country, and the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States and elsewhere, and from interpretations of intellectual property laws by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to obtain and maintain the intellectual property rights necessary to provide us with a competitive advantage.

Acquisitions may divert our management's attention, result in dilution to our stockholders and consume resources that are necessary to sustain our business.

On November 29, 2013, we acquired Voicenet Solutions Limited ("Voicenet"), a UK-based provider of cloud communications and collaboration services in the United Kingdom. In fiscal 2012, we completed two acquisitions of businesses. In fiscal 2011, we completed one acquisition and one investment in another company. If appropriate opportunities present themselves, we may make additional acquisitions or investments or enter into joint ventures or strategic alliances with other companies. Risks commonly encountered in such transactions include:

- the difficulty of assimilating the operations and personnel of the combined companies;
- the risk that we may not be able to integrate the acquired services or technologies with our current services, products, and technologies;
- the potential disruption of our ongoing business;
- the diversion of management attention from our existing business;
- the inability of management to maximize our financial and strategic position through the successful integration of the acquired businesses;
- difficulty in maintaining controls, procedures, and policies;
- the impairment of relationships with employees, suppliers, and customers as a result of any integration;
- the loss of an acquired base of customers and accompanying revenue;
- the assumption of leased facilities, other long-term commitments or liabilities that could have a material adverse impact on our profitability and cash flow; and
- the dilution to our existing stockholders from the issuance of additional shares of common stock or reduction of earnings per outstanding share in connection with an acquisition that fails to increase the value of our company.

As a result of these potential problems and risks, among others, businesses that we may acquire or invest in may not produce the revenue, earnings, or business synergies that we anticipate. In addition, there can be no assurance that any potential transaction will be successfully completed or that, if completed, the acquired business or investment will generate sufficient revenue to offset the associated costs or other potential harmful effects on our business.

Our future operating results may vary substantially from period to period and may be difficult to predict.

Our historical operating results have fluctuated significantly and will likely continue to fluctuate in the future, and a decline in our operating results could cause our stock price to fall. On an annual and a quarterly basis, there are a number of factors that may affect our operating results, many of which are outside our control. These include, but are not limited to:

- changes in market demand;
- the timing of customer subscriptions for our cloud communications and collaboration services;
- customer cancellations;

- changes in the competitive dynamics of our market, including consolidation among competitors or customers;
- lengthy sales cycles and/or regulatory approval cycles;
- new product introductions by us or our competitors;
- market acceptance of new or existing services and features;
- the mix of our customer base and sales channels;
- the mix of services sold;
- the number of additional customers, on a net basis;
- the amount and timing of costs associated with recruiting, training and integrating new employees;
- unforeseen costs and expenses related to the expansion of our business, operations and infrastructure;
- continued compliance with industry standards and regulatory requirements;
- introduction and adoption of our cloud communications and collaboration services in markets outside of the United States; and
- general economic conditions.

Due to these and other factors, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indicators of our future performance. It is possible that in some future periods our results of operations may be below the expectations of public market analysts and investors. If this were to occur, the price of our common stock would likely decline significantly.

Our products must comply with industry standards, FCC regulations, state, local, country-specific and international regulations, and changes may require us to modify existing products and/or services.

In addition to reliability and quality standards, the market acceptance of telephony over broadband IP networks is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Our cloud-based communications and collaboration services rely heavily on communication standards such as SIP, MGCP and network standards such as TCP/IP and UDP to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular application, and about the definition of the standards themselves. These standards, as well as audio and video compression standards, continue to evolve. We also must comply with certain rules and regulations of the FCC regarding electromagnetic radiation and safety standards established by Underwriters Laboratories, as well as similar regulations and standards applicable in other countries. Standards are frequently modified or replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. We must comply with certain federal, state and local requirements regarding how we interact with our customers, including marketing practices, consumer protection, privacy, and billing issues, the provision of 9-1-1 emergency service and the quality of service we provide to our customers. The failure of our products and services to comply, or delays in compliance, with various existing and evolving standards could delay or interrupt volume production of our communications and collaboration services, subject us to fines or other imposed penalties, or harm the perception and adoption rates of our service, any of which would have a material adverse effect on our business, financial condition or operating results.

For example:

- The FCC has implemented network neutrality rules in the past and is considering new rulemaking proceedings regarding network neutrality.

In December 2010, the FCC adopted new net neutrality rules that would protect services like ours from such interference. Several parties sought judicial review of the FCC's net neutrality rules, and in January 2014 the anti-blocking and unreasonable discrimination provisions of the rules were vacated. While the court ruling did not foreclose the FCC from adopting anti-blocking or non-discrimination rules, interference with our service or higher charges for using our service could cause us to lose existing customers, impair our ability to attract new customers, and harm our revenue and growth. These problems could also arise in international markets. Most foreign countries have not adopted formal net neutrality rules like those adopted by the FCC.

- Reform of federal and state Universal Service Fund programs could increase the cost of our service to our customers diminishing or eliminating our pricing advantage

  . The FCC and a number of states are considering reform or other modifications to Universal Service Fund programs. Should the FCC or certain states adopt new contribution mechanisms or otherwise modify contribution obligations that increase our contribution burden, we will either need to raise the amount we currently collect from our customers to cover this obligation or absorb the costs, which would reduce our profit margins. Furthermore, the FCC has ruled that states can require us to contribute to state Universal Service Fund programs. A number of states already require us to contribute, while others are actively considering extending their programs to include the services we provide. We currently pass-through Universal Service Fund contributions to our customers, which may result in our services becoming less competitive as compared to those provided by others.

- We may become subject to state regulation for certain service offerings

  . Certain states take the position that offerings by VoIP providers, like us, are intrastate and therefore subject to state regulation. These states argue that if the beginning and end points of communications are known, and if some of these communications occur entirely within the boundaries of a state, the state can regulate that offering. We believe that the FCC has preempted states from regulating VoIP services like ours in the same manner as providers of traditional telecommunications services. We cannot predict how this issue will be resolved or its impact on our business at this time.

- The FCC and Congress are investigating call completion rates to rural areas of the United States

  . It is possible that we, like other providers in the communications marketplace, may be subject to fines or other enforcement actions should the FCC determine that our call completion rates to rural areas are, or have been, unacceptable.

- The FCC may require providers like us to comply with regulations related to how we present bills to customers

  . The adoption of such obligations may require us to revise our bills and may increase our costs of providing service which could either result in price increases or reduce our profitability.

- The FCC adopted rules concerning disabilities access requirements that may expand disabilities access requirements to additional services we offer

  . We cannot predict whether we will be subject to additional accessibility requirements or whether any of our service offerings that are not currently subject to disabilities access requirements will be subject to such obligations.

- There may be risks associated with our ability to comply with requirements of the Telecommunications Relay Service

  . The FCC requires providers of interconnected VoIP services to comply with certain regulations pertaining to people with disabilities and to contribute to the Telecommunications Relay Services fund. We are also required to offer 7-1-1 abbreviated dialing for access to relay services.

- There may be risks associated with our ability to comply with the requirements of federal law enforcement agencies

  . The FCC requires all interconnected VoIP providers to comply with the Communications Assistance for Law Enforcement Act, or CALEA. The FCC allows VoIP providers to comply with CALEA through the use of a service provided by a trusted third party with the ability to extract call content and call-identifying information from a VoIP provider's network.

- The FCC may require us to deploy an E-911 service that automatically determines the location of our customers

. On June 1, 2007, the FCC released a Notice of Proposed Rulemaking, or the VoIP E-911 order, in which it tentatively concluded that all interconnected VoIP providers that allow customers to use their service in more than one location (nomadic VoIP service providers, such as us), must utilize an automatic location technology that meets the same accuracy standards which apply to providers of commercial mobile radio services (mobile phone service providers) Since then, the FCC has been conducting proceedings and inquiries concerning the implementation of such a rule. The outcome of these proceedings cannot be determined at this time and we may or may not be able to comply with any such obligations that may be adopted. At present, we currently have no means to automatically identify the physical location of one of our customers on the Internet. We cannot guarantee that emergency calling service consistent with the VoIP E-911 order will be available to all of our customers, especially those accessing our services from outside of the United States. The FCC's current VoIP E-911 order or follow-on orders or clarifications or their impact on our customers due to service price increases or other factors could have a material adverse effect on our business, financial condition or operating results.

- The FCC adopted orders reforming the system of payments between regulated carriers that we partner with to interface with the public switch telephone network

. The FCC reformed the system under which regulated providers of telecommunications services compensate each other for various types of traffic, including VoIP traffic that terminates on the PSTN and applied new call signaling requirements to VoIP providers and other service providers. The FCC's new rules require, among other things, interconnected VoIP providers, like us, that originate interstate or intrastate traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass calling party number or charge number signaling information they receive from other providers unaltered, to subsequent providers in the call path. While we believe we are in compliance with this rule, to the extent that we pass traffic that does not have appropriate calling party number or charge number information, we could be subject to fines, cease and desist orders, or other penalties. The FCC's Order reforming payments between carriers for various types of traffic also includes a Further Notice of Proposed Rulemaking. Depending on the rules adopted by the FCC in this proceeding, the payments we make to underlying carriers to access the PSTN may increase, which may result in us increasing the retail price of our service, potentially making our offering less competitive with traditional providers of telecommunications services, or may reduce our profitability.

Our emergency and E-911 calling services are different from those offered by traditional wireline telephone companies and may expose us to significant liability. There may be risks associated with limitations associated with E-911 emergency dialing with the 8x8 service.

Both our emergency calling service and our E-911 calling service are different, in significant respects, from the emergency calling services offered by traditional wireline telephone companies. In each case, the differences may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need.

The FCC may determine that our nomadic emergency calling service does not satisfy the requirements of its VoIP E-911 order because, in some instances, our nomadic emergency calling service requires that we route an emergency call to a national emergency call center instead of connecting our customers directly to a local public-safety answering point through a dedicated connection and through the appropriate selective router.

Delays our customers may encounter when making emergency services calls and any inability of the answering point to automatically recognize the caller's location or telephone number can result in life threatening consequences. Customers may, in the future, attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of any failure of our E-911 services. In July 2008, the President signed into law the New and Emerging Technologies 911 Improvement Act of 2008. The law provides public safety entities, interconnected VoIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VoIP users as from mobile or wired telephone service users. The applicability of the liability protections to our national call center service is unclear at the present time. Also, we may be exposed to liability for 911 calls made prior to the adoption of this new law although we are unaware of any such liability.

Increased energy costs, power outages, and limited availability of electrical resources may adversely affect our operating results.

Our data centers are susceptible to increased costs of power and to electrical power outages. Our customer contracts do not contain provisions that would allow us to pass on any increased costs of energy to our customers, which could affect our operating margins. Any increases in the price of our services to recoup these costs could not be implemented until the end of a customer contract term. Further, power requirements at our data centers are increasing as a result of the increasing power demands of today's servers. Increases in our power costs could impact our operating results and financial condition. Since we rely on third parties to provide our data centers with power sufficient to meet our needs, our data centers could have a limited or inadequate amount of electrical resources necessary to meet our customer requirements. We attempt to limit exposure to system downtime due to power outages by using backup generators and power supplies. However, these protections may not limit our exposure to power shortages or outages entirely. Any system downtime resulting from insufficient power resources or power outages could damage our reputation and lead us to lose current and potential customers, which would harm our operating results and financial condition.

Decreasing telecommunications rates and increasing regulatory charges may diminish or eliminate our competitive pricing advantage versus legacy providers.

Decreasing telecommunications rates may diminish or eliminate the competitive pricing advantage of our services, while increased regulation and the imposition of additional regulatory funding obligations at the federal, state and local level could require us to either increase the retail price for our services, thus making us less competitive, or absorb such costs, thus decreasing our profit margins. International and domestic telecommunications rates have decreased significantly over the last few years in most of the markets in which we operate, and we anticipate these rates will continue to decline in all of the markets in which we do business or expect to do business. Users who select our services to take advantage of the current pricing differential between traditional telecommunications rates and our rates may switch to traditional telecommunications carriers if such pricing differentials diminish or disappear, however, and we will be unable to use such pricing differentials to attract new customers in the future. Continued rate decreases would require us to lower our rates to remain competitive and would reduce or possibly eliminate any gross profit from our services. In addition, we may lose subscribers for our services.

Because our long-term growth strategy involves further expansion of our sales to customers outside the United States, our business will be susceptible to risks associated with international operations.

A component of our growth strategy involves the further expansion of our operations and customer base internationally. In November 2013, we acquired Voicenet, demonstrating our commitment to expand our business outside of North America. The risks and challenges associated with sales of our cloud communications and collaboration services to customers outside North America are different in some ways from those associated with sales in North America, and we have a limited history addressing those risks and meeting those challenges. Our current international operations and future initiatives will involve a variety of risks, including:

- localization of our service, including translation into foreign languages and associated expenses;
- changes in a specific country's or region's political or economic conditions;
- unexpected changes in regulatory requirements, taxes or trade laws;
- more stringent regulations relating to data security and the unauthorized use of, or access to, commercial and personal information, particularly in the European Union;
- differing labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- increased travel, real estate, infrastructure and legal compliance costs associated with international operations;
- different pricing environments, longer sales cycles, longer accounts receivable payment cycles and other collection difficulties;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;

- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general preferences for local vendors;
- limited or insufficient intellectual property protection;

- political instability or terrorist activities;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

We have limited experience in operating our business internationally, which increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer.

Our ability to offer services outside the United States is subject to different local regulatory environments, which may be unknown, complicated and uncertain.

Regulatory treatment of VoIP telephony and cloud-based services outside the United States varies from country to country and often the laws are unclear. In January 2013, we launched our Virtual Office services in Canada. We currently distribute our products and services directly to consumers and through resellers that may be subject to telecommunications regulations in their home countries. The failure by us or our customers and resellers to comply with these laws and regulations could reduce our revenue and profitability. Because of our relationship with the resellers, some countries may assert that we are required to register as a telecommunications provider in that country. In such case, our failure to do so could subject us to fines or penalties. In addition, some countries are considering subjecting VoIP services to the regulations applied to traditional telephone companies. Regulatory developments such as these could have a material adverse effect on the use of our services in international locations.

As we expand our operations internationally, we expect to become subject to additional government regulations. Such regulations include, but are not limited to: licensing obligations, emergency services obligations, data retention and transfer laws and regulations, privacy laws and regulations, consumer protection, national security laws and regulations, law enforcement obligations, financial reporting, surcharge and other fees that must be collected and remitted as well as other laws and regulations. For example, as a provider of electronic communications services in the UK, we are subject to regulation in the UK by the Office of Communications. Some of these regulatory obligations include providing access to emergency call services (E999/112); providing access to operator assistance, directories and directory enquiry services, offering contracts with minimum terms, providing and publishing certain information transparently, providing itemized billing, protecting customer information (including personal data); porting phone numbers upon a valid customer request and implementing a code of practice. We are also required to comply with laws and matters relating to, among other things, competition law, distance selling, e-commerce and consumer protection. We must also comply with various reporting and recordkeeping requirements.

In some cases, the relevant laws may be uncertain or unsettled complicating our ability to comply and may subject us to fines, penalties or other enforcement actions. It is possible that we could be subject to civil and criminal liabilities that may damage our business reputation and brand. Moreover, any changes in laws, regulations or enforcement policies may expose us to unknown civil and criminal risks that could requires us to modify our offerings or expose us to fines, penalties or other enforcement actions, or compel us to require with onerous obligations that we either were not previously subject or did not foresee. We may be required to exit certain foreign markets should such changes make the provision of our service unprofitable, too costly, too risky or for other reasons that could adversely impact our profitability, or our ability to compete effectively with other service providers. Any of these occurrences could negatively impact our brand and our business reputation.

We will also become subject to risks associated with changes in the regulatory structure of the telecommunications services marketplace in international markets. As in the United States, we will continue to depend on underlying carriers to terminate our traffic to the PSTN in each country where we offer services. As countries evaluate and change intercarrier payment schemes, remove and impose new obligations, our costs to provide service may increase. This could require us either to reduce our profitability or raise the price of our service which may make our offerings less competitive with other providers in the marketplace. We may have to exit markets that we previously thought would be profitable which could negatively impact our business, and damage our brand and reputation.

We support local number portability, or LNP, which allows our customers to retain their existing telephone numbers when subscribing to our services. A new customer of our services must maintain both the new 8x8 service and the customer's existing telephone service during the number transfer process. By comparison, transferring wireless telephone numbers among wireless service providers generally takes several hours, and transferring wireline telephone numbers among traditional wireline service providers generally takes a few days. In foreign countries, we anticipate longer delays in porting existing telephone numbers. The additional delay that we experience is due to our reliance on third party carriers to transfer the numbers, as well as the delay the existing telephone service provider may contribute to the process. Local number portability is considered an important feature by many potential customers, especially our business customers, and if we fail to reduce related delays, we may experience increased difficulty in acquiring new customers or retaining existing customers.

We need to retain key personnel to support our products and ongoing operations.

The development and marketing of our communications and collaboration services will continue to place a significant strain on our limited personnel, management, and other resources. Our future success depends upon the continued services of our executive officers and other key employees who have critical industry experience and relationships that we rely on to implement our business plan. None of our officers or key employees are bound by employment agreements for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell our services which could adversely affect our financial results and impair our growth. We currently do not maintain key person life insurance policies on any of our employees.

We may need to raise additional capital to support our future operations.

As of March 31, 2014, we had cash and cash equivalents and investments of approximately $178.4 million. While we believe these funds are sufficient to meet our current and anticipated liquidity requirements, we may need to raise additional capital to pursue our strategic objectives. We may seek additional funding through public or private equity or debt financing, including pursuant to the shelf registration statement of which this prospectus supplement is a part. We might decide to raise additional debt or equity capital at such times and upon such terms as management considers favorable and in our interests, but we cannot be certain that we will be able to complete offerings of our securities at such times and on such terms as we may consider desirable for us. Any such financings may be upon terms that are dilutive to existing stockholders. We may not be able to obtain such additional financing as needed on acceptable terms, or at all, which may require us to reduce our operating costs and other expenditures, including reductions of personnel and capital expenditures.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment

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Our restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors, including, among other things:

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by a majority vote of our Board of Directors, the Chairman of our Board of Directors, our Chief Executive Officer or by stockholders holdings shares of our common stock representing in the aggregate a majority of votes then outstanding, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;

- the ability of our board of directors, by majority vote, to amend our amended and restated bylaws, which may allow our board of directors to take additional actions to prevent a hostile acquisition and inhibit the ability of an acquirer to amend our amended and restated bylaws to facilitate a hostile acquisition; and

- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

- We are also subject to certain anti-takeover provisions under the General Corporation Law of the State of Delaware, or the DGCL. Under Section 203 of the DGCL, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or (i) our board of directors approves the transaction prior to the stockholder acquiring the 15% ownership position, (ii) upon consummation of the transaction that resulted in the stockholder acquiring the 15% ownership position, the stockholder owns at least 85% of the outstanding voting stock (excluding shares owned by directors or officers and shares owned by certain employee stock plans) or (iii) the transaction is approved by the board of directors and by the stockholders at an annual or special meeting by a vote of 66 2/3% of the outstanding voting stock (excluding shares held or controlled by the interested stockholder). These provisions in our restated certificate of incorporation and amended and restated bylaws and under Delaware law could discourage potential takeover attempts.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal operations are located in San Jose, CA in a facility that is approximately 104,657 square feet of leased office space. Outside the United States our operations are conducted primarily in leased sites located in the United Kingdom. We believe our facilities will adequately meet our current and foreseeable future needs. For additional information regarding our obligations under leases see Note 4 to the consolidated financial statements contained in Part II, Item 8 of this Report.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we become involved in various legal claims and litigation that arise in the normal course of our operations. While the results of such claims and litigation cannot be predicted with certainty, we are not currently aware of any such matters that we believe would have a material adverse effect on our financial position, results of operations or cash flows.

On February 22, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. *et al.*, along with 20 other defendants. On August 17, 2011, we were dismissed without prejudice from this lawsuit under Rule 21 of the Federal Rules of Civil Procedure. On August 17, 2011, we were sued again by Bear Creek Technologies, Inc. in the United States District Court for the District of Delaware. We believe we have factual and legal defenses to these claims and are presenting a vigorous defense. Further, on November 28, 2012, the U.S. Patent & Trademark Office initiated a Reexamination proceeding with a Reexamination Declaration explaining that there is a substantial new question of patentability, based on four separate grounds and affecting each claim of the patent which is the basis for the complaint filed against us. On March 26, 2013, the USPTO issued a first Office Action in the Reexamination, with all claims of the '722 patent being rejected on each of the four separate grounds raised in the Request for Reexamination. On July 10, 2013, we filed an informational pleading in support of and joining a motion to stay the proceeding in the District Court; the District Court granted the motion on July 17, 2013, based on the possibility that at least one of the USPTO rejections will be upheld and considering the USPTO's conclusion that Bear Creek's patent suffers from a defective claim for priority. On March 24, 2014, the USPTO issued another Office Action in which the rejections of the claims are maintained. We cannot estimate potential liability in this case at this early stage of litigation.

On October 25, 2011, we were named a defendant in a lawsuit, Klausner Technologies, Inc. v. Oracle Corporation *et al.*, along with 30 other defendants. The lawsuit alleges infringement of a patent that is now believed to have expired. On November 1, 2011, Klausner dismissed the Complaint voluntarily and filed new complaints separating the defendants, including a new Complaint against 8x8. We believe we have factual and legal defenses to these claims and are presenting a vigorous defense. On March 21, 2013, the District Court granted 8x8's Motion to Change Venue, and has ordered the transfer of the case to the US District Court for the Northern District of California. An answer to the complaint was filed on April 25, 2014. We cannot estimate potential liability in this case at this early stage of the litigation.

On March 31, 2014, we were named a defendant in a lawsuit, CallWave Communications LLC v. 8x8, Inc. CallWave Communications also sued Fonality Inc. on March 31, 2014, and previously sued other companies including Verizon, Google, T-Mobile, and AT&T. We are currently assessing factual and legal defenses to these claims and expect to present a vigorous defense. We have not answered the complaint yet and cannot estimate potential liability in this case at this early stage of the litigation.

On April 23, 2014, we were named but not served as a defendant in a lawsuit, TQP Development, LLC v. 8x8, Inc. On April 30, 2014 (and before any service of the complaint), TQP Development filed papers to dismiss this lawsuit and other lawsuits that were filed on or about the same time.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

We completed our initial public offering on July 2, 1997 under the name 8x8, Inc. From that date through April 3, 2000, our common stock was traded on the NASDAQ National Market, or the NASDAQ, under the symbol "EGHT." From April 4, 2000 through July 18, 2001, our common stock was traded on the NASDAQ under the symbol "NTRG." Since July 19, 2001 our common stock has traded under the symbol "EGHT." In July 2002, in connection with the transformation of the NASDAQ to a national securities exchange our listing was transferred to the NASDAQ Capital Market of the NASDAQ Stock Market LLC.

We have never paid cash dividends on our common stock and have no plans to do so in the foreseeable future. As of May 15, 2014, there were 251 holders of record of our common stock.

The following table sets forth the range of high and low close prices for each period indicated:

Period	High	Low
Fiscal 2014:		
First quarter	$ 8.27	$ 6.47
Second quarter	$ 10.84	$ 8.37

Third quarter	$ 11.95	$ 8.95
Fourth quarter	$ 11.47	$ 9.56
Fiscal 2013:		
First quarter	$ 4.36	$ 3.80
Second quarter	$ 7.02	$ 4.14
Third quarter	$ 7.58	$ 5.62
Fourth quarter	$ 7.95	$ 6.00

See Item 12 of Part III of this Report regarding information about securities authorized for issuance under our equity compensation plans.

The graph below shows the cumulative total stockholder return over a five year period assuming the investment of $100 on March 31, 2009 in each of 8x8's common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index. The graph is furnished, not filed, and the historical return cannot be indicative of future performance.

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended March 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(in thousands, except per share amounts)				
Total revenues	$ 128,597	$ 103,786	$ 83,372	$ 70,163	$ 63,396
Net income	$ 2,514	$ 13,939	$ 69,228	$ 6,494	$ 3,879
Net income per share:					
Basic	$ 0.03	$ 0.20	$ 1.04	$ 0.10	$ 0.06
Diluted	$ 0.03	$ 0.19	$ 0.99	$ 0.10	$ 0.06
Total assets	$ 299,203	$ 152,611	$ 130,733	$ 26,584	$ 23,712
Fair value of warrant liability	$ -	$ -	$ -	$ -	$ 167
Accumulated deficit	$ (106,665)	$ (109,179)	$ (123,118)	$ (192,346)	$ (198,840)
Total stockholders' equity	$ 278,178	$ 137,033	$ 118,450	$ 15,861	$ 13,300

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a leading provider of UCC services in the cloud for SMBs and mid-market and distributed enterprises. We deliver a broad suite of UCC services to in-office and mobile devices spanning cloud telephony, virtual contact center and virtual meeting through our proprietary unified SaaS platform. We currently serve approximately 38,000 business customers with over 500,000 subscriptions, making us a leading provider of UCC services in the cloud. Our software abstracts complex networking, redundancy, security and interconnection requirements to provide a seamless and easy-to-use solution for our customers. Our software also integrates with leading ERP, CRM, HCM and other third-party application suites, such as Salesforce.com and NetSuite, to provide organizations an integrated, fully functional business communications and collaboration experience that is critical to operate their businesses.

SUMMARY AND OUTLOOK

In fiscal year 2014, we displayed continued momentum in four areas. First, we saw an increase in the number of new services added during the year, representing a year-over-year increase of 26%, reflecting demand for our services in our domestic small and medium businesses, or SMBs, and mid-market and distributed enterprise customer market. We intend to continue to pursue opportunities to sell our comprehensive suite of services to SMBs and mid-market and distributed enterprises who wish to consolidate their cloud communications and collaborative service requirements with a single service provider.

Second, our continued focus on mid-market and distributed enterprise customers resulted in 34% of our new monthly recurring revenue sold in the fiscal year coming from this the mid-market and channel sales teams that target these customers compared with 25% in fiscal 2013. We continued to show an increase in our average monthly service revenue per customer to $287 in the fourth quarter of fiscal 2014 compared to $256 in the same period of fiscal 2013 which is the result of our success in selling to larger, more established customers.

Third, we continued to focus on selling a greater number of services to our existing customer base. Our comprehensive suite of services, combined with our highly scalable service architecture enables our customers to quickly and easily deploy additional 8x8 products and services to distributed locations and remote employees.

Fourth, we continued to build on our Global Reach initiative by acquiring Voicenet in the United Kingdom in November 2013. In addition, we installed our services infrastructure in a new Hong Kong data center in January 2014. We are in the process of migrating services for non-US customers to our new overseas infrastructure. Beyond serving the needs of existing customers, it is our intent to penetrate these markets through a variety of additional methods including strategic alliances, partners and acquisitions.

To support these initiatives and strengthen our business, we intend to continue investing in research and development and sales and marketing at rates comparable to the third and fourth quarters of fiscal 2014 for the foreseeable future.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Note 1 to the consolidated financial statements in Part II, Item 8 of this Report describes the significant accounting policies and methods used in the preparation of our consolidated financial statements.

We have identified the policies below as some of the more critical to our business and the understanding of our results of operations. These policies may involve a higher degree of judgment and complexity in their application and represent the critical accounting policies used in the preparation of our consolidated financial statements. Although we believe our judgments and estimates are appropriate, actual future results may differ from our estimates. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including, but not limited to, those related to bad debts, valuation of inventories, and litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions. Additional information regarding risk factors that may impact our estimates is included above under Part I, Item 1A, "Risk Factors."

Revenue Recognition

Our revenue recognition policies are described in Note 1 to the consolidated financial statements in Part II, Item 8 of this Report. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

Service and Product Revenue

We recognize 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 985-605, we record shipments to distributors, retailers, and resellers, where the right of return exists, as deferred revenue. We defer recognition of revenue on product sales to distributors, retailers, and resellers until the products have been sold to the end customer.

We record revenue net of any sales-related taxes that are billed to its customers. We believe this approach results in consolidated financial statements that are more easily understood by users.

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

Multiple Element Arrangements

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, we allocate 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 we sell the deliverable separately, on more than a limited basis, at prices within a relatively narrow range. When VSOE cannot be established, we attempt 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 we are unable to establish selling price using VSOE or TPE, we use BESP for the allocation of arrangement consideration. The objective of BESP is to determine the price at which we 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. We determine 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 we enter into revenue arrangements with multiple deliverables we allocate 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.

Our ability to enter into revenue generating transactions and recognize revenue in the future is subject to a number of business and economic risks discussed above under Item 1A,"Risk Factors."

Collectability of Accounts Receivable

We must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, including historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. As of March 31, 2014, the accounts receivable balance was $5,503,000, net of an allowance for doubtful accounts of $629,000, including a reserve for disputed credits, and an estimated returns reserve of $163,000. If the financial condition of our customers deteriorates, our actual losses may exceed our estimates, and additional allowances would be required.

Valuation of Inventories

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, market conditions and replacement costs. If actual future demand or market conditions are less favorable than those projected by us, additional inventory write-downs may be required.

Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized. Goodwill represents the excess fair value of consideration transferred over the fair value of net assets acquired in business combinations. The carrying value of goodwill and indefinite lived intangible assets are not amortized, but are annually tested for impairment and more often if there is an indicator of impairment.

We perform an annual impairment assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes that it is more likely than not that the fair value is more than its carrying value, goodwill is not considered impaired and we are not required to perform the two-step goodwill impairment test. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit.

Income and Other Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax expense and to assess temporary differences resulting from book-tax accounting differences for items such as accrued vacation. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. In the event that we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would reduce income tax expense in the period such determination was made.

Significant management judgment is required to determine the valuation allowance recorded against our net deferred tax assets, which include net operating loss and tax credit carry forwards. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. During the fourth quarter of fiscal 2012, we reassessed the need for a valuation allowance against our net deferred tax asset and concluded that it was more likely than not that we would be able to realize a significant portion of our deferred tax assets. Accordingly, we released most of our valuation allowance related to our deferred tax asset which resulted in a credit to the income statement of approximately $62.1 million. We determined that a release of a portion of our valuation allowance was appropriate as a result of the following discrete events: (1) our attainment of three consecutive years of net income, (2) the acquisition of Contactual in the second quarter of fiscal 2012, (3) the completion of the Section 382 ownership analysis under the Internal Revenue Code for Contactual in the fourth quarter of fiscal 2012. During the fourth quarters of fiscal 2014 and 2013, we evaluated the need for a valuation allowance against our net deferred tax asset and concluded that an additional allowance was needed. Therefore, we increased our valuation allowance related to our state and federal net operating loss and tax credit carryovers which resulted in reversals of previous income statement credits of approximately $1.3 million and $1.0 million, respectively. We determined that an increase in our valuation allowance was appropriate as a result of the change in the net income apportionment methodology in California and the acquisition of Voicenet in the third quarter of fiscal 2014. In making this determination, we considered all available positive and negative evidence, including our recent earnings trend and expected continued future taxable income. As of March 31, 2014, the net deferred tax asset on the consolidated balance sheet represented the projected tax benefit we expect to realize. We continue to maintain a valuation allowance against the portion of our deferred tax assets that we believe we will not be able to utilize.

We have received inquiries, demands or audit requests from several state, municipal and 9-1-1 taxing agencies seeking payment of taxes that are applied to or collected from the customers of providers of traditional public switched telephone network services. We recorded $0.1 million, $0 and $0 of expense for the years ended March 31, 2014, 2013 and 2012, respectively, for estimated tax exposure for such assessments.

Stock-Based Compensation

We account for our employee stock options, stock purchase rights, restricted stock units, and restricted performance stock units granted under the 1996 Stock Plan, 1996 Director Option Plan, 1999 Nonstatutory Stock Option Plan, the 2006 Stock Plan, the 2003 Contactual Plan, the 2012 Equity Incentive Plan, the 2013 New Employee Inducement Incentive Plan and stock purchase rights under the 1996 Employee Stock Purchase Plan (collectively "Equity Compensation Plans") under the provisions of ASC 718 - *Stock Compensation* . Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant), net of estimated forfeitures.

Stock-based compensation expense recognized in the Consolidated Statements of Income for fiscal 2014, 2013 and 2012, was measured based on ASC 718 criteria. Compensation expense for stock-based payment awards is recognized using the straight-line single-option method and includes the impact of estimated forfeitures. Compensation expense for restricted stock units with performance and market conditions is recognized over the requisite service period using the straight-line method and includes the impact of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

To value option grants, stock purchase rights and restricted stock units under the Equity Compensation Plans for stock-based compensation, we used the Black-Scholes option valuation model. Fair value determined using the Black-Scholes option valuation model varies based on assumptions used for the expected stock prices volatility, expected life, risk-free interest rates and future dividend payments. For the twelve months ended March 31, 2014 and 2013, we used the historical volatility of our stock over a period equal to the expected life of the options to their fair value. The expected life assumptions represent the weighted-average period stock-based awards are expecting to remain outstanding. These expected life assumptions were established through the review of historical exercise behavior of stock-based award grants with similar vesting periods. The risk-free interest was based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term equal to the expected term of the option. The dividend yield assumption was based on our history and expectation of future dividend payout.

To value restricted performance stock units under the Equity Compensation Plans, we used a Monte Carlo simulation model. Fair value determined using the Monte Carlo simulation model varies based on the assumptions used for the expected stock price volatility, the correlation coefficient between the Company and the NASDAQ Composite Index, risk free interest rates, and future dividend payments. For the twelve months ended March 31, 2014, we used the historical volatility and correlation of our stock and the Index over a period equal to the remaining performance period as of the grant date. The risk-free interest rate was based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term equal to the remaining performance period as of the grant date. The dividend yield assumption was based on our history and expectation of future dividend payout.

ASC 718 requires us to calculate the additional paid-in-capital pool, or APIC Pool, available to absorb tax deficiencies recognized subsequent to adopting ASC 718, as if we had adopted ASC 718 at its effective date of January 1, 1995. There are two allowable methods to calculate our APIC Pool: (1) the long form method or (2) the short form method as set forth in ASC 718. We have elected to use the long form method under which we track each award grant on an employee-by-employee basis and grant-by-grant basis to determine if there is a tax benefit or tax deficiency for such award. We then compared the fair value expense to the tax deduction received for each grant and aggregated the benefits and deficiencies to establish the APIC Pool.

Due to the adoption of ASC 718, some option exercises result in tax deductions in excess of book deductions based on the option value at the time of grant. We recognize these windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. We use the "with and without" approach as described in ASC 740, in determining the order in which our tax attributes are utilized. The "with and without" approach results in the recognition of the windfall stock option tax benefits only after all other tax attributes of ours have been considered in the annual tax accrual computation. Also, we have elected to ignore the indirect tax effects of share-based compensation deductions in computing our research and development tax credits and alternative tax credits and as such, we recognize the full effect of these deductions in the consolidated income statement in the period in which the taxable event occurs.

SELECTED OPERATING STATISTICS

We periodically review certain key business metrics, within the context of our articulated performance goals, in order to evaluate the effectiveness of our operational strategies, allocate resources and maximize the financial performance of our business. The selected operating statistics include the following:

	Selected Operating Statistics (1)				
	March 31, 2014	**Dec 31, 2013**	**Sept. 30, 2013**	**June 30, 2013**	**March 31, 2013**
Gross business customer additions (2)	3,276	3,001	2,961	2,693	2,800
Number of new services sold (2)(3)	64,312	61,286	52,412	47,318	50,670
Average number of subscribed services per new business customer (4)	19.6	20.4	17.7	17.6	18.1
Business subscriber acquisition cost per service (5)	$ 84	$ 92	$ 94	$ 96	$ 91
Total business customers (2)(6)	37,933	36,753	34,674	33,374	32,242
Average number of subscribed services per business customer (7)	13.5	12.6	12.2	12.0	11.6
Business customer average monthly service revenue per customer (8)	$ 287	$ 274	$ 268	$ 263	$ 256
Monthly business customer churn (less cancellations within 30 days of sign-up) (9)	1.7%	1.6%	1.5%	1.5%	1.7%
Monthly business service revenue churn	1.2%	1.5%	1.2%	1.2%	1.2%
Overall service margin	79%	81%	81%	82%	81%
Overall product margin	-23%	-34%	-27%	-22%	-17%
Overall gross margin	70%	71%	71%	72%	71%

(1) Selected operating statistics table include continuing operations and excludes dedicated server hosting business sold September 30, 2013.

(2) Does not include customers of Virtual Office Solo, DNS or Cloud VPS.

(3) Number of recurring revenue services sold to business customers during the period.

(4) Number of new services sold divided by gross business customer additions.

(5) The combined costs of advertising, marketing, promotions, sales commissions and equipment subsidies for new services sold during the period divided by the number of new services sold during the period.

(6) 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, DNS or Cloud VPS services are not included as business customers.

(7) The simple average number of subscribed services divided by the simple average number of business customers during the period. The simple average number of subscribed services is the number of subscribed services on the first day of the period plus the number of subscribed services on the last day of the period divided by two. The simple average number of business customers 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.

(8) 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.

(9) Business customer churn is calculated by dividing the number of business customers that terminated (after the expiration of the 30-day trial) by the simple average number of business customers and dividing the result by the number of months in the period.

We believe it is useful to monitor these metrics together and not individually, as we do not make business decisions based upon any single metric.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and related notes included elsewhere in this Report.

We have minimal seasonality in our business but typically sales of new subscriptions in our fourth fiscal quarter are greater than any of the first three quarters of the fiscal year. We believe this occurs because the customers we target have a tendency to spend a relatively greater portion of their annual capital budgets at the beginning of the calendar year compared with each of the last three quarters of the year.

REVENUE

	Years Ended March 31,			**Year-over-Year Change**			
	2014	**2013**	**2012**	**2013 to 2014**		**2012 to 2013**	
	(dollar amounts in thousands)						
Service revenue	$ 116,607	$ 94,384	$ 75,951	$ 22,223	23.5%	$ 18,433	24.3%
Percentage of total revenue	90.7%	90.9%	91.1%				

Service revenue consists primarily of revenues attributable to the provision of our cloud communication and collaboration services and royalties earned from cloud technology licenses. We expect that cloud communication and collaboration service revenues will continue to comprise nearly all of our service revenues for the foreseeable future.

The increase in fiscal year 2014, compared with fiscal year 2013, was primarily attributable to an increase in our business customer subscriber base and an increase in the average monthly service revenue per customer. Our business service subscriber base grew from approximately 32,500 customers at the end of fiscal 2013 to approximately 38,000 customers on March 31, 2014. We expect the trends to continue in future periods.

The increase in fiscal year 2013, compared with fiscal year 2012, was primarily attributable to an increase in cloud communications and collaboration service revenues resulting from growth of our business service subscriber base.

Our business service subscriber base grew from approximately 28,500 customers at the end of fiscal 2012 to approximately 32,500 customers on March 31, 2013. The increase was partially offset by a decrease in customers of our residential services. Those changes were consistent with the redirection of our marketing efforts toward our business customer service.

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Product revenue	$ 11,990	$ 9,402	$ 7,421	$ 2,588	27.5%	$ 1,981	26.7%
Percentage of total revenue	9.3%	9.1%	8.9%				

Product revenue consists primarily of revenues from sales of IP telephones in conjunction with our cloud telephony service.

The increase in fiscal year 2014 from fiscal year 2013 resulted from a $2.6 million increase in product revenue attributable to growth in our business customer subscriber base, for which we have been subsidizing equipment purchases.

The increase in fiscal year 2013 from fiscal year 2012 resulted from a $2.0 million increase in product revenue attributable to growth in our business customer subscriber base, for which we have been subsidizing equipment purchases.

No single customer represented more than 10% of our total revenues during fiscal 2014, 2013 or 2012.

The following table illustrates our net revenues by geographic area. Revenues are attributed to countries based on the destination of shipment (in thousands):

	Years Ended March 31,		
	2014	2013	2012
Americas (principally US)	97%	99%	99%
Europe	2%	0%	0%
Asia Pacific	1%	1%	1%
	100%	100%	100%

COST OF REVENUE

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Cost of service revenue	$ 22,445	$ 19,928	$ 15,974	$ 2,517	12.6%	$ 3,954	24.8%
Percentage of service revenue	19.2%	21.1%	21.0%				

Cost of service revenue primarily consists of costs associated with network operations and related personnel, telephony origination and termination services provided by third party carriers and technology license and royalty expenses.

The increase in cost of service revenue for fiscal 2014 from fiscal 2013 was primarily due to a $0.9 million increase in payroll and related expenses, a $0.8 million increase in third party network service expenses, a $0.2 million increase in consultant and outside service expenses and a $0.2 million increase in repair and maintenance expenses.

The increase in cost of service revenue for fiscal 2013 from fiscal 2012 was primarily due to a $2.5 million increase in third party network service expenses, a $0.9 million increase in payroll and related expenses, a $0.4 million increase in depreciation expenses, a $0.4 million increase in amortization expense due to intangibles acquired in acquisitions, a $0.1 million increase in consultant and outside service expenses. The increase in cost of service revenues was partially offset by a $0.3 million reduction in license and fee expenses.

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Cost of product revenue	$ 15,170	$ 11,801	$ 9,822	$ 3,369	28.5%	$ 1,979	20.1%
Percentage of product revenue	126.5%	125.5%	132.4%				

The cost of product revenue consists primarily of IP Telephones, estimated warranty obligations and direct and indirect costs associated with product purchasing, scheduling, shipping and handling. We allocate a portion of service revenues to product revenues but these revenues are less than the cost of the product.

The increase in the cost of product revenue for fiscal 2014 from fiscal 2013 was primarily due to a $2.7 million increase in the shipment of equipment to our business customers, a $0.3 million increase in warranty expense, and a $0.2 million increase in freight costs.

The increase in the cost of product revenue for fiscal 2013 from fiscal 2012 was primarily due to a $1.8 million increase in the shipment of equipment to our business customers, a $0.1 million increase in warranty expense, and a $0.1 million increase in freight costs.

RESEARCH AND DEVELOPMENT EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Research and development	$ 11,633	$ 8,147	$ 6,745	$ 3,486	42.8%	$ 1,402	20.8%
Percentage of total revenue	9.0%	7.8%	8.1%				

Historically, our research and development expenses have consisted primarily of personnel, system prototype design, and equipment costs necessary for us to conduct our development and engineering efforts. During the fiscal year ended March 31, 2014, we capitalized $0.8 million of software development costs in accordance with ASC 985-20. We expensed all other research and development costs as they were incurred.

The increase in research and development expenses for fiscal 2014 from fiscal 2013 was primarily attributable to a $1.7 million increase in payroll and related expenses and a $1.5 million increase in temporary personnel, consulting and outside service expenses.

The increase in research and development expenses for fiscal 2013 from fiscal 2012 was primarily attributable to a $1.1 million increase in payroll and related expenses, a $0.1 million increase in recruiting expenses, and a $0.2 million increase in other research and development expenses.

SALES AND MARKETING EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Sales and marketing	$ 60,906	$ 45,573	$ 36,227	$ 15,333	33.6%	$ 9,346	25.8%
Percentage of total revenue	47.4%	43.9%	43.5%				

Sales and marketing expenses consist primarily of personnel and related overhead costs for sales, marketing, and customer service. Such costs also include outsourced customer service call center operations, sales commissions, as well as trade show, advertising and other marketing and promotional expenses.

The increase in sales and marketing expenses for fiscal 2014 from fiscal 2013 was primarily due to a $10.2 million increase in payroll and related expenses from an increase in our sales force, a $1.1 million increase in advertising expenses, a $0.8 million increase in temporary personnel, consulting and outside service expenses, a $0.5 million increase in third party sales commissions, a $0.5 million increase in travel and meal expenses, a $0.4 million increase in credit card processing fees, a $0.3 million increase in trade show expenses, a $0.3 million increase in amortization expense due to intangibles acquired in acquisitions and a $0.2 million increase in expensed computer, software and light furniture.

The increase in sales and marketing expenses for fiscal 2013 from fiscal 2012 was primarily due to a $6.4 million increase in payroll and related expenses from an increase in our sales force, a $0.9 million increase in advertising expenses, a $0.4 million increase in third party sales commissions, a $0.3 million increase in sales promotion expenses, a $0.3 million increase in bad debt expense, a $0.2 million increase in amortization expense due to intangibles acquired in acquisitions, a $0.2 million increase in travel and meal expenses and a $0.7 million net increases in other sales and marketing expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
General and administrative	$ 15,368	$ 8,558	$ 5,973	$ 6,810	79.6%	$ 2,585	43.3%
Percentage of total revenue	12.0%	8.2%	7.2%				

General and administrative expenses consist primarily of personnel and related overhead costs for finance, human resources and general management.

The increase in general and administrative expenses for fiscal 2014 from fiscal 2013 was primarily due to a $4.8 million increase in payroll and related expenses including a one-time charge of approximately $0.1 million in severance pay and $1.1 million in stock-based compensation related to the resignation of the Company's president in October 2013, a $0.6 million increase in legal expenses, a $0.6 million increase in facility lease and maintenance expenses, a $0.2 million increase in temporary personnel, consulting and outside service expenses, a $0.2 million increase in sales and use tax expense, a $0.2 million increase in property and franchise tax expenses, and a $0.2 million increase in accounting and tax expenses.

The increase in general and administrative expenses for fiscal 2013 from fiscal 2012 was primarily due to a $1.0 million increase in payroll and related expenses, a $0.9 million increase in temporary personnel, consulting and outside service expenses, a $0.2 million increase in sales and use tax expense, a $0.2 million increase in recruiting expense and a $0.3 million increase in other general and administrative expenses.

GAIN ON PATENT SALE

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Gain on patent sale	$ -	$ (12,965)	$ -	$ 12,965	N/A	$ (12,965)	N/A
Percentage of total revenue	0.0%	-12.5%	0.0%				

In June 2012, we entered into a patent purchase agreement for the sale of a family of United States patents. We recognized a gain of slightly less than $12.0 million, net of transaction costs, in the first fiscal quarter of 2013 and approximately $1.0 million in the fourth fiscal quarter of 2013 due to the third party purchaser entering into a license agreement with its customer. The gain on patent sale has been recorded as a reduction of operating expenses in the consolidated statements of income.

INTEREST INCOME (LOSS) AND OTHER, NET

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Interest income (loss) and other, net	$ 742	$ 105	$ (305)	$ 637	606.7%	$ 410	-134.4%
Percentage of total revenue	0.6%	0.1%	-0.4%				

This item primarily consisted of gain on settlement of escrow claim, capital gains distribution and interest income in fiscal 2014 and capital gains distribution and interest income in fiscal 2013. Our interest income (loss) and other, n consists of an impairment charge to write down the strategic investment in Stonyfish, Inc. and interest and investment income earned on our cash, cash equivalents and investment balances in fiscal 2012.

The increase in other income (loss) and other, net for fiscal 2014 from fiscal 2013 consists primarily of an increase in gain on settlement of escrow claim, interest income earned on investments and capital gain distributions due on mutual funds.

The increase in other income (loss) and other, net for fiscal 2013 from fiscal 2012 consists primarily of an increase in capital gain distributions due on mutual funds and interest income earned.

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PROVISION (BENEFIT) FOR INCOME TAXES

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Provision (benefit) for income taxes	$ 2,219	$ 9,399	$ (62,354)	$ (7,180)	-76.4%	$ 71,753	-115.1%
Percentage of total revenue	1.7%	9.1%	-74.8%				

We recorded an income tax provision of $2.2 million in fiscal year 2014 of which $0.9 million related to net income from operations and $1.3 million due to an increase in our valuation allowance. During the fourth quarter of fiscal 2014, we evaluated the need for a valuation allowance against our net deferred tax asset and determined that an additional $1.3 million was needed for certain net operating loss and research credit carryovers that may expire before utilization. Therefore, we increased the valuation allowance related to the deferred tax asset which resulted in an additional provision for income taxes to the consolidated income statement of approximately $1.3 million.

We recorded an income tax provision of $9.4 million in fiscal year 2013 of which $8.4 million related to net income from operations, including the sale of patent under our patent purchase agreement, and $1.0 million due to an increase in our valuation allowance. During the fourth quarter of fiscal 2013, we evaluated the need for a valuation allowance against our net deferred tax asset and determined that an additional $1.0 million was needed for certain net operating loss carryovers that may expire before utilization. Therefore, we increased the valuation allowance related to the deferred tax asset which resulted in a debit to the consolidated income statement of approximately $1.0 million.

At March 31, 2014, we had net operating loss carryforwards for federal and state income tax purposes of approximately $149.2 million and $93.5 million, respectively that expire at various dates beginning in 2015 and continuing through 2034. In addition, at March 31, 2014, we had research and development credit carryforwards for federal and state tax reporting purposes of approximately $2.7 million and $4.4 million, respectively. The federal credit carryforwards will begin expiring in 2021 continuing through 2034, while the California credit will carry forward indefinitely. Under the ownership change limitations of the Internal Revenue Code of 1986, as amended, the amount and benefit from the net operating losses and credit carryforwards may be limited in certain circumstances.

At March 31, 2014 and 2013, we had net deferred tax assets before valuation allowances of approximately $55.4 million and $55.6 million, respectively.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Income (loss) from discontinued operations, net of income tax provision	$ 320	$ 489	$ (1,452)	$ (169)	-34.6%	$ 1,941	-133.7%
Percentage of total revenue	0.2%	0.5%	-1.7%				

On September 30, 2013, we sold our dedicated server hosting business. The current and historical results of our dedicated server hosting business have been reclassified to income (loss) from discontinued operations, net of income tax provision. For the years ended March 31, 2014, 2013 and 2012, income taxes were $0.2, million, $0.3 million and $0 million, respectively.

GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS, NET OF INCOME TAXES

	Years Ended March 31,			Year-over-Year Change			
	2014	2013	2012	2013 to 2014		2012 to 2013	
	(dollar amounts in thousands)						
Gain on disposal of discontinued operations, net of income tax provision	$ 596	$ -	$ -	$ 596	N/A	$ -	N/A
Percentage of total revenue	0.5%	0.0%	0.0%				

For the year ended March 31, 2014, we recorded a gain on disposal of our dedicated server hosting business of $1.1 million, net of a tax provision of $0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2014, we had $178.4 million of cash and cash equivalents and investments. By comparison, at March 31, 2013, we had $52.3 million in cash and cash equivalents and investments. We currently have no borrowing arrangements. We believe we have sufficient liquidity to fund operations for the foreseeable future. In addition, we have a shelf registration statement that would allow us to raise up to an additional $123.7 million from the sale of new securities of ours. Please refer to Part I, Item 1A, Risk Factors "We may need to raise additional capital to support our future operations."

2014 to 2013

Net cash provided by operating activities for fiscal 2014 was $14.9 million, compared with $31.8 million provided by operating activities for fiscal 2013. Cash used in or provided by operating activities has historically been affected by:

- the amount of net income;
- sales of subscriptions;
- changes in working capital accounts, particularly in deferred revenue due to timing of annual plan renewals;
- add-backs of non-cash expense items such as depreciation and amortization; and
- the expense associated with stock options and stock-based awards.

Net cash used in investing activities was $136.5 million in fiscal 2014, compared with $5.9 million used in investing activities in fiscal 2013. The increase in cash used in investing activities during fiscal 2014 was primarily related to the purchase of investments ($141.6 million) and the acquisition of a business ($18.5 million). The increase in cash used in investing activities during fiscal 2014 was partially offset by the sale of investments in fiscal 2014 ($24.2 million).

Net cash provided by financing activities was $130.5 million in fiscal 2014, compared with $2.0 million in financing activities in fiscal 2013. Our financing activities for fiscal 2014 provided cash of approximately $125.8 million, net of issuance costs of $0.6 million, related to underwritten registered offering of common stock in which we sold 14,375,000 shares and $5.2 million due to issuance of common stock under our employee stock purchase plan and the issuance of shares related to the exercise of options. The cash provided by financing activities in fiscal 2014 was partially offset by $0.5 million due to repurchase of restricted shares and payment of capital leases.

2013 to 2012

Net cash provided by operating activities for fiscal 2013 was $31.8 million, compared with $9.2 million provided by operating activities for fiscal 2012. The increase in cash provided by operating activities was primarily due to the sale of patent under our patent purchase agreement ($13.0 million) and use of our deferred tax assets to reduce our cash taxes due ($9.3 million). Cash provided by operating activities has historically been affected by:

- the amount of net income;
- sales of subscriptions;
- changes in working capital accounts, particularly in deferred revenue due to timing of annual plan renewals;

- add-backs of non-cash expense items such as depreciation and amortization; and
- the expense associated with stock-based awards.

Net cash used in investing activities was $5.9 million in fiscal 2013, compared with $3.0 million used in investing activities in fiscal 2012. The increase in cash used in investing activities during fiscal 2013 is primarily related to the purchase of additional equipment and leasehold improvements related to our new facility ($3.4 million) offset by a reduction in cash used to purchase businesses in fiscal 2012 ($0.7 million).

Net cash provided by financing activities was $2.0 million in fiscal 2013, compared with net cash used of $0.3 million in financing activities in fiscal 2012. Our financing activities for fiscal 2013 provided cash of $2.5 million due to issuance of common stock under our employee stock purchase plan and the issuance of shares related to the exercise of options. The cash provided by financing activities in fiscal 2013 was partially offset by $0.5 million due to repurchase of restricted shares and payment of capital leases.

Contractual Obligations

Future operating lease payments, capital lease payments and purchase obligations at March 31, 2014 for the next five years were as follows (in thousands):

	Year Ending March 31,					
	2015	2016	2017	2018	2019	Thereafter
Capital leases	$ 139	$ 40	$ -	$ -	$ -	$ -
Office leases	1,745	1,803	1,853	1,789	1,843	1,093
Purchase obligations						
Third party customer support provider	2,158	-	-	-	-	-
Third party network service providers	1,809	52	-	-	-	-
Open purchase orders	48	-	-	-	-	-
	$ 5,899	$ 1,895	$ 1,853	$ 1,789	$ 1,843	$ 1,093

We lease our headquarters facility in San Jose, California under an operating lease agreement that expires in October 2019. The lease is an industrial net lease with monthly base rent of $130,821 for the first 15 months with a 3% increase each year thereafter, and requires us to pay property taxes, utilities and normal maintenance costs.

We lease our UK headquarters in Aylesbury UK under an operating lease agreement that expires in March 2017, with a break clause in March 2015 exercisable with six months' notice. The lease has a base monthly rent of $10,700 until March 2015, rising to $11,522 thereafter, and requires us to pay property taxes, service charges, utilities and normal maintenance costs.

In the third quarter of 2010, we amended our contract with one of our third party customer support vendors containing a minimum monthly commitment of approximately $430,000. The agreement requires a 150-day notice to terminate. At March 31, 2014, the total remaining obligation under the contract was $2.2 million.

We entered into contracts with multiple vendors for third party network service providers which expire on various dates in fiscal 2015 through 2016. At March 31, 2014, the total remaining obligations under these contracts were $1.9 million.

At March 31, 2014, we had open purchase orders of $48,000, primarily related to inventory purchases from our contract manufacturers. These purchase commitments are reflected in our consolidated financial statements once goods or services have been received or at such time when we are obligated to make payments related to these goods or services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Some of the securities in which we invest may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we may maintain our portfolio of cash equivalents and investments in a variety of securities, including commercial paper, money market funds, debt securities and certificates of deposit. The risk associated with fluctuating interest rates is limited to our investment portfolio and we do not believe that a 10% change in interest rates would have a significant impact on our interest income.

During the years ended March 31, 2014 and 2013, we did not have any outstanding debt instruments other than equipment under capital leases and, therefore, we were not exposed to market risk relating to interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
8x8, Inc.

We have audited the accompanying consolidated balance sheets of 8x8, Inc. (the Company), as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2014. We also have audited the Company's internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As discussed in Management's Report on Internal Control Over Financial Reporting, on November 29, 2013, the Company acquired Voicenet Solutions Limited ("Voicenet"). For the purposes of assessing internal control over financial reporting, management excluded Voicenet, whose financial statements constitute 2% of the Company's consolidated total assets (excluding $20.8 million of goodwill and intangible assets, net, which were integrated into the Company's control environment) and 3% of consolidated net revenues as of and for the year ended March 31, 2014. Accordingly, our audit did not include the internal control over financial reporting of Voicenet. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also include performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of 8x8, Inc., as of March 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, 8x8, Inc., maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP

San Francisco, California
May 27, 2014

8X8, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	March 31, 2014	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,159	$ 50,305
Short-term investments	47,181	1,964
Accounts receivable, net	5,503	3,880
Inventory	811	511
Deferred cost of goods sold	263	182
Deferred tax asset	2,065	6,096
Other current assets	1,951	732
Total current assets	116,933	63,670
Long-term investments	72,021	-
Property and equipment, net	7,711	6,673
Intangible assets, net	15,095	10,194
Goodwill	38,461	25,150
Non-current deferred tax asset	47,797	46,352
Other assets	1,185	572
Total assets	$ 299,203	$ 152,611
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,789	$ 5,644
Accrued compensation	4,583	3,629
Accrued warranty	660	452
Accrued taxes	2,323	1,912
Deferred revenue	1,857	1,236
Other accrued liabilities	1,909	862
Total current liabilities	18,121	13,735
Non-current liabilities	1,619	1,843
Non-current deferred revenue	1,285	-
Total liabilities	21,025	15,578
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.001 par value:		
Authorized: 5,000,000 shares;		
Issued and outstanding: no shares at March 31, 2014 and 2013	-	-
Common stock, $0.001 par value:		
Authorized: 200,000,000 shares;		
Issued and outstanding: 88,525,015 shares and 72,108,980 shares at March 31, 2014 and 2013, respectively	88	72
Additional paid-in capital	384,325	246,176
Accumulated other comprehensive gain (loss)	430	(36)
Accumulated deficit	(106,665)	(109,179)
Total stockholders' equity	278,178	137,033
Total liabilities and stockholders' equity	$ 299,203	$ 152,611

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

8X8, INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Years Ended March 31, 2014	2013	2012
Service revenue	$ 116,607	$ 94,384	$ 75,951
Product revenue	11,990	9,402	7,421
Total revenue	128,597	103,786	83,372
Operating expenses:			
Cost of service revenue	22,445	19,928	15,974
Cost of product revenue	15,170	11,801	9,822
Research and development	11,633	8,147	6,745
Sales and marketing	60,906	45,573	36,227
General and administrative	15,368	8,558	5,973
Gain on patent sale	-	(12,965)	-
Total operating expenses	125,522	81,042	74,741
Income from operations	3,075	22,744	8,631
Other income (loss), net	742	105	(305)
Income from continuing operations before provision (benefit) for income taxes	3,817	22,849	8,326
Provision (benefit) for income taxes	2,219	9,399	(62,354)
Income from continuing operations	1,598	13,450	70,680
Income (loss) from discontinued operations, net of income tax provision	320	489	(1,452)
Gain on disposal of discontinued operations, net of income tax provision of $456	596	-	-
Net income	$ 2,514	$ 13,939	$ 69,228
Income per share - continuing operations:			
Basic	$ 0.02	$ 0.19	$ 1.06
Diluted	$ 0.02	$ 0.18	$ 1.01
Income (loss) per share - discontinued operations:			
Basic	$ 0.01	$ 0.01	$ (0.02)
Diluted	$ 0.01	$ 0.01	$ (0.02)
Net income per share:			
Basic	$ 0.03	$ 0.20	$ 1.04
Diluted	$ 0.03	$ 0.19	$ 0.99
Weighted average number of shares:			
Basic	78,310	71,390	66,413
Diluted	81,658	74,700	70,149

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

8X8, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	Years Ended March 31, 2014	2013	2012
Net income	$ 2,514	$ 13,939	$ 69,228
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on investments in securities	(41)	22	15
Foreign currency translation adjustment	507	-	-
Comprehensive income	$ 2,980	$ 13,961	$ 69,243

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

8X8, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARES)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income (Loss)	Deficit	Total
Balance at March 31, 2011	62,379,030	$ 62	$ 208,218	$ (73)	$ (192,346)	$ 15,861
Issuance of common stock under stock plans	2,261,724	2	3,050	-	-	3,052
Issuance of common stock for acquisition of businesses, net of issuance costs	6,692,569	7	31,565	-	-	31,572
Repurchase of common stock	(653,830)	-	(2,400)	-	-	(2,400)
Buyback of employee stock options and stock purchase rights	-	-	(384)	-	-	(384)
Stock compensation charge	-	-	1,506	-	-	1,506
Unrealized investment gain	-	-	-	15	-	15
Net income	-	-	-	-	69,228	69,228
Balance at March 31, 2012	70,679,493	71	241,555	(58)	(123,118)	118,450
Issuance of common stock under stock plans	1,503,238	1	2,400	-	-	2,401
Cost of issuance of common stock	-	-	(43)	-	-	(43)
Repurchase of common stock	(73,751)	-	(419)	-	-	(419)
Stock compensation charge	-	-	2,634	-	-	2,634
Income tax benefit from stock-based compensation	-	-	49	-	-	49
Unrealized investment gain	-	-	-	22	-	22
Net income	-	-	-	-	13,939	13,939
Balance at March 31, 2013	72,108,980	72	246,176	(36)	(109,179)	137,033
Issuance of common stock, net of issuance costs	14,375,000	14	125,736	-	-	125,750
Issuance of common stock under stock plans	2,091,435	2	5,165	-	-	5,167
Repurchase of common stock	(50,400)	-	(489)	-	-	(489)
Stock compensation charge	-	-	7,595	-	-	7,595
Income tax benefit from stock-based compensation	-	-	142	-	-	142
Unrealized investment loss	-	-	-	(41)	-	(41)
Foreign currency translation adjustment	-	-	-	507	-	507
Net income	-	-	-	-	2,514	2,514
Balance at March 31, 2014	88,525,015	$ 88	$ 384,325	$ 430	$ (106,665)	$ 278,178

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

8X8, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Years Ended March 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	$ 2,514	$ 13,939	$ 69,228
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,567	2,523	1,535
Amortization of intangibles	1,643	1,428	788
Amortization of capitalized software	147	-	-
Net Accretion of discount and amortization of premium on marketable securities	114	-	-
Gain on disposal of discontinued operations	(596)	-	-
Gain on escrow settlement	(565)	-	-
Stock-based compensation expense	7,595	2,634	1,506
Tax benefit from stock-based compensation	(142)	(49)	-
Deferred income tax expense (benefit)	2,266	9,308	(62,422)
Other	650	616	561
Changes in assets and liabilities:			
Accounts receivable	(1,575)	(2,171)	(1,059)
Inventory	(276)	27	1,535
Other current and noncurrent assets	(488)	(30)	489
Deferred cost of goods sold	163	(60)	1
Accounts payable	(1,035)	410	(1,214)
Accrued compensation	488	524	128
Accrued warranty	208	65	25
Accrued taxes	276	440	(356)
Deferred revenue	681	345	(197)
Other current and noncurrent liabilities	282	1,839	(1,337)
Net cash provided by operating activities	14,917	31,788	9,211
Cash flows from investing activities:			
Acquisitions of property and equipment	(2,853)	(5,678)	(2,300)
Cost of capitalized software	(755)	(190)	-
Restricted cash decrease	-	-	28
Purchase of investments	(141,604)	-	-
Sales of investments	24,219	-	-
Acquisition of businesses, net of cash acquired	(18,474)	-	(713)
Proceeds from disposition of discontinued operations, net of transaction costs	3,000	-	-
Net cash used in investing activities	(136,467)	(5,868)	(2,985)
Cash flows from financing activities:			
Capital lease payments	(85)	(86)	(275)
Repurchase of common stock	(489)	(419)	(2,550)
Buyback of employee stock options and stock purchase rights	-	-	(384)
Tax benefit from stock-based compensation	142	49	-
Proceeds from (cost of) issuance of common stock, net of issuance costs	125,750	(43)	(60)
Proceeds from issuance of common stock under employee stock plans	5,167	2,458	2,995
Net cash provided by (used in) financing activities	130,485	1,959	(274)
Effect of exchange rate changes on cash	(81)	-	-
Net increase in cash and cash equivalents	8,854	27,879	5,952
Cash and cash equivalents, beginning of year	50,305	22,426	16,474
Cash and cash equivalents, end of year	$ 59,159	$ 50,305	$ 22,426
Supplemental and non-cash disclosures:			
Issuance of common stock in connection with acquisitions of businesses	$ -	$ -	$ 31,358
Fair value of options assumed in connection with acquisitions of businesses	-	-	274
Acquisition of property and equipment, net in connection with acquisitions of businesses	956	-	364
Acquisition of capital lease in connection with acquisitions of businesses	216	-	317
Assets acquired under capital lease	-	-	45
Interest paid	5	8	5
Income taxes paid	427	415	94

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

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8X8, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

8x8, Inc. ("8x8" or the "Company") develops and markets a comprehensive portfolio of unified communications and collaboration ("UCC") services. The Company was incorporated in California in February 1987 and was reincorporated in Delaware in December 1996.

The Company is a leading provider of UCC services in the cloud for SMBs and mid-market and distributed enterprises. The Company delivers a broad suite of UCC services to in-office and mobile devices spanning cloud telephony, virtual contact center and virtual meeting through its proprietary unified software as a service, or SaaS, platform. The Company currently serves approximately 38,000 business customers with over 500,000 subscriptions, making it a leading provider of UCC services in the cloud. The Company's software abstracts complex networking, redundancy, security and interconnection requirements to provide a seamless and easy-to-use solution for its customers. The Company's software also integrates with leading ERP, CRM, or HCM, and other third-party application suites, such as Salesforce.com and NetSuite, to provide organizations an integrated, fully functional business communications and collaboration experience that is critical to operate their businesses.

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 2014 refers to the fiscal year ended March 31, 2014).

Common Stock Offering

In November 2013, the Company completed an underwritten registered offering of common stock in which it sold 14,375,000 shares for total cash proceeds of approximately $125.8 million, net of issuance costs of $0.6 million. The shares issued in the offering had been registered under a shelf registration statement previously filed with the Securities and Exchange Commission relating to up to $250,000,000 of the Company's securities. A member of the Company's board of directors participated in the offering and purchased 30,000 shares at the public offering price.

Acquisition of Voicenet Solutions Limited

In November 2013, the Company entered into a share purchase agreement with the shareholders and optionholders of Voicenet Solutions Limited, a provider of cloud communications and collaboration services in the United Kingdom. See note 8.

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 includes:

- Reclassifying 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 or diluted net income per share amounts.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to bad debts, returns reserve for expected cancellations, valuation of inventories, income and sales tax, and litigation and other contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

REVENUE RECOGNITION

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 that is fixed or determinable and that are not contingent on future performance or future deliverables in the month in which the new order was shipped, net of an allowance for expected cancellations.

Multiple Element Arrangements

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 services 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, international government securities and money market funds. At March 31, 2014 and 2013, 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'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 March 31, 2014	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Money market funds	$ 32,611	$ -	$ -	$ 32,611
Fixed income				
Mutual funds	1,964	-	(55)	1,909
Commercial paper	30,374	5	-	30,379
Corporate debt	63,621	35	(39)	63,617
Municipal securities	5,435	5	(1)	5,439
Asset backed securities	17,049	6	(1)	17,054
International government securities	800	4	-	804
Total available-for-sale investments	$ 151,854	$ 55	$ (96)	$ 151,813
Reported as (in thousands):				
Cash and cash equivalents				$ 32,611
Short-term investments				47,181
Long-term investments				72,021
Total				$ 151,813

As of March 31, 2013	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Money market funds	$ 14,376	$ -	$ -	$ 14,376
Fixed income				
Mutual funds	2,000	-	(36)	1,964
Total available-for-sale investments	$ 16,376	$ -	$ (36)	$ 16,340
Reported as (in thousands):				
Cash and cash equivalents				$ 14,376
Short-term investments				1,964
Total				$ 16,340

Contractual maturities of mutual funds, commercial paper, corporate debt, municipal securities, asset backed securities, international government securities and money market funds as of March 31, 2014 are set forth below (in thousands):

Due within one year	$ 79,792
Due after one year	72,021
Total	$ 151,813

ACCOUNTS RECEIVABLE ALLOWANCE

The Company estimates the amount of uncollectible accounts receivable at the end of each reporting period based on the aging of the receivable balance, current and historical customer trends, and communications with its customers. Amounts are written off only after considerable collection efforts have been made and the amounts are determined to be uncollectible. The allowance for doubtful accounts was $466,000 and $328,000 at March 31, 2014 and 2013, respectively.

INVENTORY

Inventory is stated at the lower of standard cost, which approximates actual cost using the first-in, first-out method, or market. Any write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently would not be marked up based on changes in underlying facts and circumstances. On an on-going basis, the Company evaluates inventory for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections, and purchases by item, as well as raw material usage related to the Company's manufacturing facilities. If the Company's review indicates a reduction in utility below carrying value, it reduces inventory to a new cost basis. If future demand or market conditions are different than the Company's current estimates, an inventory adjustment may be required, and would be reflected in cost of goods sold in the period the revision is made. Inventory was comprised of the following:

	March 31,	
	2014	**2013**
	(in thousands)	
Work-in-process	$ 23	$ 23
Finished goods	788	488
	$ 811	$ 511

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method. Estimated useful lives of three years are used for equipment and software and five years for furniture and fixtures. Amortization of leasehold improvements is computed using the shorter of the remaining facility lease term or the estimated useful life of the improvements. Property and equipment was comprised of the following:

	March 31,	
	2014	**2013**
	(in thousands)	
Machinery and computer equipment	$ 9,557	$ 9,097
Furniture and fixtures	505	447
Licensed software	3,517	2,136
Leasehold improvements	3,468	3,343
	17,047	15,023
Less: accumulated depreciation and amortization	(9,336)	(8,350)
	$ 7,711	$ 6,673

Maintenance, repairs and ordinary replacements are charged to expense. Expenditures for improvements that extend the physical or economic life of the property are capitalized. Gains or losses on the disposition of property and equipment are recorded in the income from operations.

ACCOUNTING FOR LONG-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets, such as property and equipment, intangible assets subject to amortization, and capitalized software, when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. Examples of such events could include a significant disposal of a portion of such assets, an adverse change in the market involving the business employing the related asset or a significant change in the operation or use of an asset. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. No such impairment charges were recorded in the periods presented.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite useful lives are not amortized. Goodwill represents the excess fair value of consideration transferred over the fair value of net assets acquired in business combinations. The carrying value of goodwill and indefinite lived intangible assets are not amortized, but are annually tested for impairment and more often if there is an indicator of impairment. The Company has two reporting units.

As of January 1, 2014, the Company completed its annual impairment test. No goodwill impairment charges were recorded in the periods presented.

The following table provides a summary of the changes in the carrying amounts of goodwill (in thousands):

Balance as of March 31, 2012	$	25,150
Increase in goodwill related to acquisitions		-
Balance as of March 31, 2013		25,150
Increase in goodwill related to acquisitions		14,155
Decrease in goodwill related to disposal of discontinued operations		(1,210)
Other		366
Balance as of March 31, 2014	$	38,461

Any changes in goodwill amounts resulting from foreign currency translations are presented as "Other" in the above table.

Intangible assets with finite useful lives are amortized on a straight-line basis over the periods benefited. 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):

	March 31, 2014			March 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technology	$ 8,242	$ (2,080)	$ 6,162	$ 8,242	$ (1,256)	$ 6,986
Customer relationships	9,686	(1,710)	7,976	3,305	(1,054)	2,251
Trade names/domains	957	-	957	957	-	957
Total acquired identifiable intangible assets	$ 18,885	$ (3,790)	$ 15,095	$ 12,504	$ (2,310)	$ 10,194

At March 31, 2014, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following (in thousands):

		Amount
2015	$	2,261
2016		2,261
2017		2,253
2018		2,005
2019		1,759
Thereafter		3,599
Total	$	14,138

WARRANTY EXPENSE

The Company accrues for estimated product warranty cost upon revenue recognition. Accruals for product warranties are calculated based on the Company's historical warranty experience adjusted for any specific requirements.

RESEARCH, DEVELOPMENT AND SOFTWARE COSTS

The Company accounts for software to be sold or otherwise marketed in accordance with ASC 985-20, *Costs of Software to be Sold, Leased or Marketed* ("ASC 985-20") which requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. The Company defines establishment of technological feasibility as the completion of a working model. Software development costs for software to be sold or otherwise marketed incurred prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability of the product are capitalized, if material.

In fiscal 2014 and 2013, the Company capitalized approximately $0.8 million and $0.2 million, respectively of software development costs in accordance with ASC 985-20. At March 31, 2014 and 2013, total capitalized software development costs included in other long-term assets was approximately $1.0 million and $0.2 million, respectively, and accumulated amortization costs related to capitalized software was approximately $0.1 million and $0, respectively. Prior to March 31, 2012, costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release have been insignificant. Accordingly, all software development costs for software to be sold or otherwise marketed incurred prior to March 31, 2012 have been expensed as incurred.

The Company accounts for computer software developed or obtained for internal use in accordance with ASC 350-40, *Internal Use Software* ("ASC 350-40"), which requires capitalization of certain software development costs incurred during the application development stage. No such costs were capitalized during the periods presented.

ADVERTISING COSTS

Advertising costs are expensed as incurred and were $7.3 million, $6.5 million and $6.6 million for the years ended March 31, 2014, 2013 and 2012, respectively.

FOREIGN CURRENCY TRANSLATION

The Company has determined that the functional currency of its UK foreign subsidiary is the subsidiary's local currency, the British Pound Sterling, which the Company believes most appropriately reflects the current economic facts and circumstances of the UK subsidiary's operations. The assets and liabilities of the subsidiary are translated at the applicable exchange rate as of the end of the balance sheet period and revenue and expenses are translated at an average rate over the period presented. Resulting currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss within the stockholder's equity in the consolidated balance sheets.

BUSINESS SEGMENTS

The Company has one reportable operating segment. The Company's chief operating decision makers, the Chief Executive Officer, Chief Financial Officer and Chief Technology Officer, evaluate performance of the Company and make decisions regarding allocation of resources based on total Company results (see Note 7).

SUBSCRIBER ACQUISITION COSTS

Subscriber acquisition costs are expensed as incurred and include the advertising, marketing, promotions, commissions, rebates and equipment subsidy costs associated with the Company's efforts to acquire new subscribers.

INCOME TAXES

Income taxes are accounted for using the asset and liability approach. Under the asset and liability approach, a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributed to temporary differences and carryforwards. If necessary, the deferred tax assets are reduced by the amount of benefits that, based on available evidence, is more likely than not expected to be realized.

CONCENTRATIONS

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, investments and trade accounts receivable. The Company has cash equivalents and investment policies that limit the amount of credit exposure to any one financial institution and restrict placement of these funds to financial institutions evaluated as highly credit-worthy. The Company has not experienced any material losses relating to its investment instruments.

The Company sells its products to business customers and distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from its customers. For the years ended March 31, 2014, 2013 and 2012, the Company wrote-off accounts receivables for approximately $0.4 million, $0.5 million and $0.2 million, respectively. At March 31, 2014 and 2013, no customer accounted for more than 10% of accounts receivable.

The Company outsources the manufacturing of its hardware products to independent contract manufacturers. The inability of any contract manufacturer to fulfill supply requirements of the Company could materially impact future operating results, financial position or cash flows. If any of these contract manufacturers fail to perform on their obligations to the Company, such failure to fulfill supply requirements of the Company could materially impact future operating results, financial position and cash flows.

The Company also relies primarily on third party network service providers to provide telephone numbers and PSTN call termination and origination services for its customers. If these service providers failed to perform their obligations to the Company, such failure could materially impact future operating results, financial position and cash flows.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments is determined by the Company using available market information and valuation methodologies considered to be appropriate. The carrying amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their short maturities. The Company's investments are carried at fair value.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for its employee stock options, stock purchase rights, restricted stock units and restricted performance stock units granted under the 1996 Stock Plan, 1996 Director Option Plan, 1999 Nonstatutory Stock Option Plan, the 2006 Stock Plan, the 2003 Contactual Plan, the 2012 Equity Incentive Plan, the 2013 New Employee Inducement Incentive Plan and stock purchase rights under the 1996 Employee Stock Purchase Plan (collectively "Equity Compensation Plans") under the provisions of ASC 718 - *Stock Compensation*. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant), net of estimated forfeitures.

To value option grants, stock purchase rights and restricted stock units under the Equity Compensation Plans for stock-based compensation the Company used the Black-Scholes option valuation model. Fair value determined using the Black-Scholes option valuation model varies based on assumptions used for the expected stock prices volatility, expected life, risk free interest rates and future dividend payments. For fiscal years 2014, 2013 and 2012, the Company used the historical volatility of its stock over a period equal to the expected life of the options. The expected life assumptions represent the weighted-average period stock-based awards are expecting to remain outstanding. These expected life assumptions were established through the review of historical exercise behavior of stock-based award grants with similar vesting periods. The risk free interest is based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term equal to the expected term of the option. The dividend yield assumption is based on the Company's history and expectation of future dividend payout. Compensation expense for stock-based payment awards is recognized using the straight-line single-option method and includes the impact of estimated forfeitures.

The Company issued restricted performance stock units to a group of executives with vesting that is contingent on both market performance and continued service. For the market-based restricted performance stock units issued during the fiscal year ended March 31, 2014:

- the number of shares of the Company's stock to be received at vesting if applicable service requirements are also met will range from 0% to 100% of the target amount based total shareholder return ("TSR"), which compares the performance of the price per share of the Company's common stock with the NASDAQ Composite Index ("Index") for the three performance periods ending March 31, 2015, March 31, 2016 and March 31, 2017, in the following manner: where in each such measurement period, (1) if the performance return on the price per share of the Company's common stock exceeds the performance return on the NASDAQ Composite Index, (which shall be determined by subtracting the percentage return on the NASDAQ Composite Index from the percentage return on the price per share of the Common Stock), then all of the TSR Performance Shares for such measurement period will be deemed earned and will vest; (2) if the performance return on the price per share of Common Stock is more than 50% lower than the performance return on the NASDAQ Composite Index, then none of the TSR Performance Shares for such measurement period will be deemed earned and will vest; and (3) if the performance return on the price per share of Common Stock is between 0% and 50% lower than the performance return on the NASDAQ Composite Index, then the number of TSR Performance Shares deemed earned and vesting for such measurement period will be reduced by 2% for each 1% by which the performance return on the NASDAQ Composite Index exceeds the performance return on the Common Stock, and

- the number of shares of the Company's stock to be received at vesting will range from 0% or 100% of the target amount based on four tranches, with each tranche vesting at the later of (a) the satisfaction of the applicable service-based vesting requirement for that tranche, and (b) on the first date that the average stock price of the Company's common stock for a consecutive 30 trading day period exceeds 150% of the grant date stock price. The minimum service vesting requirement for each tranche is as follows:

Tranche 1: One year following the date of the grant Tranche 2: Two years following the date of the grant Tranche 3: Three years following the date of the grant Tranche 4: Four years following the date of the grant

To value these market-based restricted performance stock units under the Equity Compensation Plans, the Company used a Monte Carlo simulation model on the date of grant. Fair value determined using the Monte Carlo simulation model varies based on the assumptions used for the expected stock price volatility, the correlation coefficient between the Company and the NASDAQ Composite Index, risk free interest rates, and future dividend payments. The Company used the historical volatility and correlation of our stock and the Index over a period equal to the remaining performance period as of the grant date. The risk-free interest rate was based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term equal to the remaining performance period as of the grant date. The dividend yield assumption was based on our history and expectation of future dividend payout. Compensation expense for restricted stock units with performance and market conditions is recognized over the requisite service period using the straight-line method on a tranche by tranche basis and includes the impact of estimated forfeitures.

In October 2013, the board of directors approved the modification of unvested stock options to purchase 74,479 shares of common stock and unvested stock purchase rights totaling 37,000 shares of common stock held by the Company's president upon his resignation. The options held by the Company's president upon his resignation, taken as a whole, had a weighted average exercise price of $4.05 per share and range from $2.72 to $5.87 per share, and a weighted average remaining vesting term of 0.5 years. Approximately $1,068,000 of the $7,595,000 of stock-based compensation charge in fiscal year 2014 applied to the options held by the former president of the Company and was recorded in general and administrative expenses.

Stock-based compensation expense recognized in the Consolidated Statements of Operations for fiscal 2014, 2013 and 2012, was measured based on ASC 718 criteria. Compensation expense for all stock-based payment awards are recognized using the straight-line single-option method and includes the impact of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes stock-based compensation expense (in thousands):

	Years Ended March 31,		
	2014	**2013**	**2012**
Cost of service revenue	$ 372	$ 211	$ 129
Cost of product revenue	-	-	-
Research and development	967	428	260
Sales and marketing	2,217	1,363	859
General and administrative	4,039	632	258
Total stock-based compensation expense related to employee stock options and employee stock purchases, pre-tax	7,595	2,634	1,506
Tax benefit	-	-	-
Stock-based compensation expense related to employee stock options and employee stock purchases, net of tax	$ 7,595	$ 2,634	$ 1,506

COMPREHENSIVE INCOME

Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. The difference between net income and comprehensive income is due to foreign currency translation adjustments and unrealized gains or losses on investments classified as available-for-sale. Comprehensive income is reflected in the consolidated statements of comprehensive income.

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income available to common stockholders (numerator) by the weighted average number of vested, unrestricted common shares outstanding during the period (denominator). Diluted net income per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and employee restricted purchase rights.

	Years Ended March 31,		
	2014	2013	2012
	(In Thousands, Except Per Share Amounts)		
Numerator:			
Income from continuing operations	$ 1,598	$ 13,450	$ 70,680
Income (loss) from discontinued operations, net of income tax provision	916	489	(1,452)
Net income available to common stockholders	$ 2,514	$ 13,939	$ 69,228
Denominator:			
Common shares	78,310	71,390	66,413
Denominator for basic calculation	78,310	71,390	66,413
Employee stock options	2,927	2,958	3,327
Employee restricted purchase rights	421	352	409
Denominator for diluted calculation	81,658	74,700	70,149
Income per share - continuing operations:			
Basic	$ 0.02	$ 0.19	$ 1.06
Diluted	$ 0.02	$ 0.18	$ 1.01
Income (loss) per share - discontinued operations:			
Basic	$ 0.01	$ 0.01	$ (0.02)
Diluted	$ 0.01	$ 0.01	$ (0.02)
Net income per share:			
Basic	$ 0.03	$ 0.20	$ 1.04
Diluted	$ 0.03	$ 0.19	$ 0.99

The following shares attributable to outstanding stock options, restricted purchase rights and warrants were excluded from the calculation of diluted earnings per share because their inclusion would have been antidilutive (in thousands):

	Years Ended March 31,		
	2014	2013	2012
Common stock options	750	953	435
Stock purchase rights	18	16	73
	768	969	508

DEFERRED RENT

In April 2012, the Company entered into an 87-month lease agreement for its new headquarters. Under the terms of the lease agreement:

- the Company received a three month rent holiday from rental payments;
- base rent is $130,821 for the 15 months after the rent holiday; and
- rent expense increases 3% each year thereafter.

In the second quarter of fiscal 2013, the Company received a $1.7 million allowance for reimbursement for the cost of tenant improvements that the Company included in cash flows from operating activities. In accordance with the guidance in ASC 840-20, Leases, the Company accounts for its headquarters facility operating lease as follows:

Rent Holidays.

The Company recognizes the related rent expense on a straight-line basis at the earlier of the first rent payment or the date of possession of the leased property. The difference between the amounts charged to expense and the rent paid is recorded as deferred lease incentives and amortized over the lease term.

Rent Escalations.

The Company recognizes escalating rent provisions on a straight-line basis over the lease term. The difference between the amounts charged to expense and the rent paid is recorded as deferred lease incentives and amortized over the lease term.

Tenant Improvement Allowance

. The tenant improvement allowance is deferred and amortized on a straight-line basis over the life of the lease as a reduction to rent expense.

At March 31, 2014, total deferred rent included in other accrued liabilities and non-current liabilities was $0.2 million and $1.6 million, respectively. At March 31, 2013, total deferred rent included in other accrued liabilities and non-current liabilities was $0.2 million and $1.8 million, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax credit Carryforward Exist* ("ASU 2013-11"). ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain situations. ASU 2013-11 will be effective for the fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The Company does not believe that the adoption of ASU 2013-11 will have a material impact on the Company's consolidated results of operation and financial condition.

In April 2014, The FASB has issued Accounting Standards Update (ASU) No. 2014-08, "Presentation of Financial Statements" (Topic 205) and "Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" (Topic 360). The amendments in the ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. It also addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. The Company does not believe that the adoption of ASU 2014-08 will have a material impact on the Company's consolidated results of operation and financial condition.

2. INCOME TAXES

For the years ended March 31, 2014, 2013 and 2012, the Company recorded a provision (benefit) for income taxes of $2,219,000, $9,399,000 and ($62,354,000), respectively. The provision for the year ended March 31, 2014 and 2013 was attributable to federal and state current and deferred taxes. For the year ended March 31, 2012, the Company recorded a benefit for income taxes of $62.4 million which was primarily attributable to the release of a significant portion of the valuation allowance related to the Company's deferred tax assets. The components of the consolidated provision for income taxes for fiscal 2014, 2013 and 2012 consisted of the following (in thousands):

		March 31,	
Current:	**2014**	**2013**	**2012**
Federal	$ -	$ -	$ -
State	276	434	76
Foreign	-	-	(8)
	276	434	68
Deferred			
Federal	$ 1,578	$ 7,185	$ (56,665)
State	365	1,780	(5,757)
Foreign	-	-	-
Total deferred tax provision (benefit)	1,943	8,965	(62,422)
Income tax provision (benefit)	$ 2,219	$ 9,399	$ (62,354)

The Company's income before income taxes included $0.8 million, $0 and $0 of foreign subsidiary loss for the fiscal years ended March 31, 2014, 2013 and 2012, respectively.

Deferred tax assets were comprised of the following (in thousands):

	March 31,	
Current deferred tax assets	**2014**	**2013**
Net operating loss carryforwards	$ 333	$ 4,795
Inventory valuation	33	18
Reserves and allowances	1,791	2,182
Net current deferred tax assets	2,157	6,995
Net operating loss carryforwards	51,598	48,002
Research and development and other credit carryforwards	4,488	3,026
Fixed assets and intangibles	(2,819)	(2,468)
Net non-current deferred tax assets	53,267	48,560
Valuation allowance	(5,562)	(3,107)
Total	$ 49,862	$ 52,448

As of March 31, 2014 and 2013, management assessed the realizability of deferred tax assets based on the available evidence, including a history of taxable income and estimates of future taxable income. At March 31, 2014, management evaluated the need for a valuation allowance and determined that a valuation allowance of approximately $5.6 million was needed. At March 31, 2013, management evaluated the need for a valuation allowance and determined that a valuation allowance of approximately $3.1 million was needed. The net change in the valuation allowance for the years ended March 31, 2014 and 2013 was an increase of $2.5 million and $1.0, respectively.

At March 31, 2014, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $149.2 million and $93.5 million, respectively, which expire at various dates beginning in 2015 and continuing through 2034. The net operating loss carryforwards include approximately $22.6 million resulting from employee exercises of non-qualified stock options or disqualifying dispositions, the tax benefits of which, when realized, will be accounted for as an addition to additional paid-in capital rather than as a reduction of the provision for income taxes. In addition, at March 31, 2014, the Company had research and development credit carryforwards for federal and California tax reporting purposes of approximately $2.7 million and $4.4 million, respectively. The federal credit carryforwards will expire at various dates beginning in 2021 and continuing through 2034, while the California credits will carry forward indefinitely. A reconciliation of the tax provision to the amounts computed using the statutory U.S. federal income tax rate of 34% is as follows (in thousands):

	Years Ended March 31,		
	2014	2013	2012
Tax provision at statutory rate	$ 1,285	$ 7,768	$ 2,337
State income taxes before valuation allowance, net of federal effect	196	822	408
Research and development credits	(1,534)	(385)	(211)
Change in valuation allowance	1,264	1,038	(65,042)
Compensation/option differences	(264)	(207)	(87)
Non-deductible compensation	605	403	220
Acquisition costs	230	-	-
Expiring CA NOLs	240	-	-
Foreign loss not benefited	271	-	-
Other	(74)	(40)	21
	$ 2,219	$ 9,399	$ (62,354)

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Unrecognized Tax Benefits		
	2014	2013	2012
Balance at beginning of year	$ 3,024	$ 2,483	$ 1,726
Gross increases - tax position in prior period	-	73	111
Gross decreases - tax position in prior period	(1,081)	-	-
Gross increases - tax positions related to the current year	222	468	646
Settlements	-	-	-
Lapse of statute of limitations	-	-	-
Balance at end of year	$ 2,165	$ 3,024	$ 2,483

At March 31, 2014, the company had a liability for unrecognized tax benefits of $2.2 million, all of which, if recognized, would decrease the company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company files U.S. federal and state income tax returns in jurisdictions with varying statutes of limitations. The Company has not been under examination by income tax authorities in federal, state or other foreign jurisdictions. The 1995 through fiscal 2014 tax years generally remain subject to examination by federal and most state tax authorities.

The Company's policy for recording interest and penalties associated with tax examinations is to record such items as a component of operating expense income before taxes. During the fiscal year ended March 31, 2014, 2013 and 2012, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

Utilization of the Company's net operating loss and tax credit carryforwards can become subject to a substantial annual limitation due to the ownership change limitations provided by Section 382 of the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration or elimination of the net operating loss and tax credit carryforwards before utilization. The Company has performed an analysis of its changes in ownership under Section 382 of the Internal Revenue Code. Management currently believes that the Section 382 limitation will not limit utilization of the carryforwards prior to their expiration, with the exception of certain acquired loss and tax credit carryforwards of Contactual, Inc.

3. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal market or the most advantageous market in which it would transact.

The accounting guidance for fair value measurement requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability developed based on the best information available in the circumstances.

The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value by requiring that the most observable inputs be used when available. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).

- Level 3 applies to assets or liabilities for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including the Company's own assumptions.

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at March 31, 2014 and 2013 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2014
Cash equivalents:				
Money market funds	$ 32,611	$ -	$ -	$ 32,611
Short-term investments:				
Mutual funds	1,909	-	-	1,909
Commercial paper	-	30,379	-	30,379
Corporate debt	-	14,893	-	14,893
Long-term investments:				
Corporate debt	-	48,724	-	48,724
Municipal securities	-	5,439	-	5,439
Asset backed securities	-	17,054	-	17,054
International government securities	-	804	-	804
Total	$ 34,520	$ 117,293	$ -	$ 151,813

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2013
Cash equivalents:				
Money market funds	$ 14,376	$ -	$ -	$ 14,376
Short-term investments:				
Mutual funds	1,964	-	-	1,964
Total	$ 16,340	$ -	$ -	$ 16,340

4. COMMITMENTS AND CONTINGENCIES

Guarantees

Indemnifications

In the normal course of business, the Company may agree to indemnify other parties, including customers, lessors and parties to other transactions with the Company, with respect to certain matters such as breaches of representations or covenants or intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors.

It is not possible to determine the maximum potential amount of the Company's exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on the Company's operating results, financial position or cash flows. Under some of these agreements, however, the Company's potential indemnification liability might not have a contractual limit.

Product Warranties

The Company accrues for the estimated costs that may be incurred under its product warranties upon revenue recognition. Changes in the Company's product warranty liability, which is included in cost of product revenues in the consolidated statements of income were as follows (in thousands):

	Years Ended March 31,		
	2014	**2013**	**2012**
Balance at beginning of year	$ 452	$ 387	$ 362
Accruals for warranties	953	611	496
Payments	(745)	(546)	(471)
Balance at end of year	$ 660	$ 452	$ 387

Leases

The Company leases its headquarters facility in San Jose, California under an operating lease agreement that expires in October 2019. The lease is an industrial net lease with monthly base rent of $130,821 for the first 15 months with a 3% increase each year thereafter, and requires us to pay property taxes, utilities and normal maintenance costs.

The Company leases its UK headquarters in Aylesbury UK under an operating lease agreement that expires in March 2017, with a break clause in March 2015 exercisable with six months' notice. The lease has a base monthly rent of $10,700 until March 2015, rising to $11,522 thereafter, and requires us to pay property taxes, service charges, utilities and normal maintenance costs.

At March 31, 2014, future minimum annual lease payments under non-cancelable operating leases were as follows (in thousands):

Year Ending March 31,	
2015	$ 1,745
2016	1,803
2017	1,853
2018	1,789
2019 and Thereafter	2,936
Total	$ 10,126

Rent expense for the years ended March 31, 2014, 2013 and 2012 was $1,506,000, $1,195,000, and $746,000, respectively.

Capital Leases

The Company has non-cancelable capital lease agreements for office equipment bearing interest at various rates. At March 31, 2014, future minimum annual lease payments under non-cancelable capital leases were as follows (in thousands):

Year ending March 31:		
2015	$	139
2016		40
Total minimum payments		179
Less: Amount representing interest		(2)
		177
Less: Short-term portion of capital lease obligations		(137)
Long-term portion of capital lease obligations	$	40

Capital leases included in office equipment were $607,000 and $110,000 at March 31, 2014 and 2013, respectively. Total accumulated amortization was $355,000 and $69,000 at March 31, 2014 and 2013, respectively. Amortization expense for assets recorded under capital leases is included in depreciation expense.

Minimum Third Party Customer Support Commitments

In the third quarter of 2010, the Company amended its contract with one of its third party customer support vendors containing a minimum monthly commitment of approximately $430,000 effective April 1, 2010. The agreement requires a 150-day notice to terminate. At March 31, 2014, the total remaining obligation under the contract was $2.2 million.

Minimum Third Party Network Service Provider Commitments

The Company entered into contracts with multiple vendors for third party network service providers which expire on various dates in fiscal 2015 through 2016. At March 31, 2014, future minimum annual payments under these third party network service contracts were as follows (in thousands):

Year ending March 31:		
2015	$	1,809
2016		52
Total minimum payments	$	1,861

Legal Proceedings

The Company, from time to time, is involved in various legal claims or litigation, including patent infringement claims that can arise in the normal course of the Company's operations. Pending or future litigation could be costly, could cause the diversion of management's attention and could upon resolution, have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

On February 22, 2011, the Company was named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. *et al.*, along with 20 other defendants. On August 17, 2011, the Company was dismissed without prejudice from this lawsuit under Rule 21 of the Federal Rules of Civil Procedure. On August 17, 2011, the Company was sued again by Bear Creek Technologies, Inc. in the United States District Court for the District of Delaware. The Company believes it has factual and legal defenses to these claims and is presenting a vigorous defense. Further, on November 28, 2012, the U.S. Patent & Trademark Office initiated a Reexamination proceeding with a Reexamination Declaration explaining that there is a substantial new question of patentability, based on four separate grounds and affecting each claim of the patent which is the basis for the complaint filed against the Company. On March 26, 2013, the USPTO issued a first Office Action in the Reexamination, with all claims of the '722 patent being rejected on each of the four separate grounds raised in the Request for Reexamination. On July 10, 2013, the Company filed an informational pleading in support of and joining a motion to stay the proceeding in the District Court; the District Court granted the motion on July 17, 2013, based on the possibility that at least one of the USPTO rejections will be upheld and considering the USPTO's conclusion that Bear Creek's patent suffers from a defective claim for priority. On March 24, 2014, the USPTO issued another Office Action in which the rejections of the claims are maintained. The Company cannot estimate potential liability in this case at this early stage of litigation.

On October 25, 2011, the Company was named a defendant in a lawsuit, Klausner Technologies, Inc. v. Oracle Corporation *et al.*, along with 30 other defendants. The lawsuit alleges infringement of a patent that is now believed to have expired. On November 1, 2011, Klausner dismissed the Complaint voluntarily and filed new complaints separating the defendants, including a new Complaint against 8x8. The Company believes it has factual and legal defenses to these claims and is presenting a vigorous defense. On March 21, 2013, the District Court granted 8x8's Motion to Change Venue, and has ordered the transfer of the case to the US District Court for the Northern District of California. An answer to the complaint was filed on April 25, 2014. The Company cannot estimate potential liability in this case at this early stage of the litigation.

On March 31, 2014, the Company was named a defendant in a lawsuit, CallWave Communications LLC v. 8x8, Inc. CallWave Communications also sued Fonality Inc. on March 31, 2014, and previously sued other companies including Verizon, Google, T-Mobile, and AT&T. The Company is currently assessing factual and legal defenses to these claims and expects to present a vigorous defense. The Company has not answered the complaint yet and cannot estimate potential liability in this case at this early stage of the litigation.

On April 23, 2014, the Company was named but not served as a defendant in a lawsuit, TQP Development, LLC v. 8x8, Inc. On April 30, 2014 (and before any service of the complaint), TQP Development filed papers to dismiss this lawsuit and other lawsuits that were filed on or about the same time.

State and Municipal Taxes

From time to time, the Company has received inquiries from a number of state and municipal taxing agencies with respect to the remittance of taxes. Four states currently are conducting tax audits of the Company's records. The Company collects or has accrued for taxes that it believes are required to be remitted. The amounts that have been remitted have historically been within the accruals established by the Company.

Regulatory

VoIP communication services, like the Company's, are subject to less regulation at the federal level than traditional telecommunication services and states are preempted from regulating such services. Many regulatory actions are underway or are being contemplated by federal and state authorities, including the FCC, and state regulatory agencies. The FCC initiated a notice of public rule-making in early 2004 to gather public comment on the appropriate regulatory environment for IP telephony which would include the services we offer. In November 2004, the FCC ruled that the VoIP service of a competitor and "similar" services are jurisdictionally interstate and not subject to state certification, tariffing and other legacy telecommunication carrier regulations.

The effect of any future laws, regulations and the orders on the Company's operations, including, but not limited to, the 8x8 service, cannot be determined. But as a general matter, increased regulation and the imposition of additional funding obligations increases the Company's costs of providing service that may or may not be recoverable from the Company's customers which could result in making the Company's services less competitive with traditional telecommunications services if the Company increases its retail prices or decreases the Company's profit margins if it attempts to absorb such costs.

5. STOCKHOLDERS' EQUITY

1996 Stock Plan

In June 1996, the Company's board of directors adopted the 1996 Stock Plan ("1996 Plan"). A total of 12,035,967 shares were reserved for issuance under the 1996 Plan prior to its expiration in June 2006. The 1996 Plan provided for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted could not be less than the determined fair market value at the date of grant. Options generally vested over four years and had a ten-year term.

1996 Director Option Plan

The Company's 1996 Director Option Plan ("Director Plan") was adopted in June 1996 and became effective in July 1997. A total of 1,650,000 shares of common stock were reserved for issuance under the Director Plan prior to its expiration in June 2006. The Director Plan provided for both discretionary and periodic grants of nonstatutory stock options to non-employee directors of the Company (the "Outside Directors"). The exercise price per share of all options granted under the Director Plan was equal to the fair market value of a share of the Company's common stock on the date of grant. Options generally vested over a period of four years. Options granted to Outside Directors under the Director Plan had a ten year term, or shorter upon termination of an Outside Director's status as a director.

2006 Stock Plan

In May 2006, the Company's board of directors approved the 2006 Stock Plan ("2006 Plan"). The Company's stockholders subsequently adopted the 2006 Plan in September 2006, and the 2006 Plan became effective in October 2006. The Company reserved 7,000,000 shares of the Company's common stock for issuance under this plan. The 2006 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2006 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options generally vest over four years and expire ten years after grant. In 2009, the 2006 Plan was amended to provide for the granting of stock purchase rights. The 2006 Plan expires in May 2016.

2003 Contactual Plan

In the second fiscal quarter of 2012, the Company assumed the Amended and Restated Contactual, Inc. 2003 Stock Option Plan (the "2003 Contactual Plan") and registered an aggregate of 171,974 shares of the Company's common stock that may be issued upon the exercise of stock options previously granted under the 2003 Contactual Plan and assumed by the Company when it acquired Contactual. No new stock options or other awards can be granted under 2003 Contactual Plan.

2012 Equity Incentive Plan

In June 2012, the Company's board of directors approved the 2012 Equity Incentive Plan ("2012 Plan"). The Company's stockholders subsequently adopted the 2012 Plan in July 2012, and the 2012 Plan became effective in August 2012. The Company reserved 4,100,000 shares of the Company's common stock for issuance under this plan. The 2012 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants, and granting of stock appreciation rights, restricted stock, restricted stock units and performance units, qualified performance-based awards and stock grants. The stock option price of incentive stock options granted may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2012 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options, restricted stock and restricted stock units generally vest over four years and expire ten years after grant. The 2012 Plan expires in June 2022.

2013 New Employee Inducement Incentive Plan

In September 2013, the Company's board of directors approved the 2013 New Employee Inducement Incentive Plan ("2013 Plan"). The Company reserved 1,000,000 shares of the Company's common stock for issuance under this plan. The 2013 Plan provides for granting nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock and performance units and stock grants solely to newly hired employees as a material inducement to accepting employment with the Company. Options are granted at market value on the grant date under the 2013 Plan, unless determined otherwise at the time of grant by the administrator, which generally will be the compensation committee of the board of directors. Options, generally expire ten years after grant. The 2013 Plan expires in September 2023.

Option, Stock Purchase Right and Restricted Stock Unit Activity

Stock Purchase Right activity since March 31, 2011 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, 2011	886,445	$ 1.51	3.00
Granted	563,100	3.64	
Vested	(326,683)	1.55	
Forfeited	(156,462)	2.99	
Balance at March 31, 2012	966,400	2.50	2.61
Granted	443,436	5.75	
Vested	(367,017)	2.14	
Forfeited	(84,244)	2.89	
Balance at March 31, 2013	958,575	4.11	2.52
Granted	22,380	9.69	
Vested	(392,844)	3.25	
Forfeited	(98,484)	5.18	
Balance at March 31, 2014	489,627	$ 4.83	1.93

Restricted Stock Unit activity since June 22, 2012 is summarized as follows:

	Number of Shares	Weighted Average Purchase Price	Weighted Average Remaining Contractual Term (in Years)
Balance at June 22, 2012	-	$ -	
Granted	25,000	6.91	
Vested	-	-	
Forfeited	-	-	
Balance at March 31, 2013	25,000	6.91	2.47
Granted	1,291,200	9.11	
Vested	(133,000)	9.49	
Forfeited	(48,344)	9.61	
Balance at March 31, 2014	1,134,856	$ 9.00	2.00

Option activity under the Company's stock option plans since March 31, 2011, is summarized as follows:

..	Shares Available for Grant	Shares Subject to Options Outstanding	Weighted Average Exercise Price Per Share
Balance at March 31, 2011	1,553,979	6,969,196	$ 1.56
Granted - Options (2)	(685,500)	857,474	4.05
Stock purchase rights (1)	(563,100)	-	-
Exercised	-	(1,645,308)	1.35
Canceled/Forfeited	147,027	(147,027)	2.07
Termination of plans	(76,860)	-	
Balance at March 31, 2012	375,546	6,034,335	1.90
Change in options available for grant	4,100,000	-	-
Granted - Options	(932,000)	932,000	5.80
Stock purchase rights	(443,436)	-	-
Restricted stock units	(25,000)	-	-
Exercised	-	(835,246)	1.49
Canceled/Forfeited - Options	139,545	(139,545)	4.00
Canceled/Forfeited - Restricted Stock Units	4,000	-	-
Termination of plans	(43,394)	-	
Balance at March 31, 2013	3,175,261	5,991,544	2.52
Change in options available for grant	1,000,000	-	-
Granted - Options	(1,465,400)	1,465,400	9.66
Stock purchase rights	(992,572)	-	-
Restricted stock units	(321,008)	-	-
Exercised	-	(1,283,470)	2.75
Canceled/Forfeited - Options	171,092	(171,092)	5.25
Canceled/Forfeited - Restricted Stock Units	146,828	-	-
Termination of plans	(100,258)	-	
Balance at March 31, 2014	1,613,943	6,002,382	$ 4.14

(1) The reduction to shares available for grant includes awards granted of 563,100 shares.
(2) The increase to shares subject to options outstanding includes 171,974 shares subject to options assumed under the 2003 Contactual Plan.

Significant option groups outstanding at March 31, 2014 and related weighted average exercise price and contractual life information for 8x8, Inc.'s stock option plans are as follows:

	Options Outstanding				Options Exercisable		
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
$ 0.55 to $ 1.26	1,725,000	$ 1.04	3.8	$ 16,855,760	1,725,000	$ 1.04	$ 16,855,760
$ 1.27 to $ 1.79	1,257,178	$ 1.53	1.9	11,663,456	1,257,178	$ 1.53	11,663,456
$ 1.80 to $ 5.87	1,564,614	$ 4.58	6.0	9,740,969	774,413	$ 4.16	5,150,429
$ 5.88 to $ 9.74	1,305,590	$ 9.40	8.9	1,847,196	69,271	$ 8.79	139,929
$ 9.75 to $ 11.26	150,000	$ 11.11	9.8	-	-	$ -	-
	6,002,382			$ 40,107,381	3,825,862		$ 33,809,574

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on March 31, 2014 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on March 31, 2014.

The total intrinsic value of options exercised in the years ended March 31, 2014, 2013 and 2012 was $8.2 million, $3.3 million and $4.6 million, respectively. As of March 31, 2014, there was $17.8 million of unamortized stock-based compensation expense related to unvested stock options and awards which is expected to be recognized over a weighted average period of 2.84 years.

Cash received from option exercises and purchases of shares under the Equity Compensation Plans for the years ended March 31, 2014, 2013 and 2012 were $5.2 million, $2.4 million and $3.1 million, respectively. The total tax benefit attributable to stock options exercised in the year ended March 31, 2014 and 2013 was $142,000 and $49,000, respectively.

1996 Employee Stock Purchase Plan

The Company's 1996 Stock Purchase Plan ("Employee Stock Purchase Plan") was adopted in June 1996 and became effective upon the closing of the Company's initial public offering in July 1997. The Company suspended the Employee Stock Purchase Plan in 2003 and reactivated the Employee Stock Purchase Plan in fiscal 2005. Under the Employee Stock Purchase Plan, 500,000 shares of common stock were initially reserved for issuance. At the start of each fiscal year, the number of shares of common stock subject to the Employee Stock Purchase Plan increases so that 500,000 shares remain available for issuance. During fiscal 2014, 2013 and 2012, 282,062, 301,303 and 358,166 shares, respectively, were issued under the Employee Stock Purchase Plan. In May 2006, the Company's board of directors approved a ten-year extension of the Employee Stock Purchase Plan. Stockholders approved a ten-year extension of the Employee Stock Purchase Plan at the 2006 Annual Meeting of Stockholders held September 18, 2006. The Employee Stock Purchase Plan is effective until 2017.

The Employee Stock Purchase Plan permits eligible employees to purchase common stock through payroll deductions at a price equal to 85% of the fair market value of the common stock at the beginning of each two year offering period or the end of a six month purchase period, whichever is lower. When the Employee Stock Purchase Plan was reinstated in fiscal 2005, the offering period was reduced from two years to one year. The contribution amount may not exceed ten percent of an employee's base compensation, including commissions, but not including bonuses and overtime. In the event of a merger of the Company with or into another corporation or the sale of all or substantially all of the assets of the Company, the Employee Stock Purchase Plan provides that a new exercise date will be set for each option under the plan which exercise date will occur before the date of the merger or asset sale.

Assumptions Used to Calculate Stock-Based Compensation Expense

The fair value of each of the Company's option grants has been estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Years Ended March 31,		
	2014	**2013**	**2012**
Expected volatility	64%	70%	72%
Expected dividend yield	-	-	-
Risk-free interest rate	0.7% to 2.2%	0.5% to 0.8%	0.3% to 1.2%
Weighted average expected option term	6.1 years	5.3 years	4.8 years
Weighted average fair value of options granted	$ 5.70	$ 3.32	$ 2.30

The estimated fair value of stock purchase rights granted under the Equity Compensation Plans were estimated using the Black-Scholes pricing model with the following weighted-average assumptions:

	Years Ended March 31, 2014	2013	2012
Expected volatility	40%	40%	73%
Expected dividend yield	-	-	-
Risk-free interest rate	0.09%	0.14%	0.10%
Weighted average expected rights term	0.75 years	0.75 years	0.75 years
Weighted average fair value of rights granted	$ 2.83	$ 1.78	$ 1.67

STOCK REPURCHASES

On October 19, 2010, the Company's board of directors authorized the Company to create a new stock repurchase plan to purchase an additional $10.0 million of its common stock from time to time until October 19, 2011. The stock repurchase plan expired on October 19, 2011. The stock repurchase activity since March 31, 2011 is summarized as follows:

	Shares Repurchased	Weighted Average Price Per Share	Amount Repurchased
Balance at March 31, 2011	3,870,985	$ 2.26	$ 8,022,690
Repurchase of common stock	301,800	2.95	888,964
Balance at March 31, 2012	4,172,785	2.23	8,911,654
Repurchase of common stock	-	-	-
Balance at March 31, 2013	4,172,785	2.23	8,911,654
Repurchase of common stock	-	-	-
Balance at March 31, 2014	4,172,785	$ 2.23	$ 8,911,654

The total purchase prices of the common stock repurchased and retired were reflected as a reduction to consolidated stockholders' equity during the period of repurchase.

In fiscal 2012, the Company also repurchased in two transactions at current market prices 352,030 shares with a total repurchase price of $1.5 million from former and current members of the board of directors outside of the stock repurchase plan.

In fiscal 2013, the Company also withheld 73,751 shares related to tax withholdings on restricted stock awards with a total price of $0.4 million.

In fiscal 2014, the Company also withheld 50,400 shares related to tax withholdings on restricted stock awards with a total price of $0.5 million.

6. EMPLOYEE BENEFIT PLAN

401(k) Savings Plan

In April 1991, the Company adopted a 401(k) savings plan (the "Savings Plan") covering substantially all of its U.S. employees. Eligible employees may contribute to the Savings Plan from their compensation up to the maximum allowed by the Internal Revenue Service. In January 2007, the Company reactivated the employer matching contribution. The matching contribution is 100% of each employee's contributions in each year, not to exceed $1,500 per annum. The matching expense in 2014, 2013 and 2012 was $0.4 million, $0.3 million and $0.3 million, respectively. The Savings Plan does not allow employee contributions to be invested in the Company's common stock.

7. SEGMENT REPORTING

ASC 280 "*Segment Reporting*" establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Under ASC 280, the method for determining what information to report is based upon the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. The Company has one reportable operating segment. The Company's chief operating decision makers, the Chief Executive Officer, Chief Financial Officer and Chief Technology Officer, evaluate performance of the Company and make decisions regarding allocation of resources based on total Company results.

The Company's revenue distribution by geographic region (based upon the destination of shipments and the customer's service address) was as follows:

	Years Ended March 31,		
	2014	**2013**	**2012**
Americas (principally US)	97%	99%	99%
Europe	2%	0%	0%
Asia Pacific	1%	1%	1%
	100%	100%	100%

Geographic area data is based upon the location of the property and equipment and is as follows (in thousands):

	March 31,	
	2014	**2013**
United States	$ 6,305	$ 6,673
Europe	1,087	-
Asia	319	-
	$ 7,711	$ 6,673

8. ACQUISITION

Voicenet Solutions Limited

On November 11, 2013, the Company entered into a share purchase agreement with the shareholders and optionholders of Voicenet Solutions Limited ("Voicenet"), a provider of cloud communications and collaboration services in the United Kingdom (the "Transaction"). The Company completed the acquisition of Voicenet on November 29, 2013. The Company purchased all of the outstanding shares of Voicenet for total consideration transferred of $19.3 million; $3.0 million was placed in escrow and eligible for release to the Voicenet shareholders and optionholders in installments on the first and second anniversaries of the closing date. The shares of Voicenet are held by a wholly-owned subsidiary of 8x8 recently formed in the United Kingdom, such that Voicenet is an indirect, wholly-owned subsidiary of 8x8.

The Company recorded the acquired tangible and identifiable intangible assets and liabilities assumed based on their estimated fair values. The excess of the consideration transferred over the aggregate fair values of the assets acquired and liabilities assumed is recorded as goodwill. The amount of goodwill recognized is primarily attributable to the expected contributions of the entity to the overall corporate strategy in addition to synergies and acquired workforce of the acquired business. The finite–lived intangible assets consist of customer relationship, with an estimated weighted-average useful life of 7 years. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management using the excess earnings method. Intangible assets are amortized on a straight-line basis.

The preliminary fair values of the assets acquired and liabilities assumed are as follows (in thousands):

		Estimated Fair Value
Assets acquired:		
Cash	$	854
Current assets		1,114
Property and equipment		956
Intangible asset - customer relationship		6,381
Total assets acquired		9,305
Liabilities assumed:		
Current and non-current liabilities		(4,132)
Total liabilities assumed		(4,132)
Net identifiable assets acquired		5,173
Goodwill		14,155
Total consideration transferred	$	19,328

None of the goodwill recognized is expected to be deductible for income tax purposes.

Voicenet contributed revenue of approximately $3.3 million and a net loss of approximately $0.8 million for the period from the date of acquisition to March 31, 2014. The Company determined that it is impractical to include such pro forma information given the difficulty in obtaining the historical financial information of Voicenet. Inclusion of such information would require the Company to make estimates and assumptions regarding Voicenet's historical financial results that we believe may ultimately prove inaccurate.

9. GAIN ON SETTLEMENT OF ESCROW CLAIM

In December 2013, the Company settled an escrow claim for indemnification with the sellers of Contactual, Inc. Under the terms of the settlement, the Company recorded a gain of $0.6 million in other income. Under the terms of the Contactual merger agreement and the escrow agreement, each indemnifying seller paid his, her or its pro rata share of the obligations owed to the Company on January 29, 2014. Upon receipt of the cash on January 29, 2014, the Company released the remaining escrow account balance to the sellers of Contactual Inc.

10. PATENT SALE

In June 2012, the Company entered into a patent purchase agreement and sold a family of patents to a third party for approximately $12.0 million plus a future payment of up to a maximum of $3.0 million based on future license agreements entered into by the third party purchaser. In February 2013, the third party entered into a separate license agreement with its customer; therefore, the Company earned an additional $1.0 million under the patent purchase agreement. Under the terms and conditions of the patent purchase agreement, the Company has retained certain limited rights to continue to use the patents. The patent purchase agreement contains representations and warranties customary for transactions of this type.

11. DISCONTINUED OPERATIONS

On September 30, 2013, the Company completed the sale of its dedicated server hosting business to IRC Company, Inc. ("IRC") and, as a result, no longer provides dedicated server hosting services. In the transaction, IRC purchased 100% of the stock of Central Host, Inc., which had been wholly owned by the Company and all of the assets specific to the dedicated server hosting business.

The Company sold its dedicated server hosting business for total consideration of $3.0 million in cash, which was received on October 1, 2013.

The dedicated server hosting business has been reported as discontinued operations. The results of operations and financial position of these discontinued operations are as follows:

Results of operations:

	Years Ended March 31, 2014	2013	2012
Revenue	$ 1,430	$ 3,828	$ 2,431
Operating expense	922	3,005	3,883
Income (loss) before income taxes	508	823	(1,452)
Provision for income taxes	188	334	-
Income (loss) from discontinued operations	320	489	(1,452)
Gain on disposal of discontinued operations, net of income tax provision of $456k	596	-	-

Financial position:

	March 31, 2014	March 31, 2013
Assets		
Property and equipment, net	$ -	$ 845
Intangible assets, net	-	8
Goodwill	-	1,210
	$ -	$ 2,063

8X8, INC.
CONSOLIDATED QUARTERLY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)

	QUARTER ENDED							
	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012
Service revenue	$ 32,545	$ 29,737	$ 27,826	$ 26,499	$ 25,070	$ 24,023	$ 23,101	$ 22,190
Product revenue	3,241	3,008	2,989	2,752	2,746	2,382	2,194	2,080
Total revenue	35,786	32,745	30,815	29,251	27,816	26,405	25,295	24,270
Operating expenses:								
Cost of service revenue	6,866	5,584	5,209	4,786	4,744	4,890	5,216	5,078
Cost of product revenue	3,999	4,041	3,783	3,347	3,216	3,203	2,672	2,710
Research and development	3,332	3,325	2,640	2,336	2,174	2,117	2,030	1,826
Sales and marketing	18,038	16,051	13,745	13,072	12,944	11,561	10,800	10,268
General, and administrative	3,924	5,547	3,125	2,772	2,332	2,119	2,054	2,053
Gain on patent sale	-	-	-	-	(1,000)	-	-	(11,965)
Total operating expenses	36,159	34,548	28,502	26,313	24,410	23,890	22,772	9,970
Income (loss) from operations	(373)	(1,803)	2,313	2,938	3,406	2,515	2,523	14,300
Other income net	140	586	1	15	15	73	9	8
Income (loss) from continuing operations before provision (benefit) for income taxes	(233)	(1,217)	2,314	2,953	3,421	2,588	2,532	14,308
Provision (benefit) for income taxes (1)	1,738	(1,306)	826	961	1,905	814	935	5,745
Income (loss) from continuing operations	(1,971)	89	1,488	1,992	1,516	1,774	1,597	8,563
Income from discontinued operations, net of income tax provision	19	-	154	147	145	146	144	54
Gain on disposal of discontinued operations, net of income tax provision of $456	7	-	589	-	-	-	-	-
Net income (loss)	$ (1,945)	$ 89	$ 2,231	$ 2,139	$ 1,661	$ 1,920	$ 1,741	$ 8,617
Income (loss) per share continuing operations:								
Basic	$ (0.02)	$ 0.00	$ 0.02	$ 0.03	$ 0.02	$ 0.02	$ 0.02	$ 0.12
Diluted	$ (0.02)	$ 0.00	$ 0.02	$ 0.03	$ 0.02	$ 0.02	$ 0.02	$ 0.12
Income per share discontinued operations:								
Basic	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Net income (loss) per share:								
Basic	$ (0.02)	$ 0.00	$ 0.03	$ 0.03	$ 0.02	$ 0.03	$ 0.02	$ 0.12
Diluted	$ (0.02)	$ 0.00	$ 0.03	$ 0.03	$ 0.02	$ 0.03	$ 0.02	$ 0.12
Shares used in per share calculations:								
Basic	88,184	79,742	72,970	72,510	71,998	71,611	71,261	70,717
Diluted	88,184	83,182	76,232	75,756	75,053	74,988	74,558	74,110

(1) Comparability affected by the increase in the valuation allowance related to the deferred tax asset which resulted in an increase in the provision for income taxes of $1.3 million and $1.0 million in the fourth quarter of fiscal 2014 and 2013, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of March 31, 2014. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. On November 29, 2013, the Company completed the acquisition of Voicenet Solutions, Ltd ("Voicenet"). As permitted by applicable guidelines established by the Securities and Exchange Commission, the Company's management excluded Voicenet's operations from its assessment of internal control over financial reporting as of March 31, 2014. Voicenet's operations represented 2% of the Company's consolidated total assets, excluding goodwill and intangible assets, net, and 3% of the Company's consolidated net sales as of and for the year ended March 31, 2014. Based on this assessment, our management concluded that its internal control over financial reporting was effective as of March 31, 2014.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Moss Adams LLP, an independent registered public accounting firm has audited and reported on the consolidated financial statements of 8x8, Inc. and on the effectiveness of our internal control over financial reporting. The report of Moss Adams LLP is contained in Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Report on Form 10-K. The Registrant will file its definitive Proxy Statement for its Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the 2014 Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and corporate governance will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference. However, certain information regarding current executive officers found under the heading "Executive Officers" in Item 1 of Part I hereof is also incorporated by reference in response to this Item 10.

We have adopted a Code of Conduct and Ethics that applies to our principal executive officer, principal financial officer and all other employees at 8x8, Inc. This Code of Conduct and Ethics is posted in the corporate governance section of our website at http://investors.8x8.com. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics by posting such information in the corporate governance section on its website at http://investors.8x8.com.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to securities authorized for issuance under equity compensation plans and other information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference. In addition, descriptions of our equity compensation plans are set forth in Part II, Item 8 "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Note 5 STOCKHOLDERS' EQUITY."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about July 24, 2014, which information is incorporated into this report by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements.

The information required by this item is included in Item 8.

(a)(2) Financial Statement Schedules.

The information required by this item is included in Item 8.

(a)(3) Exhibits.

The documents listed on the Exhibit Index appearing in this Report are filed herewith or hereby incorporated by reference. Copies of the exhibits listed in the Exhibit Index will be furnished, upon request, to holders or beneficial owners of the Company's common stock.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, 8x8, Inc., a Delaware corporation, has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on May 27, 2014.

8X8, INC.

By: /s/ VIKRAM VERMA

Vikram Verma,
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Vikram Verma and Daniel Weirich, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the date indicated:

Signature Title

Date

/s/ VIKRAM VERMA

Vikram Verma

Chief Executive Officer (Principal Executive Officer)

May 27, 2014

/s/ DANIEL WEIRICH

Daniel Weirich

Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

May 27, 2014

/s/ BRYAN R. MARTIN

Bryan R. Martin

Chairman and Chief Technology Officer

May 27, 2014

/s/ GUY L. HECKER

Guy L. Hecker, Jr.

Director

May 27, 2014

/s/ ERIC SALZMAN

Eric Salzman

Director

May 27, 2014

/s/ IAN POTTER

Ian Potter

Director

May 27, 2014

/s/ JASWINDER PAL SINGH

Jaswinder Pal Singh

Director

May 27, 2014

/s/ VLADIMIR JACIMOVIC

Vladimir Jacimovic

Director

May 27, 2014

8X8, INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1 (w)	Restated Certificate of Incorporation of Registrant, dated August 22, 2012
3.2 (a)	Bylaws of Registrant
10.1 (b)	Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2 (c)	Employment Agreement dated September 9, 2013 between the Company and Vikram Verma
10.3 (d)*	1996 Stock Plan, as amended, and form of Stock Option Agreement
10.4 (e)*	Amended and Restated 1996 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement
10.5 (f)*	1996 Director Option Plan, as amended and Form of Director Option Agreement
10.5.1 (g)*	Form of Director Option Agreement for 1996 Director Option Plan
10.6 (h)	Employment Agreement dated September 9, 2013 between the Company and Darren Hakeman
10.7 (i)*	2006 Stock Plan, as amended
10.8 (j)*	Severance Agreement and General Release
10.9 (k)*	Form of 2006 Stock Option Agreement under the 2006 Stock Plan
10.10 (l)*	Form of Notice of Award of Stock Purchase Right and Stock Purchase Agreement under the 2006 Stock Plan
10.11	Reserved
10.12 (m)	Lease dated April 27, 2012, between Registrant and O'Nel Office Holdings, LLC
10.13 (n)	Acquisition Agreement between 8x8, Inc., Central Host, Inc. and Andrew Schwabecher
10.14 (o)*	Employment offer letter agreement between 8x8, Inc. and Debbie Jo Severin dated March 5, 2009
10.15	Reserved
10.16(p)*	Annual Executive Incentive Plan.
10.17(q)*	Amended and Restated Contactual, Inc. 2003 Stock Option Plan
10.18(q)*	Form of Stock Option Agreement under the Amended and Restated Contactual, Inc. 2003 Stock Option Plan
10.19(r)*	2012 Equity Incentive Plan
10.20(s)*	Form of Stock Option Agreement under the 2012 Equity Incentive Plan
10.21(s)*	Notice of Grant of Restricted Stock Unit Award and Agreement under the 2012 Equity Incentive Plan
10.22(t)*	Management Incentive Bonus Plan
10.23(u)	8x8, Inc. 2013 New Employee Inducement Incentive Plan
10.24(u)	Form of Stock Option Agreement under the 2013 New Employee Inducement Incentive Plan
10.25(u)	Form of Notice of Grant of Restricted Stock Unit Award and Agreement under the 2013 New Employee Inducement Incentive Plan
10.23(v)	Share Purchase Agreement, dated November 11, 2013, by and among 8x8 UK Investments Limited and 8x8, Inc. and the material sellers and the material optionholders and Voicenet Solutions Limited
21.1**	Subsidiaries of Registrant.
23.1**	Consent of Independent Registered Public Accounting Firm.

24.1	Power of Attorney (included on page 71)
31.1**	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14
31.2**	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14
32.1**	Certification of Chief Executive Officer of the Registrant pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer of the Registrant pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase

101.PRE** XBRL Taxonomy Extension Presentation Linkbase

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* Indicates management contract or compensatory plan or arrangement.

**Filed herewith.

(a) Incorporated by reference to exhibit 3.2 to the Registrant's Report on Form 8-K filed October 23, 2013 (File No. 000-21783).

(b) Incorporated by reference to the same numbered exhibits to the Registrant's Registration Statement on Form S-1 Commission File No. 333-15627), as amended, declared effective July 1, 1997.

(c) Incorporated by reference to exhibit 10.2 to the Registrant's Form 10-Q filed November 8, 2013 (File No. 000-21783)

(d) Incorporated by reference to exhibit 4.1 to the Registrant's Form S-8 filed November 7, 2000 (File No. 333-49410).

(e) Incorporated by reference to exhibit 10.5 to the Registrant's Form S-8 filed September 26, 2006 (File No. 333-137599).

(f) Incorporated by reference to exhibit 10.3 to the Registrant's Form S-8 filed August 28, 2003 (File No. 333-108290).

(g) Incorporated by reference to exhibit 4.2 to the Registrant's Form S-8 filed November 7, 2000 (File No. 333-49410).

(h) Incorporated by reference to exhibit 10.6 to the Registrant's Form 10-Q filed November 8, 2013 (File No. 000-21783)

(i) Incorporated by reference to exhibit 10.7 to the Registrant's Form 10-K filed May 26, 2009 (File No. 000-21783).

(j) Incorporated by reference to exhibit 10.8 to the Registrant's Form 8-K filed November 5, 2013 (File No. 000-21783)

(k) Incorporated by reference to exhibit 10.1 to the Registrant's Form 10-Q filed February 7, 2007 (File No. 000-21783).

(l) Incorporated by reference to exhibit 10.10 to the Registrant's Form 10-K filed May 26, 2009 (File No. 000-21783).

(m) Incorporated by reference to exhibit 10.12 to the Registrant's Form 10-K filed May 24, 2012 (File no. 000-21783).

(n) Incorporated by reference to exhibit 10.12 to the Registrant's Form 10-K filed May 27, 2010 (File No. 000-21783).

(o) Incorporated by reference to exhibit 10.13 to the Registrant's Form 10-K filed May 23, 2011 (File No. 000-21783).

(p) Incorporated by reference to exhibit 10.15 to the Registrant's Form 10-Q filed July 22, 2011 (File No. 000-21783).

(q) Incorporated by reference to exhibit 10.16 and 10.17 to the Registrant's Form S-8 filed September 19, 2011 (File No. 333-176895).

(r) Incorporated by reference to exhibit 10.19 to the Registrant's Form S-8 filed August 28, 2012 (File No. 333-183597).

(s) Incorporated by reference to exhibit 10.20 and 10.21 to the Registrant's Form S-8 filed August 28, 2012 (File No. 333-183597).

(t)

Incorporated by reference to exhibit 10.19 to the Registrant's Form 10-Q filed January 25, 2013 (File No. 000-21783).

(u) Incorporated by reference to exhibit 10.23, 10.24 and 10.25 to the Registrant's Form S-8 filed September 10, 2013 (File No. 333-191080).

(v) Incorporated by reference to exhibit 2.2 to the Registrant's Form 8-K filed November 13, 2013 (File no. 000-21783)

(w) Incorporated by reference to exhibit 3.1 to the Registrant's Form 10-K filed May 28, 2013 (File no. 000-21783)