

8X8 INC /DE/
Form 424B3
November 12, 2013
Table of Contents

Filed pursuant to Rule 424(b)(3)
File No. 333-187421

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated November 11, 2013

PROSPECTUS SUPPLEMENT

(To prospectus dated April 3, 2013)

12,500,000 Shares

Common Stock

We are selling 12,500,000 shares of our common stock.

Our shares trade on the NASDAQ Global Select Market under the symbol EGHT. On November 8, 2013 the last sale price of the shares as reported on the NASDAQ Global Select Market was \$10.64 per share.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page S-10 of this prospectus supplement.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

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The underwriters may also exercise their option to purchase up to an additional 1,875,000 shares from us, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about _____, 2013.

BofA Merrill Lynch

Barclays

Deutsche Bank Securities

Needham & Company

Craig-Hallum Capital Group

Dougherty & Company

The date of this prospectus supplement is November _____, 2013.

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

<u>About This Prospectus Supplement</u>	S-ii
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-10
<u>Special Note Regarding Forward-Looking Statements</u>	S-33
<u>Market Data</u>	S-35
<u>Use of Proceeds</u>	S-36
<u>Price Range of Common Stock</u>	S-37
<u>Dividend Policy</u>	S-37
<u>Capitalization</u>	S-38
<u>Business</u>	S-39
<u>Officers and Directors</u>	S-49
<u>Description of Capital Stock</u>	S-50
<u>Material United States Federal Income Tax Consequences for Non-U.S. Holders of Our Common Stock</u>	S-52
<u>Underwriting</u>	S-56
<u>Legal Matters</u>	S-63
<u>Experts</u>	S-63
<u>Information Incorporated by Reference</u>	S-64
<u>Where You Can Find Additional Information</u>	S-65

Prospectus

<u>About This Prospectus</u>	2
<u>Special Note Regarding Forward-Looking Statements</u>	3
<u>Our Company</u>	3
<u>Risk Factors</u>	4
<u>Ratio of Earnings to Fixed Charges</u>	4
<u>Use of Proceeds</u>	4
<u>General Description of Securities That We May Sell</u>	5
<u>Description of Debt Securities</u>	5
<u>Description of Capital Stock</u>	16
<u>Description of Our Warrants</u>	18
<u>Description of Our Units</u>	19
<u>Description of Our Purchase Contracts</u>	19
<u>Plan of Distribution</u>	20
<u>Legal Matters</u>	21
<u>Experts</u>	21
<u>Where You Can Find Additional Information</u>	22
<u>Incorporation By Reference</u>	22

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, you should rely on the information in this prospectus supplement.

Neither we nor the underwriters take any responsibility for, and cannot provide any assurance as to the reliability of any other information that others may give you. We have not authorized anyone to provide you with information other than that contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus or any free writing prospectus relating to this offering. It is important for you to read and consider all information contained in this prospectus supplement, the accompanying prospectus and any free writing prospectus relating to this offering, and the documents incorporated by reference in the prospectus and the prospectus supplement in making your investment decision. You should also read and consider the information in the documents to which we have referred to you in *Where You Can Find Additional Information*, below.

You should not assume that the information contained in this prospectus supplement is accurate as of any date other than its date, or that the information contained in any document incorporated by reference in the prospectus or the prospectus supplement is accurate as of any date other than the date on which that document was filed with the Securities and Exchange Commission, or SEC. See *Information Incorporated by Reference* and *Incorporation by Reference*, below.

We are not making an offer to sell the common stock in jurisdictions where the offer or sale is not permitted. The distribution of this prospectus supplement and the offering and sale of our common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement must inform themselves about and observe any restrictions relating to the offering of the common stock and the distribution of this prospectus supplement outside the United States. This prospectus supplement does not constitute an offer of, or an invitation to purchase, any shares of common stock in any jurisdiction in which such offer or invitation would be unlawful.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the documents incorporated by reference herein and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein including our consolidated financial statements and the related notes and the information set forth under the headings Risk Factors, in each case included or incorporated by reference in this prospectus supplement. Unless the context otherwise requires, we use the terms 8x8, company, we, us and our in this prospectus supplement to refer to 8x8, Inc. and, where appropriate, its subsidiaries.

8x8, Inc.

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, virtual meeting and virtual desktop through our proprietary unified software as a service, or SaaS, platform. We currently serve over 35,000 business customers with over 400,000 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.

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 communication 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 provide UCC services and continue to require long, high-touch sales and setup cycles in an effort to solve carrier and hardware complexity. New cloud-based providers typically deliver point solutions and do not provide a secure, comprehensive UCC platform in the cloud.

We view our addressable market to be large and underpenetrated. We believe that our direct addressable market today, comprised of Unified Communications as a Service, or UCaaS, cloud-based Contact Center, virtual meeting and Workspace as a Service, or WaaS, is approximately \$2.9 billion in aggregate worldwide, growing at a compound annual growth rate, or CAGR, of 24.7% and is expected to be \$7.1 billion by 2016 based on third-party research. As enterprises shift away from a patchwork of on-premise private branch exchange, or PBX, solutions to fully integrated cloud UCC solutions, we believe our long-term addressable market may approach more than \$30 billion. We see this enterprise shift occurring with mid-market and distributed enterprises and believe we are early in the adoption cycle.

Table of Contents

The core of our platform is two technologies that deliver the functionality needed to meet today's business communications and collaboration requirements. Our Infrastructure Manager software abstracts complex global interconnectivity between voice over internet protocol, or VoIP, and traditional public switched telephone network, or PSTN, enabling a turnkey UCC solution for our customers. Our Integration Manager software integrates with third-party applications, 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 services globally. Furthermore, we have invested heavily in achieving and maintaining compliance with state and federal regulations, including the Federal Information Security Management Act, or FISMA, the Health Insurance Portability and Accountability Act, or HIPAA, the Health Information Technology for Economic and Clinical Health (HITECH) Act, and the Payment Card Industry Data Security Standard, or PCI DSS.

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 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.

Our total revenue, adjusted for discontinued operations related to our former dedicated server hosting business, in fiscal year 2013 grew 24.5% to \$103.8 million compared with \$83.4 million in fiscal year 2012, and in the six months ended September 30, 2013, grew 21.2% to \$60.1 million compared with \$49.6 million in the six months ended September 30, 2012. We reported net income in fiscal year 2013 of \$13.9 million compared with net income in fiscal year 2012 of \$69.2 million (including a non-cash income tax benefit of \$62.1 million associated with the release of a deferred tax asset valuation allowance in fiscal 2012), and we reported net income of \$4.4 million in the six months ended September 30, 2013 compared with net income of \$10.4 million in the six months ended September 30, 2012 (including a \$12.0 million pre-tax gain on the sale of a patent family in the six months ended September 30, 2012).

Our Industry

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 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 a 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. Finally, IDC forecasts the worldwide hosted WaaS market will grow from \$87 million in 2012 to \$661 million in 2016. We address these markets with our Virtual Office, Virtual Contact Center, Virtual Meeting and Virtual Desktop solutions, respectively. Together, our total addressable market is forecasted to grow at a 24.7% CAGR from \$2.9 billion in 2012 to \$7.1 billion in 2016.

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.

Table of Contents

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 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.

S-3

Table of Contents

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 91 United States patents, more than 60 of which we currently hold. Our solution provides the following key benefits:

Comprehensive SaaS Suite. Our services consist of Virtual Office, Virtual Contact Center, Virtual Meeting and Virtual Desktop, providing a single platform for our customers' UCC needs. Our platform is integrated and enables cross-suite functionality. Our customers receive clear 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. A typical setup can be accomplished in minutes.

Applications Integration. We integrate with third-party applications including Salesforce.com, Microsoft Dynamics, NetSuite, 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 Growth Initiatives

Our growth initiatives reflect our goal to be the leading global provider of UCC services 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 services 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.

Table of Contents

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.

Recent Developments

On November 11, 2013, we entered into a share purchase agreement with the shareholders and optionholders of Voicenet Solutions Limited, or Voicenet, a provider of cloud communications and collaboration services in the United Kingdom. The agreement provides for us to purchase all of the shares of Voicenet for approximately \$18.4 million in cash, of which approximately \$15.4 million would be paid at closing and the remaining \$3.0 million would be 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 would be acquired and held by a wholly-owned subsidiary we recently formed in the United Kingdom, so that Voicenet would become an indirect, wholly-owned subsidiary of ours upon closing. The transaction is expected to close by the end of the current fiscal quarter and is subject to customary closing conditions.

Company 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 prospectus supplement. Our principal executive offices are located at 2125 O Nel Drive, San Jose, CA 95131. Our telephone number at that address is (408) 727-1885.

Table of Contents

THE OFFERING

Common stock offered by us 12,500,000 shares

Common stock to be outstanding after this offering 85,664,127 shares

Use of proceeds We estimate that the net proceeds from the sale of the shares of our common stock in this offering will be approximately \$126.0 million (or approximately \$145.0 million if the option to purchase additional shares of common stock we have granted to the underwriters is exercised in full), at an assumed public offering price of \$10.64 per share, the last sale price of our common stock as reported on the NASDAQ Global Select Market on November 8, 2013, after deducting underwriting discounts and commissions and our estimated expenses related to this offering.

We intend to use all the net proceeds we receive from our sale of shares in this offering for general corporate purposes, including expanding sales and marketing and research and development. We also may use a portion of the net proceeds for the acquisition of technologies, businesses or products that are complementary to our business, although no such acquisitions, other than our pending acquisition of Voicenet, are subject to any plan or arrangement or are being negotiated as of the date of this prospectus supplement, and no portion of the net proceeds has been allocated for any specific acquisition. See Use of Proceeds below.

NASDAQ Global Select Market symbol EGHT

Risk factors See Risk Factors beginning on page S-10 for a discussion of some of the factors you should consider before deciding to invest in shares of our common stock.

The number of shares of our common stock to be outstanding after this offering is based upon 73,164,127 shares outstanding as of October 31, 2013. This number does not include:

4,184,667 shares of common stock issuable upon exercise of outstanding exercisable stock options with a weighted average exercise price of approximately \$1.96 per share;

2,348,150 shares of common stock issuable upon exercise of outstanding stock options that are not currently exercisable;

1,673,999 shares of common stock issuable upon vesting of unvested restricted stock units and stock purchase rights;

1,913,370 shares of common stock available for future issuance under our stock option plans; and

359,420 shares of common stock available for sale under our employee stock purchase plan.

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Except as otherwise indicated, all information in this prospectus supplement assumes no exercise by the underwriters of their option to purchase additional shares of common stock.

S-6

Table of Contents**SUMMARY CONSOLIDATED FINANCIAL DATA**

The following tables summarize our financial data as of the dates and for the periods indicated. We have derived the summary consolidated financial data for the fiscal years ended March 31, 2011, 2012 and 2013 from our audited consolidated financial statements incorporated by reference in this prospectus supplement. We have derived the summary consolidated financial data for the six months ended September 30, 2012 and as of and for the six months ended September 30, 2013 from our unaudited condensed consolidated financial statements for such periods incorporated by reference in this prospectus supplement. Our unaudited condensed consolidated financial statements include reclassifications for certain prior-period amounts related to the company's discontinued operations related to our former dedicated server hosting business which have been reclassified to conform to the current period presentation. Our unaudited condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and in the opinion of our management reflect all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of our financial position and results of operations for the periods presented. Our operating results are not necessarily indicative of results that may be expected in any future period, and our operating results for the six-month periods are not necessarily indicative of results that may be expected for a full fiscal year, or any other periods.

The summary historical consolidated data presented below should be read in conjunction with the sections entitled Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto and other financial data included elsewhere or incorporated by reference in this prospectus supplement.

	Years Ended March 31,		
	2011	2012	2013
	(in thousands, except per share amounts)		
Service revenue ⁽¹⁾	\$ 64,998	\$ 78,382	\$ 98,212
Product revenue	5,165	7,421	9,402
Total revenue	70,163	85,803	107,614
Operating expenses:			
Cost of service revenue ⁽²⁾	14,508	18,065	22,201
Cost of product revenue ⁽²⁾	8,115	9,822	11,801
Research and development ⁽²⁾	4,819	6,745	8,147
Sales and marketing ⁽²⁾	31,744	37,980	46,244
General and administrative ⁽²⁾	4,733	6,012	8,619
Gain on patent sale			(12,965)
Total operating expenses⁽¹⁾	63,919	78,624	84,047
Income from operations	6,244	7,179	23,567
Other income (loss), net	138	(305)	105
Income on change in fair value of warrant liability	167		
Income before provision (benefit) for income taxes	6,549	6,874	23,672
Provision (benefit) for income taxes	55	(62,354)	9,733
Net income	\$ 6,494	\$ 69,228	\$ 13,939
Net income per share:			
Basic ⁽³⁾	\$ 0.10	\$ 1.04	\$ 0.20
Diluted ⁽³⁾	\$ 0.10	\$ 0.99	\$ 0.19
Weighted average number of shares:			
Basic ⁽³⁾	63,087	66,413	71,390
Diluted ⁽³⁾	65,873	70,149	74,700

Table of Contents

	Six Months Ended September 30, 2012 2013 (unaudited) (in thousands, except per share amounts)	
Service revenue	\$ 45,291	\$ 54,325
Product revenue	4,274	5,741
Total revenue	49,565	60,066
Operating expenses:		
Cost of service revenue ⁽²⁾	10,294	9,995
Cost of product revenue ⁽²⁾	5,382	7,130
Research and development ⁽²⁾	3,856	4,976
Sales and marketing ⁽²⁾	21,068	26,817
General and administrative ⁽²⁾	4,107	5,897
Gain on patent sale	(11,965)	
Total operating expenses	32,742	54,815
Income from operations	16,823	5,251
Other income, net	17	16
Income from continuing operations before provision for income taxes	16,840	5,267
Provision for income taxes	6,680	1,787
Income from continuing operations	10,160	3,480
Income from discontinued operations, net of income tax provision	198	301
Gain on disposal of discontinued operations, net of income tax provision of \$463		589
Net income	\$ 10,358	\$ 4,370
Income per share - continuing operations		
Basic ⁽³⁾	\$ 0.15	\$ 0.05
Diluted ⁽³⁾	\$ 0.14	\$ 0.05
Income per share - discontinued operations		
Basic ⁽³⁾	\$ 0.00	\$ 0.01
Diluted ⁽³⁾	\$ 0.00	\$ 0.01
Net income per share:		
Basic ⁽³⁾	\$ 0.15	\$ 0.06
Diluted ⁽³⁾	\$ 0.14	\$ 0.06
Weighted average number of shares:		
Basic ⁽³⁾	70,989	72,788
Diluted ⁽³⁾	74,210	76,035

(1) Amounts reported in the table above that presents our results of operations for the fiscal years ended March 31, 2011, 2012 and 2013 include service revenue and operating expenses related to our dedicated server hosting business sold on September 30, 2013. The impacts on our service revenue and total operating expenses due to discontinued operations are as follows:

**Years Ended March 31,
(unaudited in thousands)**

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	2011	2012	2013
Service revenue	\$ 1,552	\$ 2,430	\$ 3,828
Total operating expenses	\$ 1,534	\$ 3,883	\$ 3,005

S-8

Table of Contents

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

	Years Ended March 31,			Six Months Ended September 30,	
	2011	2012	2013	2012	2013
Cost of service revenue	\$ 50	\$ 129	\$ 211	\$ 86	\$ 136
Cost of product revenue				1	
Research and development	111	260	428	170	295
Sales and marketing	192	859	1,363	624	740
General and administrative	105	258	632	181	842
Total	\$ 458	\$ 1,506	\$ 2,634	\$ 1,062	\$ 2,013

(3) See Note 5 to our consolidated financial statements in our Quarterly Report on Form 10-Q for the period ended September 30, 2013 for an explanation of the calculations of our basic and diluted net income per share of common stock.

	As of September 30, 2013	
	Actual	Adjusted ⁽¹⁾
	As	
	(unaudited)	
	(amounts in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	\$ 59,345	\$ 185,345
Working capital ⁽²⁾	59,664	185,664
Total assets	161,898	287,898
Total stockholders' equity	145,320	271,320

(1) The unaudited as adjusted balance sheet data gives effect to our issuance and sale of 12,500,000 shares of common stock in this offering based on an assumed public offering price of \$10.64 per share, after deducting underwriting discounts and commissions and our estimated offering expenses, as if these transactions were completed on September 30, 2013. This adjusted balance sheet data is calculated without giving effect to our pending acquisition of Voicenet for approximately \$18.4 million in cash.

(2) Working capital is the amount by which current assets exceed current liabilities.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus before purchasing our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occurs, our business, financial condition or results of operation could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

Risks Related to Our Business

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 the six months ended September 30, 2013 and the fiscal year ended March 31, 2013. 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,

Table of Contents

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 will 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 may 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 could 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, may 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

Table of Contents

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 products, we are at a significant disadvantage compared to 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 \$5.3 million for the six months ended September 30, 2013 and operating income of \$23.6 million for the fiscal year ended March 31, 2013. We recorded operating income of approximately \$7.2 million and \$6.2 million for the fiscal years ended March 31, 2012 and 2011, respectively. We had an accumulated deficit of \$104.8 million at September 30, 2013. 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.

Table of Contents

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 rate of business customer terminations, or average monthly business customer churn (excluding cancellations within 30 days of sign-up), on a net basis, was 1.8% for the fiscal year ended March 31, 2013 compared with 2.0% for the fiscal year ended March 31, 2012, and was 1.5% in each of the second and first fiscal quarters of 2014, compared with 2.4% and 1.7% in the second and first quarters of fiscal 2013, respectively. Our business customer churn rate is not identical to our business customer service revenue churn rate, which generally has been lower than the business customer churn rate, and has ranged from 0.9% to 2.3% over the six consecutive quarters ended September 30, 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. In general, a majority of our customers may terminate their subscriptions for our services on 30 days' notice. Even though our customer churn rates improved in fiscal 2013, we believe that approximately 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,

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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 December 23, 2010, the Federal Communications Commission, or FCC, adopted an order that imposes network neutrality obligations on providers of fixed and wireless broadband Internet access services, with wireless providers subject to a more limited set of rules. The FCC rules became effective on November 20, 2011. Numerous parties have appealed these rules, and these appeals have been consolidated before the U.S. Court of Appeals for the District of Columbia. We cannot predict the outcome of these appeals or the impact of these rules on our business at this time. 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 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

Table of Contents

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

Table of Contents

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

Table of Contents

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 two 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. 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 two pending suits is provided under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

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

Table of Contents

protect our intellectual property in the United States and internationally. As of November 1, 2013, we had been awarded 91 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.