# 8x8, Inc. EGHT (NAS)

| Last Close | Industry | Sector |
|---|---|---|
| 1.10 USD | Communication Equipment | Telecommunications |

## Profile

Pricing data through 19 Nov 2009

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### Contents



8X8, Inc. develops and markets telecommunication services and technology for Internet protocol, telephony and video applications. The products and services offered by the company include Packet8 broadband voice over Internet protocol & Video Telephone Service, Wholesale Voice and Video Services, voicemail and caller ID, 3-way calling, online account management and billing, international call blocking, and videophones. The company also offers Packet8 Virtual Office Business Telephone service, enabling users to join a virtual PBX that includes automated attendants to assist callers, conference bridges, extension-to-extension dialings, among other features. Additionally, the company produces a line of telephone handset-to-Ethernet adapters, video terminal adapters, video-enabled SIP softphones, and Packet8-enabled 5.8GHz digital expandable corded/cordless phones, as well as Packet8 MobileTalk, enabling users to make international calls from their mobile phones over the Packet8 international network.

8x8 sells its products and services to end users through direct sales force, Web site, retail channels, online channels, network marketing firms, and third party resellers; and wholesale voice and video services to Internet Service Providers, cable television companies, and digital subscriber line providers.

# 8x8, Inc. EGHT

| Sales USD Mil | Mkt Cap USD Mil | Industry | Sector |
|---|---|---|---|
| 64 | 69 | Communication Equipment | Telecommunications |

8x8 produces digital-telecommunications technology. The company's products include Internet-protocol (IP) gateways, software, and semiconductors. Its products and services are used for voice-over-IP, video monitoring and streaming, and videoconferencing. 8x8 provides its systems and software to network and telecommunications-equipment providers, cable television system operators, and local exchange carriers. It also makes remote video surveillance equipment.

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Santa Clara, CA 95054
Phone: 1 408 727-1885
Website: http://www.8x8.com

Employees: 244

| Morningstar Rating | Last Price | Fair Value | Uncertainty | Economic Moat™ | Stewardship Grade |
|---|---|---|---|---|---|
| - | 1.10 | - | - | - | - |

per share prices in USD

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual Price High | 7.56 | 37.97 | 4.81 | 1.35 | 8.06 | 5.89 | 4.12 | 2.16 | 1.84 | 1.30 | 1.32 |
| Low | 2.75 | 1.38 | 0.53 | 0.19 | 0.17 | 1.32 | 1.03 | 0.65 | 0.84 | 0.40 | 0.44 |
| Recent Splits | | | | | | | | | | | |


**Price Volatility**
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low
1.32 - 0.40

10 Year High/Low
37.97 - 0.17

Bear-Market Rank
7 (10=worst)

Trading Volume Million

| Stock Performance | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Return % | -8.9 | -63.4 | -52.5 | -75.3 | 1922.7 | -8.5 | -54.5 | -36.8 | -23.9 | -46.3 | 130.1 |
| +/- Market | -28.4 | -53.3 | -39.5 | -51.9 | 1896.3 | -17.5 | -57.5 | -50.4 | -27.4 | -7.8 | 108.9 |
| +/- Industry | -224.6 | -40.5 | 0.5 | -26.0 | 1872.6 | -29.8 | -65.6 | -42.8 | -30.0 | -0.4 | 130.3 |
| Dividend Yield % | — | — | — | — | — | — | — | — | — | — | 0.0 |
| Market Cap USD Mil | 79 | 48 | 24 | 6 | 137 | 190 | 100 | 72 | 55 | 30 | 69 |

| Financials | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | TTM |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue USD Mil | 25 | 18 | 15 | 11 | 9 | 11 | 32 | 53 | 62 | 65 | 64 |
| Gross Margin % | 66.1 | 61.7 | 80.8 | 61.0 | 53.2 | 15.2 | 27.6 | 49.0 | 62.0 | 64.7 | 64.7 |
| Oper Income USD Mil | -27 | -74 | -10 | -12 | -4 | -20 | -25 | -14 | -4 | -3 | -2 |
| Operating Margin % | -106.9 | -408.5 | -68.1 | -109.1 | -41.5 | -173.4 | -78.4 | -27.0 | -6.0 | -4.7 | -3.3 |
| Net Income USD Mil | -25 | -74 | -9 | -11 | -3 | -19 | -24 | -10 | 0 | -3 | -2 |
| Earnings Per Share USD | -1.38 | -2.99 | -0.33 | -0.40 | -0.09 | -0.43 | -0.43 | -0.16 | 0.00 | -0.04 | -0.03 |
| Dividends USD | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Shares Mil | 18 | 24 | 27 | 28 | 32 | 44 | 55 | 61 | 62 | 62 | 62 |
| Book Value Per Share USD | 1.25 | 2.61 | 0.60 | 0.21 | 0.38 | 0.49 | 0.49 | 0.17 | 0.11 | 0.17 | 0.17 |
| Oper Cash Flow USD Mil | -4 | -25 | -8 | -9 | -2 | -17 | -21 | -10 | 3 | 2 | 1 |
| Cap Spending USD Mil | -2 | -6 | 0 | 0 | 0 | -2 | -2 | -1 | -1 | -1 | -1 |
| Free Cash Flow USD Mil | -6 | -31 | -8 | -9 | -2 | -18 | -23 | -11 | 2 | 1 | 0 |

| Profitability | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | TTM |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets % | -56.0 | — | -31.0 | -86.5 | -27.3 | -70.1 | -68.8 | -38.9 | 0.1 | -11.5 | -9.0 |
| Return on Equity % | -75.0 | — | -52.2 | — | -40.7 | -90.0 | -96.9 | -78.0 | 0.5 | -29.6 | -19.0 |
| Net Margin % | -97.9 | — | -62.0 | — | -32.7 | — | -75.7 | -18.7 | 0.0 | -3.9 | -3.1 |
| Asset Turnover | 0.57 | 0.37 | 0.50 | 0.83 | 0.84 | 0.42 | 0.91 | 2.08 | 2.97 | 2.98 | 2.89 |
| Financial Leverage | 1.3 | 1.8 | 1.5 | 3.1 | 1.2 | 1.3 | 1.6 | 3.7 | 2.8 | 2.4 | 2.1 |

| Financial Health | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 09-09 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Working Capital USD Mil | 46 | 20 | 9 | 2 | 13 | 28 | 13 | 6 | 6 | 7 | 9 |
| Long-Term Debt USD Mil | 6 | 6 | 0 | — | — | — | — | — | — | — | — |
| Total Equity USD Mil | 47 | 22 | 13 | 2 | 13 | 30 | 20 | 5 | 8 | 9 | 11 |
| Debt/Equity | 0.12 | 0.29 | — | — | — | — | — | — | — | — | — |

| Valuation | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | TTM |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Price/Earnings | — | — | — | — | — | — | — | — | — | 14.2 | — |
| P/E vs. Market | — | — | — | — | — | — | — | — | — | 1.3 | — |
| Price/Sales | 3.5 | 2.0 | 1.4 | 0.6 | 13.1 | 17.8 | 3.7 | 1.4 | 0.9 | 0.5 | 1.1 |
| Price/Book | 4.1 | 0.7 | 1.5 | 1.1 | 11.6 | 8.2 | 3.8 | 6.9 | 8.2 | 2.9 | 6.4 |
| Price/Cash Flow | — | — | — | — | — | — | — | — | 26.0 | 11.8 | 55.9 |

## Growth Rates Compound Annual

| | 1 Yr | 3 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Revenue % | 4.9 | 26.6 | 47.4 | 7.4 |
| Operating Income % | — | — | — | — |
| Earnings/Share % | — | — | — | — |
| Dividends % | — | — | — | — |
| Book Value/Share % | 14.4 | -24.0 | -15.6 | -19.3 |
| Stock Total Return % | 107.5 | -15.4 | -20.0 | -12.0 |
| +/- Industry | 86.5 | 1.2 | -12.8 | -4.4 |
| +/- Market | 71.7 | -7.5 | -18.7 | -9.3 |

## Profitability Analysis

| | Current | 5 Yr Avg | Ind | Mkt |
|---|---|---|---|---|
| Return on Equity % | -19.0 | -58.8 | 2.6 | 15.1 |
| Return on Assets % | -9.0 | -37.8 | 1.2 | 5.9 |
| Fixed Asset Turns | 36.6 | 21.1 | 5.8 | 6.8 |
| Inventory Turns | 9.8 | 12.2 | 6.0 | 11.3 |
| Revenue/Employee USD K | 260.5 | 283.5* | — | 871.2 |
| Gross Margin % | 64.7 | 43.7 | 36.8 | 40.7 |
| Operating Margin % | -3.3 | -57.9 | -3.8 | 14.4 |
| Net Margin % | -3.1 | -53.0 | 1.8 | 6.6 |
| Free Cash Flow/Rev % | 0.3 | — | 7.0 | 0.0 |
| R&D/Rev % | 8.2 | 0.1 | — | 11.0 |

## Financial Position

| | 03-09 USD Mil | 09-09 USD Mil |
|---|---|---|
| Cash | 16 | 16 |
| Inventories | 2 | 3 |
| Receivables | 0 | 0 |
| Current Assets | 20 | 20 |
| Fixed Assets | 1 | 2 |
| Intangibles | — | — |
| Total Assets | 22 | 22 |
| Payables | 5 | 4 |
| Short-Term Debt | — | — |
| Current Liabilities | 13 | 11 |
| Long-Term Debt | — | — |
| Total Liabilities | 13 | 12 |
| Total Equity | 9 | 11 |

## Valuation Analysis

| | Current | 5 Yr Avg | Ind | Mkt |
|---|---|---|---|---|
| Price/Earnings | — | — | — | 20.7 |
| Forward P/E | 7.9 | — | — | 16.4 |
| Price/Cash Flow | 55.9 | — | 10.8 | 7.1 |
| Price/Free Cash Flow | — | — | 18.1 | 18.0 |
| Dividend Yield % | — | — | 1.2 | 2.1 |
| Price/Book | 6.4 | 6.0 | 2.0 | 2.2 |
| Price/Sales | 1.1 | 4.9 | 1.3 | 1.2 |
| PEG Ratio | — | — | — | 1.8 |

## Quarterly Results

| **Revenue** USD Mil | Dec 08 | Mar 09 | Jun 09 | Sep 09 |
|---|---|---|---|---|
| Most Recent Period | 16.2 | 15.8 | 15.6 | 16.0 |
| Prior Year Period | 15.8 | 16.3 | 16.3 | 16.4 |

| **Rev Growth** % | Dec 08 | Mar 09 | Jun 09 | Sep 09 |
|---|---|---|---|---|
| Most Recent Period | 2.5 | -3.4 | -4.4 | -2.4 |
| Prior Year Period | 19.5 | 13.5 | 10.4 | 11.2 |

| **Earnings Per Share** USD | Dec 08 | Mar 09 | Jun 09 | Sep 09 |
|---|---|---|---|---|
| Most Recent Period | 0.00 | -0.06 | 0.01 | 0.02 |
| Prior Year Period | 0.02 | 0.01 | 0.02 | 0.00 |

## Industry Peers by Market Cap

| | Mkt Cap USD Mil | Rev USD Mil | P/E | ROE% |
|---|---|---|---|---|
| 8x8, Inc. | 69 | 64 | — | -19.0 |
| Ericsson Telephone C | — | — | — | — |
| Nokia Corporation | 50969 | 17382 | 56.2 | 4.0 |

## Major Fund Holders

| | % of shares |
|---|---|
| Vanguard Total Stock Mkt Idx | 1.17 |
| Vanguard Extended Market Idx | 1.13 |
| Perritt Emerging Opportunities | 0.28 |

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

# **8x8, Inc.** EGHT (NAS)

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|---|---|---|
| 1.10 USD | Communication Equipment | Telecommunications |

## Management & Ownership

### Management Activity

| Name | Position | Shares Held | Report Date* | InsiderActivity |
|---|---|---|---|---|
| MARTIN BRYAN R | Chief Executive Officer | 1,823,612 | 28 Oct 2009 | - |
| PARKINSON JOE | Director | 1,456,568 | 12 Nov 2009 | - |
| WEIRICH DANIEL | Chief Financial Officer,President | 952,218 | 28 Oct 2009 | - |
| REES HUW A | Vice President | 906,020 | 28 Oct 2009 | - |
| HECKER GUY L JR | Director | 503,760 | 01 Aug 2006 | - |
| MURRAY RICHARD G JR | President | 120,796 | 03 Aug 2006 | - |
| WILSON DONN R | Director | 119,165 | 08 Aug 2006 | - |
| PETERS CHRISTOPHER | Vice President | 29,300 | 28 Nov 2003 | - |
| MCNIFFE CHRIS J | Director | 14,731 | 28 Jan 2004 | - |
| HIRSCHMAN ORIN | | 0 | 12 Dec 2003 | - |

*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

| Top Owners | Morningstar Rating | % of Shares Held | % of Fund Assets | Change (k) | Portfolio Date |
|---|---|---|---|---|---|
| Vanguard Total Stock Mkt Idx | QQQ | 1.17 | 0.00 | 0 | 30 Jun 2009 |
| Vanguard Extended Market Idx | QQQ | 1.13 | 0.00 | 0 | 30 Jun 2009 |
| Perritt Emerging Opportunities | QQ | 0.28 | 0.23 | 0 | 30 Jun 2009 |
| Quaker Small-Cap Growth Tactical Allc C | | 0.09 | 0.50 | 58 | 31 Aug 2009 |
| Vanguard Instl Ttl Stk Mkt Idx InstlPlus | QQQQ | 0.07 | 0.00 | 0 | 30 Jun 2009 |

| Concentrated Holders | | | | | |
|---|---|---|---|---|---|
| NA | | NA | NA | NA | NA |

### Institutional Transactions

| Top 5 Buyers | Morningstar Rating | % of Shares Held | % of Fund Assets | Shares Bought/ Sold (k) | Portfolio Date |
|---|---|---|---|---|---|
| Quaker Small-Cap Growth Tactical Allc C | | 0.09 | 0.50 | 58 | 31 Aug 2009 |

| Top 5 Sellers | | | | | |
|---|---|---|---|---|---|
| NA | | NA | NA | NA | NA |

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## Industry Focus: Communication Equipment

Joseph Beaulieu
Senior Stock Analyst

There are long-term growth opportunities for networking gear, but no green shoots yet.

**Our Top Picks in Communications Equipment**
26 June 2009

Both Cisco CSCO and Juniper JNPR reported seeing some stability in the most recent quarter, but a closer look at their actual words and their forecasts for the upcoming quarter shows no indication of the "green shoots" that some investors and economists have been heralding.

Cisco CEO John Chambers fueled investors' optimism during the firm's most recent quarterly conference call when he said, "...for the first time in many quarters, many of our global customers are describing their business momentum in a different way than their prior quarters, that they are seeing some stabilization... as opposed to what has been over the last several quarters a continued deceleration in their business. Then, almost without exception, they immediately follow those comments with a comment that even though the business appears to be stabilizing, it is at a disappointing year-over-year growth number."

"In 3Q... the year-over-year growth rate in each month of the quarter... was consistent for each of the three months from a year-over-year perspective and the first time that's happened in quite a few quarters."

Here's the rub: Sales have not stabilized at Cisco. Sales declines have stabilized, at a dismal 17% year-over-year rate of decline. Moreover, the midpoint of management's expectations for the upcoming quarter represents a similar rate of year-over-year revenue decline for the period.

Juniper CEO Kevin Johnson was a bit more succinct: "I think things are beginning to become more stable." But he then spent the remainder of the conference call reminding analysts that Juniper had little ability to forecast sales going into the second quarter. The midpoint of Juniper's revenue outlook for the quarter ended June 30 suggests a 13.5% year-over-year decline (worse than the March quarter's 7% year-over-year decline) and flat sequentially. So if the company hits its revenue target for the quarter, it will mean that its customers are spending at about the same rate as they did last quarter--but that revenues are still substantially worse than they were in the comparable quarter from last year.

We don't mean to pick on Cisco or Juniper, as they serve as a good illustration of what is happening in the broader industry. Most of the telecom and network equipment firms that we cover posted terrible results in the March quarter, including ADC Telecom ADCT , which posted revenue down 30% year-over-year; Ciena CIEN , down 40%; Infinera INFN , down 52%; Tellabs TLAB , down 22%; and Sonus SONS , down 44%.

**Despite a Miserable Short-Term Outlook, We Remain Bullish on the Industry**

The telecom and network equipment industry is clearly suffering from a combination of large corporations holding off on upgrading their internal networks and the giant telecom carriers trying to do more with the capacity they already have. But eventually, network traffic is going to require all of these firms to add capacity. The cable companies and the phone companies are in an arms race to deliver next-generation media content to homes. Data traffic on both fixed-line and wireless networks continues to increase at a rapid clip as consumers embrace richer media content online and with advanced handsets such as Apple 's AAPL iPhone. Carriers will need to continue adding capacity to their networks in multiple places, such as backhaul from wireless towers, while beginning to upgrade to new technologies, such as the emerging LTE wireless standard.

Large enterprises continue to generate more data and find innovative ways to use the data that they've already collected. These customers are also improving efficiency by making more of their applications and their data available via the Internet "cloud," meaning that more traffic will likely move over both corporate networks and the telecom

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## Industry Focus: Communication Equipment

carriers' networks.

One major advantage for firms in the industry is that most have very strong balance sheets, have dialed back discretionary spending, and have a stream of recurring services revenue to fall back on even as new equipment sales fall. So despite the lack of green shoots, we think it's far too soon to throw in the towel on these businesses.

**Our Top Pick Is Still Cisco**

Cisco remains the only company in the industry that we think has a wide economic moat, thanks to its economies of scale and to the potential switching costs its customers would have to incur if they wanted to work with an alternative networking equipment vendor. The company's balance sheet remains bulletproof, and although it is not the fastest-growing firm in the industry, and even though other firms boast higher margins, we think that Cisco's customer relationships and its vast RD budget pose a competitive threat to most of the firms in the industry. If there's a type of hardware, software, or service that touches IT networks, you can bet that Cisco has designs on it. For example, Cisco has its eyes on the application switch market, potentially putting the damper on growth at smaller firms like F5 FFIV and Radware RDWR .

Our biggest long-term concern about Cisco is that its strength has arguably led to some displays of hubris, like making acquisitions that don't seem to make much sense (WebEx and Pure Digital spring to mind) and provoking some of its closest business partners ( IBM IBM and Hewlett-Packard HPQ ) by expanding into the server business. Already this aggression on Cisco's part has seemingly resulted in IBM throwing more business at Brocade BRCD , and there are several other niche companies competing with small segments of Cisco's business that could benefit. However, as long as Cisco doesn't veer too far from its core competency, we think it's extremely unlikely that any firm will be able to make a dent in its position as the dominant networking equipment provider.