

# 8x8, Inc. EGHT (NAS)

Last Close	Industry	Sector
4.41 USD	Communication Equipment	Technology

## Profile

Pricing data through 10 Feb 2012

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8x8, Inc. was incorporated in California in February 1987 and was reincorporated in Delaware in December 1996. It develops and markets telecommunication services and technology for Internet protocol, telephony and video applications as well as web-based conferencing and unified communications services. The Company offers the 8x8 VoIP voice and video digital phone service, 8x8 Virtual Office hosted PBX service, 8x8 Complete Contact Center service, 8x8 Trunking service, 8x8 Hosted Key System service, 8x8 MobileTalk service, 8x8 Virtual Meeting web conferencing service and the 8x8 Virtual Office Pro unified communications solution. It launched 8x8 digital phone service in November 2002, the 8x8 Virtual Office hosted PBX business service in March 2004, the 8x8 videophone service in June 2004, the 8x8 Complete Contact Center in July 2007, the 8x8 MobileTalk service in November 2007, the 8x8 Trunking service in June 2008, the 8x8 Hosted Key System service in July 2008, the 8x8 Virtual Meeting web conferencing service in September 2009 and the 8x8 Virtual Office Pro unified communications solution in January 2010. In May 2010, it acquired Central Host, Inc., a provider of managed hosting and cloud-based computing solutions and began offering 8x8 Managed Hosting and Cloud-Based Computing solutions to business customers. Between November 2002 and April 2009, it marketed its services under the Packet8 brand. In May 2009, it began marketing its services under the 8x8 brand. The 8x8 Virtual Office suite of business phone services offers small and medium-sized businesses feature-rich, HD, audio-enhanced communications services that eliminate the need for traditional telecommunications services and business phone systems. The 8x8 Virtual Office solutions essentially replaces an on-premise PBX, telephone system with a hosted, Internet-based business phone service that is delivered over a managed or unmanaged Internet connection. It sells pre-programmed IP telephones with speakerphones and a display screen, in conjunction with its Virtual Office service plans, which enable its business customers to access additional Virtual Office features through on-screen phone menus. The 8x8 Virtual Office Pro unified communications solution, introduced in January 2010, bundles the 8x8 Virtual

Office hosted PBX phone service with other essential businesses software communications services such as web conferencing, call recording and archiving, Internet fax, chat, voicemail and presence management and a mobile iPhone/iPad extension in a competitively priced offering. The 8x8 voice and video broadband phone service enables broadband Internet users to add digital voice and video communications services to their high-speed Internet connections. All 8x8 telephone accounts come with bundled voice mail, caller ID, call waiting, call waiting caller ID, call forwarding, hold, line-alternate, 3-way conferencing, web and voice-prompt access to account controls, and online billing. In addition, it offers videophones and video telephony software in conjunction with its service plans that connect to a customer's high-speed Internet network to deliver all of the voice features above, as well as unlimited video calls, to any other 8x8 videophone customers worldwide. The Company currently sells and markets its 8x8 services to end users through its direct sales force, website, retail channels, and third party resellers. It faces strong competition from incumbent telephone companies, cable companies and alternative voice and video communication providers.

# 8x8, Inc. EGHT

**Sales USD Mil** 80 **Mkt Cap USD Mil** 307 **Industry** Communication Equipment **Sector** Technology

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.

810 West Maude Avenue  
Sunnyvale, CA 94085  
Phone: 1 408 727-1885  
Website: <http://www.8x8.com>

Employees: 254

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	10.7	4.4	17.1	14.4	
Operating Income %	57.1	—	—	—	
Earnings/Share %	66.7	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	20.8	26.2	-5.0	-11.3	
Stock Total Return %	65.8	97.8	24.1	12.6	
+/- Industry	82.0	90.1	29.8	12.7	
+/- Market	64.2	80.3	25.5	11.1	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	20.7	-5.6	12.7
Return on Assets %	15.4	-1.5	6.9	9.5
Fixed Asset Turns	26.2	30.2	10.0	7.5
Inventory Turns	16.7	11.1	9.3	16.1
Revenue/Employee USD K	314.1	267.8*	—	1049.9
Gross Margin %	67.2	62.1	44.4	38.3
Operating Margin %	8.8	-4.5	10.2	16.7
Net Margin %	9.2	-1.4	9.3	11.2
Free Cash Flow/Rev %	7.7	—	10.9	0.1
R&D/Rev %	7.6	0.1	—	9.7

Financial Position	03-11 USD Mil		12-11 USD Mil	
	Cash	16	—	20
Inventories	2	—	1	—
Receivables	1	—	2	—
Current Assets	22	—	25	—
Fixed Assets	2	—	3	—
Intangibles	1	—	37	—
Total Assets	27	—	67	—
Payables	5	—	4	—
Short-Term Debt	—	—	—	—
Current Liabilities	11	—	12	—
Long-Term Debt	—	—	—	—
Total Liabilities	11	—	13	—
Total Equity	16	—	54	—

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	41.0	—	17.7
Forward P/E	24.9	—	—	13.5
Price/Cash Flow	37.6	28.3	10.6	7.4
Price/Free Cash Flow	49.3	—	14.3	16.9
Dividend Yield %	—	—	1.6	2.0
Price/Book	5.7	6.3	2.2	2.0
Price/Sales	3.8	1.6	1.6	1.2
PEG Ratio	0.8	—	—	1.4

**Morningstar Rating** — **Last Price** 4.41 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
Annual Price High	1.35	8.06	5.89	4.12	2.16	1.84	1.30	1.51	3.37	5.44	4.62	Annual Price High
Low	0.19	0.17	1.32	1.03	0.67	0.84	0.40	0.44	1.09	2.40	3.11	Low
Recent Splits												Recent Splits
Price Volatility												Price Volatility
Monthly High/Low												Monthly High/Low
Rel Strength to S&P 500												Rel Strength to S&P 500
52 week High/Low												52 week High/Low
10 Year High/Low												10 Year High/Low
Bear-Market Rank												Bear-Market Rank
Trading Volume Million												Trading Volume Million

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
Total Return %	-75.3	1922.7	-8.5	-54.5	-36.8	-23.9	-46.3	213.8	58.7	33.2	39.1	Total Return %
+/- Market	-51.9	1896.3	-17.5	-57.5	-50.4	-27.4	-7.8	190.4	45.9	33.2	32.3	+/- Market
+/- Industry	-37.0	1857.8	-16.2	-55.5	-57.6	-38.3	-0.1	180.7	57.5	50.7	29.1	+/- Industry
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
Market Cap USD Mil	6	137	190	100	72	55	30	94	149	220	307	Market Cap USD Mil
Revenue USD Mil	15	11	9	11	32	53	62	65	63	70	80	Revenue USD Mil
Gross Margin %	80.8	61.0	53.2	15.2	27.6	49.0	62.0	64.7	67.1	67.8	67.2	Gross Margin %
Oper Income USD Mil	-10	-12	-4	-20	-25	-14	-4	-3	4	6	7	Oper Income USD Mil
Operating Margin %	-68.1	-109.1	-41.5	-173.4	-78.4	-27.0	-6.0	-4.7	6.3	8.9	8.8	Operating Margin %
Net Income USD Mil	-9	-11	-3	-19	-24	-10	0	-3	4	6	7	Net Income USD Mil
Earnings Per Share USD	-0.33	-0.40	-0.09	-0.43	-0.43	-0.16	0.00	-0.04	0.06	0.10	0.11	Earnings Per Share USD
Dividends USD	—	—	—	—	—	—	—	—	—	—	—	Dividends USD
Shares Mil	27	28	33	44	56	61	62	62	63	66	68	Shares Mil
Book Value Per Share USD	0.21	0.38	0.49	0.49	0.17	0.11	0.17	0.19	0.28	0.78	0.77	Book Value Per Share USD
Oper Cash Flow USD Mil	-8	-9	-2	-17	-21	-10	3	2	2	9	8	Oper Cash Flow USD Mil
Cap Spending USD Mil	0	0	0	-2	-2	-1	-1	-1	-1	-2	-2	Cap Spending USD Mil
Free Cash Flow USD Mil	-8	-9	-2	-18	-23	-11	2	1	1	7	6	Free Cash Flow USD Mil

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
Return on Assets %	-31.0	-86.5	-27.3	-70.1	-68.8	-38.9	0.1	-11.5	17.0	25.8	15.4	Return on Assets %
Return on Equity %	-52.2	—	-40.7	-90.0	-96.9	-78.0	0.5	-29.6	34.7	44.5	20.7	Return on Equity %
Net Margin %	-62.0	—	-32.7	—	-75.7	-18.7	0.0	-3.9	6.1	9.3	9.2	Net Margin %
Asset Turnover	0.50	0.83	0.84	0.42	0.91	2.08	2.97	2.98	2.78	2.79	1.66	Asset Turnover
Financial Leverage	1.5	3.1	1.2	1.3	1.6	3.7	2.8	2.4	1.8	1.7	1.2	Financial Leverage
Working Capital USD Mil	9	2	13	28	13	6	6	7	11	11	13	Working Capital USD Mil
Long-Term Debt USD Mil	—	—	—	—	—	—	—	—	—	—	—	Long-Term Debt USD Mil
Total Equity USD Mil	13	2	13	30	20	5	8	9	13	16	54	Total Equity USD Mil
Debt/Equity	—	—	—	—	—	—	—	—	—	—	—	Debt/Equity

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
Price/Earnings	—	—	—	—	—	—	14.2	—	27.7	29.4	41.0	Price/Earnings
P/E vs. Market	0.6	13.1	17.8	3.7	1.4	0.9	0.5	1.5	2.3	2.7	2.8	P/E vs. Market
Price/Sales	1.1	11.6	8.2	3.8	6.9	8.2	2.9	7.8	8.6	4.1	5.7	Price/Sales
Price/Book	—	—	—	—	—	26.0	11.8	57.8	19.5	26.5	37.6	Price/Book
Price/Cash Flow	—	—	—	—	—	—	—	—	—	—	—	Price/Cash Flow

Quarterly Results	USD Mil			
	Mar 11	Jun 11	Sep 11	Dec 11
Revenue	18.2	18.5	19.8	23.3
Most Recent Period	15.9	16.8	17.4	17.8
Prior Year Period				
Rev Growth %	Mar 11	Jun 11	Sep 11	Dec 11
	14.6	10.0	14.1	30.9
Most Recent Period	0.6	8.2	8.4	11.5
Prior Year Period				
Earnings Per Share USD	Mar 11	Jun 11	Sep 11	Dec 11
	0.03	0.03	0.01	0.04
Most Recent Period	0.02	0.02	0.03	0.02
Prior Year Period				

Industry Peers by Market Cap	Mkt Cap USD Mil			
	Rev USD Mil	P/E	ROE%	
8x8, Inc.	307	80	41.0	20.7
Ericsson Telephone C	—	—	—	—
Ericsson Telephone C	—	—	—	—

Major Fund Holders	% of shares	

\*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.



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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
JOSEPH PARKINSON	Director	1,518,682	16 Nov 2010	-
MAJOR GENERAL GUY L. HECKER, JR	Director	1,048,741	27 Jan 2012	-
BRYAN R. MARTIN	CEO/Chairman of the Board/ Director	999,688	26 Jan 2012	103,000
DANIEL WEIRICH	CFO/Secretary	933,789	28 Jan 2012	-
HUW REES	Vice President, Divisional	663,306	26 Jan 2012	101,000
CHRISTOPHER MCNIFFE	Director	654,667	20 Sep 2011	-
DONN R. WILSON	Director	639,936	20 Sep 2011	-
RAMPRAKASH NARAYANASWAMY	Chief Technology Officer/Vice President, Divisional	501,971	28 Jan 2012	-

\*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 US Total Market Shares (AU) ETF		1.67	0.00	0	30 Sep 2011
iShares Russell 2000 (AU)		1.22	0.02	14	03 Feb 2012
Vanguard Extended Market Idx Inv	QQQQ	0.92	0.01	-25	30 Sep 2011
SSgA Russell Small Cap Idx Fund Class A	QQQ	0.63	0.02	391	30 Jun 2011
TFS Market Neutral	QQQQ	0.76	0.10	470	31 Jul 2011
Concentrated Holders					
Bridgeway Ultra-Small Company	QQQ	0.40	1.52	0	30 Sep 2011
Allianz AGIC Ultra Micro Cap I	QQQQQ	0.06	1.25	-1	31 Dec 2011
VAM Funds (Lux)-US Micro Cap Gr C \$ Acc	QQ	0.16	1.08	-32	31 Dec 2011
Pear Tree Columbia Micro Cap Instl		0.01	0.69	2	31 Dec 2011

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
TFS Market Neutral	QQQQ	0.76	0.10	470	31 Jul 2011
SSgA Russell Small Cap Idx Fund Class A	QQQ	0.63	0.02	391	30 Jun 2011
RidgeWorth Small Cap Growth Stock C	QQQ	0.56	0.39	389	31 Dec 2011
American Century Small Cap Gr Investor	QQQ	0.38	0.28	67	30 Sep 2011
SSgA Russell 2000 Growth Index Strategy	QQQ	0.07	0.05	41	30 Jun 2011
Top 5 Sellers					
VAM Funds (Lux)-US Micro Cap Gr C \$ Acc	QQ	0.16	1.08	-32	31 Dec 2011
Vanguard Extended Market Idx Inv	QQQQ	0.92	0.01	-25	30 Sep 2011
Hartford Small Cap Growth A	QQQ	0.06	0.04	-18	31 Dec 2011
FF&P US Small Cap Equity B Inc	QQQ	0.06	0.61	-13	30 Nov 2011

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## Industry Focus: Communication Equipment

**Tapping the Winners in Wireless Handsets**

24 November 2010

Joseph Beaulieu  
Senior Stock Analyst

Our top pick has a strong signal, but could a competitor come calling?

While there have been some changes to the wireless handset industry landscape since our last overview, the basic tenets of our thesis remain unchanged: Handset makers that control both the hardware and the software portions of their platforms are best positioned to maintain long-term competitive advantages. In our view, Apple AAPL remains at the top of the heap, and although we're skeptical about Research in Motion's RIMM recent strategic moves, we think that RIM remains positioned to be a leader in the smartphone market. Our three criteria for a winning smartphone company remain unchanged: control of both hardware and software, scale, and true smartphone functionality. In fact, we think that events over the course of 2010 confirm the importance of some of these criteria. Earlier in the year, we saw Palm give up on its efforts to remain independent, because while it certainly met the first and third criteria, it simply did not have the scale to survive. Additionally, we saw Nokia NOK take steps to regain complete control of its software platform by taking sole, direct control of the Symbian operating system from the consortium that was running it as an open-source platform.

**We think that Motorola is captive to the wireless carriers**

Motorola MOT is undeniably on the rebound after years of struggling. Its "Droid" line of handsets are the gold-standard for the Android platform, sales have reacted accordingly, and management is confident enough in the future of the handset division that it plans to spin it out as an independent company in early 2011. However, we still believe that Motorola's handset division is going to have a difficult time generating consistent economic profits. Wireless carriers may like Motorola's phones, but their whole reason for pushing the Android platform is that it allows them to become the center of the customer relationship. With multiple handset makers selling phones for the Android platform, this puts any given firm at the

mercy of its competitors' product cycles and pricing decisions, and at carriers' decisions as to which handsets to promote and subsidize. While we believe that the Android platform can "lock in" a customer (due to switching costs and habit) as well as the Apple's iOS, there is an important difference: If an iPhone customer is in the market for a new iPhone, they can either pay Apple's price for a current-generation iPhone, or they can wait until the next generation iPhone is available, and pay full-price. By comparison, if a customer has a first-generation Motorola Droid handset, and is ready to upgrade, there are multiple options on the table: Android handsets from Motorola, HTC, Samsung, and Sony-Ericsson. While a customer may have an inherent preference, decisions by the carrier as to which phones to promote (via placement on their website and email promotions) and which phones to subsidize more heavily could sway a Motorola Droid user to become an HTC Droid user. **Nokia's muddled strategy continues to cloud its advantages**

Nokia has scale, control of both hardware and software, and an array of high-end smartphones, so it should be a strong competitor alongside Apple and Research in Motion. However, we continue to believe that Nokia offers far too many handsets, and that its OS strategy is a mess between Symbian, Series 40, and MeeGo (formerly Maemo). However, we believe that new CEO Stephen Elop is beginning to chart a course that could focus Nokia's smartphone efforts on a smaller selection of handsets and one--at most, two--operating systems, thereby reducing developer and consumer confusion. **Apple is still our top pick, but Research in Motion's product roadmap concerns us.**

Apple, with its iconic iPhone, remains our top pick. The litany of complaints nay-sayers have leveled against the iPhone is long, and a media-driven backlash against the iPhone driven by "antenna-gate" fizzled. Apple has steered clear of complacency, and instead has continued to make improvements to the iOS platform, including allowing for multitasking. As a result, satisfaction metrics for the iPhone remain high, and a majority of iPhone users would still recommend the iPhone to a friend. We believe that Apple

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**Industry Focus: Communication Equipment**

would have to make some serious, unforced errors in order to be toppled from its current, lofty perch. We're less enthusiastic about Research in Motion, and we recently trimmed our fair value estimate on its shares. Despite being the best overall communication devices for phone and email functions, the BlackBerry platform has historically lagged iOS and Android in terms of functions such as web browsing and third-party applications, and the BlackBerry 6 OS doesn't entirely close the gap. We think that the firm's potentially confusing OS roadmap (the upcoming PlayBook tablet will run on a newly-acquired OS called QNX, and RIM plans to merge the BlackBerry OS with QNX after an intermediate step next year) could put off third-party developers. Like it or not, the availability of third party applications remain extremely important to smartphone adoption.