8X8 INC /DE/
Form 10-K
May 23, 2011

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

FORM 10-K

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

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

For the fiscal year ended March 31, 2011

Commission file number 000-21783

(Exact name of Registrant as Specified in its Charter)

Delaware	**77-0142404**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

810 West Maude Avenue
Sunnyvale, CA 94085

(Address of Principal Executive Offices including Zip Code)

(408) 727-1885

(Registrant's Telephone Number, Including Area Code)

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

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

SHARE

NASDAQ Stock Market LLC

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Based on the closing sale price of the Registrant's common stock on the NASDAQ Capital Market System on September 30, 2010, the aggregate market value of the voting stock held by non-affiliates of the Registrant was $131,529,107. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status for this purpose is not necessarily a conclusive determination for any other purpose.

The number of shares of the Registrant's common stock outstanding as of May 18, 2011 was 62,112,070.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the Proxy Statement to be filed within 120 days of March 31, 2011 for the 2011 Annual Meeting of Stockholders.

8X8, INC.

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ANNUAL REPORT ON FORM 10-K
FOR YEAR ENDED MARCH 31, 2011

PART I

ITEM 1. BUSINESS

Forward-Looking Statements and Risk Factors

Statements contained in this annual report on Form 10-K, or Annual Report, regarding our expectations, beliefs, estimates, intentions or strategies are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends," and similar expressions are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Actual results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors. These factors include, but are not limited to, customer acceptance and demand for our voice over Internet protocol, or VoIP, telephony products and services, the reliability of our services, the prices for our services, customer renewal rates, customer acquisition costs, actions by our competitors, including price reductions for their telephone services, potential federal and state regulatory actions, compliance costs, potential warranty claims and product defects, our needs for and the availability of adequate working capital, our ability to innovate technologically, the timely supply of products by our contract manufacturers, potential future intellectual property infringement claims that could adversely affect our business and operating results, and our ability to retain our listing on the NASDAQ Capital Market. The forward-looking statements may also be impacted by the additional risks faced by us as described in this Report, including those set forth under the section entitled "Risk Factors." All forward-looking statements included in this Annual Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Our fiscal year ends on March 31 of each calendar year. Each reference to a fiscal year in this Annual Report, refers to the fiscal year ending March 31 of the calendar year indicated (for example, fiscal 2011 refers to the fiscal year ended March 31, 2011). Unless the context requires otherwise, references to "we," "us," "our," "8x8" and the "Company" refer to 8x8, Inc. and its consolidated subsidiaries.

Overview

8x8 develops and markets telecommunications services for Internet protocol, or IP, telephony and video applications as well as web-based conferencing and unified communications services, managed hosting and cloud-based computing services. We offer the 8x8 Virtual Office hosted PBX (private branch exchange) service, 8x8 Complete Contact Center service, 8x8 Trunking service, 8x8 Hosted Key System service, 8x8 MobileTalk service, 8x8 Virtual Meeting web conferencing service, 8x8 Virtual Office Pro unified communications solution and 8x8 Managed Hosting and Cloud-Based Computing Solutions. We launched the 8x8 Virtual Office hosted PBX business service in March 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, we acquired Central Host, Inc., a provider of managed hosting and cloud-based computing solutions and, as of that date, began offering 8x8 Managed Hosting and Cloud-Based Computing solutions to business customers.

We initially marketed our services under the Packet8 brand. In May 2009, we began marketing our services under the 8x8 brand. As of March 31, 2011, we had more than 24,000 business customers who use our services as their primary business telephone system, including IP dial tone, long distance and all of the business class features typically associated with a traditional phone system or PBX. Each business customer subscribes to a number of various lines and services (*e.g.* physical phone extensions, virtual extensions, fax lines, toll free numbers, receptionist software, unified communications services, etc.).

The 8x8 Virtual Office suite of business phone services offers small and medium-sized businesses feature-rich, HD (high definition) audio-enhanced communications services that provide superior functionality and capabilities relative to traditional telecommunications services and business phone systems at competitive prices. The 8x8 Virtual Office solution 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. We sell pre-programmed IP telephones with speakerphones and a display screen, in conjunction with our Virtual Office service plans, which enable our 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 essential businesses communications services such as web conferencing, call recording and archiving, Internet fax, chat, voicemail and presence management and a mobile extension in a competitively priced offering. 8x8 Virtual Office Pro takes the functionality of an already powerful hosted PBX phone service to a superior feature set with remote accessibility via any web browser or smart phone, call recording, Internet fax, Virtual Meeting and integration with vital phone management and collaboration tools. In October 2010, we began selling the Virtual Office Pro service on a standalone basis so that a business customer would no longer be required to buy a physical IP telephone to access our Virtual Office services instead such access is provided by a web-based softphone and/or a mobile extension. All of our services are sold on a subscription basis at price points that are disruptive to legacy solutions because our services are implemented using our proprietary software on servers in leased data center space that are monitored and managed by us.

Available Information

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

Industry Background

The technology we employ to deliver our service, known as Voice over Internet Protocol ("VoIP"), enables communications over the Internet through the compression of voice, video and/or other media into data packets that can be efficiently transmitted over data networks and then converted back into the original media at the other end. Data networks, such as the Internet or local area networks, or LANs, have always utilized packet-switched technology to transmit information between two communicating terminals (for example, a PC downloading a page from a web server, or one computer sending an e-mail message to another computer). IP is the most commonly used protocol for communicating on these packet switched networks. VoIP allows for the transmission of voice, video and data over these same packet-switched networks, providing an alternative to traditional telephone networks which use a fixed electrical path to carry voice signals through a series of switches to a destination.

As a result of the potential cost savings and added features of VoIP, many consumers, enterprises, traditional telecommunication service providers and cable television providers view VoIP as the future of telecommunications. VoIP has experienced significant growth in recent years due to:

- Demand for lower cost telephone service;

- Improved quality and reliability of VoIP calls due to technological advances, increased network development and greater bandwidth capacity; and
- New product innovations that allow VoIP providers to offer services not currently offered by traditional telephone companies.

The traditional telephone networks maintained by many local and long distance telephone companies, known as the public-switched telephone networks, or PSTN, were designed solely to carry low-fidelity audio signals with a high level of reliability. Although these traditional telephone networks are very reliable for voice communications, we believe these networks are not well-suited to service the explosive growth of digital communication applications for the following reasons:

- They are expensive to build because each subscriber's telephone must be individually connected to the central office switch, which is usually several miles away from a typical subscriber's location;
- They transmit data at very low rates and resolutions, making them poorly suited for delivering high-fidelity audio, entertainment-quality video or other rich multimedia content;
- They use dedicated circuits for each telephone call which allot fixed bandwidth throughout the duration of each call, whether or not voice is actually being transmitted, which is an inefficient use of the investment in the network; and
- They may experience difficulty in providing new or differentiated services or functions, such as video communications, that the network was not originally designed to accommodate.

Until recently, traditional telephone companies have avoided the use of packet-switched networks for transmitting voice calls due to the potential for poor sound quality attributable to latency issues (delays) and lost packets which can prevent real-time transmission. Recent improvements in packet-switching technology, compression and broadband access technologies, as well as improved hardware and provisioning techniques, have significantly improved the quality and usability of packet-switched voice calls.

Historically, packet-switched networks were built mainly for carrying non real-time data, although they are now fully capable of transmitting real time data. The advantages of such networks are their efficiency, flexibility and scalability. Bandwidth is only consumed when needed. Networks can be built in a variety of configurations to suit the number of users, client/server application requirements and desired availability of bandwidth, and many terminals can share the same connection to the network. As a result, significantly more traffic can be transmitted over a packet-switched network, such as a home network or the Internet, than a circuit-switched telephony network. Packet-switching technology allows service providers to converge their traditionally separate voice and data networks and more efficiently utilize their networks by carrying voice, video, facsimile and data traffic over the same network. The improved efficiency of packet switching technology creates network cost savings that can be passed on to the consumer in the form of lower telephony rates.

The growth of the Internet in recent years has proven the scalability of these underlying packet-switched networks. As broadband connectivity, including fiber lines, cable modem and digital subscriber line (or DSL), has become more available and less expensive, it is now possible for service providers like 8x8 to offer voice and video services that run over these IP networks to businesses and residential consumers. Providing such services has the potential to both substantially lower the cost of telephone service and equipment to these customers and increase the breadth of features available to our subscribers. Services like full-motion, two-way video are now supported by the bandwidth spectrum commonly available to broadband customers.

Our Strategy

Our objective is to provide reliable, scalable, and profitable worldwide Internet-based communications services with unmatched quality by leveraging our patented software technologies to deliver innovative, competitively priced offerings. We foster an environment that empowers our employees to provide excellent service to our customers and partners at every point of interaction. We intend to bring the best possible voice, video, unified communications, managed hosting and cloud-based computing services at an affordable price to businesses and enhance the ways in which these customers communicate with each other and the world. We intend to continue to focus our marketing primarily towards our business customer services.

Specific strategies to accomplish this objective include:

- *Build an indirect sales channel.*

Our direct sales force generated more than 95% of our sales in 2011. In 2012, we intend to build an indirect sales channel to expand distribution of our products and services. In February 2011, we announced that Kim Niederman joined 8x8 as the Senior Vice President of Sales and Don Trimble joined 8x8 as the Vice President of Channel Sales. Between 2003 and 2007, Mr. Niederman was the Senior Vice President of Worldwide Sales at Polycom, and Mr. Trimble was Vice President of North American Channel Sales at Polycom between 2003 and 2008. We intend to leverage our commercial relationships with our equipment vendors and the experience of these newly hired sales executives to market our services. In addition, we will be engaging with other indirect sales channels to market our services.

- *Capitalize on our technological expertise to introduce new products and features.*

Over the past 10 years, we have developed or acquired several core technologies that form the backbone of our video and VoIP service which we intend to use to develop product enhancements and future products. We developed the core software associated with the Virtual Office product line including the call control engine, protocol stacks and network address translation ("NAT") traversal firmware for the customer premise equipment. As a result, we are able to update the software functionality of our services without third party assistance and limit the distribution of our unique customer premise equipment features such as NAT traversal to customer premise equipment that is sold in conjunction with our services. We were the first VoIP service provider to ship two-way video-enabled hardware, and our 8x8 Virtual Office services are among the most feature-rich hosted VoIP business services in the industry.

- *Offer the best possible service and support to our customers with a world class customer support organization.*
  We have an established call center and customer support group at our headquarters in Sunnyvale, California and outsourced call center operation located in Santa Maria, California. We also have invested in significant upgrades to our existing back office infrastructure to enhance the support we can provide to new and existing subscribers, as well as our distribution partners. Our strengths include customer service from technically sophisticated customer service agents providing support from onshore facilities located in California.

Our 8x8 Services

Our services work over virtually any high-speed Internet connection worldwide to allow calls to or from any phone in the world, whether that phone is an IP phone, a mobile phone or a PSTN phone. 8x8's service utilizes IP customer premise equipment to enable plug and play installation and a familiar dial tone user interface. The 8x8 service also uses web-based technologies to enable unified communications services such as web conferencing and Internet fax as well as account setup, account management, billing and customer support. We have developed proprietary implementation of standards-based technologies underlying our 8x8 service, which works with third party carriers to terminate VoIP calls on the PSTN network. As part of the 8x8 service, we currently resell IP telephones and videophones which utilize derivatives of our licensed semiconductor technology and unique software modifications to the protocol and application code that enable them to connect to the 8x8 IP services platform. We continue to enhance and develop new functionality in the software code that is embedded in these devices.

8x8 Virtual Office Business Telephone Service

Our 8x8 Virtual Office business telephone service was launched in March 2004 and is targeted at the small and medium-sized business market. 8x8 Virtual Office is an affordable, easy-to-use alternative to traditional PBX systems or Centrex class services from legacy telecommunications providers that offers features and services neither provide. 8x8 Virtual Office allows users with a high-speed Internet connection anywhere in the world to be part of a virtual PBX that includes automated attendants to assist callers, conference bridges, extension-to-extension dialing and ring groups, in addition to a rich variety of other business class PBX features normally found on dedicated PBX equipment. 8x8 Virtual Office extensions do not require a dedicated communications infrastructure. The service is received through an office's existing Internet connection, thus eliminating the need for additional phone lines or digital subscriber lines for extensions, in contrast to traditional Centrex or PBX products. The service is provided by 8x8 software that runs on computing platforms located in our data centers.

8x8 Virtual Office subscribers have the ability to choose any phone number available to 8x8 subscribers regardless of a user's geographic location. Subscribers also can port numbers, including toll-free numbers, from other service providers at no additional cost. Each extension in the virtual PBX can be located anywhere in the world with high-speed Internet access. 8x8 Virtual Office extension-to-extension calls and transfers are accomplished over the Internet, anywhere in the world, free of extra charges to third party telecommunications carriers. 8x8 Virtual Office offers the following essential services for small and medium-sized businesses:

- Auto-attendant providing dial by extension, name or group;
- Unlimited calling to the US, Canada, 20 additional countries and other 8x8 subscribers, as well as low international rates;
- Unlimited 8x8 extension-to-extension dialing anywhere in the world;
- Direct Inward Dial (DID) phone number with any desired area code for each extension;
- Conference bridge, 3-way calling, music on hold, call park/pick-up, call transfer, hunt groups, and do not disturb;

- Business-class voice mail including email alerts and direct transfer to mailbox;
- Call waiting / Caller-ID;
- Distinctive tone ringing, and
- Optional receptionist console application offering:
    - ♦ Multiple call viewing and handling;

- Direct transfer to extension's voicemail;
- Supervised transfers; and
- View of extension status.

As of March 31, 2011, each 8x8 Virtual Office customer subscribed to an average of eight of our business services.

8x8 Complete Contact Center

The 8x8 Complete Contact Center, introduced in July 2007, is a fully integrated hosted call center solution that works with any broadband Internet service and provides enterprise class contact center functionality combined with Virtual Office hosted PBX calling features. The 8x8 Complete Contact Center lets companies quickly deploy and operate multi-channel contact centers within 8x8's hosted PBX infrastructure without the time and expense of purchasing, installing and maintaining costly, specialized equipment. Delivered entirely as a hosted service, the 8x8 Complete Contact Center requires no specialized hardware or software, no telecom equipment and no up-front capital expenditures, making it an ideal solution for blending in-house and offsite or multi-site agents. Agents require nothing more than a web browser and a directly addressable voice terminal.

The 8x8 Complete Contact Center service offers features such as skill-based routing, multi-media management, real time monitoring and reporting, voice recording and logging, historical reporting, Interactive Voice Response, CRM integration with Salesforce.com and NetSuite and contact and case management tools.

8x8 IP Telephones

In the second half of 2011, we began selling four models of Polycom IP phones and three models of Polycom IP speakerphones. The Polycom IP phones deliver enhanced equipment and service features including high definition HD audio, corporate directory display and lookup, intercom paging, shared line appearance and Power over Ethernet capability.

In the second quarter of fiscal 2009, we launched the 8x8 675xi series of IP phones that incorporate 8x8's advanced NAT traversal technologies to facilitate the network-independent operational advantages of the 8x8 service. These advantages include the ability to simply plug the phone into any public or private Internet connection and immediately make or receive calls without performing any network configuration or firewall manipulation.

8x8 Virtual Meeting

The 8x8 Virtual Meeting video web conferencing service, introduced in September 2009, is an online collaboration tool accessible instantly (no software download required) from any web browser and any computing platform. Available as an add-on service for existing 8x8 customers, a standalone offering for new subscribers or as part of the Virtual Office Pro unified communications bundle, 8x8 Virtual Meeting lets users conduct centralized online meetings, complete with integrated voice conferencing (to and from any telephone or web browser platform), presentation slide sharing, desktop and application sharing, instant messaging, chair control, conference control and call recording. 8x8 Virtual Meeting offers unlimited conferencing, giving users the flexibility to conduct regular meetings with employees, associates, customers and prospects in remote locations worldwide.

8x8 Virtual Office Pro Unified Communications

Introduced in January 2010, 8x8 Virtual Office Pro is a powerful unified communications service that allows subscribers to manage essential, advanced business communications functions online through a centralized portal. Integrated with the 8x8 Virtual Office VoIP (Voice over Internet Protocol) hosted PBX phone service, Virtual Office Pro enhances business productivity by providing users with a complete, instantly accessible suite of communication tools used in everyday business interactions. In October 2010, we began selling the Virtual Office Pro service on a standalone basis so that a business customer would no longer be required to buy a physical IP telephone to access our Virtual Office services.

8x8 Virtual Office Pro delivers these tools through an easy-to-use online dashboard which provides:

- A visual overview and online control of 8x8 Virtual Office business calling activity including point-and-click access to inbound and outbound calls and call management features such as call transfer, do not disturb (DND) and call forwarding;
- Microsoft Outlook Contacts and Corporate Directory integration;

- Virtual Meeting - allows you to create, join and invite participants to web, audio and video meetings;
- Virtual Office Mobile extension - place and receive VoIP calls and access common Virtual Office services and functions from an iPhone/iPod Touch/iPad/Android mobile handset;
- Fax - enables users to send and receive unlimited faxes using either a separate phone number for fax or the same number as your 8x8 extension;
- Call recording - enables any inbound or outbound call to be recorded and later reviewed, downloaded or deleted;
- Presence management - tells other co-workers whether you are logged in, logged off, on the phone, off the phone or currently unavailable; and
- My Inbox overview - gives a comprehensive view of all voicemails, recordings, FAX messages, calls, and chat history.

8x8 Managed Hosting and Cloud-Based Computing Solutions

In May 2010, we introduced 8x8 managed hosting and cloud-based computing solutions that enable business customers to reduce costs and gain performance and reliability advantages by eliminating in-house ownership of server equipment and costly information technology systems management staff.

Sales, Marketing and Promotional Activities

We currently sell and market our 8x8 services to end users through our direct sales force, website, and third party resellers. Our inside sales force primarily handles inbound telephone calls and website leads which are generated from third party lead generation sources and direct web advertising such as Google and Yahoo!. Our sales departments consisted of 75 employees at the end of fiscal 2011. Sales representatives are paid a base salary and monthly commission for selling our products and services. The commission is based on new sales made by the sales representative.

Competition

We face strong competition from incumbent telephone companies, cable companies and alternative voice and video communication providers. Because most of our target customers are already purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract these customers away from their existing providers. This will potentially become more difficult as the early adopter market for VoIP services becomes saturated and mainstream customers make up more of our target market. We believe that the principal competitive factors affecting our ability to attract and retain customers are price, call quality, reliability, customer service, and enhanced services and features. For more information regarding the risks associated with such strong competition, please refer to Item 1A, Risk Factors, included under the heading "**Intense competition in the markets in which we compete could prevent us from increasing or sustaining our revenue and increasing or maintaining profitability.**"

Incumbent telephone companies

The incumbent telephone companies are our primary competitors and have historically dominated their regional markets. These competitors include AT&T, CenturyLink and Verizon Communications as well as rural incumbents, such as Windstream. These competitors are substantially larger and better capitalized than we are and have the advantage of a large existing customer base, and larger marketing budgets than we have. Moreover, they also provide the broadband services that are required to use our service, which is a significant competitive advantage.

Vendors of private branch exchange ("PBX") systems and alternative voice communications providers

Competitors for the 8x8 business service include traditional PBX and key system manufacturers and their resellers, including Cisco, Avaya, Mitel, Shoretel and Toshiba, Centrex services offered by incumbent telephone companies, and VoIP services offered by XO Communications, Cbeyond and other companies.

Operations

We have a centrally managed platform consisting of data management, monitoring, control and billing systems that support all of our products and services. We have invested substantial resources to develop and implement our real-time call management information system. Key elements of this system include a prospective customer quotation portal, customer provisioning, customer access, fraud control, network security, call routing, call monitoring, media processing and normalization, call reliability, and detailed call record storage and billing. Our platform monitors our process of digitizing and compressing voice and video into packets and transmitting these packets over data networks around the world. We maintain a call switching platform in software that manages call admission, call control, call rating and routes calls to an appropriate destination or customer premise equipment. Unless the recipient is using an Internet telephony device, the packets (representing a voice and/or video call initiated by an 8x8 subscriber) are sent to one of our partner telecommunications carriers, where the call is transferred to the PSTN and directed to a regular telephone anywhere in the world. Our billing and back office systems manage and enroll customers and bill calls as they originate and terminate on the service.

Network Operations Center

We maintain a network operations center at our headquarters in Sunnyvale, California and employ a staff of 31 individuals with experience in voice and data operations to provide 24-hour operations support, 7 days per week. We use various tools to monitor and manage all elements of our network and our partners' networks in real-time. We also monitor the network elements of some of our larger business customers. Additionally, our network operations center provides technical support to troubleshoot equipment and network problems. We also rely upon the network operations centers and resources of our telecommunications carrier partners to augment our monitoring and response efforts.

Customer and Technical Support

We maintain a call center at our headquarters in Sunnyvale, California and have a staff of 82 employees and contractors that provide customer service and technical support to customers. In addition, we have outsourced certain customer support activities to third parties. Customers who access our services directly through our web site receive customer service and technical support through multilingual telephone communication, web-based and "chat" sessions and e-mail support.

Interconnection Agreements

We are a party to telecommunications interconnect and service agreements with VoIP providers and PSTN telecommunications carriers, such as Global Crossing, Level(3) Communications and Neutral Tandem. Pursuant to these agreements, VoIP calls originating on our network can be terminated on other VoIP networks or the PSTN. Correspondingly, calls originating on other VoIP networks and the PSTN can be terminated on our network. While we believe that relations with these providers and carriers are good, we have no assurance that these partners will be able or willing to supply services to us in the future.

Research and Development

The VoIP market is characterized by rapid technological changes and advancements. Accordingly, we make substantial investments in the design and development of new products and services, as well as the development of enhancements and features to our existing 8x8 products and services. Future development also will focus on the use and interoperability of our products and services with emerging audio and video telephony standards and protocols, quality and performance enhancements to multimedia compression algorithms, support of new customer premise equipment, new unified services and the enhancement of existing products and services are essential to our success.

We currently employ 27 individuals in research, development and engineering activities in our facilities in Sunnyvale, California. Research and development expenses in each of the fiscal years ended March 31, 2011, 2010 and 2009 were $4.8 million, $5.0 million and $5.2 million, respectively.

Regulatory

Although several regulatory proceedings are underway or are being contemplated by federal and state authorities, including the Federal Communications Commission ("FCC") and state regulatory agencies, VoIP communication services, like ours, are subject to less regulation at the state and federal levels than traditional telecommunications services. Providers of traditional telecommunications services are subject to the highest degree of regulation, while providers of information services are largely exempt from most federal and state regulations governing traditional common carriers. The FCC has subjected VoIP service providers to a smaller subset of regulations that apply to traditional telecommunications service providers and have not yet classified VoIP services as either telecommunications or information. The FCC is currently examining the status of VoIP service providers and the services they provide in multiple open proceedings.

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

Regulation of the Internet

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

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate and/or tax applications running over the Internet. We cannot predict whether new taxes will be imposed on our services, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete depends, in part, on our ability to obtain and enforce intellectual property protection for our technology in the United States and internationally. We currently rely primarily on a combination of trade secrets, patents, copyrights, trademarks and licenses to protect our intellectually property. As of March 31, 2011, we had been issued 76 United States patents and additional United States and foreign patent applications pending. Our patents expire on dates ranging from 2012 to 2027. We cannot predict whether our pending patent applications will result in issued patents.

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

We are also subject to the risks of adverse claims and litigation alleging infringement of the intellectual property rights of others. Such claims and litigation could require us to expend substantial resources and distract key employees from their normal duties, which could have a material adverse effect on our operating results, cash flows and financial condition. The communications and software industries are subject to frequent litigation regarding patent and other intellectual property rights. Moreover, the VoIP service provider community has historically been a target of patent holders. There is a risk that we will be a target of assertions of patent rights and that we may be required to expend significant resources to investigate and defend against such assertions of patent rights. For example:

- On May 2, 2008, we received a letter from AT&T Intellectual Property, L.L.C. ("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 our 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.

- On April 22, 2009, we were named as a defendant, along with Comcast, Microsoft, Avaya, Embarq, and Qwest, in a complaint filed by Web Telephony, LLC in the Eastern District of Texas. On April 29, 2009, we entered into a settlement agreement with Web Telephony, which filed a motion to dismiss the lawsuit on May 8, 2009.
- On October 6, 2010, we were named a defendant in a lawsuit, Ceres Communications Technologies, LLC v. 8x8, Inc. et al., along with over a dozen other defendants, including OfficeMax, a former distributor for 8x8, as well as AT&T, Inc., Cablevision Systems Corporation, Comcast Corporation, Cox Communications, Inc., Skype Global S.a.r.l, Skype, Inc.,

Time Warner Cable, Verizon Communications, Inc. and Vonage Holdings Corporation in the United States District Court for the District of Delaware. More information regarding this suit is provided below under Part I, Item 3. "LEGAL PROCEEDINGS."

- On March 15, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with more than 20 other defendants, including AT&T, Inc., Cablevision Systems Corporation, Comcast Corporation, Cox Communications, Qwest Communications International, Inc., T-Mobile USA, Inc. and Vonage Holdings Corporation in the United States District Court for the Eastern District of Virginia (Norfolk Division). More information regarding this suit is provided below under Part I, Item 3. "LEGAL PROCEEDINGS."

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 shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. To date, the cost and terms of these licenses individually has not been material to our business.

Information about Segments and Geographic Areas

We have only one reportable segment. Financial information relating to our product lines and information on revenues generated in different geographic areas are set forth Part II, Item 7 of this Report under the heading "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -Results of Operations -- Revenues" and in Note 7 to our consolidated financial statements contained in Part II, Item 8 under "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

Employees

As of March 31, 2011, our workforce consisted of 254 employees. None of our employees are represented by a labor union or are subject to a collective bargaining arrangement.

Executive Officers of the Registrant

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

Bryan R. Martin, Chairman, Chief Executive Officer and President.

Bryan R. Martin, age 43, has served as Chairman of the Board of Directors since December 2003 and as Chief Executive Officer and as a director since February 2002. From March 2007 to November 2008, and again since April 2011, he has served as President. From February 2001 to February 2002, he served as our President and Chief Operating Officer. He served as our Senior Vice President, Engineering Operations from July 2000 to February 2001 and as Chief Technical Officer from August 1995 to August 2000. He also served as a director of the Company from January 1998 through July 1999. In addition, Mr. Martin served in various technical roles for the Company from April 1990 to August 1995. He received a B.S. and an M.S. in Electrical Engineering from Stanford University.

Dan Weirich, Chief Financial Officer.

Dan Weirich, age 37, has served as our Chief Financial Officer since July 2006. From November 2008 to March 2011, Mr. Weirich also served as our President. From June 2006 to July 2006, Mr. Weirich served as our Acting Chief Financial Officer. He was our Vice President of Operations from April 2006 to June 2006 and Director of Strategic Sales from March 2004 to April 2006. Prior to joining us, Mr. Weirich served in various roles for iAsiaWorks, Qwest Communications and Phoenix Network. He received a B.S. in International Business from the University of Colorado at Boulder.

Ramprakash Narayanaswamy, Chief Technology Officer and Vice President of Engineering.

Ramprakash Narayanaswamy, age 46, was appointed Chief Technology Officer in April 2010 and is responsible for our research, development and engineering operations. From February 2005 to April 2010, Mr. Narayanaswamy held multiple numerous engineering roles including Vice President, Engineering. Between 1992 and 2005, Mr. Narayanaswamy served in various engineering roles for Nextance Inc., Bluelight.com and Sun Microsystems, Inc. He received his Masters degree in Computer Applications from National Institute of Technology, Tiruchirapalli, India.

Debbie Jo Severin, Chief Marketing Officer and Vice President of Marketing.

Debbie Jo Severin, age 51, has served as our Chief Marketing Officer and Vice President of Marketing since March 2009. From 2003 to March 2009, Ms.

Severin served as Vice President of Marketing for Covad Communications. Prior to Covad Communications, Ms. Severin worked at PrimeOne Tele-TV, Northpoint Communications, Valiant Networks, BellSouth Telecommunications and Pacific Bell. She received a Masters Degree in Mathematics and a Bachelor of Science from the University of Alabama, Birmingham.

Kim Niederman, Senior Vice President of Sales.

Kim Niederman, age 59, has served as our Senior Vice President of Sales since February 2011. From February to November 2010, Mr. Niederman was Senior Vice President of NComputing, Inc. and from January 2007 to January 2009, Mr. Niederman was Chief Executive Officer and President of Anagran, Inc. From January 2003 to January 2007, Mr. Niederman was Senior Vice President of Worldwide Sales for Polycom, Inc. Prior to Polycom, he held executive positions at Cisco Systems, Inc., FORE Systems, Inc., Hallmark Industries, Inc., Longboard, Inc. RadioLAN, Inc. and Wang Laboratories, Inc. He received a B.A. from the University of Denver.

Huw Rees, Vice President of Business Development.

Huw Rees, age 49, has served as Vice President, Business Development since November 2008. He has worked for us since 1999. From January 2001 to November 2008, Mr. Rees served as our Vice President, Sales and Marketing. Prior to joining us, he worked at Mitel Corporation, GEC Plessey Inc. and Marconi PLC. He received a B.Sc. (Hons) from the University of Manchester, Institute of Science and Technology in Electrical and Electronic Engineering and a M.B.A. from the University of LaVerne.

Mehdi Salour, Vice President of Network Operations.

Mehdi Salour, age 35, has served as our Vice President, Network Operations since February 2009. From February 2007 to February 2009, Mr. Salour was Vice President of Service Delivery and Support and was Director of Technical and Customer Support from January 2004 to February 2007. He received a M.S. degree in Software Engineering with concentrations in networking software and security from San Jose State University.

Garth Judge, Vice President of Research and Development.

Garth Judge, age 37, has served as our Vice President of Research and Development since October 2006. Prior to that, Dr. Judge served in several lead engineering roles, including Director of Software Development, in which he was responsible for 8x8's VoIP firmware development. Dr. Judge joined 8x8 in 2000 as a firmware engineer working on the Netergy Microelectronics reference firmware for our voice and video chipsets. He received a Ph.D in Electronic Engineering from the University of Natal in South Africa, specializing in wireless telecommunications technologies.

ITEM 1A. RISK FACTORS

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

The success of our Company is dependent on the growth and public acceptance of 8x8 Services.

Our future success depends on our ability to significantly increase revenues generated from our 8x8 services. In turn, the success of our 8x8 voice and video communications services depends, among other things, upon future demand for VoIP telephony systems and services. Because the use of our service requires that the user be a subscriber of an existing broadband Internet service, usually provided through a cable or digital subscriber line, or DSL, connection, slow or limited adoption of broadband Internet service could adversely affect the growth of our subscriber base and revenues. Although the number of broadband subscribers worldwide has grown significantly over the last five years, VoIP service has not yet been adopted by a majority of prospective business customers. According to a report filed by the FCC in March 2011, fewer than 6% of access lines to businesses in the United States utilize interconnected VoIP services. To increase the deployment of broadband Internet services from broadband Internet service providers, telephone companies and cable companies must continue to invest in the deployment of high speed broadband networks to residential and business customers, over which we have no control. In addition, VoIP networks must improve quality of service for real-time communications, managing effects such as packet jitter, packet loss, and unreliable bandwidth, so that toll-quality service can be consistently provided. VoIP telephony equipment and services must achieve a similar level of reliability that users of the PSTN have come to expect from their telephone service, and the cost and feature benefits of VoIP must be sufficient to cause customers to switch away from traditional telephony service providers. We must devote substantial resources to educate customers and end users about the benefits of VoIP telephony solutions, in general, and our services in particular. Substantial, ongoing interaction with our customers in order to train and assist them with the deployment and use of our services over these networks is sometimes required. If any or all of these factors fail to occur, our business may be affected adversely.

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

Many of our existing and target customers are in the small and medium business sector. Although we believe our products and services are less costly than traditional telephone services, 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 the existing and target customers may lack the funds necessary to add new equipment and services such as ours. Additionally, these customers often have limited discretionary funds which they may choose to spend on items other than our products and services. If small and medium businesses continue to experience economic hardship, this could negatively affect the overall demand for our products and services, delay and lengthen sales cycles and lead to slower growth or even a decline in our revenue, net income and cash flows.

Although the majority of our billing arrangements with customers are prepaid, we regularly monitor the percentage of customers who cease to pay for our services due to closing or downsizing their business. Even though our customer churn rates improved in fiscal 2011, more than 50% of our total customer churn was due to these economic issues and we cannot be certain that we will continue to experience the same improvement in churn rates given current economic conditions. Additionally, the combination of our sales cycle coupled with challenging economic conditions could have a negative impact on the results of our operations.

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

We recorded operating income of approximately $6.2 million for the fiscal year ended March 31, 2011 and ended the period with an accumulated deficit of $192 million. In addition, we recorded operating income of approximately $4 million and an operating loss of approximately $3 million for the fiscal years ended March 31, 2010 and 2009, respectively. Although we achieved operating income of $6.2 million during the current fiscal year, we may incur operating losses for the foreseeable future, and such losses may be substantial. 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 achieve operating profitability on an annual basis or maintain operating profitability on a quarterly basis in the future.

Our business depends on continued and unimpeded access to the Internet by us and our users. Internet access providers and Internet backbone providers may be able to block, degrade or charge for access to 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. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers offer products and services that directly compete with our own offerings, which gives 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. The FCC recently adopted rules that would prohibit providers of broadband Internet access services from blocking, degrading or engaging in other discriminatory actions. These rules are not yet effective and there is some question as to whether the rules will become effective. Moreover, the ability of the FCC to regulate broadband Internet access services has been called into question by a recent ruling of the United States Court of Appeals for the D.C. Circuit. While interference with access to our products and services seems unlikely, broadband Internet access provider interference has occurred, in very limited circumstances in the U.S., 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.

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

The telecommunications industry is highly competitive. We face intense competition from traditional telephone companies, wireless companies, cable companies, competitive local exchange carriers, alternative voice communication providers and independent VoIP providers.

Most of our current and potential competitors have longer operating histories, significantly greater resources and name recognition, 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 offering a more complete product despite the technical merits or advantages of our products. Competition could decrease our prices, reduce our sales, lower our gross profits or decrease our market share.

We also compete against established alternative voice communication providers and face competition from other large, well-capitalized Internet companies that have recently launched or plan to launch VoIP-enabled services. In addition, we compete with independent VoIP service providers. Some of these service providers may choose to sacrifice revenue in order to gain market share by offering their services at lower prices or free. In order to compete with such service providers, we may have to significantly reduce our prices, which would affect our profitability.

We also are subject to the risk that new technologies may be developed that are able to deliver competing voice services at lower prices, better or more conveniently. Future competition from new technologies could have a material adverse effect on our growth and operating results.

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, and therefore 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 spending to compensate for such shortfall. Announcements 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.

The VoIP telephony market is subject to rapid technological change, and we depend on new product and service introductions in order to maintain and grow our business.

VoIP telephony is 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 VoIP telephony software products and services that provide increasingly higher levels of performance and reliability at lower cost.

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

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

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

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

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

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

We rely on third party network service providers to originate and terminate substantially all of our public switched telephone network calls.

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 could have a material adverse effect on our business, financial condition or operating results.

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. While we believe that we could replace our current providers, if necessary, our ability to provide service to our subscribers could be impacted during this timeframe, and this 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 8x8 service or another vendor's products, 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 facilities. Any failure or downtime in one of our data center facilities could affect a significant percentage of our customers. The total destruction or severe impairment of any of our data center facilities could result in significant downtime of our services and the loss of customer data. Because our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions in our service could harm our reputation. Additionally, in connection with the expansion or consolidation of our existing data center facilities from time to time, there is an increased risk that service interruptions may occur as a result of server relocation or other unforeseen construction-related issues.

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

Any future service interruptions could:

- Cause our customers to seek damages for losses incurred;
- Require us to replace existing equipment or add redundant facilities;
- Affect our reputation as a reliable provider of hosting services;
- Cause existing customers to cancel or elect to not renew their contracts; or

- Make it more difficult for us to attract new customers.

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

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

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

Increased Internet bandwidth costs and network failures may adversely affect our operating results.

Our success depends in part upon the capacity, reliability, and performance of our network infrastructure, including the capacity leased from our Internet bandwidth suppliers. We depend on these companies to provide uninterrupted and error-free service through their telecommunications networks. Some of these providers are also our competitors. We exercise little control over these providers, which increases our vulnerability to problems with the services they provide. We have experienced and expect to continue to experience interruptions or delays in network service. Any failure on our part or the part of our third-party suppliers to achieve or maintain high data transmission capacity, reliability or performance could significantly reduce customer demand for our services and damage our business.

As our customer base grows and their usage of telecommunications capacity increases, we will be required to make additional investments in our capacity to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. In addition, our business would suffer if our network suppliers increased the prices for their services and we were unable to pass along the increased costs to our customers.

We depend on contract manufacturers to manufacture substantially all of our products, and any delay or interruption in manufacturing by these contract manufacturers would result in delayed or reduced shipments to our customers and may harm our business.

We do not have long-term purchase agreements with our contract manufacturers and we depend on a concentrated group of contract manufacturers for a substantial portion of manufacturing our products. There can be no assurance that our contract manufacturers will be able or willing to reliably manufacture our products, in volumes, on a cost-effective basis or in a timely manner. If we cannot compete effectively for the business of these contract manufacturers, or if any of the contract manufacturers experience financial or other difficulties in their businesses, our revenue and our business could be adversely affected. In particular, if one of our contract manufacturers becomes subject to bankruptcy proceedings, we may not be able to obtain any of our products held by the contract manufacturer.

We also rely on third party vendors for IP phones 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 perform 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.

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

There has been substantial litigation in the communications, VoIP services, semiconductor, electronics, and related industries regarding intellectual property rights and, from time to time, third parties may claim infringement by us of their intellectual property rights. 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. ("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 certain technology. We may not be able to negotiate such a license at a price that is acceptable. 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 several patent infringement lawsuits. For example:

- On April 22, 2009, we were named as a defendant, along with Comcast, Microsoft, Avaya, Embarq, and Qwest, in a complaint filed by Web Telephony, LLC in the Eastern District of Texas. On April 29, 2009, we entered into a settlement agreement with Web Telephony, which filed a motion to dismiss the lawsuit on May 8, 2009, under which we have made significant payments as described in Part II, Item 7. "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDIITION AND RESULTS OF OPERATIONS -- Acquired Product Rights."
- On October 6, 2010, we were named a defendant in a lawsuit, Ceres Communications Technologies, LLC ("Ceres") v. 8x8, Inc. et al., along with over a dozen other defendants, including OfficeMax, a former distributor for 8x8, as well as AT&T, Inc., Cablevision Systems Corporation, Comcast Corporation, Cox Communications, Inc., Skype Global S.a.r.l, Skype, Inc., Time Warner Cable, Verizon Communications, Inc. and Vonage Holdings Corporation in the United States District Court for the District of Delaware.
- On March 15, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with more than twenty other defendants, including AT&T, Inc., Cablevision Systems Corporation, Comcast Corporation, Cox Communications, Qwest Communications International, Inc., T-Mobile USA, Inc. and Vonage Holdings Corporation in the United States District Court for the Eastern District of Virginia (Norfolk Division).

If we were found to be infringing on the intellectual property rights of any third party, we could be subject to 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 the Company's business, results of operations, financial condition and cash flows. More information regarding the two pending suits is provided below under Part I. Item 3. "LEGAL PROCEEDINGS."

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 shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, 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.

Inability to protect our proprietary technology would disrupt our business.

We rely, in part, on trademark, copyright, and trade secret law to protect our intellectual property in the United States and abroad. We seek to protect our software, documentation, and other written materials under trade secret and copyright law, which afford only limited protection. We also rely, in part, on patent law to protect our intellectual property in the United States and internationally. As of March 31, 2011, we had been awarded 76 United States patents and have additional United States and foreign patent applications pending. We cannot predict whether such pending patent applications will result in issued patents that effectively protect our intellectual property. 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 have, in the past, licensed and, in the future, expect to continue licensing our technology to others, many of whom are located or may be located abroad. There are no assurances that such licensees will protect our technology from misappropriation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary 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.

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

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

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

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

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

In fiscal 2011, we made one acquisition and one investment in another company and, if appropriate opportunities present themselves, we may make additional acquisitions or investments or enter into joint ventures or strategic alliances with other companies. Risks commonly encountered in such transactions include:

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

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

Increased taxes on our service will increase our customers' cost of using our service and/or reduce our profit margins (to the extent the costs are not passed through to our customers) and we may be subject to liabilities for past sales and additional taxes, surcharges and fees.

Until 2007, we did not collect or remit state or municipal taxes, such as sales, excise, and ad valorem taxes, fees or surcharges on the charges to our customers for our services, except that we have historically complied with the collection of California sales tax and financial contributions to the 9-1-1 system and the federal Universal Service Fund. We have received inquiries or demands from a number of state and municipal taxing agencies seeking payment of taxes, fees or surcharges that are applied to or collected from customers of providers of traditional public switched telephone network services. Although we have consistently maintained that these taxes, fees or surcharges do not apply to our service for a variety of reasons depending on the statute or rule that establishes such obligations, a number of states have changed their statutes as part of streamlined sales tax initiatives and we are now collecting and remitting sales taxes in those states. The collection of these taxes, fees or surcharges will have the effect of decreasing any price advantage we may have over other providers who have historically paid these taxes and fees. Our compliance with these tax initiatives will also make us less competitive with those competitors who choose not to comply with these tax initiatives. Three states currently are conducting sales tax audits of our records. In October 2009 and in August 2010, we received notices of proposed assessment as a result of two of the sales tax audits amounting to approximately $1.6 million and $0.4 million, respectively, which we consider to be unsubstantiated. As of March 31, 2011, there has been no change in the status of these assessments.

We collect and have accrued for taxes that we believe are required to be remitted. While historically, the amounts that have been remitted have been within established accruals if our ultimate liability exceeds the accrued amount, it could result in significant charges to our earnings.

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

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

We are offering E-911 service that is similar to the emergency calling services provided to customers of traditional wireline telephone companies in the same area. For those customers located in an E-911 area, emergency calls are routed directly to an emergency services dispatcher at the PSAP in the area of the customer's registered location. The dispatcher will have automatic access to the customer's telephone number and registered location information. If a customer moves their 8x8 service to a new location, the customer's registered location information must be updated and verified by the customer. Until that takes place, the customer will have to verbally advise the emergency dispatcher of his or her actual location at the time of an emergency 9-1-1 call. This can lead to delays in the delivery of emergency services.

The emergency calls of customers located in areas where we are currently unable to provide E-911 service as described above are supported by a national call center that is run by a third-party provider and operates 24 hours per day, seven days per week. These operators still receive the customer's registered service location and phone number automatically, and coordinate connecting the caller to the appropriate PSAP or emergency services provider and providing the customer's registered service location and phone number to those local authorities, which can also delay the delivery of emergency services. In the event that a customer experiences a broadband or power outage, or if a network failure were to occur, the customer will not be able to reach an emergency services provider using our services.

The FCC may determine that our nomadic emergency calling solution does not satisfy the requirements of its VoIP E-911 order because, in some instances, our nomadic emergency calling solution requires that we route an emergency call to a national emergency call center instead of connecting our customers directly to a local PSAP through a dedicated connection and through the appropriate selective router. The FCC may issue further guidance on compliance requirements in the future that might require us to disconnect those customers not receiving access to emergency services in a manner consistent with the VoIP E-911 order. The effect of such disconnections, monetary penalties, cease and desist orders or other enforcement actions initiated by the FCC or other agency or task force against us could have a material adverse effect on our business, financial condition or operating results.

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

The FCC may require us to deploy an E911 service that automatically determines the location of our customers. The adoption of such a requirement could increase our costs that could make our service more expensive, decrease our profit margins, or both.

On June 1, 2007, the FCC released a Notice of Proposed Rulemaking in which it tentatively concluded that all interconnected VoIP service providers that allow customers to use their service in more than one location (nomadic VoIP service providers such as us) must utilize an automatic location technology that meets the same accuracy standards which apply to providers of commercial mobile radio services (mobile phone service providers). The outcome of this proceeding cannot be determined at this time and we may or may not be able to comply with any such obligations that may be adopted. At present, we currently have no means to automatically identify the physical location of one of our customers on the Internet. The FCC's VoIP E-911 order has increased our cost of doing business and may adversely affect our ability to deliver the 8x8 service to new and existing customers in all geographic regions or to nomadic customers who move to a location where emergency calling services compliant with the FCC's mandates are unavailable. Our compliance with and increased costs due to the FCC's VoIP E-911 order put us at a competitive disadvantage to those VoIP service providers who have chosen not to comply with the FCC's mandates. We cannot guarantee that emergency calling service consistent with the VoIP E-911 order will be available to all of our customers, especially those accessing our services from outside of the United States. The FCC's current VoIP E-911 order or follow-on orders or clarifications or their impact on our customers due to service price increases or other factors could have a material adverse effect on our business, financial condition or operating results.

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

The FCC requires all interconnected VoIP providers to comply with CALEA. The FCC allows VoIP providers to comply with CALEA through the use of a solution provided by a trusted third party with the ability to extract call content and call-identifying information from a VoIP provider's network. While the FCC permits companies like us to use the services provided by these third parties to comply with CALEA, we are ultimately responsible for ensuring the timely delivery of call content and call-identifying information to law enforcement, and for protecting subscriber privacy.

We selected a partner to work with us to develop a solution for CALEA compliant lawful interception of communications and, as of May 14, 2007, we had installed this solution in our network operations and data centers, but had not yet completed certification testing of all required intercept capabilities of this equipment. We completed formal CALEA compliance testing with this partner in March 2009 and currently, our tested CALEA solution is fully deployed in our network. However, we could be subject to an enforcement action by the FCC or law enforcement agencies for any delays related to meeting, or if we fail to comply with, any current or future CALEA obligations.

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

The FCC requires providers of interconnected VoIP services to comply with certain regulations pertaining to people with disabilities and to contribute to the Telecommunications Relay Services, or TRS, fund. We are also required to offer 7-1-1 abbreviated dialing for access to relay services. As of April 5, 2008, we have implemented a 7-1-1 system which routes such calls to the appropriate relay center based upon the customer's assigned telephone number. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if the FCC believes we are not compliant with these new disability requirements.

There may be risks associated with our ability to comply with the requirements of federal and other regulations related to Customer Proprietary Network Information ("CPNI").

The FCC requires providers of interconnected VoIP services to comply with its customer proprietary network information, or CPNI, rules. 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.

Under the FCC's rules, companies like us may not use CPNI without customer approval except in narrow circumstances related to the provision of existing services, and must comply with detailed customer approval processes when using CPNI outside of these narrow circumstances. The rules also require more stringent security measures for access to a customer's CPNI data in the form of required passwords for on-line access and call-in access to account information as well as customer notification of account or password changes.

At the present time, we do not utilize our customer's CPNI in a manner which would require us to obtain consent from our customers but, in the event that we do in the future, we will be required to adhere to specific CPNI rules aimed at marketing such services. Before December 8, 2007, we implemented internal processes in order to be in compliance with all of the FCC's CPNI rules. Our failure to achieve compliance with any future CPNI orders, rules, filings or standards, or any enforcement action initiated by the FCC or other agency, state or task force against us could have a material adverse effect on our

business, financial condition or operating results.

If we are unable to improve our process for local number portability provisioning, our growth may be negatively affected.

We support local number portability, or LNP, which allows our customers to retain their existing telephone numbers when subscribing to our services. Transferring numbers is a manual process that, in the past, has taken us 20 business days or longer, although we have taken steps to automate this process to reduce the delay. A new customer of our services must maintain both the new 8x8 service and the customer's existing telephone service during the number transfer process. By comparison, transferring wireless telephone numbers among wireless service providers generally takes several hours, and transferring wireline telephone numbers among traditional wireline service providers generally takes a few days. The additional delay that we experience is due to our reliance on third party carriers to transfer the numbers, as well as the delay the existing telephone service provider may contribute to the process. Local number portability is considered an important feature by many potential customers, especially our business customers, and if we fail to reduce related delays, we may experience increased difficulty in acquiring new customers or retaining existing customers. Moreover, the FCC requires interconnected VoIP providers, like us, to comply with industry standard timeframes and a shorter timeframe for certain types of ports. If we are unable to process ports within the requisite timeframes, we could be subject to fines and/or penalties. Additionally, both customers and carriers may seek relief from the relevant state public utility commission, the FCC, and/or in state or federal court.

The rates we pay to underlying telecommunications carriers may increase which may reduce our profitability and increase the retail price of our service.

The FCC has several open proceedings considering new rules that may impact charges that regulated telecommunications carriers assess each other for originating and terminating traffic. It is possible that the FCC will adopt new rules that subjects interconnected VoIP traffic to increased charges. Should this occur, the rates that we pay to our underlying carriers may increase which may reduce our profitability and may also increase the retail price of our service making our service less competitive with other providers of similar calling services. We cannot predict either the timing or the outcome of these proceedings.

Our success also depends on our ability to handle a large number of simultaneous calls, which our network may not be able to accommodate.

We expect the volume of simultaneous calls to increase significantly as the 8x8 subscriber base grows. Our network hardware and software may not be able to accommodate this additional volume. If we fail to maintain an appropriate level of operating performance, or if our service is disrupted, our reputation could be hurt and we could lose customers, all of which could have a material adverse effect on our business, financial condition or operating results.

We could be liable for breaches of security on our web site, 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 voice and video communications service and electronically billing our 8x8 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 8x8 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 our 8x8 transactions involve fraudulent or disputed credit card transactions. Any costs we incur as a result of fraudulent or disputed transactions could harm our business. In addition, the functionality of our current billing system relies on certain third-party vendors delivering services. If these vendors are unable or unwilling to provide services, we will not be able to charge for our 8x8 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 have experienced losses due to subscriber fraud and theft of service.

Subscribers have, in the past, obtained access to the 8x8 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.

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

Our rate of customer terminations, or average monthly customer churn (excluding cancellations within 30 days of sign-up), was 2.3% for the fiscal year ended March 31, 2011 compared to 2.6% for the fiscal year ended March 31, 2010. Our churn rate could increase in the future if customers are not satisfied with our service. Other factors, including increased competition from other VoIP providers, alternative technologies, and adverse business conditions also influence our churn rate.

Because of churn, we have to acquire new customers on an ongoing basis just 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.

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

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

- changes in market demand;
- the timing of customer orders;
- customer cancellations;
- competitive market conditions;

- lengthy sales cycles and/or regulatory approval cycles;
- new product introductions by us or our competitors;
- market acceptance of new or existing products;
- the cost and availability of components;
- the mix of our customer base and sales channels;
- the mix of products sold;
- the management of inventory;
- continued compliance with industry standards and regulatory requirements; and
- general economic conditions.

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

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

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

We may not be able to manage our inventory levels effectively, which may lead to inventory obsolescence that would force us to incur inventory write-downs.

Our products have lead times of up to several months and are built to forecasts that are necessarily imprecise. Because of our practice of building our products to necessarily imprecise forecasts, it is likely that from time to time we will have either excess or insufficient product inventory. In addition, because we rely on third party vendors for the supply of components and contract manufacturers to assemble our products, our inventory levels are subject to the conditions regarding the timing of purchase orders and delivery dates that are not within our control. Excess inventory levels would subject us to the risk of inventory obsolescence, while insufficient levels of inventory may negatively affect relations with customers. For instance, our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of our products could result in legal action from our customers, loss of customers or harm to our ability to attract new customers. Any of these factors could have a material adverse effect on our business, financial condition or operating results.

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

As of March 31, 2011, we had cash and cash equivalents and investments of approximately $18.4 million. While we believe these funds are sufficient to meet our current and anticipated liquidity requirements, we may need to raise additional capital. We may not be able to obtain such additional financing as needed on acceptable terms, or at all, which may require us to reduce our operating costs and other expenditures, including reductions of personnel and capital expenditures. If we issue additional equity or convertible debt securities to raise funds, the ownership percentage of our existing stockholders would be reduced and they may experience significant dilution. New investors may demand rights, preferences or privileges senior to those of existing holders of our common stock. If we are not successful in these actions, we may be forced to cease operations.

Our stock price has been highly volatile.

The market price of the shares of our common stock has been and is likely to continue to be highly volatile. It may be significantly affected by factors such as:

- actual or anticipated fluctuations in our operating results;
- announcements of technical innovations;
- future legislation or regulation of the Internet and/or VoIP;
- loss of key personnel;

- new entrants into the VOIP service marketplace, including cable and incumbent telephone companies and other well-capitalized competitors;
- new products or new contracts by us, our competitors or their customers;
- the perceived or real impact of events that negatively affect our direct competitors; and
- developments with respect to patents or proprietary rights, general market conditions, changes in financial estimates by securities analysts, and other factors which could be unrelated to, or outside of, our control.

The stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stocks of technology companies and that have often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been initiated against the issuing company. If our stock price is volatile, we may also be subject to such litigation. Such litigation could result in substantial costs and a diversion of management's attention and resources, which would disrupt business and could cause a decline in our operating results. Any settlement or adverse determination in such litigation would also subject us to significant liability.

We may not be able to maintain our listing on the NASDAQ Capital Market

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Our common stock trades on the NASDAQ Capital Market, which has certain compliance requirements for continued listing of common stock. We have, in the past, been subject to delisting procedures due to a drop in the price of our common stock. If our minimum closing bid price per share falls below $1.00 for a period of 30 consecutive trading days in the future, we may again be subject to delisting procedures. As of the close of business on May 18, 2011, our common stock had a closing bid price of approximately $2.93 per share. We must also meet additional continued listing requirements contained in NASDAQ Listing Rule 5550(b), which requires that we have either (1) a minimum of $2,500,000 in stockholders' equity, (2) $35,000,000 market value of listed securities held by non-affiliates or (3) $500,000 of net income from continuing operations for the most recently completed fiscal year (or two of the three most recently completed fiscal years). As of May 18, 2011, based on our closing price as of that day, the market value of our securities held by non-affiliates approximated $178,844,000 and we were in compliance with NASDAQ Marketplace Rule 5550(b). There can be no assurance that we will continue to meet the continued listing requirements.

Delisting could reduce the ability of our shareholders to purchase or sell shares as quickly and as inexpensively as they have done historically. For instance, failure to obtain listing on another market or exchange may make it more difficult for traders to sell our securities. Broker-dealers may be less willing or able to sell or make a market in our common stock. Not maintaining our NASDAQ Capital Market listing may (among other effects):

- result in a decrease in the trading price of our common stock;
- lessen interest by institutions and individuals in investing in our common stock;
- make it more difficult to obtain analyst coverage; and
- make it more difficult for us to raise capital in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal operations are located in Sunnyvale, CA in a facility that is approximately 52,000 square feet and is leased through August 2012. We believe our Sunnyvale facility will adequately meet our current and foreseeable future needs. For additional information regarding our obligations under leases see Note 4 to the consolidated financial statements contained in Part II, Item 8 of this Report.

ITEM 3. LEGAL PROCEEDINGS

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

On January 27, 2010, we were named a defendant in a lawsuit, Nikki Meierdiercks et al. v. 8x8, Inc., filed by three former employees in Santa Clara County Superior Court (the "Court") as a putative class action seeking damages and various penalties under the California Labor Code for alleged unpaid overtime, meal breaks, rest breaks and alleged late wage payments and unreimbursed business expenses. On November 9, 2010, the Company entered into a memorandum of understanding with the plaintiffs to settle the lawsuit for $625,000. We accrued this $625,000 in the third quarter of fiscal 2011. The settlement amount is still subject to approval by the Court, though the Company does not expect to incur any substantial amounts related to this litigation in the future.

On October 6, 2010, we were named a defendant in a lawsuit, Ceres Communications Technologies, LLC ("Ceres") v. 8x8, Inc. et al., along with over a dozen other defendants, including OfficeMax, a former distributor of ours, as well as AT&T, Inc., Cablevision Systems Corporation, Comcast Corporation, Cox Communications, Inc., Skype Global S.a.r.l, Skype, Inc., Time Warner Cable, Verizon Communications, Inc. and Vonage Holdings Corporation in the United States District Court for the District of Delaware. The plaintiff believes 8x8 has infringed one or more claims of United States Patent No. 5,774,526. On November 16, 2010, we agreed to represent and indemnify OfficeMax in this lawsuit for the time period pursuant to the terms of our prior retail agreement with them (indemnification rights survived termination of the agreement). On November 19, 2010, we filed motions to dismiss on behalf of ourselves and OfficeMax. On December 3, 2010, Ceres filed its First Amendment Complaint omitting its prior claims for induced, contributory, and willful infringement. On December 10, 2010 Ceres filed an answer to our motion to dismiss. On December 21, 2010 we amended our motion to dismiss. The judge has not yet ruled on these motions. No case schedule has been set and discovery has not yet begun. A scheduling conference with the judge is currently set for June 9, 2011. We have factual and legal defenses to these claims and are presenting a vigorous defense. The plaintiff has not made a specific monetary demand and we cannot estimate potential liability in this case at this early stage of litigation.

On November 24, 2010, we filed a lawsuit in the Southern District of Texas against Adaptive Networks and Ceres alleging false patent marking under Title 35, Section 292, of the United States Code relating to the `526 patent. On March 23, 2011, we restated our complaint to also include Helios IP, LLC, in addition to the two original defendants. The defendants have until May 27, 2011 to answer our complaint.

On March 15, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with more than 20 other defendants, including AT&T, Inc., Cablevision Systems Corporation, Comcast Corporation, Cox Communications, Qwest Communications International, Inc., T-Mobile USA, Inc. and Vonage Holdings Corporation in the United States District Court for the Eastern District of Virginia (Norfolk Division). The plaintiff believes we have infringed one or more claims of United States Patent No. 7,889,722. On April 26, 2011, Bear Creek Technologies, Inc. amended its initial complaint against the defendants to allege induced infringement. Our initial response to the complaint is due May 26, 2011. We have factual and legal defenses to these claims and are presenting a vigorous defense. The plaintiff has not made a specific monetary demand and we cannot estimate potential liability in this case at this early stage of litigation.

ITEM 4. (REMOVED AND RESERVED)

PART II

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

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

We have never paid cash dividends on our common stock and have no plans to do so in the foreseeable future. As of May 18, 2011, there were 255 holders of record of our common stock.

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

Period	High	Low
Fiscal 2011:		
First quarter	$ 1.55	$ 1.14
Second quarter	$ 2.20	$ 1.25
Third quarter	$ 3.30	$ 2.13
Fourth quarter	$ 3.15	$ 2.41
Fiscal 2010:		

First quarter	$ 0.85	$ 0.58
Second quarter	$ 1.05	$ 0.60
Third quarter	$ 1.50	$ 0.89
Fourth quarter	$ 1.63	$ 1.20

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

The graph below shows the cumulative total stockholder return over a five year period assuming the investment of $100 on March 31, 2006 in each of 8x8's common stock, the NASDAQ Composite Index and the NASDAQ Telecommunications Index. The graph is furnished, not filed, and the historical return cannot be indicative of future performance.

Sales of Unregistered Securities.

On May 1, 2010, we entered into an agreement with Central Host, Inc. ("Central Host") and its sole shareholder Andrew Schwabecher, pursuant to which we acquired this provider of managed hosting services from, Mr. Schwabecher. Under the terms of the Agreement, we closed the acquisition on May 1, 2010, and paid $1,000,000 in cash and issued 432,276 shares of common stock, at an average price of $1.388 per share and calculated based on the trailing 5-day average closing price of 8x8 common stock on the NASDAQ Capital Market as of the effective date of the transaction, to Mr. Schwabecher in exchange for all of the outstanding shares of capital stock of Central Host. The shares of our common stock were not registered for sale and were issued pursuant to an exemption from the registration requirements under section 5 of the Securities Act of 1933, as amended, provided by section 4(2) thereof.

Issuer Purchases of Equity Securities.

On October 19, 2010, our board of directors authorized a stock repurchase plan for the purchase of up to $10.0 million of our common stock from time to time until October 19, 2011. The activity under the repurchase plan for the three months ended March 31, 2011 is summarized as follows:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
January 1 - January 31, 2011	984,037	$ 2.72	984,037	$ 6,089,591
February 1 - February 28, 2011	-	-	-	6,089,591
March 1 - March 31, 2011	402,000	2.77	402,000	$ 4,977,295
Total	1,386,037	$ 2.73	1,386,037	

The repurchases were made through open market purchases at prevailing market prices.

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended March 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Total revenues	$ 70,163	$ 63,396	$ 64,674	$ 61,646	$ 53,130
Net income (loss)	$ 6,494	$ 3,879	$ (2,500)	$ 30	$ (9,930)
Net income (loss) per share:					
Basic	$ 0.10	$ 0.06	$ (0.04)	$ 0.00	$ (0.16)
Diluted	$ 0.10	$ 0.06	$ (0.04)	$ 0.00	$ (0.16)
Total assets	$ 26,584	$ 23,712	$ 21,856	$ 21,551	$ 19,958
Fair value of warrant liability	$ -	$ 167	$ 21	$ 335	$ 3,387
Accumulated deficit	$ (192,346)	$ (198,840)	$ (202,719)	$ (200,219)	$ (200,249)
Total stockholders' equity	$ 15,861	$ 13,300	$ 9,030	$ 7,849	$ 5,377

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

OVERVIEW

We were founded in 1987 and completed an initial public offering of common stock in 1997. We develop and market telecommunications services for Internet protocol, or IP, telephony and video applications as well as web- based conferencing and unified communications services. We offer the 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, the 8x8 Virtual Office Pro unified communications solution and 8x8 Managed Hosting and Cloud-Based Computing solutions. As of March 31, 2011, we had more than 24,000 business customers. Each business customer subscribes to a number of various lines and services (*e.g.* physical phone extensions, virtual extensions, fax lines, toll free numbers, receptionist software, unified communications services, etc.) Since fiscal 2004, substantially all of our revenues have been generated from the sale, license and provision of VoIP products, services and technology. Prior to fiscal 2003, our focus was on our VoIP semiconductor business.

CRITICAL ACCOUNTING POLICIES & ESTIMATES

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

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

Use of Estimates

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

Revenue Recognition

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

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

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-25 requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. In addition, arrangement consideration must be allocated among the separate units of accounting based on their relative fair values, with certain limitations. The provisioning of the 8x8 service with the accompanying 8x8 IP Telephone constitutes a revenue arrangement with multiple deliverables. In accordance with the guidance of ASC 605-25, we allocate 8x8 revenues, including activation fees, among the 8x8 IP telephones and subscriber services based on the fair value determined by their relative selling prices. Revenues allocated to these devices are recognized as product revenues during the period of the sale less the allowance for estimated returns during the 30-day trial period. All other revenues are recognized when the related services are provided. We record revenue net of any sales-related taxes that are billed to our customers. We believe this approach results in financial statements that are more easily understood by investors. The cost of the products sold is recognized contemporaneously with the recognition of revenue.

At the time of each revenue transaction, we assess whether the revenue amount is fixed and determinable and whether collection is reasonably assured. We assess whether the fee is fixed and determinable based on the payment terms associated with the transaction. If a significant portion of a fee is due after our normal payment terms, which are 30-90 days from invoice date, we account for the fee as not being fixed and determinable. In these cases, we recognize revenue as the fees become due. We assess collection based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. We generally do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of payment. We defer recognition of revenue on product sales to retailers where the right of return exists until products are resold to the end user and the trial period has expired.

Under our revenue recognition accounting principles, if a software license arrangement includes acceptance criteria, we do not recognize revenue until we can demonstrate objectively that the software or service can meet the acceptance criteria or that the customer has signed formal acceptance documentation. If a software license arrangement obligates us to deliver unspecified future products, we recognize revenue on a subscription basis, ratably over the term of the contract.

For all sales, except those completed via the Internet, we use either a binding purchase order or other signed agreement as evidence of an arrangement. For sales over the Internet, we use a credit card authorization as evidence of an arrangement, and recognize revenue upon settlement of the transaction, if there are no customer acceptance conditions. We do not settle credit card transactions until equipment related to the transaction, if any, is shipped to a customer.

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

Collectability of Accounts Receivable

We must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, including historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. As of March 31, 2011, the accounts receivable balance was $863,000, net of an allowance for doubtful accounts of $21,000, including a reserve for disputed credits, and an estimated returns reserve of $74,000. If the financial condition of our customers deteriorates, our actual losses may exceed our estimates, and additional allowances would be required.

Valuation of Inventories

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

Income and Other Taxes

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

Significant management judgment is required to determine the valuation allowance recorded against our net deferred tax assets, which consist of net operating loss and tax credit carry forwards. We have recorded a valuation allowance of approximately $65.5 million as of March 31, 2011, due to uncertainties related to our ability to utilize most of our deferred tax assets before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable.

We have received inquiries, demands or audit requests from several states and municipal taxing and 9-1-1 agencies seeking payment of taxes that are applied to or collected from the customers of providers of traditional public switched telephone network services. We recorded no expense for the years ended March 31, 2011 and 2010 and an expense of $72,000 for the year ended March 31, 2009, respectively, as our estimate of the increase in probable tax exposure for such assessments.

Stock-Based Compensation

We account for our employee stock options *a*nd stock purchase rights granted under the 1996 Stock Plan, 1996 Director Option Plan, 1999 Nonstatutory Stock Option Plan and the 2006 Stock Plan and stock purchase rights under the 1996 Employee Stock Purchase Plan (collectively "Purchase Plans") under the provisions of ASC 718 - Stock Compensation. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant), net of estimated forfeitures. We have adopted the modified prospective transition method as provided by ASC 718 and, accordingly, financial statement amounts for the prior periods have not been restated to reflect the fair value method of expensing share-based compensation.

Stock-based compensation expense recognized in the Consolidated Statements of Operations for fiscal 2010 included both the unvested portion of stock-based awards granted prior to April 1, 2006 and stock-based awards granted subsequent to April 1, 2006. Stock options granted in periods prior to fiscal 2007 were measured based on ASC 718 (formerly SFAS No. 123) criteria, whereas stock options granted subsequent to April 1, 2006 were measured based on ASC 718 (formerly SFAS No. 123(R)) criteria. In conjunction with the adoption of ASC 718, we changed our method of attributing the value of stock-based compensation to expense from the accelerated multiple-option approach to the straight-line single option method. Compensation expense for all share- based payment awards granted subsequent to April 1, 2006 has been recognized using the straight-line single- option method. Stock-based compensation expense included in fiscal 2011 included the impact of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

To value option grants and stock purchase rights under the Purchase Plans for actual and pro forma stock-based compensation we used the Black-Scholes option valuation model. Fair value determined using the Black-Scholes option valuation model varies based on assumptions used for the expected stock prices volatility, expected life, risk free interest rates and future dividend payments. For fiscal years 2011, 2010 and 2009, we used the historical volatility of our stock over a period equal to the expected life of the options to their fair value. The expected life assumptions represent the weighted-average period stock-based awards are expecting to remain outstanding. These expected life assumptions were established through the review of historical exercise behavior of stock-based award grants with similar vesting periods. The risk free interest was based on the closing market bid yields on actively traded U.S. treasury securities in the over-the-counter market for the expected term equal to the expected term of the option. The dividend yield assumption was based on our history and expectation of future dividend payout.

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

Due to the adoption of ASC 718, some exercises result in tax deductions in excess of previously recorded benefits based on the option value at the time of grant, or windfalls. We recognize windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. Accordingly, we are not recognizing deferred tax assets for net operating loss carryforwards resulting from windfall tax benefits occurring from April 1, 2006 onward. A windfall tax benefit occurs when the actual tax benefit realized by the company upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that the company had recorded. We use the "with and without" approach as described in ASC 740, in determining the order in which our tax attributes are utilized. The "with and without" approach results in the recognition of the windfall stock option tax benefits only after all other tax attributes of ours have been considered in the annual tax accrual computation. Also, we have elected to ignore the indirect tax effects of share-based compensation deductions in computing our research and development tax and as such, we recognize the full effect of these deductions in the income statement in the period in which the taxable event occurs.

On January 27, 2009, when our stock price closed at $0.55 per share our board of directors approved the acceleration of unvested stock options to purchase 3,902,186 shares of common stock. 1,737,509 of these shares are subject to options held by our executive officers and directors. These options of our executive officers and directors, taken as a whole, have a weighted average exercise price of $1.06 per share and range from $0.63 to $1.79 per share, and a weighted average remaining vesting term of 2.85 years. Approximately $1.1 million of the $2.4 million stock-based compensation charge in the fourth quarter of 2009 applies to the options held by our executive officers and directors.

SELECTED OPERATING STATISTICS

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

	Selected Operating Statistics								
	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	March 31, 2009
Gross business customer additions (1)	3,009	2,798	2,450	2,756	2,875	2,785	2,609	2,907	2,792
Gross business customer cancellations (less cancellations within 30 days of sign-up)	1,645	1,524	1,459	1,592	1,616	1,331	1,416	1,371	1,245
Business customer churn (less cancellations within 30 days of sign-up) (2)	2.3%	2.2%	2.2%	2.5%	2.7%	2.4%	2.7%	2.7%	2.7%
Total business customers (3)	24,385	23,251	22,167	21,362	20,428	19,407	18,199	17,266	16,013
Business customer average monthly service revenue per customer (4)	$ 204	$ 209	$ 209	$ 208	$ 204	$ 204	$ 201	$ 196	$ 202
Overall service margin	78%	77%	78%	78%	77%	78%	76%	76%	71%
Overall product margin	-73%	-65%	-57%	-38%	-43%	-59%	-42%	-75%	-50%
Overall gross margin	67%	68%	68%	68%	68%	68%	67%	66%	59%
Business subscriber acquisition cost per service (5)	$ 91	$ 99	$ 108	$ 109	$ 97	$ 102	$ 90	$ 93	$ 118
Average number of services subscribed to per business customer	8.0	7.8	7.7	7.5	7.5	7.3	7.1	6.9	6.6
Business customer subscriber acquisition cost (6)	$ 725	$ 768	$ 826	$ 818	$ 723	$ 749	$ 638	$ 638	$ 785

(1) Includes 49 hosting customers acquired in the first quarter of fiscal 2011 from Central Host, Inc. ("Central Host").

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

(3) Business customers are defined as customers paying for service. Customers that are currently in the 30- day trial period are considered to be customers that are paying for service.

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

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

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

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

RESULTS OF OPERATIONS

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

REVENUES

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Service revenues	$ 64,998	$ 58,683	$ 58,486	$ 6,315	10.8%	$ 197	0.3%
Percentage of total revenues	92.6%	92.6%	90.4%				

Service revenues consist primarily of revenues attributable to the provision of our 8x8 services and royalties earned under our VoIP technology licenses. We expect that 8x8 service revenues will continue to comprise nearly all of our service revenues for the foreseeable future.

The increase in fiscal year 2011, compared with fiscal year 2010, was primarily attributable to an $11.1 million increase in 8x8 service revenues resulting from growth of our business service subscriber base and a $0.2 million increase in professional service fees. Our business service subscriber base grew from approximately 20,000 customers at the end of fiscal 2010 to approximately 24,000 customers on March 31, 2011. The increase was partially offset by a decrease of $5.0 million attributable to residential services. The decrease in service revenues from residential customers resulted from a reduction in our residential customer base. These changes are consistent with the redirection of our marketing efforts toward our business customer service. We expect the trends to continue in future periods.

The increase in fiscal year 2010, compared with fiscal year 2009, was primarily attributable to a $9.5 million increase in 8x8 service revenues resulting from the growth of our business service subscriber base. Our business service subscriber base grew from approximately 16,000 customers at the end of fiscal 2009 to approximately 20,000 customers on March 31, 2010. The increase was offset by a decrease of $9.3 million attributable to residential services. The decrease in service revenues from residential customers resulted from a reduction in our residential customer base.

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Product revenues	$ 5,165	$ 4,713	$ 6,188	$ 452	9.6%	$ (1,475)	-23.8%
Percentage of total revenues	7.4%	7.4%	9.6%				

Product revenues consist primarily of revenues from sales of IP telephones, primarily attributable to our 8x8 service.

The increase in fiscal year 2011 from fiscal year 2010 resulted from a $0.6 million increase in product revenue attributable to growth in our business customer subscriber base, for which we have been subsidizing equipment purchases. However, product revenue attributable to residential and video service declined by $0.1 million.

The decrease in product revenues in fiscal year 2010 from fiscal year 2009 resulted from a selling price reduction as we elected to increase the subsidy on IP telephone sales to business service customers and a decline in product revenue attributable to residential and videophone service customers.

No single customer represented more than 10% of our total revenues during fiscal 2011, 2010 or 2009.

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

	Years Ended March 31,		
	2011	2010	2009
United States	$ 69,455	$ 63,272	$ 64,633
Other locations	708	124	41
	$ 70,163	$ 63,396	$ 64,674

COST OF REVENUES

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Cost of service revenues	$ 14,508	$ 13,599	$ 15,714	$ 909	6.7%	$ (2,115)	-13.5%
Percentage of service revenues	22.3%	23.2%	26.9%				

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

The increase in the cost of service revenues for fiscal 2011 from fiscal 2010 was primarily due to a $0.9 million increase in payroll and related expenses, a $0.3 million increase in depreciation expenses, a $0.2 million increase in expensed computer equipment and furniture and fixtures, a $0.1 million increase in recruiting expenses, a $0.1 million increase in license and fee expenses, and a $0.1 million increase in repair and maintenance expenses. The increase in cost of service revenues was partially offset by a $0.7 reduction in the prices we pay to third party network service vendors, reduction of related accruals, as well as our use of multiple third party network provider vendors, which allows us to route call and network traffic to the third party network provider vendor with the most favorable pricing, and a $0.1 decrease in consultant and outside service expenses.

Cost of service revenues for fiscal 2010 compared with fiscal 2009 decreased $2.1 million primarily due to a reduction in the prices we pay to third party network service vendors, as well as our use of multiple third party network provider vendors. The reduction in pricing by third party network service vendors was partially offset by an increase in personnel and licenses fee costs compared with the prior fiscal year.

Service margin has improved because revenue from business customers has a higher margin than revenue from residential customers and product margins have declined due to more aggressive discounting on the telephones.

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Cost of product revenues	$ 8,115	$ 7,257	$ 7,135	$ 858	11.8%	$ 122	1.7%
Percentage of product revenues	157.1%	154.0%	115.3%				

The cost of product revenues consist of costs associated with systems, components, system manufacturing, assembly and testing performed by third party vendors, estimated warranty obligations and direct and indirect costs associated with product purchasing, scheduling, quality assurance, shipping and handling. We allocate a portion of service revenues to product revenues but these revenues are less than the cost of the product.

The increase in the cost of product revenues for fiscal 2011 from fiscal 2010 was primarily due to a $1.0 million increase in the shipment of equipment to our business customers. The increase in cost of product revenues was partially offset by a $0.1 million decrease in freight costs.

The increase in the cost of product revenues for fiscal 2010 from fiscal 2009 was primarily due to a $0.6 million increase in the shipment of equipment to our business customers. The increase in cost of product revenues was partially offset by a $0.3 million decrease in shipments of equipment to residential customers, a $0.1 million reduction in payroll and related expenses, and a $0.1 million reduction in freight costs. The cost of product revenues as a percentage of product revenues increased due to an increase in discounting of product sales by our sales force in fiscal 2010.

RESEARCH AND DEVELOPMENT EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Research and development	$ 4,819	$ 5,049	$ 5,212	$ (230)	-4.6%	$ (163)	-3.1%
Percentage of total revenues	6.9%	8.0%	8.1%				

Historically, our research and development expenses have consisted primarily of personnel, system prototype design, and equipment costs necessary for us to conduct our development and engineering efforts. We expense research and development costs, including software development costs, as they are incurred.

The decrease in research and development expenses for fiscal 2011 from fiscal 2010 was primarily attributable to the sale of our French research and development subsidiary in April 2010 offset by an increase in payroll and related expenses in the United States.

The decrease in research and development expenses for fiscal 2010 from fiscal 2009 was primarily attributable to a decrease in overall expenses partially offset by an increase in personnel and contractor headcount expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Selling, general and administrative	$ 36,477	$ 33,516	$ 39,680	$ 2,961	8.8%	$ (6,164)	-15.5%
Percentage of total revenues	52.0%	52.9%	61.4%				

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, customer service, finance, human resources and general management. Such costs also include outsourced customer service call center operations, sales commissions, as well as trade show, advertising and other marketing and promotional expenses.

The increase in selling, general and administrative expenses for fiscal 2011 from fiscal 2010 was primarily due to a $2.3 million increase in payroll and related expenses, a $0.8 million increase in advertising expenses, a $0.8 million increase in legal expenses, including a $0.6 million accrual related to the memorandum of understanding to settle a lawsuit against us, a $0.1 million increase in recruiting expenses, a $0.1 million increase in amortization of customer relationship intangible asset and a $0.1 million increase in bad debt expense. This increase was partially offset by a $0.7 million reduction in consulting and outside service expenses primarily due to reduction in third party customer service fees, reduction or conversion of temporary personnel, and reduction of outside service expense due to one time project completed in fiscal 2010, a $0.4 million reduction in indirect channel commission expenses, a $0.1 million reduction in printing expenses and a $0.1 million reduction in telephone expenses.

The decrease in selling, general and administrative expenses for fiscal 2010 from fiscal 2009 was due to a $2.3 million decrease in employee and temporary personnel costs, primarily due to a decrease in ASC 718 stock-based compensation expense as a result of accelerating the vesting period of stock options in fiscal 2009, $1.9 million decrease in advertising, public relations and other marketing and promotional expenses, a $1.7 million decrease in sales agent and retailer commissions, a $0.2 million decrease in credit card processing fees, $0.1 million decrease in travel and meal expenses, a $0.1 million decrease in telephone expenses. This decrease was partially offset by a $0.1 million increase in facility expenses.

INTEREST INCOME AND OTHER, NET

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Interest income and other, net	$ 138	$ 53	$ 298	$ 85	160.4%	$ (245)	-82.2%
Percentage of total revenues	0.2%	0.1%	0.5%				

Our interest income and other, net, primarily consists of interest and investment income earned on our cash, cash equivalents and investment balances. This item primarily consisted of capital gains distribution and interest income in fiscal 2011, 2010 and 2009.

The increase in other income for fiscal 2011 from fiscal 2010 consists primarily of an increase in capital gain distributions due on mutual funds purchased in the third quarter of fiscal 2011.

The decrease in other income for fiscal 2010 from fiscal 2009 consists primarily of a reduction in interest and investment income earned on our cash, cash equivalents and investment balances due to lower interest rates.

INCOME ON CHANGE IN FAIR VALUE OF WARRANT LIABILITY

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Income (loss) on change in fair value of warrant liability	$ 167	$ (146)	$ 314	$ 313	-214.4%	$ (460)	-146.5%
Percentage of total revenues	0.2%	-0.2%	0.5%				

In connection with the sale of shares of our common stock in fiscal 2005 and 2006, we issued warrants in three different equity financings. The change in income on change in fair value of the warrant liability for fiscal 2011 compared to fiscal 2010 is due to the partial exercise and expiration of all remaining warrants in the third quarter of fiscal 2011.

The decrease in the income from change in fair value of warrants in fiscal 2010 from fiscal 2009 occurred because the fair value of warrants and warrant liability increased due to an increase in our stock price and the expected stock price volatility, offset by a reduction in the risk free interest rate and contractual life of the warrants, which are the primary assumptions applied to the Black-Scholes model which we have used to calculate the fair value of the warrants.

PROVISION FOR INCOME TAXES

	Years Ended March 31,			Year-over-Year Change			
	2011	2010	2009	2010 to 2011		2009 to 2010	
	(dollar amounts in thousands)						
Provision for income taxes	$ 55	$ 3	$ 45	$ 52	1733.3%	$ (42)	100.0%
Percentage of total revenues	0.1%	0.0%	0.1%				

The effective tax rate for the fiscal year ended March 31, 2011 differed from the statutory federal income tax rate primarily because we utilized prior net operating losses and available tax credits while we have a valuation allowance against our deferred tax assets. Therefore, our income tax provision has consisted primarily of minimum and capital state income taxes and foreign income tax.

At March 31, 2011, we had net operating loss carryforwards for federal and state income tax purposes of approximately $153.4 million and $89.9 million, respectively, that expire at various dates beginning in 2012 and continuing through 2031. In addition, at March 31, 2011, we had research and development credit carryforwards for federal and state tax reporting purposes of approximately $1.5 million and $2.7 million, respectively. The federal credit carryforwards will begin expiring in 2021 continuing through 2031, while the California credit will carry forward indefinitely. Under the ownership change limitations of the Internal Revenue Code of 1986, as amended, the amount and benefit from the net operating losses and credit carryforwards may be impaired or limited in certain circumstances.

At March 31, 2011 and 2010, we had gross deferred tax assets of approximately $65.5 million and $68.7 million, respectively. Because of uncertainties regarding the realization of deferred tax assets, we have applied a full valuation allowance as of March 31, 2011 and 2010.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2011, we had $18.4 million of cash and cash equivalents and investments. By comparison, at March 31, 2010, we had $18.1 million in cash and cash equivalents. We currently have no borrowing arrangements.

<u>2010 to 2011</u>

Net cash provided by operating activities for fiscal 2011 was $8.6 million, compared with $2.5 million provided by operating activities for fiscal 2010. Cash used in or provided by operating activities has historically been affected by:

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

Net cash used in investing activities was $5.4 million in fiscal 2011, compared with $0.9 million used in investing activities in fiscal 2010. The increase in cash used in investing activities during fiscal 2011 is primarily related to the acquisition of investments ($2.0 million), the acquisition of Central Host in May 2010 ($1.0 million), a strategic investment in Stonyfish in April 2010 ($0.3 million) and the purchase of additional equipment ($2.1 million) related to the build-out of our new East Coast data center and growth in our data centers on the West Coast for voice and managed hosting services.

Net cash used in financing activities was $4.8 million in fiscal 2011, compared with $0.1 million provided by financing activities in fiscal 2010. Our financing activities for fiscal 2011 used cash of $7.7 million for the repurchase of shares of common stock under our share repurchase plan and $0.5 million for the buyout of employee stock options under the existing provisions of our 1996 Stock Plan and 1999 Nonstatutory Stock Option Plan. The use of cash in financing activities in fiscal 2011 was partially offset by $3.4 million in cash provided by the issuance of common stock under our Purchase Plans, the issuance of shares related to the exercise of warrants, and the issuance of restricted shares.

<u>2009 to 2010</u>

Net cash provided by operating activities for fiscal 2010 was $2.5 million, compared with $2.3 million provided by operating activities for fiscal 2009. The increase in cash flow was primarily due to a decline in third party network service expenses and a decline in stock-based compensation expense, offset partially by discounting of equipment sold to business service customers during fiscal 2010.

Net cash used in investing activities was $0.9 million in fiscal 2010, compared with $2.6 million provided by investing activities in fiscal 2009. The decrease in cash flow from investing activities during fiscal 2010 is primarily related to the investment of operating cash balances.

Our financing activities for fiscal 2010 provided cash of $0.4 million from the issuance of common stock under our Purchase Plans which was offset by $0.2 million used to repurchase shares of common stock under our share repurchase plan. Our financing activities for fiscal 2009 provided cash of $0.4 million from the issuance of common stock under the Employee Stock Purchase Plan.

Although we have achieved positive cash flows from operations in the fiscal year ended March 31, 2011, 2010 and 2009, historical net losses and negative cash flows have been funded primarily through the issuance of equity securities and borrowings. Based on our current expectations, we believe that our current cash and cash equivalents and short-term investments, together with cash expected to be generated from future operations, will be sufficient to satisfy our expected working capital and capital expenditure requirements for the next 12 months. Nevertheless, our future capital requirements will depend on many factors, including the amount of revenue we generate, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new services or products, the costs to ensure access to our telecommunications services, the continuing market acceptance of our service and products, the amount of future share repurchase programs, and the extent to which we use our cash to acquire other businesses. However, if we do not meet our plan, we could be required, or might elect, to seek additional funding through public or private equity or debt financing and additional funds may not be available on terms acceptable to us at all. We also might decide to raise additional capital at such times and upon such terms as management considers favorable and in our interests, but we cannot be assured that our capital-raising efforts will be successful.

Contractual Obligations

Future operating lease payments, capital lease payments and purchase obligations at March 31, 2011 for the next five years were as follows (in thousands):

	Year Ending March 31,					
	2012	**2013**	**2014**	**2015**	**2016**	**Total**
Capital leases	$ 40	$ 7	$ -	$ -	$ -	$ 47
Office leases	657	284	-	-	-	941
Purchase obligations						
Third party customer support provider	2,158	-	-	-	-	2,158
Third party network service providers	541	23	-	-	-	564
Open purchase orders	48	-	-	-	-	48
	$ 3,444	$ 319	$ -	$ -	$ -	$ 3,758

In March 2007 and August 2009, we entered into a series of noncancelable capital lease agreements for office equipment bearing interest at various rates. Assets under capital lease at March 31, 2011 totaled $156,000 with accumulated amortization of $114,000.

On May 1, 2009, we entered into a three-year lease for a new headquarters facility in Sunnyvale, California that expires in fiscal 2013. The facility leases include rent escalation clauses and require us to pay utilities and normal maintenance costs. Rent expense is reflected in our consolidated financial statements on a straight-line basis over the term of the leases.

In the third quarter of 2010, we amended our contract with one of our third party customer support vendors containing a minimum monthly commitment of approximately $430,000. The agreement requires a 150-day notice to terminate. At March 31, 2011, the total remaining obligation under the contract was $2.2 million.

We entered into contracts with multiple vendors for third party network service providers which expire on various dates in fiscal 2012 and 2013. At March 31, 2011, the total remaining obligations under these contracts were $0.6 million.

At March 31, 2011, we had open purchase orders of $48,000, primarily related to inventory purchases from our contract manufacturers. These purchase commitments are reflected in our consolidated financial statements once goods or services have been received or at such time when we are obligated to make payments related to these goods or services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

During the years ended March 31, 2011 and 2010, we did not have any outstanding debt instruments other than equipment under capital leases and, therefore, we were not exposed to market risk relating to interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Schedules other than the one listed above have been omitted because they are inapplicable, because the required information has been included in the financial statements or notes thereto, or the amounts are immaterial.

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Consolidated Quarterly Financial Data

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of 8x8, Inc.

We have audited the accompanying consolidated balance sheets of 8x8, Inc. (the Company) as of March 31, 2011 and 2010 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2011. Our audit also included the financial statement Schedule II- Valuation and Qualifying Accounts. We also have audited the Company's internal control over financial reporting as of March 31, 2011, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in management's report on internal control over financial reporting appearing under Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of 8x8, Inc. and consolidated subsidiaries, as of March, 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement Schedule II, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also in our opinion, 8x8, Inc., maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated*

Framework.

/s/ Moss Adams LLP

San Francisco, California
May 20, 2011

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

	March 31, 2011	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,474	$ 18,056
Short-term investments	1,927	-
Accounts receivable, net of allowance of $21 and $36	863	554
Inventory	2,105	2,174
Deferred cost of goods sold	123	107
Other current assets	584	558
Total current assets	22,076	21,449
Property and equipment, net	2,398	1,871
Intangible assets, net	214	-
Goodwill	1,210	-
Other assets	686	392
Total assets	$ 26,584	$ 23,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,551	$ 3,780
Accrued compensation	1,722	1,444
Accrued warranty	362	331
Accrued taxes	1,828	1,804
Deferred revenue	835	1,310
Other accrued liabilities	1,386	1,465
Total current liabilities	10,684	10,134
Non-current liabilities	39	111
Fair value of warrant liability	-	167
Total liabilities	10,723	10,412
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.001 par value:		
Authorized: 5,000,000 shares;		
Issued and outstanding: no shares at March 31, 2011 and at March 31, 2010	-	-
Common stock, $0.001 par value:		
Authorized: 100,000,000 shares at March 31, 2011 and March 31, 2010;		
Issued and outstanding: 62,379,030 shares at March 31, 2011 and 63,172,536 shares at March 31, 2010	62	63
Additional paid-in capital	208,218	212,077
Accumulated other comprehensive loss	(73)	-
Accumulated deficit	(192,346)	(198,840)

Total stockholders' equity	15,861	13,300
Total liabilities and stockholders' equity	$ 26,584	$ 23,712

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

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

	Years Ended March 31,		
	2011	**2010**	**2009**
Service revenues	$ 64,998	$ 58,683	$ 58,486
Product revenues	5,165	4,713	6,188
Total revenues	70,163	63,396	64,674
Operating expenses:			
Cost of service revenues	14,508	13,599	15,714
Cost of product revenues	8,115	7,257	7,135
Research and development	4,819	5,049	5,212
Selling, general and administrative	36,477	33,516	39,680
Total operating expenses	63,919	59,421	67,741
Incone (loss) from operations	6,244	3,975	(3,067)
Other income, net	138	53	298
Income (loss) on change in fair value of warrant liability	167	(146)	314
Income (loss) before provision for income taxes	6,549	3,882	(2,455)
Provision for income taxes	55	3	45
Net income (loss)	$ 6,494	$ 3,879	$ (2,500)
Net income (loss) per share:			
Basic	$ 0.10	$ 0.06	$ (0.04)
Diluted	$ 0.10	$ 0.06	$ (0.04)
Weighted average number of shares:			
Basic	63,087	62,861	62,317
Diluted	65,873	63,262	62,317

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

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

	Common Stock		Additional Paid-in Capital	Accumulated other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance at March 31, 2008	62,067,269	$ 62	$ 208,001	$ 5	$ (200,219)	$ 7,849
Issuance of common stock under stock plans	513,770	1	317	-	-	318
Issuance of common stock on exercise of warrant	105,000	-	73	-	-	73
Stock compensation charge	-	-	3,295	-	-	3,295
Unrealized investment loss	-	-	-	(5)	-	
Net loss	-	-	-	-	(2,500)	
Total comprehensive loss	-	-	-	-	-	(2,505)
Balance at March 31, 2009	62,686,039	63	211,686	-	(202,719)	9,030
Issuance of common stock under stock plans	768,873	-	399	-	-	399
Repurchase of common stock	(282,376)	-	(212)	-	-	(212)
Stock compensation charge	-	-	204	-	-	204
Net income	-	-	-	-	3,879	
Total comprehensive income	-	-	-	-	-	3,879
Balance at March 31, 2010	63,172,536	63	212,077	-	(198,840)	13,300
Issuance of common stock under stock plans	1,869,546	2	2,272	-	-	2,274
Issuance of common stock on exercise of warrant	293,281	-	880			880
Issuance of common stock for						-
acquisition of Central Host, Inc.	432,276	-	600			600
Issuance of restricted common stock	200,000	-	278			278
Repurchase of common stock	(3,588,609)	(3)	(7,808)	-	-	(7,811)
Buyback of employee stock options	-	-	(539)			(539)
Stock compensation charge	-	-	458	-	-	458
Unrealized investment loss	-	-	-	(73)		
Net income	-	-	-	-	6,494	
Total comprehensive income	-	-	-	-	-	6,421
Balance at March 31, 2011	62,379,030	$ 62	$ 208,218	$ (73)	$ (192,346)	$ 15,861

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

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

	Years Ended March 31,		
	2011	**2010**	**2009**
Cash flows from operating activities:			
Net income (loss)	$ 6,494	$ 3,879	$ (2,500)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,329	998	1,269
Stock compensation expense	458	204	3,295
Loss (Income) on change in fair value of warrant liability	(167)	146	(314)
Amortization of discount and premium on marketable securities	-	-	(8)
Change in inventory reserve	40	(422)	598
Change in doubtful accounts receivable	49	113	361
(Gain)/loss on disposal of fixed assets	(5)	3	159
Changes in assets and liabilities:			
Accounts receivable, net	(358)	(253)	1,032
Inventory	29	545	(1,356)
Other current and noncurrent assets	75	41	(406)
Deferred cost of goods sold	(16)	86	750
Accounts payable	916	(1,323)	(177)
Accrued compensation	278	180	216
Accrued warranty	31	3	14
Accrued taxes	24	27	(1,119)
Deferred revenue	(475)	(944)	(885)
Other current and noncurrent liabilities	(113)	(792)	1,325
Net cash provided by operating activities	8,589	2,491	2,254
Cash flows from investing activities:			
Acquisitions of property and equipment	(2,057)	(1,052)	(801)
Restricted cash decrease	-	100	-
Purchase of investments	(2,000)	-	-
Purchase of strategic investment	(315)	-	-
Acquisition of Central Host, Inc., net of cash acquired	(998)	-	-
Proceeds from the sale of property and equipment	6	4	-
Maturities of short-term investments	-	-	3,385
Net cash provided by (used in) investing activities	(5,364)	(948)	2,584
Cash flows from financing activities:			
Capital lease payments	(38)	(50)	(38)
Repurchase of common stock	(7,662)	(212)	-
Buyback of employee stock options	(539)	-	-
Proceeds from exercise of warrants	880	-	-
Proceeds from issuance of common stock	278	-	-
Proceeds from issuance of common stock under employee stock plans	2,274		