

A **proxy power** report

Report on the Proxy Statement (Schedule 14A) of

8x8, Inc.
(NASDAQ: EIGHT)

Proxy Statement dated: July 1, 2013

For the annual meeting on: July 25, 2013

For holders as of: June 12, 2013

Summary

Voting Items (Board recommendation)

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recommendation

1. Election of Directors

1a. Guy L. Hecker, Jr. (For)

For

1b. Bryan R. Martin (For)

Against

1c. Mansour Salame (For)

For

1d. Eric Salzman (For)

For

1e. Vikram Verma (For)

For

2. Proposal to Ratify the
Appointment of Moss Adams LLP
as the Company's Independent
Registered Public Accounting Firm
for the Fiscal Year Ending March
31, 2014 (For)

For

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Objective Criteria.

Overview

8x8, Inc. (“8x8”) is a telecommunications company offering telephone and video conferencing services using Voice-over-Internet Protocol (VoIP) technology through the cloud, i.e., through 8x8’s computers rather than through its customers’ computers.¹ Its services are targeted at small and medium sized businesses,² and it has 32,500 customers.³ One service 8x8 offers is “unified” communications, meaning 8x8 provides its customers’ combined telephone, conferencing and internet fax functions.⁴ Synergy Research Group recently called 8x8 the “clear leader” in firms selling unified communications as a service (UCAAS).⁵

8x8 was founded in 1987 and went public in 1997,⁶ taking advantage of the dot-com boom. Like many other technology companies, 8x8’s stock price rocketed in 1999-2000, rising from \$4.375 in November 1999 to \$30.13 in February 2000, a climb of almost 600 % in three months. In equally spectacular fashion, the price

¹ 8x8 2013 10-K, pp. 1-2.

² 8x8 2013 10-K, p. 4.

³ 8x8 2013 10-K, p. 1.

⁴ 8x8 2013 10-K, p. 4. 8x8’s financial statements do not report its results from sales of unified communications services separately.

⁵ Channel Partners Telecom, “UCAAS Gains Steam With 8X8 Leading the Way,” June 27, 2013, available at <http://www.channelpartneronline.com/news/2013/06/ucaas-gains-steam-with-8x8-leading-the-way.aspx>.

⁶ 8x8 2013 10-K, p. 28.

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Objective Criteria.

Overview (continued)

crashed to 70 cents by April 2001.⁷ But unlike some of its peers, 8x8 survived, although its stock price has not seen the north side of \$10 since Bill Clinton was president. Recent positive performance has pushed the price back up to \$8.97 as of this writing,⁸ about 28 % higher than its March 31 fiscal year close of \$6.85.

In 2011, 8x8 acquired Contactual, Inc., a cloud-based call-center and customer interaction company, in an all-stock transaction worth \$31.8 million.⁹ 2011 also saw 8x8's acquisition of another company in a combined cash and stock deal of less than \$2 million.¹⁰ 8x8 has not disclosed any acquisitions since then.

Bottom line year-to-year comparisons of income are a bit deceptive, because 90% of 8x8's 2012 net income was a non-cash tax benefit,¹¹ making 2012 looking like a much better year than 2013 at first glance (0.99 2012 EPS versus 0.19 for 2013). But on an operational basis, 2013 was much better than 2012: cash from operations in 2013 was more than triple that of 2012.¹²

⁷ Stock price data from Yahoo! Finance.

⁸ July 16, 2013.

⁹ 8x8 2013 10-K, p. 1.

¹⁰ The name of the company acquired was Zerigo, Inc. 8x8 2013 10-K, p. 67.

¹¹ \$62 million out of \$69 million.

¹² \$32 million in 2013; \$9 million in 2012. On a per share basis, cash from continuing operations was 0.43 in 2013 and 0.13 in 2012.

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Objective Criteria.

Overview (continued)

A three-year interval for say-on-pay votes was instituted in 2011, so there is no say-on-pay vote this year.¹³ There are no stockholder proposals on the ballot.

Fund giant BlackRock, Inc. and hedge fund Archon Capital Management own 5.4% and 5.1% of 8x8's outstanding shares, respectively.¹⁴ No one else is listed as owning more than 5 %.

Company Snapshot¹⁵

Sector:	Technology	Diluted EPS:	\$0.19
SIC:	4813 (Telephone communications)	Cash flow from operations/share:	\$0.43
CEO:	Bryan R. Martin	P/E:	47
Since:	2003	Dividend:	None
Chairman?	Yes	Yield:	N/A
Succeeded:	Paul Voois	2013 return on equity:	11.8%
Market cap: ¹⁶	\$ 647 million	Three year avg. return on equity:	234 %
Net income:	\$ 13.9 million	2013 return on assets:	10.7 %
Share Price:	\$ 8.97	Three year avg. return on assets:	62.7 %
Employees:	357	Liabilities/equity:	0.11

¹³ July 1, 2013 Proxy Statement, p. 13.

¹⁴ July 1, 2013 Proxy Statement, p. 25.

¹⁵ Information is from or derived from 2013 10-K (FYE 3/31/2013) unless otherwise specified.

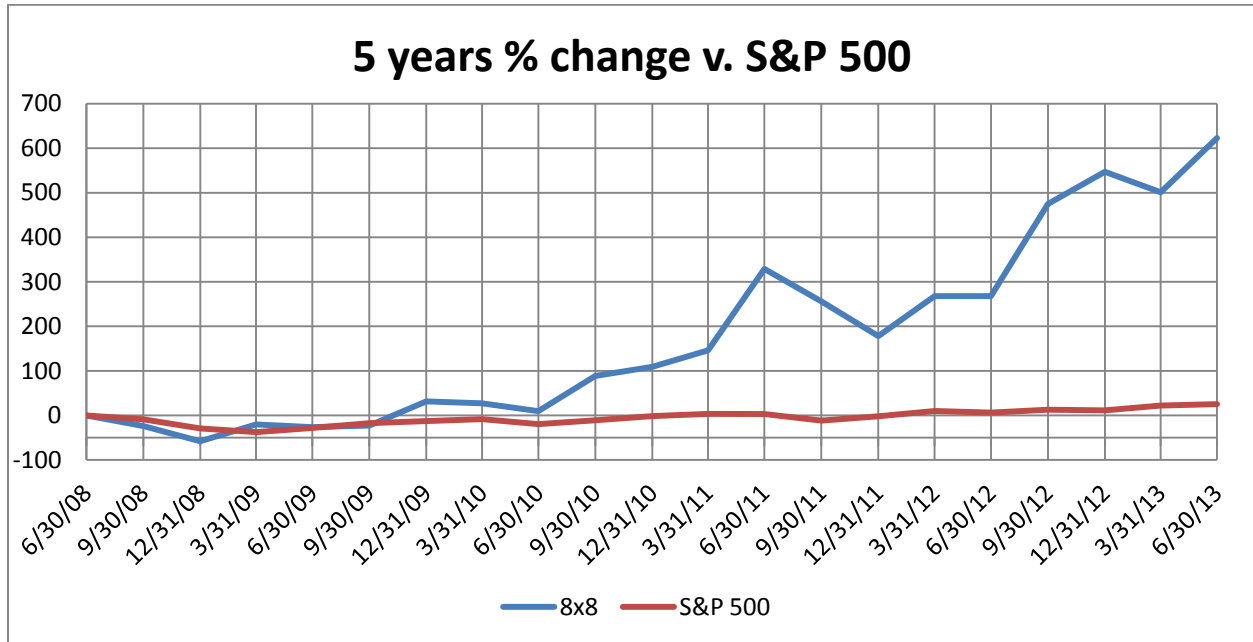
¹⁶ Market cap, share price, and P/E are from Yahoo! Finance as of July 16.

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Objective Criteria.

Overview (continued)

Share price performance



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Objective Criteria.

1. Election of Directors

1a. Guy L. Hecker, Jr.

proxypower recommendation: For

Guy Hecker is a retired Air Force Major General (two star) and is the “lead” outside director. He has been a director since 8x8 went public in 1997. Now 81, General Hecker retired from the Air Force in 1982 and has been a consultant since.¹⁷ According to his Air Force biography, General Hecker flew many combat missions in Vietnam and has a distinguished record both as a pilot and in administrative positions.¹⁸ His election is uncontested.

Not only is General Hecker the longest serving board member by far, he also owns more 8x8 shares than any other individual (although fellow board member Mansour Salame is a close second).¹⁹ His more than one million shares,²⁰ valued at almost \$8 million, easily put him over our threshold of \$60,000 for non-S&P

¹⁷ July 1, 2013 Proxy Statement, p. 5.

¹⁸ See <http://www.af.mil/information/bios/bio.asp?bioID=5754>.

¹⁹ July 1, 2013 Proxy Statement, p. 5.

²⁰ 1,015,185 shares as of June 12. July 1, 2013 Proxy Statement, p. 24. 8x8 closed at \$7.76 on that date. $1,015,185 \times \$7.76 = \$7,877,835.60$.

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Objective Criteria.

1a. Guy L. Hecker, Jr. (continued)

500 companies (criterion 2B). Having nothing that would otherwise disqualify him, we recommend voting “For.”

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Objective Criteria.

1. Election of Directors (continued)

1b. Bryan R. Martin

proxypower recommendation: Against

Mr. Martin has been Chairman since 2003 and CEO since 2002, when he was 34 years old, so we use criterion 2A. He has spent about half his life with his company; he has 22 years of service and is now 45.²¹ This means his employment tenure dates back to before 8x8 went public in 1997.

8x8 has never paid a dividend and has “no plans to do so in the foreseeable future.”²² 8x8 has a deficit rather than retained earnings, meaning its cumulative net losses exceed its cumulative net income.²³ So its past failure to pay dividends is understandable. But its year-end cash is three times its total liabilities (not just current liabilities).²⁴ Its failure to pay a dividend is enough to justify an “Against” recommendation for Mr. Martin. 8x8 should institute a dividend.

In examining 8x8’s financial performance under Mr. Martin, we exclude the fiscal years ending March 2002 through 2005 because he became CEO in February

²¹ July 1, 2013 Proxy Statement, p. 5.

²² 8x8 2013 10-K, p. 28.

²³ 8x8 2013 10-K, p. 42 (balance sheet).

²⁴ Cash of \$50.3 million; liabilities of \$15.6 million. 8x8 2013 10-K, p. 42 (balance sheet).

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Objective Criteria.

1b. Bryan R. Martin (continued)

2002 (criterion 2A). 8x8's option-adjusted return on equity (ROE) for the years

2006-2013 can be calculated as follows:

	2013	2012	2011	2010
Earnings ²⁵	13,939	69,228	6,494	3,879
Year-earlier equity	118,450	15,861	13,300	9,030
ROE (unadjusted)	11.8%	536%	48.8%	43.0%
Options exercised	835 ²⁶	1,645	1,205	196 ²⁷
Weighted average exercise price of options	1.49	1.35	1.48	0.73
Average share price ²⁸	5.21	3.50	1.81	0.86
Gross option cost ²⁹	3,106	3,537	398	25
Reported option cost	2,634	1,506	458	204
Adjusted option cost ³⁰	472	2,031	(60)	(179)
Options-adjusted earnings ³¹	13,467	67,197	6,554	4,058
Option-adjusted ROE	11.4%	527%	49.3%	44.9%

²⁵ 8x8 2013 10-K, p. 28. Amounts are in thousands except for per-share and ROE.

²⁶ 2011-2013 options exercised and weighted-average exercise price are from 8x8 2013 10-K, p. 64. 2011-2013 reported option cost from 8x8 2013 10-K, p. 46 (cash flow statement).

²⁷ 2008-2010 options exercised and weighted-average exercise price are from 8x8 2010 10-K, p. 62. 2008-2010 reported option cost from 8x8 2010 10-K, p. 46 (cash flow statement).

²⁸ Derived from information on Yahoo! Finance.

²⁹ Options exercised x (average share price – weighted average exercise price)

³⁰ Gross option cost – reported option cost

³¹ Earnings – adjusted option cost

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Objective Criteria.

1b. Bryan R. Martin (continued)

	2009	2008	2007	2006
Earnings (loss) ³²	(2,500)	30	(9,930)	(23,253)
Year-earlier equity	7,849	5,377	12,970	24,907
ROE (unadjusted)	-31.9%	0.6%	-76.6%	-93.4%
Options exercised	89	22	384 ³³	60
Weighted average exercise price of options	0.37	0.90	0.90	1.41
Average share price	0.91	1.31	1.46	2.21
Gross option cost	48	9	215	48
Reported option cost	3,295	1,272	1,810	204
Adjusted option cost	(3,247)	(1,263)	(1,595)	(156)
Options-adjusted earnings	747	1,293	(8,335)	(23,097)
Option-adjusted ROE	9.5%	24.0%	-64.2%	-92.7%

We calculate cost of capital as the risk-free interest rate + (beta x equity risk premium). For the last eight years of Mr. Martin's tenure, 8x8's cost of capital has been:

³² 8x8 2009 10-K, p. 30. Amounts are in thousands except for per-share and ROE.

³³ 2006-2007 options exercised and weighted-average exercise price are from 8x8 2007 10-K, p. 67. 2008-2010 reported option cost from 8x8 2007 10-K, p. 47 (cash flow statement).

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Objective Criteria.

1b. Bryan R. Martin (continued)

2013:	³⁴	$1.80 + (1.23 \times 4.2) = 7.0$
2012:		$2.78 + (1.23 \times 4.1) = 7.8$
2011:		$3.22 + (1.23 \times 4.31) = 8.5$
2010:		$3.22 + (1.23 \times 4.29) = 8.5$
2009:		$3.26 + (1.23 \times 3.88) = 8.0$
2008:		$4.63 + (1.23 \times 4.79) = 10.5$
2007:		$4.80 + (1.23 \times 4.91) = 10.8$
2006:		$4.29 + (1.23 \times 4.8) = 10.2$

The comparison of option-adjusted return on equity to cost of capital and calculation of economic profit is as follows:

	Adjusted ROE	Cost of capital	+/-	Year earlier equity	Economic Profit (loss) ³⁵
2006	-92.7%	10.2%	-82.5%	24,907	(20,548)
2007	-64.2%	10.8%	-53.4%	12,970	(6,926)
2008	24.0%	10.5%	13.5%	5,377	726
2009	9.5%	8.0%	1.5%	7,849	118
2010	44.9%	8.5%	36.4%	9,030	3,287
2011	49.3%	8.5%	40.8%	13,300	5,426
2012	527%	7.8%	519%	15,861	82,319
2013	11.4%	7.0%	4.4%	118,450	5,212
Total					69,614

³⁴ Data are from year-end of the previous calendar year.

³⁵ Economic profit = equity x (adjusted ROE – cost of capital).

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Objective Criteria.

1b. Bryan R. Martin (continued)

Mr. Martin has achieved economic profit during his tenure as a veteran CEO, although without 2012's non-cash tax benefit, it would have been a loss. Nevertheless, Mr. Martin deserves credit for perseverance and turning the company profitable.

Perhaps even more, the Board, and especially General Hecker, deserves credit for picking Mr. Martin as CEO in 2003 when memories of the bursting of the dot-com bubble were still fresh, and for sticking with Mr. Martin through some lean years.

Mr. Martin's performance as CEO has been good but not spectacular. He would get a "For" vote, but 8x8's refusal to consider a dividend means we recommend "Against."

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Objective Criteria.

1. Election of Directors (continued)

1c. Mansour Salame

proxypower recommendation: For

Mr. Salame is neither Chairman nor CEO and is evaluated according to criterion 2B. His election is uncontested. He serves on the compensation, nominating and strategy committees.³⁶

As of June 12, 2013, Mr. Salame owned 967,141 shares of 8x8 stock,³⁷ worth about \$7.5 million. His share holdings are second only to General Hecker's. Presumably most if not all of Mr. Salame's shares came from 8x8's purchase of Contactual, Inc., of which Mr. Salame was the founder,³⁸ for 6,484,900 shares of 8x8 stock.³⁹

Mr. Salame has been a net seller of 8x8 stock since last year, when he owned 1,633,154 shares and was 8x8's largest shareholder.⁴⁰ Mr. Salame would have been better off had he held on, since the shares have more than doubled since

³⁶ July 1, 2013 Proxy Statement, p. 5.

³⁷ July 1, 2013 Proxy Statement, p. 24. $967,141 \times \$7.76 = \$7,505,014.10$.

³⁸ July 1, 2013 Proxy Statement, p. 6. The 10-K refers to Contactual "stockholders" (plural), so presumably Mr. Salame was not the only Contactual stockholder at the time of 8x8's purchase. 8x8 2013 10-K, p. 1.

³⁹ 8x8 2013 10-K, p. 1.

⁴⁰ July 2, 2012 Proxy Statement, p. 32.

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Objective Criteria.

1c. Mansour Salame (continued)

then.⁴¹ But we have nothing against cashing out. And it speaks well of 8x8's performance and liquidity that its stock price didn't suffer when Mr. Salame sold.

Despite Mr. Salame's recent selling, his substantial holding in 8x8 well exceeds our \$60,000 minimum. He has more than enough "skin in the game" to have incentive to act in 8x8's best interest. We recommend voting "For."

⁴¹ 8x8 closed at 4.21 on July 2, 2012, according to Yahoo! Finance.

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Objective Criteria.

1. Election of Directors (continued)

1d. Eric Salzman

proxypower recommendation: For

Mr. Salzman is neither Chairman nor CEO and is evaluated according to criterion 2B. His election is uncontested. He serves on all the committees of the board: audit, compensation, nominating and strategy.⁴²

Mr. Salzman served briefly on the board of Shoretel, Inc., a competitor of 8x8, from February to July 2011.⁴³

As of June 24, Mr. Salzman owned 26,562 8x8 shares,⁴⁴ worth about \$200,000. Although this is the least of any board member, it still easily satisfies our \$60,000 requirement.

⁴² July 1, 2013 Proxy Statement, p. 5.

⁴³ Shoretel, Inc. 14A. Oct. 12, 2011, p. 14.

⁴⁴ July 1, 2013 Proxy Statement, p. 24. $26,562 \times \$7.76 = \$206,121.12$.

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Objective Criteria.

1. Election of Directors (continued)

1e. Vikram Verma

proxypower recommendation: For

Mr. Verma is neither Chairman nor CEO and is evaluated according to criterion 2B. His election is uncontested. He serves on the audit and compensation committees.⁴⁵

Mr. Verma was CEO of a tech company that was bought by Lockheed Martin in 2006.⁴⁶ According to press reports at the time, Mr. Verma was co-founder of the company and Lockheed paid \$400 million,⁴⁷ so Mr. Verma is likely sitting pretty (although there were outside investors). It was not a public company, so it has no bearing on our recommendation (criterion 2B).

As of June 24, Mr. Verma owned 28,125 8x8 shares, second fewest among board members.⁴⁸ But it still easily satisfies our \$60,000 requirement. We recommend a “For” vote.

⁴⁵ July 1, 2013 Proxy Statement, p. 5.

⁴⁶ July 1, 2013 Proxy Statement, p. 6.

⁴⁷ See http://www.forbes.com/2007/06/13/lockheed-savi-rfid-biz-beltway-cx_ag_0613beltway.html.

⁴⁸ July 1, 2013 Proxy Statement, p. 24. 28,125 x \$7.76 = \$218,250.

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Objective Criteria.

2. Proposal to Ratify the Appointment of Moss Adams LLP as the Company's Independent Registered Public Accounting Firm for the Fiscal Year Ending March 31, 2014

proxypower recommendation: For

Management recommends that shareholders ratify its choice of Moss Adams LLP as 8x8's CPAs.⁴⁹ There have been no restatements over the last three years, so we recommend a "For" vote (criterion 3A).

⁴⁹ July 1, 2013 Proxy Statement, p. 7.

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Objective Criteria.