

8X8 INC /DE/

FORM 10-K (Annual Report)

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

FORM 10-K

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

For the fiscal year ended March 31, 2016

Commission file number 000-21783



8x8, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

77-0142404

(I.R.S. Employer Identification Number)

2125 O'Nel Drive

San Jose, CA 95131

(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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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

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

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 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.

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 Non-accelerated filer Smaller reporting company
(Do not check if a 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

Based on the closing sale price of the Registrant's common stock on the NASDAQ Capital Market System on September 30, 2015, the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$715,364,941. For purposes of this disclosure, shares of common stock held by officers and directors of the Registrant and beneficial owners of more than 5% of the outstanding shares of common stock who the Registrant believes may be affiliates, if any, have

been excluded as shares that might be deemed to be held by 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 27, 2016 was 89,370,746.

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, 2016 for the 2016 Annual Meeting of Stockholders.

8X8, INC.

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PART I

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 and those projected in any such forward-looking statements depending on a variety of factors. These factors include, but are not limited to-

- market acceptance of new or existing services and features,
- success of our efforts to target mid-market and larger distributed enterprises,
- changes in the competitive dynamics of the markets in which we compete,
- customer cancellations and rate of churn,
- impact of current economic climate and adverse credit markets on our target customers,
- our ability to scale our business,
- our reliance on infrastructure of third-party network services providers,
- risk of failure in our physical infrastructure,
- risk of failure of our software,
- our ability to maintain the compatibility of our software with third-party applications and mobile platforms,
- continued compliance with industry standards and regulatory requirements in the United States and foreign countries in which we make our software solutions available,
- risks relating to our strategies and objectives for future operations, including the execution of integration plans and realization of the expected benefits of our acquisitions,
- the amount and timing of costs associated with recruiting, training and integrating new employees,
- introduction and adoption of our cloud software solutions in markets outside of the United States, and
- general economic conditions that could adversely affect our business and operating results.

The forward-looking statements may also be impacted by the additional risks faced by us as described in this Annual 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 ended March 31 of the calendar year indicated (for example, fiscal 2016 refers to the fiscal year ended March 31, 2016). Unless the context requires otherwise, references to "we," "us," "our," "8x8" and the "Company" refer to 8x8, Inc. and its consolidated subsidiaries.

ITEM 1. BUSINESS

Overview

8x8 provides cloud-based, enterprise-class software solutions that transform the way businesses communicate and collaborate globally. Delivered through a SaaS (Software as a Service) business model, our solutions are at the forefront of a disruptive technology shift that is occurring in business communications where enterprises are increasingly replacing costly and unwieldy on-premises communications equipment with agile, cloud-based software services delivered over the public Internet.

Cloud computing has fundamentally changed the way enterprise software applications are developed and deployed. Organizations no longer need to buy and maintain their own infrastructure of servers, storage and tools in order to run core business applications. Instead, companies can gain access to a variety of business applications via an Internet browser or mobile device on an as-needed basis, without the cost and complexity of managing the hardware or software in-house.

8x8's comprehensive software platform brings together the power of cloud, mobile, collaboration, video and data science technologies to enhance the way employees communicate with each other, and how they connect and interact with their customers. Our integrated, "pure-cloud" offering combines global voice, conferencing, messaging and video with integrated workflows and big data analytics on a single platform to enable increased team productivity, better customer engagement and real-time insights into business performance. Through a combination of open API's (application program interface) and pre-built integrations, 8x8 solutions seamlessly leverage critical customer context from internal data systems and industry-leading Customer Relationship Management (CRM) systems, including cloud-based solutions from Salesforce.com, NetSuite, and Zendesk.

Powered by internally owned and managed technologies, 8x8's offerings are uniquely positioned to serve businesses of all sizes and can easily scale to large, globally distributed enterprise customers. Our turnkey solution spans the breadth of communications and collaboration needs, is provided with industry-leading reliability at an affordable cost and is quick and easy-to deploy through our proprietary deployment methodology. This allows customers to focus on their business instead of managing the complexities of disparate communications and collaboration platforms and the integration of these platforms with other cloud-based business applications.

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 also can 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.

Our Industry

Businesses today are facing increasing cost and complexity with deployments of communications and collaboration solutions. Companies of all sizes are managing a mobile and globally distributed workforce that seeks to leverage multiple forms of communication, including voice, text, video and desktop, in their day-to-day interactions. The rapid rise of mobile devices in the enterprise has created demand for "bring your own device," or BYOD, provisioning capabilities. Additionally, companies are looking to increase their competitive edge by integrating ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), and HCM (Human Capital Management) applications and other back-office information technology (IT) systems within their communications infrastructure.

The on-premises communications systems traditionally offered by legacy hardware vendors have numerous shortcomings that make them poorly suited for today's dynamic business environments. In addition to being difficult to deploy and expensive to maintain in multiple locations for a globally distributed workforce, these solutions may not provide the mobility, resiliency and business continuity capabilities required by customers. BYOD demands from employees further complicate the delivery of a company-wide communication system. The result is a patchwork communications system with security risks that stretch across the organization. Security compliance in this environment is extremely difficult, and information distributed across multiple systems increases administrative complexity and decreases business intelligence visibility.

Because of these inadequacies and security risks, more and more businesses are demanding enterprise-class cloud solutions like ours, which deliver secure, global, high-quality communications with built-in disaster recovery. Our service offerings are intuitive and easy-to-use, can be deployed rapidly, customized easily and integrated with other platforms and enterprise applications. We deliver our software as a service via all major Internet browsers and on leading mobile devices. Virtually all of our customers do not require any dedicated equipment, employees or carriers to use our services - only Internet connectivity and a subscription to the 8x8 service are required at the customer location.

Cloud Market Opportunity

We believe that the addressable market for our cloud communications and collaboration services is large, growing and underpenetrated. For example, we believe that the following forecasts, recently published by industry research firms may provide relevant data about the size of the markets addressed by our Virtual Office, Virtual Contact Center and Virtual Office Meetings solutions:

Frost & Sullivan estimates North American spending on cloud communications and collaboration services will increase at a compound annual growth rate, or CAGR, of 29% to \$14 billion in 2021. (Frost & Sullivan "Analysis of the North American Hosted IP Telephony and UCC Services Market," July 2015).

According to Transparency Market Research, the global unified communications as a service market is poised for staggering growth, and will be worth US\$37.85 billion by 2022. The market will expand at a CAGR of 23.4% between 2014 and 2022. (Transparency Market Research "Unified Communication as a Service Market - Global Industry Analysis, Size, Share, Growth, Trends and Forecast 2014 - 2022," July 2015).

MarketsandMarkets forecasts that the global cloud-based contact center market is expected to grow from \$4.68 billion in 2015 to \$14.71 billion by 2020, at a Compound Annual Growth Rate (CAGR) of 25.7% during the forecast period. (MarketsandMarkets "Cloud Based Contact Center Market - Global Forecast to 2020," November 2015).

IDC forecasts the content collaboration software market to grow to a total of \$6.2 billion by 2019, representing a 13.4% CAGR for the 2014-2019 period. (IDC "Worldwide Content Collaboration Software Forecast," December 2015).

The 8x8 Approach

- ***Seamless Communications over an Integrated Software Platform*** . We believe that seamless, continuous communications drives more effective employee and customer engagement and greater business productivity. To that end, 8x8's solutions have been designed to allow users to communicate and collaborate with others in an integrated and fluid manner. For example, a user who initiates a voice call on a desk phone and then needs to leave the office can seamlessly transfer the call to a mobile device without the person they are communicating with being aware that the user is no longer at his/her desk.
- ***Single Vendor for All Communication Software*** . Increasingly, customers are seeking multiple solutions from a single vendor, especially in our rapidly growing enterprise customer segment, to further simplify the deployment and management of their communications infrastructure. Our cloud software solutions encompass all of the primary communications capabilities required by businesses - voice, video, presence, chat, conferencing, collaboration, contact center and analytics - providing multiple buying paths and usage scenarios for our customers.
- ***Focus on Customer Communication*** . Many businesses are faced with customer communication challenges due to gaps in internal employee communication, poor internal collaboration, and little or no contextual data available at the time of customer contact. To help companies communicate better with their customers, our solutions link customer information with internal collaboration capabilities to provide synchronized customer engagement from the moment of contact with any individual role within the company's sales, support and other customer-facing organizations.

- **Big Data and Analytics** . We believe that transparency into communication provides businesses the information they need to optimize customer communication. For that reason we released a series of analytic tools in the 2016 calendar year that give businesses visibility into employee communications in the contact center and the enterprise. Mining and analyzing "big data" related to communication optimization is a pioneering area in which we are investing.
- **Rapid Deployment** . Business flexibility in the global, modern economy is a competitive necessity, and we embrace the notion that communication services should be deployable as quickly as possible. Our services can be provisioned in minutes, on-the-fly, from web-based administrative tools. We have automated our provisioning, billing and other systems to enable rapid customer deployment and maximum flexibility.
- **Global Reach** ® . We provide service today via Global Reach® to 114 countries. Our nine data centers help us achieve, low voice latency and superior quality and reliability in all these countries. We currently maintain data center operations in five dispersed regions of the world - United States, Canada, United Kingdom, Hong Kong and Australia.
- **Committed Service Quality over the Public Internet** . We offer qualifying customers an end-to-end service level agreement (SLA) with commitments regarding service availability and voice quality for calls transmitted over the public Internet. This SLA provides for at least 99.99% uptime and a voice-quality mean opinion score (MOS) of 3.0 or higher for at least 98% of all calls carried over the network, subject to certain exceptions (such as scheduled maintenance) and conditions (such as the customer's implementation of dual diverse connections to the Internet and adherence to our setup guidelines). We are able to provide this level of SLA because of our proprietary audio stack and the geographical and network architecture, which optimizes the path for voice data across the World Wide Web.
- **Security and Compliance** . We understand that security of information is paramount for many organizations. To that end we have invested heavily in security and compliance with state and federal regulations including FISMA (Federal Information Security Management Act), HIPAA (Health Insurance Portability and Accountability Act) FIPS 140-2 (Federal Information Processing Standard), CPNI (Customer Proprietary Network Information), PCI-DSS (Payment Card Industry Data Security Standard), and U.S., E.U. and EEA Safe Harbor data privacy standards (under the former Safe Harbor framework).

Our Strategy

We are committed to developing and delivering the most innovative, reliable, scalable and secure cloud software for business communications. Our strategy is based on market growth dynamics, including the growing adoption of cloud communications software by larger mid-market and enterprise customers, along with the capabilities of our solutions, to continue to build a competitive advantage by delivering unique value to our customers.

The following are key elements of our strategy:

- **Global Expansion** . There is an increasing number of small and midsize (SMB) and mid-market sized customers with facilities and personnel in multiple countries. Traditional communication solutions bridging multiple geographies and carrier networks are cumbersome and expensive, and we see a market need for seamless cloud software solutions that can connect employees and customers across multinational organizations with simplicity and ease. We are focused on expanding our ability to effectively and efficiently deliver our software solutions into an increasing number of countries and regions. In addition, we plan to continue expanding the distribution of our services into new countries through a combination of organic growth, regional acquisitions and channel partners.
- **One Integrated Platform** . Business communications solutions are increasingly requiring a breadth of software capabilities, spanning from simple voice and video collaboration to complex multi-channel contact center capabilities. We believe our ability to deliver a full spectrum of capabilities within a single cloud platform from a single vendor is a competitive advantage, especially for larger customers. We plan to continue expanding the set and features of services within our platform, including extending our contact center capabilities, adding deeper collaboration services, and bringing an increasing number of analytics-driven applications to market. Additionally, our services provide increased benefits when used in concert, so we intend to upsell our products and services by educating our customers on the additional functionality and overall business value that can be achieved across our platform.
- **Enterprise Grade** . We have invested in our software and software delivery infrastructure to provide a high-level of availability, reliability, security and compliance, and will continue to invest in this area. Additionally, we plan to expand and deepen our customer deployment and support capabilities, including more program management, professional services, and partner delivery capabilities, to meet the needs of larger multi-national customers.

- ***Intuitive User Experience*** . Because we deliver our software from one integrated platform, we can offer an intuitive, seamless communication experience that spans voice, messaging, and video. We plan to continue enhancing the usability and user interface of our software, including mobility and tighter integration with commonly used business productivity application, CRM solutions and vertical business applications.
- ***Mid-Market and Distributed Enterprise Focus***. We plan to capitalize on the growing adoption of cloud-based communications and collaboration solutions in mid-market and distributed enterprises through increasing focus on our direct and channel sales strategy.
- ***Strategic Acquisitions*** . We intend to identify, acquire and integrate strategic technologies, assets and businesses that we believe will expand the breadth of our cloud software offerings and drive growth, both domestically and internationally.

Our Products

We have built a global, hyper-scalable cloud communications and contact center platform that is powering the communications infrastructure worldwide for businesses of all sizes from an SMB to a large, multi-national enterprise. Regardless of size, our software enables businesses to operate as one unified entity while delivering the highest quality of service. These capabilities are becoming increasingly important as more and more globally distributed enterprises move their communications infrastructure to the cloud. Unlike many cloud business services, our distributed platform enables users to utilize services from our data centers worldwide automatically, based on their current location without any user intervention. Our software solutions combine global voice, messaging and video with integrated workflows and big data analytics to provide business communications to our customers' workforce, to enable better customer engagement, increased team productivity, and real-time insights into business performance.

All of our software components work together and can be combined into different bundles depending on the business needs of our customers. Our software products provide solutions in the following areas:

Global Business Voice (8x8 Virtual Office)

The Company's flagship software product, branded 8x8 Virtual Office, delivers high quality voice as a service globally with a robust business feature set. 8x8 Virtual Office is a self-contained, end-to-end solution that enables a customer to use a single business phone number to place and receive calls from any supported device (including desktop phones, computers with an installed software telephone app, and mobile devices) over any available Internet connection. Local numbers are available in over 80 countries and toll-free numbers are available in over 100 countries. We further provide local number porting in more than 40 countries.

The use of a single business telephone number across any employee device is an important advancement because it allows a business to retain a phone number, and the business contacts associated with it, when an employee leaves the business. Without this advancement, employees using their mobile phones for work can take their personal number with them on termination of employment, meaning that they can easily retain business contact information that typically belongs to their employers.

With 8x8 Virtual Office, those business contacts stay with the company, and can be assigned to a different employee. 8x8 Virtual Office also connects all internal business calls (including calls to a receptionist, voicemail system, conference bridge, etc.) using any Internet connection, which enables high definition (HD) audio at a much lower price point for the business, making this product especially suitable for distributed companies with employees in many different locations.

8x8 Virtual Office includes a complete set of business features such as a worldwide extension calling, corporate directory with click-to-call functionality, voicemail, call forwarding, transfers, conferencing, ring groups (ringing many different extensions at the same time), hot-desking (multiple people sharing the same physical device), call recording, call monitoring, music on hold, and a receptionist console with a night-attendant feature to answer and route calls when no employees are available.

Many 8x8 Virtual Office pricing plans include unlimited calls to certain regions of the world, with different prepaid or per-minute plans for connecting international and toll-free calls.

Messaging and Presence

Our solutions include 8x8 Virtual Office and 8x8 Virtual Office Pro software that enables all of the customer's authorized personnel to see a corporate directory sorted and searchable by name, branch, department and other fields defined for a given set of employees. In addition to presence information, which shows whether an employee is logged in, available, busy, temporarily away or in a do-not-disturb mode, Virtual Office Pro enables employees and workgroups to communicate with each other using chat or text messages sent via the Short Message Service (SMS) protocol, commonly known as "texting" on mobile phones. Chats from other employees will appear on any 8x8 chat-enabled device, including mobile phones, associated with the employee. Chats can also be seamlessly escalated to a voice call or video connection. 8x8's Virtual Office Pro chat messages are secure and integrated into the business communications environment.

Contact Center (8x8 Virtual Contact Center)

We provide software to enable a multi-channel contact center under the 8x8 Virtual Contact Center brand. Our multi-channel (voice, chat, voicemail, e-mail) call center can be used for customer support, sales and any other corporate function that involves a high density of inbound or outbound interactions with customers.

8x8 Virtual Contact Center offers features such as a programmable, interactive voice response tool for greeting customers, automatic queuing and routing of inbound inquiries, skills-based routing of inquiries to the appropriate call center agents, multimedia management, real-time monitoring and reporting, voice recording and logging, historical reporting, contact and case management tools, and integration with popular third party CRM tools.

A unique feature of 8x8 Virtual Contact Center is its integration with the 8x8 Virtual Office and 8x8 Virtual Office Pro software. This enables contact center agents to have phone calls with anyone in the corporate directory, as well as to see the presence of employees across the enterprise, regardless of their locations, and enables the contact centers to become an integrated part of the communications of the entire enterprise.

Collaboration

Our Virtual Office Meetings software solution is an ideal tool for teams within the enterprise to meet and collaborate on a shared project from any Virtual Office extension, desktop or mobile device. Initiating a meeting takes only three clicks, and can include internal colleagues or external participants via a software download and/or a dial-in telephone number from any country where the business has deployed 8x8 Virtual Office.

Inside a Virtual Office Meeting, participants experience high definition audio conferencing (for employees or external participants using a software download), content sharing, chat conversations and meeting recordings. Meetings can be scheduled in advance either from the software itself or from Microsoft Outlook.

Mobility

We also provide Virtual Office Mobile software that turns any Apple IOS and Android-based mobile device into a device that will function as an extension on the 8x8 Virtual Office platforms. Virtual Office Mobile also allows any telephone number anywhere in the world (even a non-8x8 phone number) to be associated as an extension on the 8x8 Virtual Office platform. Virtual Office Mobile can be downloaded from the Apple or Google Play stores as an application.

Once installed, this application enables calls to be placed or received on the mobile device using the business number of the employee, and makes key Virtual Office features accessible such as access to the corporate directory, presence information, voicemail access, chat and SMS texting, access to Virtual Office Meetings (with content sharing and video, if subscribed). Our mobility software application runs in the background of the mobile device and automatically launches the application for business, not personal, communications. Outbound communications from the Virtual Office Mobile software appear to the outside world as if they originated from the employee's 8x8 Virtual Office extension.

Video

Our software integrates with third party software providers to add high definition video to any 8x8 Virtual Office Meeting session to provide HD video conferencing capability for up to 8 participants using any Virtual Office, Virtual Office Pro, or Virtual Office Mobile device that includes a camera. The high definition video component is an optional, add-on service to Virtual Office Meetings. Our software also enables point-to-point video calls between any two 8x8 Virtual Office, Virtual Office Pro, or Virtual Office Mobile endpoints if a camera device is present at the respective endpoints.

Big Data / Analytics

We have developed a set of big data tools that collect and analyze historical and real-time communications data transmitted through our Virtual Office and Virtual Contact Center solutions. These products, sold under the Virtual Office Analytics and Virtual Contact Center Analytics brands, enable an enterprise to improve its performance by providing details about internal and external call activity, real-time call queue status, call quality and global routing and device status information.

Line of Business Solutions

We provide software to enable a group of employees within a business unit to set up their own communications infrastructure without requiring the involvement of an information technology (IT) or formal purchasing function. We refer to these solutions as "Line of Business" because they can be adopted and used by any employee within an enterprise. EasyContactNow (currently only available in the United Kingdom) is a simple, multi-channel outbound and inbound contact center for voice, SMS, chat and e-mail interactions with external customers cloud solution that enables employees within the business unit to easily communicate across multiple touchpoints and engage customers and prospects based on a request or campaign. Customers pay as they go and are only charged for their actual usage of the product.

Third Party Integrations

Our software uses a combination of open application program interfaces (APIs) and pre-built integrations to enhance functionality with data from other third-party back office management systems, including cloud-based solutions from Salesforce.com, NetSuite, and Zendesk. We typically offer our customers access to these integrations from our website and from partner application exchange web sites.

These integrations enable customers to receive a popup screen from the third party solution whenever a relevant inbound call is received, and also enables customers to click-to-call any customer or prospect in the third party solution.

Our Technology

We introduced our first communications software as a service offering in 2002, and have since expanded our solutions, features and software capabilities. Almost all of our software is delivered from internally owned and operated software technologies built from the ground up to deliver these services to our customers from the Internet cloud.

From inception through March 31, 2016 we have been awarded 118 United States patents covering a variety of voice and video communications, signaling, processing and storage technologies. Many patents in our portfolio relate to the communications software used in our various software products.

We supply communications software to users in over 114 countries across six continents. We run our software in nine data centers in seven locations around the world. Providing high quality global communications requires more than just a set of data centers, however. We also developed our proprietary Global Reach® patented technology so that 8x8 software voice communications, placed or received anywhere on the globe on any compatible device, can have the same consistent quality as a local or internal call within a single area code.

Many hosted VoIP solutions route call data through the same data center regardless of the physical or geographic location of callers. We take a different and, we believe, more optimal approach: when an end-user makes a call using our solution, our patented technology seeks out the closest data center to the current location, subject to service, security and data sovereignty considerations (which might require that the user's signaling data be sourced from a certain geography). We call this "geo-routing." Our patented technologies to ensure that this data latency is always minimized. For all routing decisions, current Internet and carrier network conditions are taken into account and the best route is determined in real time.

Many of our software solutions provide mission critical services to our business customers, and we have developed technologies and architectures that embed high reliability and uptime into our software.

Based on our reliability technologies and Global Reach®, we are able to offer some of our enterprise customers an end-to-end SLA that provides commitments as to both the availability of our solutions, or uptime, and voice call quality, including commitments as to:

- A minimum of 99.99% service uptime. In fiscal 2016, our annual service uptime exceeded 99.99% across our customer base, running at 99.997% for Virtual Office and 99.992% for Virtual Contact Center. These percentages exclude downtime for scheduled maintenance;
- Voice quality standards based on the industry standard Mean Opinion Score (MOS). The SLA provides for a minimum MOS of 3.0 for 98% of all calls end-to-end over private networks or the public Internet.

These commitments are subject to certain prerequisites, including the customer's implementation of dual diverse connections to the Internet and adherence to our setup guidelines.

Our technologies include a number of deployment methodologies that represent best practices for deploying our software at a new customer site and driving maximum customer adoption of our more advanced software features. We also manage and port existing business numbers globally, and we provide local number porting services in more than 40 countries. We also provide software connectivity to emergency services, wiretap and other regulatory services required by law in different regions of the world. We have developed our own billing software, and provide our customers with electronic monthly billing.

Finally, a key aspect of our technology for larger enterprise customers and certain industry verticals, like medical, is our security and compliance, including Cloud Security Alliance, HIPAA, FISMA, PCI-DSS v3.1, end-to-end encryption technologies, U.S., E.U. and EEA Safe Harbor data privacy standards (under the former Safe Harbor framework), and ISO/IEC 27001:2013.

Sales, Marketing and Promotional Activities

We market our services directly to end users through a variety of means including search engine marketing and optimization, third party lead generation sources, industry conferences, trade shows, webinars, traditional advertising channels and other demand generation activities. We employ a multi-tiered direct sales force and indirect channel partner network consisting of VARs (value added resellers), master agents, system integrators and service providers in the U.S., Canada, UK and Australia to identify, qualify and manage prospects throughout the sales cycle. Our sales professionals work closely with inside technical support, sales engineers and deployment specialists to develop customized proposals based on individual customer requirements. Sales representatives are paid a base salary or hourly rate and monthly commission for selling our products and services. The commission is based on new sales made by the sales representative. Our sales department employs over 100 individuals.

Competition

Given the size and stage of the current market opportunity and the breadth of our communications and collaboration service platform, we face competition from several types of organizations including other cloud services providers, communications and collaboration software vendors and incumbent telephone companies reselling legacy communications equipment. For more information regarding the risks associated with such competition, please refer to our "Risk Factors" below.

Cloud Services Providers

When customers have decided to transition to cloud-based communications, we compete with other cloud communication software providers such as RingCentral, Fuze, inContact, Five9, and Interactive Intelligence to win that business. We believe that our comprehensive suite of services integrated over a common platform, including our contact center capabilities, as well as our expertise in security, reliability, quality of service, analytics and global coverage, gives customers of all sizes a significant incentive to choose us over other cloud-based providers.

Communications and Collaboration Software Vendors

We also face competition from communications and collaboration vendors such as Cisco, Google, and Microsoft Corporation. While these competitors currently provide solutions that compete with some elements of our software suite, notably our Virtual Office Meeting web conferencing solution, they are beginning to roll out additional communications capabilities including business voice. Although we believe that none of these competitors currently have cloud services offerings that span the entire breadth of our platform, they each have strong software solutions for their respective communications and/or collaboration silos. In addition, many of these competitors are substantially larger and better capitalized than we are and have advantages

with larger existing customer bases and larger marketing budgets. However, we believe that a collective deployment of these software solutions that is equivalent to a similar deployment of our services is likely to be more expensive and cumbersome for customers to integrate into a cohesive communications solution.

Incumbent Telephony Companies and Legacy Equipment Providers

Our cloud-based software replaces wireline business voice services sold by incumbent telephone and cable companies such as AT&T, CenturyLink, Comcast, and Verizon Communications in conjunction with on-premises hardware solutions from companies like Avaya, Cisco and Mitel. However, we believe that the solutions offered by these competitors are typically more expensive to adopt, require on-premise implementations and regular hardware and IT infrastructure upgrades. Furthermore, the offerings typically do not provide all the functionality needed for our customers to integrate their communication systems with their IT infrastructure, therefore requiring additional system integration investments and set up.

Operations

Our operations infrastructure consists 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 our operations infrastructure include a prospective customer quotation portal, customer provisioning, customer access, fraud control, network security, call routing, call monitoring, media processing and normalization, call reliability, detailed call record storage and billing and integration with third-party applications. 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 premises equipment.

Network Operations Center

We maintain a network operations center at our headquarters in San Jose, California and employ a staff of approximately 50 individuals with experience in voice and data operations to provide 24-hour operations support, seven 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 such as Level 3 Communications, Inc. and data center providers such as Equinix, Inc. to augment our monitoring and response efforts.

In the event of a major disruption at a data center, such as a natural disaster, failover between data centers for 8x8 Virtual Office happens instantly. Active calls may disconnect, but new calls can be generated immediately. In addition, most of the maintenance services performed by 8x8 are completely seamless and invisible to customers. For example, we can move the core call flow processing from one data center to another without dropping a single call. 8x8 Virtual Contact Center local redundancy is offered by default, and geographical redundancy can be enabled as an option to provision geo-redundant tenants on multiple sites.

Customer and Technical Support

We maintain a call center at our headquarters in San Jose, California and have a staff of approximately 90 employees and contractors that provide customer service and technical support to customers. In addition, we have outsourced some customer support activities to third parties. Customers who access our services directly through our website receive customer service and technical support through multilingual telephone communication, web-based and "chat" sessions, and email support.

Interconnection Agreements

We are a party to telecommunications interconnect and service agreements with VoIP providers and PSTN telecommunications carriers, such as Level 3 Communications, Verizon Communications and Inteliquent. 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.

Research and Development

The cloud communications market is characterized by rapid technological changes and advancements, typical of most SaaS markets. 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 products and services, and make these enhancements available to our customers frequently.

We believe our ability to deliver a full spectrum of capabilities within a single cloud platform from a single vendor is a competitive advantage, especially for larger customers. We plan to continue expanding our set of services within our platform, including extending our contact center capabilities, adding deeper collaboration services, and bringing an increasing number of analytics-driven applications to market. Our future development programs also will focus on the integration and functionality of our products and services with other SaaS products, such as Salesforce.com, NetSuite, Zendesk and others. Supporting a variety of standard and custom integration partners and services is essential to our success as a cloud services provider.

We currently employ more than 140 individuals in research, development and engineering activities in our facilities in San Jose, California as well as outsourced software development consultants. Our Romanian subsidiary consists of employees primarily dedicated to our research development efforts. Research and development expenses in each of the fiscal years ended March 31, 2016, 2015 and 2014 were \$24.0 million, \$15.1 million and \$11.6 million, respectively.

Regulatory Matters

In the United States, VoIP and other software communications and collaboration services, like ours, have been 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 VoIP and other 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 has 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. In addition, many state regulatory agencies impose taxes and other surcharges on VoIP services, and certain states take the position that offerings by VoIP providers are intrastate telecommunications services 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. However, this issue has not been resolved definitively as a matter of law, and it remains possible that the FCC could determine that such services are not information services, or that there could be a judicial or legislative determination that the states are not pre-empted from regulating VoIP services as traditional telecommunications services. We cannot predict how or when these issues will be resolved or its potential future impact on our business at this time.

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.

Internationally, we are subject to a complex patchwork of regulations that vary from country to country. Some countries have adopted laws that make the provision of VoIP services illegal within the country. Other countries have adopted laws that impose stringent licensing obligations on providers of VoIP services like ours. In many countries, it is not clear how laws that have historically been applied to traditional telecommunications providers will be applied to providers of VoIP services like us.

The effect of any future laws, regulations and orders, or any changes in the enforcement of existing laws, on our operations, including, but not limited to, our cloud-based communications and collaboration services, 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 prices or decreasing our profit margins if we attempt to absorb such costs.

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. Please refer to Part I, Item 1A. "Risk Factors" for a discussion of regulatory risks, proceedings and issues that could adversely affect our business and operating results in the future.

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 intellectual property. From inception through March 31, 2016, we have been awarded 118 United States patents since our inception, of which we expect to expire between 2016 and 2043. We have additional United States and foreign patent applications pending.

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 information about specific claims, please refer to Part I, Item 1A, Risk Factors - "Our infringement of a third party's proprietary technology could disrupt our business" and Part I, Item 3. "LEGAL PROCEEDINGS."

We rely upon certain technology, including hardware and software, licensed from third parties. 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. 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, however. 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.

Geographic Areas

We have two reportable segments. Financial information relating to revenues generated in different geographic areas are set forth in Note 12 to our consolidated financial statements contained in Part II, Item 8 of this Annual Report.

Employees

As of March 31, 2016, our workforce consisted of 810 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.

Vikram Verma, Chief Executive Officer. Vikram Verma, age 51, has served as Chief Executive Officer since September 2013 and as a director since January 2012. From October 2008 through August 2013, Mr. Verma was President of Strategic Venture Development for Lockheed Martin. From 2006 through 2008, Mr. Verma was President of the IS&GS Savi Group, a division of Lockheed Martin. Prior to 2006, Mr. Verma was Chairman and Chief Executive Officer of Savi Technology, Inc. Mr. Verma received a B.S.E.E. degree from Florida Institute of Technology, a M.S.E. degree from the University of Michigan in electrical engineering, and the graduate degree of Engineer in Electrical Engineering from Stanford University.

Bryan Martin, Chairman and Chief Technology Officer. Bryan Martin, age 48, has served as Chairman of the Board of Directors since December 2003, has served as Chief Technology Officer since September 2013 and as a director since February 2002. From February 2002 to September 2013, he served as Chief Executive Officer. From March 2007 to November 2008, and again from April 2011 to December 2011, he 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.

Mary Ellen Genovese, Chief Financial Officer. Mary Ellen Genovese, age 57, has served as our Chief Financial Officer since November 2014. Ms. Genovese had been serving as our Senior Vice President of Human Resources since July 2014 and prior to that, as a consultant to the Company since April 2012. Prior to joining the Company, from 2008 to 2011, Ms. Genovese served as a consultant to a Fortune 50 security company. From 2004 through 2006, Ms. Genovese was the Chief Financial Officer of Savi Technology, Inc. Prior to joining Savi Technology, she was Chief Financial Officer of Trimble Navigation Limited from 2000 to 2004. Between 1992 and 2000, Ms. Genovese worked at Trimble in a succession of other financial and accounting positions, including VP of Finance and Corporate Controller. Ms. Genovese holds a B.S. Degree in Accounting from Fairfield University and received her CPA license from the State of Connecticut.

Darren Hakeman, Senior Vice President of Product and Strategy. Darren Hakeman, age 46, has served as our Senior Vice President of Product and Strategy since September 2013, and was a consultant to the Company starting in May 2013. From 2009 to 2013, Mr. Hakeman worked as a strategic advisor to leading Silicon Valley companies and emerging start-ups including Authentication Metrics, Inc. (now Agari), Blackfire Research, and a major global security company. Prior to 2009, he served as Senior Vice President of Operations for a SaaS Business Unit of Lockheed Martin that emerged following Lockheed's acquisition of Savi Technology, Inc. He received a B.S. and an M.S. in Electrical Engineering from Stanford University.

Puneet Arora, Senior Vice President of Global Sales. Puneet Arora, age 41, has served as Senior Vice President of Global Sales since January 2015. From January 2013 to January 2015, Mr. Arora was Vice President and Head of North America Sales at LivePerson. From August 2010 to August 2012, Mr. Arora led Cloud CRM Sales - North America - West for Oracle. From September 2007 to November 2009, Mr. Arora was Vice President of Corporate Sales for Salesforce.com. He received a B.S. in Computer Engineering from Iowa State University.

ITEM 1A. RISK FACTORS

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

Our success depends on the growth and customer acceptance of our services.

Our future success depends on our ability to significantly increase revenue generated from our cloud software solutions to business customers, including SMBs and mid-market and larger distributed enterprises. To increase our revenue, we must add new customers and encourage existing customers to continue their subscriptions on terms favorable to us, increase their usage of our services, and purchase additional services from us. For customer demand and adoption of our cloud software solutions to grow, the quality, cost and feature benefits of these services must be sufficient to cause customers to adopt them. For example, our cloud telephony and contact center services must continue to evolve so that high-quality service and features can be consistently provided at competitive prices. As our target markets mature, or as competitors introduce lower cost and/or differentiated products or services that are perceived to compete with ours, our ability to sell new customers and obtain renewals from existing customers could be impaired. As a result, we may be unable to extend our agreements with existing customers or attract new customers or new business from existing customers on terms that would be favorable or comparable to prior periods, which could have an adverse effect on our revenue and growth.

Historically, our core service offerings have been our cloud software communication services and contact center services, which contributed a substantial majority of our revenues in fiscal years ended March 31, 2016, 2015 and 2014. Marketing and selling new and enhanced features and services, and additional communications and collaboration offerings, may require increasingly sophisticated and costly sales efforts. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions and their reactions to any price changes related to these additional features and services. If our efforts to upsell to our customers are not successful and negative reaction occurs, our business may suffer.

To support the successful marketing and sale of our services to new and existing customers, we must continue to offer high-quality education and customer support. Providing this education and support requires that our customer support personnel have specific technical knowledge and expertise, making it more difficult and costly for us to hire qualified personnel and to scale up our support operations due to the extensive training required. The importance of high-quality customer support will increase as we expand our business and pursue new mid-market and distributed enterprise customers. If we do not help our customers quickly resolve post-deployment issues and provide effective ongoing support, our ability to sell additional functionality and services to existing customers will suffer and our reputation with existing or potential customers will be harmed.

Furthermore, we operate in an industry that is subject to significant federal and state regulation in the United States and regulation by various governments and governmental bodies in other countries in which we offer our communications and collaboration services. Regulations may impede the growth of our business, impose significant additional costs, and require substantial changes to software and other technology. Also, new regulations may be adopted that materially reduce demand for our services by businesses.

We face significant risks in our strategy to target mid-market and larger distributed enterprises for sales of our services and, if we do not manage these efforts effectively, our business and results of operations could be materially and adversely affected.

We currently derive a minority of our revenues from sales of our cloud software solutions to larger distributed enterprises, but we believe penetrating these customers is key to our future growth. We have a limited history of selling our services to larger businesses and have experienced, and may continue to experience, new challenges in providing our cloud software solutions to large customers. As we have targeted more of our sales efforts to mid-market and larger distributed enterprises, our sales cycle has become more time-consuming and expensive. As we expand farther into this market segment, we may encounter pricing pressure and implementation and customization challenges, and revenue recognition may be delayed for some complex transactions, all of which could harm our business and operating results. In this market segment, the customer's decision to use our service may be an enterprise-wide decision and, if so, these types of sales may require us to provide greater levels of education regarding the use and benefits of our service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. In addition, larger customers may demand more features, integration services and customization. Furthermore, larger customers' networks can be complex, and their lack of local IT expertise can adversely impact the quality of services that we deliver over their networks, and can result in delays in the implementation of our services that can adversely affect the installation of our services, which may lead to the cancellation of orders or services. This may create a perception that we are unable to deliver high quality of service to the end-users, negatively impacting our reputation and creating an adverse perception of our abilities to implement and deliver services resulting in cancellation of orders or services. Moreover, larger customers demand higher levels of customer service and in-person visits, which can impact our cost structure to implement and deliver services. If a customer is not satisfied with the quality of work performed by us or a third party or with the type of services or solutions delivered, then we might incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction with our services could damage our ability to obtain additional work from that customer. In addition, negative publicity related to our customer relationships, regardless of its accuracy, could injure our reputation and further damage our business by affecting our ability to compete for new business with current and prospective customers.

Larger customers also might require services in different international locations where we may encounter technical, logistical, infrastructure and regulatory limitations on our ability to implement or deliver our services, and be unable to provide the required services. These issues could limit the expansion of our services for some of these customers or result in cancellation of all of our services to those customers that want just one vendor internationally.

As a result of these factors, these sales opportunities may require us to devote greater sales support and engineering services resources to individual customers, driving up costs and time required to complete sales and diverting our own sales and engineering resources to a smaller number of larger transactions, while potentially delaying revenue recognition on transactions for which we must meet technical or implementation requirements. Such delays in revenue recognition could adversely impact our periodic revenues and cause our operating results to become more volatile, and materially adversely affect our operating results. Furthermore, we may invest significant time and resources with no assurance that a sale will ever be made. We also face challenges building and training an integrated sales force capable of fully addressing the services and features contained in all of the components in our communications and collaboration suite, as well as a staff of expert engineering and customer support personnel capable of addressing the full range of installation and deployment issues of larger customers that can arise with a comprehensive suite of services like ours. Also, we have only limited experience in developing and managing sales channels and distribution arrangements for larger businesses. If we fail to effectively execute our strategy to target mid-market

and larger distributed enterprises, our results of operations and our overall ability to grow our customer base could be materially and adversely affected.

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

The business of cloud software solutions is competitive, and we expect it to become increasingly competitive in the future. We may also face competition from large Internet companies, any of which might launch its own cloud-based business communications services or acquire other cloud-based business communications companies in the future.

In connection with our cloud software communication services, we face competition from providers of cloud communication and contact center software services, such as RingCentral, Fuze, inContact, Five9, and Interactive Intelligence. In addition, because most of our target customers are already purchasing communications services from incumbent telephone companies reselling legacy communication equipment, our success is dependent upon our ability to attract these customers away from their existing providers. These competitors include AT&T, CenturyLink, Comcast and Verizon Communications in conjunction with on-premises hardware solutions from companies like Avaya, Cisco and Mitel. We also face competition from communications and collaboration vendors such as Cisco, Google, and Microsoft Corporation. Cisco and Microsoft, in particular, have recently signalled publicly their intent to begin competing more aggressively in the cloud communications market.

Many of our current and potential competitors have longer operating histories, significantly greater resources and brand awareness, and a larger base of customers than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours. Our competitors may also offer bundled service arrangements that offer a more complete or better integrated product to customers. Competition could decrease our prices, reduce our sales, lower our gross profits or decrease our market share. In addition, many of our customers are not subject to long-term contractual commitments to purchase our services and can terminate our service and switch to competitors' offerings on short notice.

Given the significant price competition in the markets for our services, we are at a significant disadvantage compared with many of our competitors, especially those with substantially greater resources who may be better able to withstand an extended period of downward pricing pressure. The adverse impact of a shortfall in our revenues may be magnified by our inability to adjust our expenses to compensate for such shortfall. Announcements, or expectations, as to the introduction of new products and technologies by our competitors or us could cause customers to defer purchases of our existing products, which also could have a material adverse effect on our business, financial condition or operating results.

Because we recognize revenue from customer subscriptions over the term of the relevant contract, the effects of customer additions, cancellations and changes in subscribed services are not immediately reflected in full in our operating results.

As a subscription-based business, we recognize revenue over the term of each of our contracts, which generally range from one to three years. As a result, much of the revenue we report each quarter results from contracts entered into during previous quarters. Consequently, a shortfall in demand for our cloud software solutions or a decline in new or renewed contracts in any one quarter may not significantly reduce our revenue for that quarter but could negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in new sales or cancellations of our services and subscriptions from new customers or for additional services from existing customers will impact our ongoing monthly recurring revenue but will not be reflected fully in our operating results until future periods. Our revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable term of the contracts.

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

We recorded an operating loss of \$7.1 million for the fiscal year ended March 31, 2016 and ended the period with an accumulated deficit of \$109.9 million. Although we have achieved operating income in four of our five most recent fiscal years, we incurred substantial operating losses prior to that and may incur operating losses in the future, which may be substantial. As we expand our geographic reach and service offerings, and further invest in research and development, sales and marketing, and regulatory compliance, 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 or maintain operating profitability on an annual basis or on a quarterly basis in the future.

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

Our customers generally do not have long-term contracts with us and may discontinue their subscriptions for our services after the expiration of their subscription period, which typically range from one to three years. In addition, our customers may renew for lower subscription amounts or for shorter contract lengths. We may not accurately predict cancellation rates for our customers. Our cancellation rates may increase or fluctuate as a result of a number of factors, including customer usage, pricing changes, number of applications used by our customers, customer satisfaction with our service, the acquisition of our customers by other companies and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or decrease the amount they spend with us, our revenue will decline and our business will suffer.

Our average monthly business service revenue churn was 0.8% for the fiscal year ended March 31, 2016 compared with 0.7% for the fiscal year ended March 31, 2015. Our method of computing this revenue churn rate may be different from methods used by our competitors and other companies in our industry to compute their publicly disclosed churn rates. As a result, only limited reliance can be placed on our churn rate when attempting to compare it to that of other companies. Also, our churn rate can vary based on events that may not be indicative of actual trends in our business. Our churn rate could increase in the future if customers are not satisfied with our service. Other factors, including increased competition from other providers of communications and collaborations services, alternative technologies, and adverse business conditions also influence our churn rate.

Because of churn, we must acquire new customers on an ongoing basis to maintain our existing level of customers and revenues. As a result, marketing expenditures are an ongoing requirement of our business. If our churn rate increases, we will have to acquire even more new customers in order to maintain our existing revenues. We incur significant costs to acquire new customers, and those costs are an important factor in determining our net profitability. Therefore, if we are unsuccessful in retaining customers or are required to spend significant amounts to acquire new customers beyond those budgeted, our revenue could decrease and our net loss could increase.

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. We believe that between 25% and 50% of our total customer churn is related to customers' financial condition. We cannot be certain that we will improve churn rates given current economic conditions. Due to the length of our sales cycle, especially in adding new mid-market and larger distributed enterprises as customers, we may experience delays in acquiring new customers to replace those that have terminated our services. Such delays would be exacerbated if general economic conditions worsen. An increase in churn, particularly in challenging economic times, could have a negative impact on the results of our operations.

The impact of the current economic climate and adverse credit markets may disproportionately impact demand for our products and services due to our target customer profile.

The majority of our existing and target customers are in the SMB and mid-market business sectors. These businesses may be more likely to be significantly affected by economic downturns than larger, more established businesses. They also may be more likely to require working capital financing from local and regional banks whose lending activities have been reduced substantially since 2008, as a result of which many of our existing and target customers may lack the funds necessary to add new equipment and services such as ours. Additionally, these customers often have limited discretionary funds which they may choose to spend on items other than our products and services. If small and medium businesses continue to experience economic hardship, this could negatively affect the overall demand for our products and services, delay and lengthen sales cycles and lead to slower growth or even a decline in our revenue, net income and cash flows.

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

We operate in an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we must continue to design, develop, manufacture, and sell new and enhanced cloud software solutions products and services that provide higher levels of performance and reliability at lower cost. If we are unable to develop new services that address our customers' needs, to deliver our applications in one seamless integrated product offering that addresses our customers' needs, or to enhance and improve our services in a timely manner, we may not be able to achieve or maintain adequate market acceptance of our services. Our ability to grow is also subject to the risk of future disruptive technologies. Access and use of our services is provided via the cloud, which, itself, has been disruptive to the previous premise-based model.

If new technologies emerge that are able to deliver communications and collaboration services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete.

Maintaining adequate research and development personnel and resources is essential to new product development and continued innovation, and we intend to increase our investment in research and development activities to add new features and services to our offerings. If we are unable to develop new features and services internally due to certain constraints, such as competitive labor markets, high employee turnover, lack of management ability or a lack of other research and development resources, we may miss market opportunities. Further, many of our competitors expend a considerably greater amount of funds on their research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. In addition, there is no guarantee that our research and development efforts will succeed, or that our new products and services will enable us to maintain or grow our revenue or recover our development costs. Our failure to maintain adequate research and development resources, to compete effectively with the research and development programs of our competitors and to successfully monetize our research and development efforts could materially and adversely affect our business and results of operations.

We may not be able to scale our business quickly enough to meet our customers' growing needs and if we are not able to grow efficiently, our operating results could be harmed.

As usage of our cloud software solutions by mid-market and larger distributed enterprises expands and as customers continue to integrate our services across their enterprises, we are required to devote additional resources to improving our application architecture, integrating our products and applications across our technology platform, integrating with third-party systems, and maintaining infrastructure performance. As our customers gain more experience with our services, the number of users and transactions managed by our services, the amount of data transferred, processed and stored by us, the number of locations where our service is being accessed, and the volume of communications managed by our services have in some cases, and may in the future, expand rapidly. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and services, to serve our growing customer base. Any failure of or delay in these efforts could cause impaired system performance and reduced customer satisfaction. These issues could reduce the attractiveness of our cloud software solutions to customers, resulting in decreased sales to new customers, lower renewal rates by existing customers, the issuance of service credits, or requested refunds, which could hurt our revenue growth and our reputation. These system upgrades and the expansion of our support and services have been and will continue to be expensive and complex, requiring management time and attention and increasing our operating expenses. We could also face inefficiencies or operational failures as a result of our efforts to scale our infrastructure. Moreover, there are inherent risks associated with upgrading, improving and expanding our information technology systems. We cannot be sure that the expansion and improvements to our infrastructure and systems will be fully or effectively implemented on a timely basis, if at all. These efforts may reduce revenue and our margins and adversely impact our financial results.

To provide our services, we rely on third parties for all of our network connectivity and co-location facilities.

We currently use the infrastructure of third-party network service providers, including the services of Equinix, Inc., and Level 3 Communications, Inc., to provide all of our cloud services over their networks rather than deploying our own networks.

We also rely on third-party network service providers to originate and terminate substantially all of the PTSN calls using our cloud-based services. We leverage the infrastructure of third party network service providers to provide telephone numbers, PSTN call termination and origination services, and local number portability for our customers rather than deploying our own network throughout the United States. This decision has resulted in lower capital and operating costs for our business in the short-term, but has reduced our operating flexibility and ability to make timely service changes. If any of these network service providers cease operations or otherwise terminate the services that we depend on, the delay in switching our technology to another network service provider, if available, and qualifying this new service provider could have a material adverse effect on our business, financial condition or operating results. The rates we pay to our network service providers may also increase, which may reduce our profitability and increase the retail price of our service.

While we believe that relations with our current service providers are good, and we have contracts in place, there can be no assurance that these service providers will be able or willing to supply cost-effective services to us in the future or that we will be successful in signing up alternative or additional providers. Although we believe that we could replace our current providers, if necessary, our ability to provide service to our subscribers could be impacted during any such transition, which could have an adverse effect on our business, financial condition or results of operations. The loss of access to, or requirement to change, the telephone numbers we provide to our customers also could have a material adverse effect on our business, financial condition or operating results.

Due to our reliance on these service providers, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of hardware and software errors, whether caused by our service or products or those of another vendor, may result in the delay or loss of market acceptance of our products and any necessary revisions may force us to incur significant expenses. The occurrence of some of these types of problems may seriously harm our business, financial condition or operating results.

Our physical infrastructure is concentrated in a few facilities and any failure in our physical infrastructure or services could lead to significant costs and disruptions and could reduce our revenue, harm our business reputation and have a material adverse effect on our financial results.

Our leased network and data centers are subject to various points of failure. Problems with cooling equipment, generators, uninterruptible power supply, routers, switches, or other equipment, whether or not within our control, could result in service interruptions for our customers as well as equipment damage. Because our services do not require geographic proximity of our data centers to our customers, our infrastructure is consolidated into a few large data center facilities. Any failure or downtime in one of our data center facilities could affect a significant percentage of our customers. The total destruction or severe impairment of any of our data center facilities could result in significant downtime of our services and the loss of customer data. Because our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions in our service could harm our reputation. Additionally, in connection with the expansion or consolidation of our existing data center facilities from time to time, there is an increased risk that service interruptions may occur as a result of server relocation or other unforeseen construction-related issues.

We have experienced interruptions in service in the past. While we have not experienced a material increase in customer attrition following these events, the harm to our reputation is difficult to assess. We have 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 service credits, or damages for losses incurred;
- require us to replace existing equipment or add redundant facilities;
- affect our reputation as a reliable provider of hosting services;
- cause existing customers to cancel or elect to not renew their contracts; or
- make it more difficult for us to attract new customers.

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

We may also be required to transfer our servers to new data center facilities in the event that we are unable to renew our leases on acceptable terms, or at all, or the owners of the facilities decide to close their facilities, and we may incur significant costs and possible service interruption in connection with doing so. In addition, any financial difficulties, such as bankruptcy or foreclosure, faced by our third-party data center operators, or any of the service providers with which we or they contract, may have negative effects on our business, the nature and extent of which are difficult to predict. Additionally, if our data centers are unable to keep up with our increasing needs for capacity, our ability to grow our business could be materially and adversely impacted.

Failure of our information technology systems to function properly could result in significant business disruption.

We rely on IT systems to manage numerous functions of our internal operations. Our third party ERP software is not operating on the vendor's most updated version of the software. Furthermore, we have internally developed IT systems that are not integrated with our ERP system. These IT systems require specialized knowledge for which we have to train new personnel, and if we were to experience an unusual increase in attrition of our IT personnel, we may not be adequately equipped to respond to an IT system failure. Although we have never experienced significant disruption of our IT systems based on the current infrastructure, any failure of our IT systems could result in a significant business disruption.

We are in the process of transitioning to a new ERP software provider, and we face risks relating to this transition. For example, we may incur greater costs than we anticipate to train our personnel on the new system; we may experience more errors in our records during the transition; and we may be delayed in meeting our various reporting obligations. To the extent any of these risks or events impact our customer service, we may experience an increase in customer attrition, which could have a material adverse impact on our results of operations.

We may incur significant costs to meet the commitments under our service level agreements, and our failure to meet these commitments could result in a loss of customers and expected revenue.

We offer some of our customers an "end-to-end" service level agreement (SLA) with commitments as to levels of service availability and voice quality for calls transmitted over the public Internet that are among the most stringent in our industry. These SLAs typically provides a commitment of at least 99.99% uptime and a mean opinion score of at least 3.0 for at least 98% of all calls carried over the network. All of our SLAs further require rapid response times in order to resolve issues. We may incur significant network support and maintenance costs in order to meet these commitments.

We have in the past and may in the future experience network failures, software bugs or other problems that interrupt service or impair call quality. If these problems are severe enough in duration or frequency, we may not satisfy our service level commitments under our SLAs, as a result of which our customers could be entitled to credits against future amounts due under contract, early termination rights or other remedies against us. If a sufficient number of customers exercise these remedies, the resulting reduction in revenue could have a material adverse effect on our results of operations.

We depend on third-party vendors for IP phones and software endpoints, and any delay or interruption in supply by these vendors would result in delayed or reduced shipments to our customers and may harm our business.

We rely on third-party vendors for IP phones and software endpoints required to utilize our service. We currently do not have long-term supply contracts with any of these vendors. As a result, most of these third-party vendors are not obligated to provide products or services to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. The inability of these third-party vendors to deliver IP phones of acceptable quality and in a timely manner, particularly the sole source vendors, could adversely affect our operating results or cause them to fluctuate more than anticipated. Additionally, some of our products may require specialized or high-performance component parts that may not be available in quantities or in time frames that meet our requirements.

We currently purchase most of our IP phones from Polycom. On April 15, 2016, Polycom announced that it had entered into a definitive merger agreement with Mitel pursuant to which Mitel would acquire control over Polycom. Because Mitel is a competitor of ours, its acquisition of Polycom would pose a number of risks to our business if we continue to purchase IP phones from Polycom, including risks relating to our sharing of confidential information around potential sales opportunities.

If we do not or cannot maintain the compatibility of our communications and collaboration software with third-party applications and mobile platforms that our customers use in their businesses, our revenue will decline.

The functionality and popularity of our cloud software solutions depends, in part, on our ability to integrate our services with third-party applications and platforms, including enterprise resource planning, customer relations management, human capital management and other proprietary application suites. Third-party providers of applications and application programmable interfaces, or APIs, may change the features of their applications and platforms, restrict our access to their applications and platforms or alter the terms governing use of their applications and APIs and access to those applications and platforms in an adverse manner. Such changes could functionally limit or terminate our ability to use these third-party applications and platforms in conjunction with our services, which could negatively impact our offerings and harm our business. If we fail to integrate our software with new third-party back-end enterprise applications and platforms used by our customers, we may not be able to offer the functionality that our customers need, which would negatively impact our ability to generate revenue and adversely impact our business.

Our services also allow our customers to use and manage our cloud software solutions on smartphones, tablets and other mobile devices. As new smart devices and operating systems are released, we may encounter difficulties supporting these devices and services, and we may need to devote significant resources to the creation, support, and maintenance of our mobile applications. In addition, if we experience difficulties in the future integrating our mobile applications into smartphones, tablets or other mobile devices or if problems arise with our relationships with providers of mobile operating systems, such as those of Apple Inc. or Google Inc., our future growth and our results of operations could suffer.

If our software fails due to defects or similar problems, and if we fail to correct any defect or other software problems, we could lose customers, become subject to service performance or warranty claims or incur significant costs.

Our customers use our service to manage important aspects of their businesses, and any errors, defects, disruptions to our service or other performance problems with our service could hurt our reputation and may damage our customers' businesses. Our services and the systems infrastructure underlying our cloud communications platform incorporate software that is highly technical and complex. Our software has contained, and may now or in the future contain, undetected errors, bugs, or vulnerabilities. Some errors in our software code may only be discovered after the code has been released. Any errors, bugs, or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of users, loss of revenue, or liability for damages, any of which could adversely affect our business and financial results. We implement bug fixes and upgrades as part of our regularly scheduled system maintenance, which may lead to system downtime. Even if we are able to implement the bug fixes and upgrades in a timely manner, any history of defects, or the loss, damage or inadvertent release of confidential customer data, could cause our reputation to be harmed, and customers may elect not to purchase or renew their agreements with us and subject us to service performance credits, warranty claims or increased insurance costs. The costs associated with any material defects or errors in our software or other performance problems may be substantial and could materially adversely affect our operating results.

Our inability to use software licensed from third parties, or our use of open source software under license terms that interfere with our proprietary rights, could disrupt our business.

Our technology platform incorporates software licensed from third parties, including some software, known as open source software, which we use without charge. Although we monitor our use of open source software, the terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide our platform to our customers, content creators and brand advertisers. In the future, we could be required to seek licenses from third parties in order to continue offering our platform, which licenses may not be available on terms that are acceptable to us, or at all. Alternatively, we may need to re-engineer our platform or discontinue use of portions of the functionality provided by our platform. In addition, the terms of open source software licenses may require us to provide software that we develop using such software to others on unfavorable license terms. Our inability to use third party software could result in disruptions to our business, or delays in the development of future offerings or enhancements of existing offerings, which could impair our business.

Our business depends on continued, unimpeded access to the Internet by us and our users, but Internet access providers and Internet backbone providers may be able to block, degrade or charge for access to or bandwidth use of certain of our products and services, which could lead to additional expenses and the loss of users.

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. In addition, users who access our services and applications through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as Wi-Fi, 3G, 4G or LTE, to use our services and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers offer products and services that directly compete with our own offerings, which give them a significant competitive advantage. Some of these broadband providers have stated that they may exempt their own customers from data-caps or offer other preferred treatment their customers. Other providers have stated that they may take measures that could degrade, disrupt or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings, while others, including some of the largest providers of broadband Internet access services, have committed to not engaging in such behavior. These providers have the ability generally to increase their rates, which may effectively increase the cost to our customers of using our cloud software solutions.

On March 12, 2015, the Federal Communications Commission, or FCC, released an order that would prevent broadband Internet access providers from degrading or otherwise disrupting a broad range of services provisioned over consumers' and enterprises' broadband Internet access lines. A number of providers and trade organizations have appealed the FCC's order. We cannot predict the ultimate outcome of this rulemaking or predict whether the FCC's rules will be upheld on appeal. Although we believe interference with access to our products and services is unlikely, broadband Internet access provider interference has occurred in limited circumstances in the United States and could result in a loss of existing users and increased costs, and could impair our ability to attract new users, thereby negatively impacting our revenue and growth.

Vulnerabilities to security breaches, cyber intrusions and other malicious acts could adversely impact our business.

Our operations depend on our ability to protect our network from interruption by damage from unauthorized entry, computer viruses or other events beyond our control. In the past, we may have been subject to denial or disruption of service, or DDOS, attacks by individuals intent on bringing down our services, and we may be subject to DDOS attacks in the future. We cannot assure you that our backup systems, regular data backups, security protocols, DDOS mitigation and other procedures that are currently in place, or that may be in place in the future, will be adequate to prevent significant damage, system failure or data loss.

Critical to our provision of service is the storage, processing, and transmission of confidential and sensitive data. We store, process and transmit a wide variety of confidential and sensitive information including credit card, bank account and other financial information, proprietary, trade secret or other data that may be protected by intellectual property laws, customers' and employees' personally identifiable information, as well as other sensitive information. We, along with others in the industry, will be subject to cyber threats and security breaches, either by third parties or employees, given the nature of the information we store, process and transmit. Our continued ability to securely store, process and transmit data is essential to our business.

We have implemented a number of measures to protect our services from cyber-attacks, and the various risks associated with cyber threats. For example, we have redundant servers that are intended to provide continuity of service in the event we suffer equipment or software failures in one location or on one set of servers. We actively monitor our network for cyber threats and implement protective measures periodically. We conduct vulnerability assessments and penetration testing and engage in remedial action based on such assessments. Depending on the evolving nature of cyber threats and the measures we may have to implement to continue to maintain the security of our networks and data, our profitability may be adversely impacted or we may have to increase the price of our services which may make our offerings less competitive with other communications providers.

There is no guarantee that we will not be adversely impacted by cyber-attacks. If our employees or third parties obtain unauthorized access to our network, or if our network is penetrated, our service could be disrupted and sensitive information could be lost, stolen or disclosed which could have a variety of negative impacts, including legal liability, investigations by law enforcement and regulatory agencies, and exposure to fines or penalties, any of which could harm our business reputation and have a material negative impact on our business. In addition, to the extent we market our services as compliant with particular laws governing data privacy and security, such as Health Insurance Portability and Accountability Act, a security breach that exposes protected information may make us susceptible to claims of false advertising and unfair trade practices for misrepresenting our level of compliance, in addition to any liability we may have for the breach itself.

Many governments have enacted laws requiring companies to notify individuals of data security incidents involving certain types of personal data. In addition, some of our customers contractually require notification of any data security compromise. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

Our customers are increasingly asking us to assume liability for security breaches in excess of the amount of revenue we receive from them. In addition, there can be no assurance that any limitations of liability provisions in our contracts for a security breach would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and operating results.

Failure to comply with laws and contractual obligations related to data privacy and protection could have a material adverse effect on our business, financial condition and operating results.

We are subject to the data privacy and protection laws and regulations adopted by federal, state and foreign governmental agencies. Data privacy and protection is highly regulated and may become the subject of additional regulation in the future. For example, lawmakers and regulators worldwide are considering proposals that would require companies, like us, that encrypt users' data to ensure access to such data by law enforcement authorities. Privacy laws restrict our storage, use, processing, disclosure, transfer and protection of personal information, including credit card data, provided to us by our customers as well as data we collect from our customers and employees. We strive to comply with all applicable laws, regulations, policies and legal obligations relating to privacy and data protection. However, it is possible that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Should this occur, we may be subject to fines, penalties and lawsuits, and our reputation may suffer. We may also be required to make modifications to our data practices that could have an adverse impact on our business.

Governmental entities, class action lawyers and privacy advocates are increasingly examining companies' data collection, processing, use, storing, sharing and transmitting or personal data and data linkable to individuals. Self-regulatory codes of conduct, enforcement actions by regulatory agencies, and lawsuits by private parties impose additional compliance costs on us negative impacting our profitability as well as subject us to unknown potential liabilities. These evolving laws, rules and practices may also curtail our current business activities which may also result in slimmer profit margins and reduce new opportunities.

We are also subject to the privacy and data protection-related obligations in our contracts with our customers and other third parties. Any failure, or perceived failure, by us to comply with federal, state, or international laws, including laws and regulations regulating privacy, data or consumer protection, or to comply with our contractual obligations related to privacy, could result in proceedings or actions against us by governmental entities, contractual parties or others, which could result in significant liability to us as well as harm to our reputation. Additionally, third parties on which we rely enter into contracts to protect and safeguard our customers' data. Should such parties violate these agreements or suffer a breach, we could be subject to proceedings or actions against us by governmental entities, contractual parties or others, which could result in significant liability to us as well as harm to our reputation.

There is considerable uncertainty with respect to the state of law governing data transfers between the European Union ("EU"), and other countries with similar data protection laws, and the U.S. A preliminary agreement has been entered into by representatives from the U.S. and EU but it remains unclear what the final resolution will be for cross-border data transfers of personal information. For certain data transfers between the EU and the U.S., our company, like many others, takes advantage of what is referred to as the "EU-U.S. Safe Harbor," in order to comply with privacy obligations imposed by EU-member countries. In late 2015, the European Court of Justice invalidated the EU-U.S. Safe Harbor. Some individual data protection regulators located in EU countries threatened to begin enforcement actions. Additionally, other countries that relied on the EU-U.S. Safe Harbor that are not part of the EU have also found that data transfers to the U.S. are no longer valid based on the European Court of Justice ruling. We have been working to establish alternative methods that would allow us to continue to transfer data to the U.S. from all countries that have invalidated pre-existing safe harbors. Some independent data regulators have adopted the position that other forms of compliance are also invalid though the legal grounds for these findings remains unclear at this time. Like many other companies, we continue to face uncertainty both with respect to the measures we have implemented following the ruling of the European Court of Justice and the ultimate resolution of the laws governing cross-border data transfers. We cannot predict how or if this issue will be resolved nor can we evaluate our potential liability at this time.

We could be liable for breaches of security on our website, fraudulent activities of our users, or the failure of third party vendors to deliver credit card transaction processing services.

A fundamental requirement for operating an Internet-based, worldwide cloud software solutions and electronically billing our customers is the secure transmission of confidential information and media over public networks. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. The law relating to the liability of providers of online payment services is currently unsettled and states may enact their own rules with which we may not comply. We rely on third party providers to process and guarantee payments made by our subscribers up to certain limits, and we may be unable to prevent our customers from fraudulently receiving goods and services. Our liability risk will increase if a larger fraction of transactions effected using our cloud-based services involve fraudulent or disputed credit card transactions.

Any costs we incur as a result of fraudulent or disputed transactions could harm our business. In addition, the functionality of our current billing system relies on certain third party vendors delivering services. If these vendors are unable or unwilling to provide services, we will not be able to charge for our services in a timely or scalable fashion, which could significantly decrease our revenue and have a material adverse effect on our business, financial condition and operating results.

We must maintain Payment Card Industry Data Security Standard, or PCI DSS, compliance to bill our customers via credit card. If we fail to meet minimum-security standards for PCI DSS compliance, credit card providers such as American Express Company or Visa Inc. could refuse to process credit card transactions on our behalf and our ability to collect payments from our customers would be adversely impacted.

We may also experience losses due to subscriber fraud and theft of service. Subscribers have, in the past, obtained access to our service without paying for monthly service and international toll calls by unlawfully using our authorization codes or by submitting fraudulent credit card information. To date, such losses from unauthorized credit card transactions and theft of service have not been significant. We have implemented anti-fraud procedures in order to control losses relating to these practices, but these procedures may not be adequate to effectively limit all of our exposure in the future from fraud. If our procedures are not effective, consumer fraud and theft of service could significantly decrease our revenue and have a material adverse effect on our business, financial condition and operating results. In addition, software and security flaws in our software can result in unauthorized access to our core network resulting in damages such as fraudulent toll usage on our network.

Additionally, third parties have attempted in the past, and may attempt in the future, to fraudulently induce domestic and international employees, consultants or customers into disclosing sensitive information, such as user names, passwords or customer proprietary network information, or CPNI, or other information in order to gain access to our customers' data or to our data. CPNI includes information such as the phone numbers called by a consumer, the frequency, duration, and timing of such calls, and any services/features purchased by the consumer, such as call waiting, call forwarding, and caller ID, in addition to other information that may appear on a consumer's bill.

Natural disasters, war, terrorist attacks or malicious conduct could adversely impact our operations and could degrade or impede our ability to offer services.

Our "cloud-based" services rely on uninterrupted connection to the Internet through data centers and networks. Any interruption or disruption to our network, or the third parties on which we rely, could adversely impact our ability to provide service. Our network could be disrupted by circumstances outside of our control including natural disasters, acts of war, terrorist attacks or other malicious acts including, but not limited to, cyber-attacks. Our headquarters, global networks operations center and one of our third-party data center facilities are located in the San Francisco Bay Area, a region known for seismic activity. Should any of these events occur and interfere with our ability to operate our network even for a limited period of time, we could incur significant expenses, lose substantial amounts of revenue, suffer damage to our reputation, and lose customers. Such an event may also impede our customers' connections to our network, since these connections also occur over the Internet, and would be perceived by our customers as an interruption of our services, even though such interruption would be beyond our control. Any of these events could have a material adverse impact on our business.

We license technology from third parties that we do not control and cannot be assured of retaining.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future, will be available to us on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in delays or reductions in the installation and deployment of our cloud software solutions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. Software defects in the core IP and networking hardware we license from vendors, over which we have little or no control, can adversely affect our ability to deliver services to our customers and could harm our business.

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

There has been substantial litigation in the communications, cloud communication services, semiconductor, electronics, and related industries regarding intellectual property rights and, from time to time, third parties may claim that we, our customers, our licensees or parties' indemnified by us are infringing, misappropriating or otherwise violating their intellectual property rights. Third parties may also claim that our employees have misappropriated or divulged their former employers' trade secrets or confidential information. Our broad range of current and former technology, including IP telephony systems, digital and

analog circuits, software, and semiconductors, increases the likelihood that third parties may claim infringement by us of their intellectual property rights. For example, on May 2, 2008, we received a letter from AT&T Intellectual Property, L.L.C., or AT&T IP, expressing the belief that we must license a specified patent for use in our 8x8 broadband telephone service, as well as suggesting that we obtain a license to its portfolio of MPEG-4 patents for use with our video telephone products and services. At the same time, we began an evaluation of whether AT&T IP's affiliated entities may need to license any of our patents or other intellectual property. We have continued to engage in discussions with AT&T IP to explore a mutually agreeable resolution of the parties' respective assertions regarding these intellectual property issues. We are unable at this time to state whether we will enter into any license or cross-license agreements with AT&T IP or whether we ultimately anticipate any material effects on our operating results or financial condition as a consequence of these matters.

Certain technology necessary for us to provide our services may, in fact, be patented by other parties either now or in the future. If such technology were held under patent by another person, we would have to negotiate a license for the use of that technology, which we may not be able to negotiate at a price that is acceptable or at all. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using such technology and offering products and services incorporating such technology.

We have recently been named as defendants in two patent infringement lawsuits. On February 22, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with 20 other defendants. On November 25, 2015, we were named a defendant in the suit alleging infringement of a patent which expired in 2012. This suit is 2-Way Computing, Inc. (2-Way) v. 8x8, Inc. Each of these actions is described in more detail under Part I, Item 3, "Legal Proceedings". If we are found to be infringing on the intellectual property rights of any third party in these lawsuits or other claims and proceedings that may be asserted against us in the future, we could be subject to monetary liabilities for such infringement, which could be material. We could also be required to refrain from using, manufacturing or selling certain products or using certain processes, either of which could have a material adverse effect on our business and operating results. From time to time, we have received, and may continue to receive in the future, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. There can be no assurance that we will prevail in these discussions and actions or that other actions alleging infringement by us of third party patents will not be asserted or prosecuted against us. Furthermore, lawsuits like these may require significant time and expense to defend, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

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 have additional United States and foreign patent applications pending. We cannot predict whether such pending patent applications will result in issued patents, and if they do, whether such patents will effectively protect our intellectual property. The intellectual property rights we obtain may not be sufficient to provide us with a competitive advantage, and could be challenged, invalidated, infringed or misappropriated. We may not be able to protect our proprietary rights in the United States or internationally (where effective intellectual property protection may be unavailable or limited), and competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any patent of ours.

We attempt to further protect our proprietary technology and content by requiring our employees and consultants to enter into confidentiality and assignment of inventions agreements and third parties to enter into nondisclosure agreements. These agreements may not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, intellectual property or technology.

Litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of our proprietary rights or the rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition, and operating results. Any settlement or adverse determination in such litigation would also subject us to significant liability.

We also may be required to protect our proprietary technology and content in an increasing number of jurisdictions, a process that is expensive and may not be successful, or which we may not pursue in every location. In addition, effective intellectual property protection may not be available to us in every country, and the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States and elsewhere, and from interpretations of intellectual property laws by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to obtain and maintain the intellectual property rights necessary to provide us with a competitive advantage.

Because our long-term growth strategy involves further expansion outside the United States, our business will be susceptible to risks associated with international operations.

An important component of our growth strategy involves the further expansion of our operations and customer base internationally. We have formed several subsidiaries outside the United States, including a Romanian subsidiary that contributes significantly to our research and development efforts. We have also acquired two UK-based companies - DXI in May 2015 and Voicenet in November 2013. The risks and challenges associated with sales and other operations outside North America are different in some ways from those associated with our operations in North America, and we have a limited history addressing those risks and meeting those challenges. Our current international operations and future initiatives will involve a variety of risks, including:

- localization of our services, including translation into foreign languages and associated expenses;
- unexpected changes in a specific country or region's regulatory requirements, taxes, trade laws, or political or economic conditions;
- more stringent regulations relating to data security and the unauthorized use of, or access to, commercial and personal information, particularly in the European Union;
- differing labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- increased travel, real estate, infrastructure and legal compliance costs associated with international operations;
- different pricing environments, longer sales cycles, longer accounts receivable payment cycles and other collection difficulties;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general preferences for local vendors;
- limited or insufficient intellectual property protection;
- political instability or terrorist activities;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

We have limited experience in operating our business internationally, which increases the risk that any potential future expansion efforts that we may undertake will not be successful. We expect to invest substantial time and resources to expand our international operations. If we are unable to do this successfully and in a timely manner, our business and operating results could be materially adversely affected.

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

We completed two acquisitions in fiscal 2016, DXI Limited, API Telecom Limited, Easycallnow Limited and RAS Telecom Limited (collectively, "DXI") and Quality Software Corporation ("QSC") on May 29, 2015 and June 3, 2015, respectively. On November 29, 2013, we acquired Voicenet Solutions Limited ("Voicenet"), a UK-based provider of cloud communication services in the United Kingdom. In fiscal 2012, we completed two acquisitions of businesses. In fiscal 2011, we completed one acquisition and one investment in another company. 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 loss of an acquired base of customers and accompanying revenue while trying to transition the customer from the legacy systems to 8x8's technology due to mismatch of the features, usability, packaging, or pricing at the renewal times;
- the loss of an acquired base of customers and accompanying revenue due to failure and/or lack of maintenance/support for the legacy services and/or equipment/software/services being end of life;
- litigation arising from or relating to the transaction;
- 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, among others, businesses that we may acquire or invest in may not produce the revenue, earnings, or business synergies that we anticipate. In addition, there can be no assurance that any potential transaction will be successfully 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.

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 subscriptions for our cloud software solutions;
- customer cancellations;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers;
- lengthy sales cycles and/or regulatory approval cycles;
- new product introductions by us or our competitors;
- extent of market acceptance of new or existing services and features;
- the mix of our customer base and sales channels;
- the mix of services sold;
- the number of additional customers, on a net basis;
- the amount and timing of costs associated with recruiting, training and integrating new employees;
- unforeseen costs and expenses related to the expansion of our business, operations and infrastructure;
- continued compliance with industry standards and regulatory requirements;
- material security breaches or service interruptions due to cyberattacks or infrastructure failures or unavailability;
- introduction and adoption of our cloud software solutions in markets outside of the United States; 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.

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 cloud-based communications and collaboration services 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 frequently modified or 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 communications and collaboration services, 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.

For example:

- ***The FCC has adopted network neutrality rules.*** In March, 2015, the FCC adopted new network neutrality rules that would prevent Internet service providers from blocking, degrading and engaging in other practices that would impair or otherwise interfere with services like ours. Several parties appealed the FCC's network neutrality order. We cannot predict the outcome of the appeal but interference with our service or higher charges for using our service could cause us to lose existing customers, impair our ability to attract new customers, and harm our revenue and growth. These problems could also arise in international markets. Most foreign countries have not adopted formal net neutrality rules like those adopted by the FCC.
- ***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. 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 absorb the costs, which would reduce our profit margins. Furthermore, the FCC has 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 currently 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 providers, 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 preempted states from regulating VoIP services like ours 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.
- ***The FCC adopted rules concerning call completion rates to rural areas of the United States .*** It is possible that we, like other providers in the communications marketplace, may be subject to fines or other enforcement actions should the FCC determine that our call completion rates to rural areas are, or have been, unacceptable.
- ***The FCC may require providers like us to comply with regulations related to how we present bills to customers .*** The adoption of such obligations may require us to revise our bills and may increase our costs of providing service which could either result in price increases or reduce our profitability.
- ***There may be risk associated with our ability to comply with FCC rules concerning disabilities access requirements and the FCC may expand disabilities access requirements to additional services we offer .*** We cannot predict whether we will be subject to additional accessibility requirements or whether any of our service offerings that are not currently subject to disabilities access requirements will be subject to such obligations. It is possible that we, like other providers in the communications marketplace, may be subject to fines or other enforcement actions if we are found not to be in compliance with the FCC's accessibility requirements.
- ***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 fund. We are also required to offer 7-1-1 abbreviated dialing for access to relay services. It is possible that we, like other providers in the communications marketplace, may be subject to fines or other enforcement actions if we are found not to be in compliance with the FCC's 7-1-1 abbreviated dialing requirements.
- ***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 the Communications Assistance for Law Enforcement Act, or CALEA. The FCC allows VoIP providers to comply with CALEA through the use of a service provided by a trusted third party with the ability to extract call content and call-identifying information from a VoIP provider's network. Regardless of our reliance on a third party for compliance, it is possible that we, like other providers in the communications marketplace, may be subject to fines or other enforcement actions if we are found not to be in compliance with the FCC's 7-1-1 abbreviated dialing requirements.

- ***The FCC may require us to deploy an E-911 service that automatically determines the location of our customers*** . On June 1, 2007, the FCC released a Notice of Proposed Rulemaking, or the VoIP E-911 order, in which it tentatively concluded that all interconnected VoIP 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). Since then, the FCC has been conducting proceedings and inquiries concerning the implementation of such a rule. The outcome of these proceedings 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. 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.
- ***The FCC adopted orders reforming the system of payments between regulated carriers that we partner with to interface with the public switch telephone network*** . The FCC reformed the system under which regulated providers of telecommunications services compensate each other for various types of traffic, including VoIP traffic that terminates on the PSTN and applied new call signaling requirements to VoIP providers and other service providers. The FCC's new rules require, among other things, interconnected VoIP providers, like us, that originate interstate or intrastate traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass calling party number or charge number signaling information they receive from other providers unaltered, to subsequent providers in the call path. While we believe we are in compliance with this rule, to the extent that we pass traffic that does not have appropriate calling party number or charge number information, we could be subject to fines, cease and desist orders, or other penalties. The FCC's Order reforming payments between carriers for various types of traffic also includes a Further Notice of Proposed Rulemaking. Depending on the rules adopted by the FCC in this proceeding, the payments we make to underlying carriers to access the PSTN may increase, which may result in us increasing the retail price of our service, potentially making our offering less competitive with traditional providers of telecommunications services, or may reduce our profitability.

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.

The FCC may determine that our nomadic emergency calling service does not satisfy the requirements of its VoIP E-911 order because, in some instances, our nomadic emergency calling service requires that we route an emergency call to a national emergency call center instead of connecting our customers directly to a local public-safety answering point through a dedicated connection and through the appropriate selective router.

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 July 2008, the President signed into law the New and Emerging Technologies 911 Improvement Act of 2008. The law provides public safety entities, 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 service 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.

Alleged or actual failure of our solutions to comply with regulations governing outbound dialing, including regulations under the Telephone Consumer Protection Act of 1991, could harm our business, financial condition, results of operations and cash flows.

The legal and contractual environment surrounding calling consumers and wireless phone numbers is complex and evolving. In the United States, two federal agencies, the Federal Trade Commission ("FTC") and the FCC, and various states have enacted laws including, at the federal level, the Telephone Consumer Protection Act of 1991, or TCPA, that restrict the placing of certain telephone calls and texts to residential and wireless telephone subscribers by means of automatic telephone dialing systems, prerecorded or artificial voice messages and fax machines. These laws require companies to institute processes and safeguards to comply with these restrictions. Some of these laws can be enforced by the FTC, FCC, State Attorneys General, or private party litigants. In these types of actions, the plaintiff may seek damages, statutory penalties, costs and/or attorneys' fees.

It is possible that the FTC, FCC, private litigants or others may attempt to hold our customers, or us as a software provider, responsible for alleged violations of these laws. In the event that litigation is brought, or fines are assessed, against us, we may not successfully enforce or collect upon any contractual indemnities we may have from our customers. Additionally, any changes to these laws or their interpretation that further restrict calling consumers, any adverse publicity regarding the alleged or actual failure by companies, including our customers and competitors, to comply with such laws, or any governmental or private enforcement actions related thereto, could result in the reduced use of our solution by our clients and potential clients, which could harm our business, financial condition, results of operations and cash flows. We anticipate that these risks will increase as we begin to market and sell our EasyContactNow service (which is currently sold in the United Kingdom) in the United States.

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.

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

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.

Certain provisions in our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment .

Our restated certificate of incorporation and amended and restated bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors, including, among other things:

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by a majority vote of our Board of Directors or by stockholders holdings shares of our common stock representing in the aggregate a majority of votes then outstanding, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the ability of our board of directors, by majority vote, to amend our amended and restated bylaws, which may allow our board of directors to take additional actions to prevent a hostile acquisition and inhibit the ability of an acquirer to amend our amended and restated bylaws to facilitate a hostile acquisition; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.
- We are also subject to certain anti-takeover provisions under the General Corporation Law of the State of Delaware, or the DGCL. Under Section 203 of the DGCL, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or (i) our board of directors approves the transaction prior to the stockholder acquiring the 15% ownership position, (ii) upon consummation of the transaction that resulted in the stockholder acquiring the 15% ownership position, the stockholder owns at least 85% of the outstanding voting stock (excluding shares owned by directors or officers and shares owned by certain employee stock plans) or (iii) the transaction is approved by the board of directors and by the stockholders at an annual or special meeting by a vote of 66 2/3% of the outstanding voting stock (excluding shares held or controlled by the interested stockholder). These provisions in our restated certificate of incorporation and amended and restated bylaws and under Delaware law could discourage potential takeover attempts.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal operations are located in San Jose, CA in two facilities that are approximately 140,831 square feet of leased office space. Outside the United States our operations are conducted primarily in leased sites located in the United Kingdom and Romania. We believe our facilities will adequately meet our current and foreseeable future needs. For additional information regarding our obligations under leases, see Note 7 to the consolidated financial statements contained in Part II, Item 8 of this Annual 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 February 22, 2011, we were named a defendant in Bear Creek Technologies, Inc. (BCT) v. 8x8, Inc. et al., filed in the U.S. District Court for the District of Delaware (the Court), along with 20 other defendants. Collectively this patent litigation is collectively referred to as in re BEAR CREEK TECHNOLOGIES, INC. (MDL No.: 2344). In August 2011, the suit was dismissed without prejudice and then was refiled against the Company before the same Court. On November 28, 2012, the USPTO initiated and has since maintained a Reexamination Proceeding in which the claims of a patent (asserted against us) were rejected as being invalid based on four separate grounds. In response to the USPTO invalidity rejections, we filed an informational pleading (on July 10, 2013) to join a motion to stay the proceeding in the District Court, which this motion was granted on July 17, 2013. On May 5, 2015, the Court administratively closed this case with leave to reopen if needed. The Reexamination Proceeding has been on appeal since September 15, 2014. A Decision on Appeal was issued on December 29, 2015, affirming the rejection of all claims. On February 26, 2016, the patent owner filed a Notice of Appeal with the U.S. Patent Trial and Appeal Board, and on March 4, 2016, the Third-Party Requester (on behalf of Cisco Systems, Inc.) filed a Notice of Election to Participate in the Appeal.

On November 25, 2015, we were named a defendant in the suit 2-Way Computing, Inc. (2-Way) v. 8x8, Inc., filed in the U.S. District Court for the District of Nevada (Case No. 2:15-cv-02228-GMN-CWH). 2-Way also concurrently sued five other defendants for infringing the same patent. In response to our Motion to Dismiss, 2-Way filed an Amended Complaint on April 6, 2016. The suit alleges infringement of a patent which expired in 2012. We have not yet responded to the Amended Complaint. We cannot estimate or comment on potential liability in this case at this early stage of the litigation, except to note that 2-Way cannot pursue an injunction due to the patent expiration and 2-Way's alleged damages are limited to a time frame beginning in about 2010 and ending with the patent's expiration in 2012.

On April 16, 2015, we were named as a defendant in a lawsuit, Slocumb Law Firm v. 8x8, Inc., filed in the United States District Court for the Middle District of Alabama. The Slocumb Law Firm alleges that it purchased certain business services from the Company that did not perform as advertised or expected, and has asserted various causes of actions including fraud, breach of contract, violations of the Alabama Deceptive Trade Practices Act and negligence. On June 10, 2015, the United States Magistrate Judge issued a Report and Recommendation that the Court grant our motion to stay the case and compel the Slocumb Law Firm to arbitrate its claims against us in Santa Clara County, California pursuant to a clause mandating arbitration of disputes set forth in the terms and conditions to which Slocumb Law Firm agreed in connection with its purchase of business services from the Company. We have not yet received a formal arbitration demand from the Slocumb Law Firm, nor has discovery commenced. We intend to vigorously defend ourselves against Slocumb Law Firm's claims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is traded under the symbol "EGHT" and is listed on the Nasdaq Global Select Market of the Nasdaq Stock Market national securities exchange.

We have never paid cash dividends on our common stock and have no plans to do so in the foreseeable future. As of May 27, 2016, there were 237 holders of record of our common stock.

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

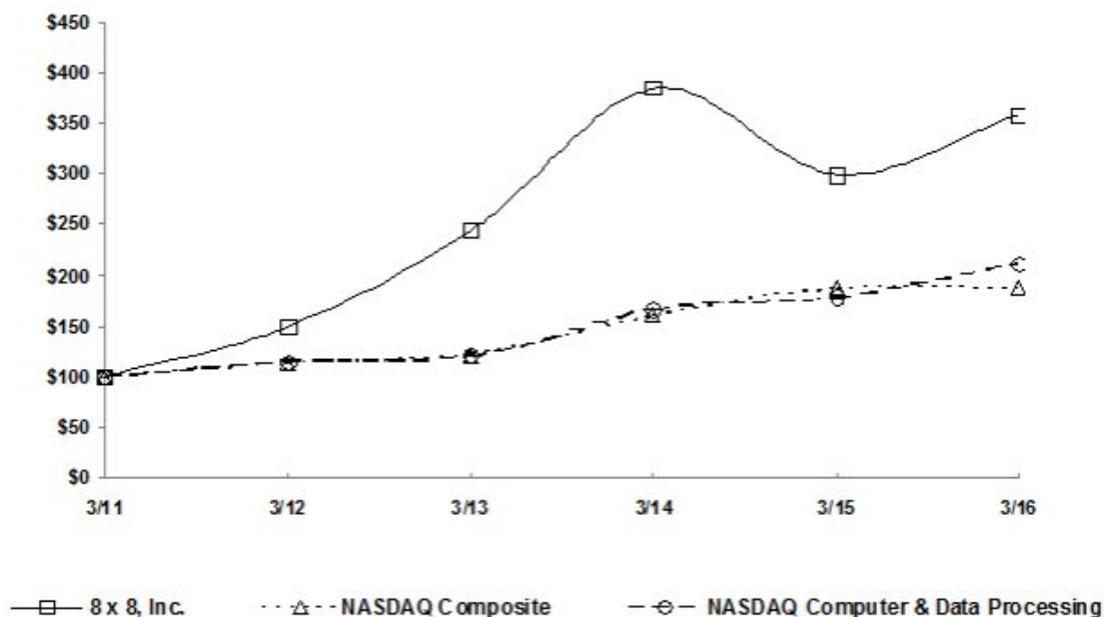
Period	<u>High</u>	<u>Low</u>
Fiscal 2016:		
First quarter	\$ 9.49	\$ 8.34
Second quarter	\$ 9.05	\$ 7.62
Third quarter	\$ 12.17	\$ 8.16
Fourth quarter	\$ 12.91	\$ 9.29
Fiscal 2015:		
First quarter	\$ 11.07	\$ 6.80
Second quarter	\$ 8.47	\$ 6.49
Third quarter	\$ 9.31	\$ 5.80
Fourth quarter	\$ 9.15	\$ 7.06

See Item 12 of Part III of this Annual 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, 2011 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.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among 8 x 8, Inc., the NASDAQ Composite Index
and the NASDAQ Computer & Data Processing Index



*\$100 invested on 3/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending March 31.

Issuer Purchases of Equity Securities

The activity under the Repurchase Plans for the three months ended March 31, 2016 is summarized as follows:

	Total Number of Shares Purchased	Weighted 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, 2016	-	\$ -	-	\$ 19,595,138
February 1 - February 28, 2016	-	-	-	19,595,138
March 1 - March 31, 2016	-	-	-	\$ 15,000,000 *
Total	-	\$ -	-	

* The share repurchase program approved by the Board of Directors in February 2015 for the purchase up to \$20.0 million shares, expired on February 29, 2016. The expiration resulted in a 4,595,138 decrease in the dollar amount of shares that may be purchased under the repurchase program. See Note 8 in notes to the

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of 8x8 Inc. for each year in the five year period ended March 31, 2016. The following selected consolidated financial data is qualified by reference to and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements, related notes thereto and other financial information included elsewhere in this Annual Report on Form 10-K.

	Years Ended March 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share amounts)				
Total revenues	\$ 209,336	\$ 162,413	\$ 128,597	\$ 103,786	\$ 83,372
Net income (loss)	\$ (5,120)	\$ 1,926	\$ 2,514	\$ 13,939	\$ 69,228
Net income (loss) per share:					
Basic	\$ (0.06)	\$ 0.02	\$ 0.03	\$ 0.20	\$ 1.04
Diluted	\$ (0.06)	\$ 0.02	\$ 0.03	\$ 0.19	\$ 0.99
Total assets	\$ 313,452	\$ 295,624	\$ 299,203	\$ 152,611	\$ 130,733
Accumulated deficit	\$ (109,859)	\$ (104,739)	\$ (106,665)	\$ (109,179)	\$ (123,118)
Total stockholders' equity	\$ 275,306	\$ 272,211	\$ 278,178	\$ 137,033	\$ 118,450

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

OVERVIEW

We are a provider of cloud-based, enterprise-class software solutions that transform the way businesses communicate and collaborate globally. Our comprehensive software platform brings together the power of cloud, mobile, collaboration, video and data science technologies to enhance the way employees communicate with each other, and how they connect and interact with their customers. Our integrated, "pure-cloud" offering combines global voice, conferencing, messaging and video with integrated workflows and big data analytics on a single platform to enable increased team productivity, better customer engagement and real-time insights into business performance. Since fiscal 2004, substantially all of our revenue has been generated from the sale, license and provision of communications services.

SUMMARY AND OUTLOOK

In fiscal year 2016, we displayed continued momentum in four key areas of our business. First, our increased focus on mid-market and distributed enterprise customers resulted in more than 48% of our total service revenue coming from this customer segment, compared with 42% in fiscal 2015. Over the course of the fiscal year, we continued to show an increase in our average monthly service revenue per customer (ARPU). In the fourth quarter of fiscal 2016, our ARPU grew 20% to \$385, compared with \$320 in the same period of fiscal 2015. The increase resulted from our success in selling a greater number of subscriptions to larger, more established customers.

Second, we continued the advancement of our technology and product innovation with the expansion and enhancement of our integrated communications software suite. We released our new Virtual Office Meetings product, a high definition video conferencing and collaboration solution that enables secure, continuous communication from any device, anywhere in the world. We also released next-generation capabilities for our Virtual Contact Center solution, including a global tenant that seamlessly connects an organization's international agents over a single platform, cloud-native quality management, analytics that monitor and improve the customer journey, and a pre-built CRM integration tool.

Third, we have made significant progress with our enterprise customer deployments. We continue to deploy our solutions for multiple global enterprise customers with 1,000 - 10,000 seats in the US, Canada, Australia, Philippines, UK, Czech Republic, Uruguay, Singapore, Hong Kong, Japan, and many others. Our patent pending "Elite Touch" professional services program employs a comprehensive success enablement methodology that ensures the fastest time to value for customers with large and complex requirements that typically involve multiple sites, global implementations or integration with CRM or other back end systems.

Fourth, we continued to build on our Global Reach® initiative by broadening our presence and service delivery capabilities to support our customers who currently are operating in 114 countries. Beyond serving the needs of existing customers, it is our intent to penetrate these markets through a variety of additional methods including strategic alliances, partners and acquisitions.

To support these initiatives and strengthen our business, we intend to continue investing in research and development and sales and marketing in fiscal 2017 at rates comparable to the third and fourth quarters of fiscal 2016.

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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate such estimates, including, but not limited to, those related to bad debts, returns reserve for expected cancellations, valuation of inventories, income and sales tax, 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, and equity that are not readily apparent from other sources. Our 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 Annual 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.

Service and Product Revenue

We recognize service revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured. We defer recognition of service revenues in instances when cash receipts are received before services are delivered and we recognize deferred revenues ratably as services are provided.

We recognize revenue from product sales for which there are no related services to be rendered upon shipment to customers provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. Gross outbound shipping and handling charges are recorded as revenue, and the related costs are included in cost of goods sold. Reserves for returns and allowances for customer sales are recorded at the time of shipment. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, *Revenue Recognition*, we record shipments to distributors, retailers, channel partners, and resellers, where the right of return exists, as deferred revenue. We defer recognition of revenue on product sales to distributors, retailers, channel partners, and resellers until the products have been sold to the end customer.

We record revenue net of any sales and service related taxes and mandatory government charges that are billed to our customers. We believe this approach results in consolidated financial statements that are more easily understood by users.

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.

Multiple Element Arrangements

ASC 605-25, *Revenue Recognition - Multiple Element Arrangements*, requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. The provisioning of the 8x8 cloud communication and collaboration software solutions with the accompanying 8x8 IP telephone constitutes a revenue arrangement with multiple deliverables. For arrangements with multiple deliverables, we allocate the arrangement consideration to all units of accounting based on their relative selling prices. In such circumstances, the accounting principles establish a hierarchy to determine the relative selling price to be used for allocating arrangement consideration to units of accounting as follows: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("BESP").

VSOE generally exists only when we sell the deliverable separately, on more than a limited basis, at prices within a relatively narrow range. When VSOE cannot be established, we attempt to establish the selling price of deliverables based on relevant TPE. TPE is determined based on manufacturer's prices for similar deliverables when sold separately, when possible. When we are unable to establish selling price using VSOE or TPE, we use BESP for the allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service was sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. We determine BESP for a product or service by considering multiple factors including, but not limited to:

- the price list established by its management which is typically based on general pricing practices and targeted gross margin of products and services sold; and
- analysis of pricing history of new arrangements, including multiple element and stand-alone transactions.

In accordance with the guidance of ASC 605-25, when we enter into revenue arrangements with multiple deliverables we allocate arrangement consideration, including activation fees, among the 8x8 IP telephones and subscriber services based on their relative selling prices. Arrangement consideration allocated to the IP telephones that is fixed or determinable and that is not contingent on future performance or future deliverables is recognized as product revenues during the period of the sale less the allowance for estimated returns during the 30-day trial period. Arrangement consideration allocated to subscriber services that is fixed or determinable and that is not contingent on future performance or future deliverables is recognized ratably as service revenues as the related services are provided, which is generally over the initial contract term.

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, 2016, the accounts receivable balance was \$11.1 million, net of an allowance for doubtful accounts of \$0.6 million, including a reserve for disputed credits, and an estimated returns reserve of \$0.2 million. 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.

Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized. Goodwill represents the excess fair value of consideration transferred over the fair value of net assets acquired in business combinations. The carrying value of goodwill and indefinite lived intangible assets are not amortized, but are annually tested for impairment and more often if there is an indicator of impairment.

We perform an annual impairment assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes that it is more likely than not that the fair value is more than its carrying value, goodwill is not considered impaired and we are not required to perform the two-step goodwill impairment test. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit.

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 accrued vacation. 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 reduce income tax expense 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 include net operating loss and tax credit carry forwards. 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. During the fourth quarter of fiscal 2016 and 2015, we evaluated the need for a valuation allowance against our net deferred tax asset and concluded that we needed less of an allowance. Therefore, we decreased our valuation allowance by approximately \$1.1 million and \$1.5 million, as certain California net operating losses will not be utilized as they have expired in fiscal 2016 and 2015. During the fourth quarters of fiscal 2014, we evaluated the need for a valuation allowance against our net deferred tax asset and concluded that an additional allowance was needed. Therefore, we increased our valuation allowance related to our state and federal net operating loss and tax credit carryovers which resulted in reversals of previous income statement credits of approximately \$1.3 million. We determined that an increase in our valuation allowance was appropriate as a result of the change in the net income apportionment methodology in California and the acquisition of Voicenet in the third quarter of fiscal 2014. In making this determination, we considered all available positive and negative evidence, including our recent earnings trend and expected continued future taxable income. As of March 31, 2016, the net deferred tax asset on the consolidated balance sheet represented the projected tax benefit we expect to realize. We continue to maintain a valuation allowance against the portion of our deferred tax assets that we believe is more likely than not to be used to reduce our income tax liability.

We have received inquiries, demands or audit requests from several state, municipal and 9-1-1 taxing 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 \$0.4 million, \$0.1 million and \$0.1 million of expense for the years ended March 31, 2016, 2015 and 2014, respectively, for estimated tax exposure for such assessments.

Stock-Based Compensation

We account for our employee stock options, stock purchase rights, restricted stock units, and restricted performance stock units granted under the 1996 Stock Plan, 1996 Director Option Plan, the 2006 Stock Plan, the 2003 Contactual Plan, the 2012 Equity Incentive Plan, the 2013 New Employee Inducement Incentive Plan and stock purchase rights under the 1996 Employee Stock Purchase Plan (collectively "Equity Compensation Plans") under the provisions of ASC 718 - *Stock Compensation*. Under the provisions of ASC 718, stock-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 recognize stock-based compensation expense in the Consolidated Statements of Operations for fiscal 2016, 2015 and 2014, based on ASC 718 criteria. Compensation expense for stock-based payment awards is recognized using the straight-line single-option method and includes the impact of estimated forfeitures. Compensation expense for restricted stock units with performance and market conditions is recognized over the requisite service period using the straight-line method and includes 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, stock purchase rights and restricted stock units under the Equity Compensation Plans for 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 the twelve months ended March 31, 2016, 2015 and 2014, we used the historical volatility of our stock over a period equal to the expected life of the options. The expected life assumptions represent the weighted-average period stock-based awards are expected to remain outstanding. We established expected life assumptions 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.

To value restricted performance stock units under the Equity Compensation Plans, we used a Monte Carlo simulation model. Fair value determined using the Monte Carlo simulation model varies based on the assumptions used for the expected stock price volatility, the correlation coefficient between the Company and the NASDAQ Composite Index, risk-free interest rates, and future dividend payments. For the twelve months ended March 31, 2016, 2015 and 2014, we used the historical volatility and correlation of our stock and the Index over a period equal to the remaining performance period as of the grant date. The risk-free interest rate 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 remaining performance period as of the grant date. 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, or 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 option exercises result in tax deductions in excess of book deductions based on the option value at the time of grant. We recognize these windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. 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 credits and alternative tax credits and as such, we recognize the full effect of these deductions in the consolidated income statement in the period in which the taxable event occurs.

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, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015
Business customers average monthly service revenue per customer (1)	\$ 385	\$ 369	\$ 360	\$ 353	\$ 320
Monthly business service revenue churn (2)(3)	0.4%	1.2%	0.7%	1.0%	0.5%
Overall service margin	81%	80%	80%	81%	81%
Overall product margin	-18%	-21%	-15%	-18%	-19%
Overall gross margin	72%	72%	73%	73%	73%

- (1) 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.
- (2) Business customer service revenue churn is calculated by dividing the service revenue lost from business customers (after the expiration of 30-day trial) during the period by the simple average of business customer service revenue during the same period and dividing the result by the number of months in the period.
- (3) Excludes DXI business customer service revenue churn for the periods ended June 30, September 30, December 31, 2015, and March 31, 2016. DXI churn is excluded because revenue recorded by DXI is tied to usage levels and are not correlated with customer turnover.

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 Annual Report.

We have minimal seasonality in our business but typically sales of new subscriptions in our fourth fiscal quarter are greater than in any of the first three quarters of the fiscal year. We believe this occurs because the customers we target have a tendency to spend a relatively greater portion of their annual capital budgets at the beginning of the calendar year compared with each of the last three quarters of the year.

REVENUE

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	<i>(dollar amounts in thousands)</i>						
Service revenue	\$ 192,241	\$ 148,208	\$ 116,607	\$ 44,033	29.7%	\$ 31,601	27.1%
Percentage of total revenue	91.8%	91.3%	90.7%				

Service revenue consists primarily of revenues attributable to the provision of our 8x8 cloud communication and collaboration software solutions. We expect that cloud software solutions service revenues will continue to comprise nearly all of our service revenues for the foreseeable future.

The increase in fiscal year 2016, compared with fiscal year 2015, was primarily attributable to an increase in our business customer subscriber base (net of customer churn) in particular, to mid-market and enterprise customers, revenue of approximately \$10.0 million from customers acquired as part of the DXI acquisition, and an increase in the average monthly service revenue per customer. Our business service subscriber base grew from approximately 41,600 customers at the end of fiscal 2015 to approximately 45,700

customers on March 31, 2016. Average monthly service revenue per customer for the fiscal year increased from \$305 for fiscal 2015 to \$367 for fiscal 2016. We expect growth in the number of business customers and average monthly service revenue per customer to continue to grow in fiscal 2017.

The increase in fiscal year 2015, compared with fiscal year 2014, was primarily attributable to an increase in our business customer subscriber base and an increase in the average monthly service revenue per customer. Our business service subscriber base grew from approximately 38,000 customers at the end of fiscal 2014 to approximately 41,600 customers on March 31, 2015. The increase in business customers included approximately 1,000 customers obtained through our acquisition of Voicenet, on November 29, 2013. Average monthly service revenue per customer increased from \$273 for fiscal 2014 to \$305 for fiscal 2015.

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	<i>(dollar amounts in thousands)</i>						
Product revenue	\$ 17,095	\$ 14,205	\$ 11,990	\$ 2,890	20.3%	\$ 2,215	18.5%
Percentage of total revenue	8.2%	8.7%	9.3%				

Product revenue consists primarily of revenues from sales of IP telephones in conjunction with our cloud telephony service.

The increase in fiscal year 2016 from fiscal year 2015 resulted from a \$2.9 million increase in product revenue attributable to growth in our business customer subscriber base, for which we have been subsidizing equipment purchases.

The increase in fiscal year 2015 from fiscal year 2014 resulted from a \$2.2 million increase in product revenue attributable to growth in our business customer subscriber base, for which we have been subsidizing equipment purchases.

No single customer represented more than 10% of our total revenues during fiscal 2016, 2015 or 2014.

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

	Years Ended March 31,		
	2016	2015	2014
Americas (principally US)	87%	92%	97%
Europe	12%	7%	2%
Asia Pacific	1%	1%	1%
	100%	100%	100%

COST OF REVENUE

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	<i>(dollar amounts in thousands)</i>						
Cost of service revenue	\$ 37,078	\$ 29,701	\$ 22,445	\$ 7,377	24.8%	\$ 7,256	32.3%
Percentage of service revenue	19.3%	20.0%	19.2%				

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

The increase in cost of service revenue for fiscal 2016 from fiscal 2015 was primarily due to a \$2.0 million increase in third party network service expenses, a \$1.6 million increase in amortization expense, a \$1.4 million increase in payroll and related expenses, a \$0.5 million increase in depreciation, a \$0.5 million increase in licenses and fees, and a \$0.5 million increase in stock-based compensation expenses.

The increase in cost of service revenue for fiscal 2015 from fiscal 2014 was primarily due to a \$3.5 million increase in third party network service expenses, a \$1.5 million increase in payroll and related expenses, a \$1.0 million increase in depreciation, and a \$0.3 million increase in stock-based compensation expenses.

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	<i>(dollar amounts in thousands)</i>						
Cost of product revenue	\$ 20,168	\$ 15,863	\$ 15,170	\$ 4,305	27.1%	\$ 693	4.6%
Percentage of product revenue	118.0%	111.7%	126.5%				

The cost of product revenue consists primarily of IP telephones, estimated warranty obligations and direct and indirect costs associated with product purchasing, scheduling, 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 revenue for fiscal 2016 from fiscal 2015 was primarily due to a \$3.6 million increase in the shipment of equipment to our business customers, a \$0.3 million increase in freight costs, and a \$0.2 million increase to warranty expense.

The increase in the cost of product revenue for fiscal 2015 from fiscal 2014 was primarily due to a \$1.5 million increase in the shipment of equipment to our business customers, a \$0.1 million increase in freight costs, offset by a \$0.9 million decrease in warranty expense.

RESEARCH AND DEVELOPMENT EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	<i>(dollar amounts in thousands)</i>						
Research and development	\$ 24,040	\$ 15,118	\$ 11,633	\$ 8,922	59.0%	\$ 3,485	30.0%
Percentage of total revenue	11.5%	9.3%	9.0%				

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. During the fiscal year ended March 31, 2016, we expensed all research and development costs as they were incurred in accordance with ASC 985-20, *Costs of Software to Be Sold, Leased, or Marketed*, and we capitalized \$0.9 million of payroll and related costs in accordance with ASC 350-40, *Goodwill and Other - Internal-Use Software*.

The increase in research and development expenses for fiscal 2016 from fiscal 2015 was primarily attributable to a \$6.5 million increase in payroll and related expenses, and a \$1.4 million increase in stock-based compensation expenses, a \$0.3 million increase in temporary personnel, consulting and outside service expenses partially offset by \$0.9 million of payroll and related costs capitalized in accordance with ASC 350-40.

The increase in research and development expenses for fiscal 2015 from fiscal 2014 was primarily attributable to a \$0.8 million increase in payroll and related expenses, a \$0.8 million increase in temporary personnel, consulting and outside service expenses and a \$0.5 million increase in stock-based compensation expenses, partially offset by \$1.5 million of payroll and related costs capitalized in accordance with ASC 350-40.

SALES AND MARKETING EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	<i>(dollar amounts in thousands)</i>						
Sales and marketing	\$ 109,379	\$ 80,667	\$ 60,906	\$ 28,712	35.6%	\$ 19,761	32.4%
Percentage of total revenue	52.3%	49.7%	47.4%				

Sales and marketing expenses consist primarily of personnel and related overhead costs for sales, marketing, and customer service which includes deployment engineering. Such costs also include outsourced customer service call center operations, sales commissions, as well as trade shows, advertising and other marketing and promotional expenses.

The increase in sales and marketing expenses for fiscal 2016 from fiscal 2015 was primarily due to a \$13.8 million increase in payroll and related expenses from an increase in our sales force, deployment engineering, customer success teams, and from the acquisition of DXI, a \$3.5 million increase in third party sales commissions, a \$2.6 million increase in temporary personnel, consulting and outside service expenses, a \$2.3 million increase in stock-based compensation expenses, a \$1.2 million increase in travel and meal expenses, a \$1.1 million increase in advertising, a \$0.6 million increase in trade show expenses, a \$0.5 million increase in credit card processing fees, a \$0.3 million increase in amortization expense due to intangibles acquired in acquisitions, and a \$0.2 million increase in depreciation expense.

The increase in sales and marketing expenses for fiscal 2015 from fiscal 2014 was primarily due to a \$11.2 million increase in payroll and related expenses from an increase in our sales force, deployment engineering, customer success teams, and from the acquisition of Voicenet, a \$1.9 million increase in third party sales commissions, a \$1.4 million increase in stock-based compensation expenses, a \$0.9 million increase in temporary personnel, consulting and outside service expenses, a \$0.7 million increase in travel and meal expenses, a \$0.6 million increase in amortization expense due to intangibles acquired in acquisitions, a \$0.6 million increase in trade show expenses, a \$0.4 million increase in credit card processing fees, a \$0.2 million increase in expensed computer, software and light furniture, offset by a \$0.3 million decrease in bad debt expenses and a \$0.2 million decrease in advertising expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	<i>(dollar amounts in thousands)</i>						
General and administrative	\$ 25,745	\$ 18,182	\$ 15,368	\$ 7,563	41.6%	\$ 2,814	18.3%
Percentage of total revenue	12.3%	11.2%	12.0%				

General and administrative expenses consist primarily of personnel and related overhead costs for finance, human resources and general management.

The increase in general and administrative expenses for fiscal 2016 from fiscal 2015 was primarily due to a \$2.6 million increase in stock-based compensation expenses, a \$1.7 million increase in payroll and related expenses, a \$0.9 million increase in temporary personnel, consulting and outside service expenses, a \$0.8 million increase in facility lease and maintenance expenses, a \$0.5 million increase in accounting and tax expenses, and a \$0.2 million increase in licenses and fees expenses.

The increase in general and administrative expenses for fiscal 2015 from fiscal 2014 was primarily due to a \$1.7 million increase in payroll and related expenses, a \$1.0 million increase in legal expenses, a \$0.3 million increase in recruiting expenses, a \$0.2 million increase in facility lease and maintenance expenses, offset by a \$0.6 million decrease in stock-based compensation expenses.

GAIN ON PATENT SALE

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	<i>(dollar amounts in thousands)</i>						
Gain on patent sale	\$ -	\$ (1,000)	\$ -	\$ 1,000	100.0%	\$ (1,000)	100.0%
Percentage of total revenue	0.0%	-0.6%	0.0%				

In June 2012, we entered into a patent purchase agreement for the sale of a family of United States patents. We recognized a gain of slightly less than \$12.0 million, net of transaction costs, in the first fiscal quarter of 2013, approximately \$1.0 million in the fourth fiscal quarter of 2013, and approximately \$1.0 million in the second fiscal quarter of 2015 due to the third party purchaser entering into a license agreement with its customer. The gain on patent sale has been recorded as a reduction of operating expenses in the consolidated statements of operations.

INTEREST INCOME AND OTHER, NET

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	<i>(dollar amounts in thousands)</i>						
Interest income and other, net	\$ 1,107	\$ 833	\$ 742	\$ 274	32.9%	\$ 91	12.3%
Percentage of total revenue	0.5%	0.5%	0.6%				

This item primarily consisted of interest income earned on our cash, cash equivalents and investments and amortization or accretion of investments in fiscal 2016, 2015 and 2014.

(BENEFIT) PROVISION FOR INCOME TAXES

	Years Ended March 31,			Year-over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	<i>(dollar amounts in thousands)</i>						
(Benefit) provision for income taxes	\$ (847)	\$ 2,789	\$ 2,219	\$ (3,636)	-130.4%	\$ 570	25.7%
Percentage of total revenue	-0.4%	1.7%	1.7%				

We recorded an income tax benefit of (\$0.8) million in fiscal year 2016, all of which related to net loss from operations. During the fourth quarter of fiscal 2016, we evaluated the need for a valuation allowance against our net deferred tax assets and determined that a decrease of \$1.1 million was needed as certain California net operating losses carryforwards having expired in fiscal 2016.

We recorded an income tax provision of \$2.8 million in fiscal year 2015, all of which related to net income from operations. During the fourth quarter of fiscal 2015, we evaluated the need for a valuation allowance against our net deferred tax asset and determined that a decrease of \$1.5 million was needed as certain California net operating losses carryforwards having expired in fiscal 2015.

At March 31, 2016, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$137.9 million and \$38.7 million, respectively that expire at various dates between 2017 and 2036. In addition, at March 31, 2016, we had research and development credit carryforwards for federal and state tax reporting purposes of approximately \$4.5 million and \$6.2 million, respectively. The federal income tax credit carryforwards will expire between 2021 and 2036, while the California income tax 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 limited in certain circumstances.

At March 31, 2016 and 2015, we had net deferred tax assets before valuation allowances of approximately \$52.3 million and \$52.5 million, respectively.

INCOME FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX PROVISION

	<u>Years Ended March 31,</u>			<u>Year-over-Year Change</u>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015 to 2016</u>		<u>2014 to 2015</u>	
	<i>(dollar amounts in thousands)</i>						
Income from discontinued operations, net of income tax provision	\$ -	\$ -	\$ 320	\$ -	N/A	\$ (320)	-100.0%
Percentage of total revenue	0.0%	0.0%	0.2%				

On September 30, 2013, we sold our dedicated server hosting business. The current and historical results of our dedicated server hosting business have been reclassified to income from discontinued operations, net of income tax provision. For the years ended March 31, 2016, 2015 and 2014, income taxes were \$0, \$0, and \$0.3 million, respectively.

GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS, NET OF INCOME TAX PROVISION

	<u>Years Ended March 31,</u>			<u>Year-over-Year Change</u>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015 to 2016</u>		<u>2014 to 2015</u>	
	<i>(dollar amounts in thousands)</i>						
Gain on disposal of discontinued operations, net of income tax provision	\$ -	\$ -	\$ 596	\$ -	N/A	\$ (596)	-100.0%
Percentage of total revenue	0.0%	0.0%	0.5%				

For the year ended March 31, 2014, we recorded a gain on disposal of our dedicated server hosting business of \$1.1 million, net of a tax provision of \$0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2016, we had \$162.9 million of cash and cash equivalents and investments. By comparison, at March 31, 2015, we had \$177.1 million in cash and cash equivalents and investments. During fiscal 2016, we repurchased approximately 1.4 million shares of our common stock on the market for a total of approximately \$11.7 million of which \$11.2 million were related to our stock repurchase program, and \$0.5 million related to shares withheld for employee payroll taxes. We currently have no borrowing arrangements. We believe we have sufficient liquidity to fund operations for the foreseeable future. In addition, we have a shelf registration statement that would allow us to raise up to an additional \$123.7 million from the sale of new securities of ours.

2016 to 2015

Net cash provided by operating activities for fiscal 2016 was \$23.6 million, compared with \$21.2 million provided by operating activities for fiscal 2015. Cash used in or provided by operating activities has historically been affected by:

- the amount of net income or loss;
- 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 deferred income tax, depreciation and amortization; and

- the expense associated with stock options and stock-based awards.

Net cash used in investing activities was \$36.3 million in fiscal 2016, compared with \$12.2 million used in investing activities in fiscal 2015. The increase in cash used in investing activities during fiscal 2016 was primarily related to the purchase of investments (\$126.7 million) and the acquisition of businesses (\$23.2 million). The increase in cash used in investing activities during fiscal 2016 was partially offset by the sale of investments (\$56.3) million and proceeds from maturities of investments (\$64.4 million).

Net cash used in financing activities was \$7.2 million in fiscal 2016, compared with \$14.9 million used in financing activities in fiscal 2015. Our financing activities for fiscal 2016 used cash of approximately \$11.7 million for the repurchase of our common stock (\$11.2 million under our stock repurchase program and \$0.5 million for share withheld for payroll taxes). The used in financing activities in fiscal 2016 was partially offset by \$4.8 million proceeds from the issuance of common stock under the employee stock purchase plan.

2015 to 2014

Net cash provided by operating activities for fiscal 2015 was \$21.2 million, compared with \$14.9 million provided by operating activities for fiscal 2014. 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 deferred income tax, depreciation and amortization; and
- the expense associated with stock options and stock-based awards.

Net cash used in investing activities was \$12.2 million in fiscal 2015, compared with \$136.5 million used in investing activities in fiscal 2014. The decrease in cash used in investing activities during fiscal 2015 was primarily related to the purchase of investments (\$106.0 million) and the acquisition of property and equipment (\$5.8 million). The increase in cash used in investing activities during fiscal 2015 was partially offset by the sale and maturities of investments in fiscal 2015 (\$100.3 million).

Net cash used in financing activities was \$14.9 million in fiscal 2015, compared with \$130.5 million provided by financing activities in fiscal 2014. Our financing activities for fiscal 2015 provided cash of \$4.5 million due to issuance of common stock under our employee stock purchase plan and the issuance of shares related to the exercise of options, which was offset by approximately \$19.3 million (\$19.2 million under our stock repurchase program and \$0.1 million for shares withheld for payroll taxes).

Contractual Obligations

Future operating lease payments, capital lease payments and purchase obligations at March 31, 2016 for the next five years were as follows (in thousands):

	Year Ending March 31,					Total	
	2017	2018	2019	2020	2021		Thereafter
Capital leases	\$ 608	\$ 540	\$ 349	\$ -	\$ -	\$ -	\$ 1,497
Office leases	3,663	3,552	3,645	2,862	283	-	14,005
Purchase obligations							
Third party customer support provider	2,158	-	-	-	-	-	2,158
Third party network service providers	2,572	891	-	-	-	-	3,463
Open purchase orders	48	-	-	-	-	-	48
	<u>\$ 9,049</u>	<u>\$ 4,983</u>	<u>\$ 3,994</u>	<u>\$ 2,862</u>	<u>\$ 283</u>	<u>\$ -</u>	<u>\$ 21,171</u>

Our capital lease obligations consist of leases for computer equipment.

Our office lease obligations consist of our principal facility and various leased facilities under operating lease agreements, which expire on various dates from fiscal 2017 through fiscal 2021. The Company leases its headquarters facility in San Jose, California under an operating lease agreement that expires in October 2019.

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 \$0.4 million. As the agreement requires a 150-day notice to terminate, the total remaining obligation under the contract was \$2.2 million at March 31, 2016.

We have entered into contracts with multiple vendors for third party network service which expire on various dates in fiscal 2017 through 2018. At March 31, 2016, the total remaining obligations under these contracts were \$3.5 million.

At March 31, 2016, 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, 2016 and 2015, 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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
8x8, Inc.

We have audited the accompanying consolidated balance sheets of 8x8, Inc. (the Company), as of March 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended March 31, 2016. Our audits also included the financial statement schedule listed in Item 15(a)(2). We also have audited the Company's internal control over financial reporting as of March 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As discussed in Management's Report on Internal Control Over Financial Reporting, on May 29, 2015, the Company acquired DXI Group Limited ("DXI"). For the purposes of assessing internal control over financial reporting, management excluded DXI, whose financial statements constitute 1% of the Company's consolidated total assets (excluding \$20.4 million of goodwill and intangible assets, net, which were integrated into the Company's control environment) and 5% of consolidated net revenues as of and for the year ended March 31, 2016, respectively. Accordingly, our audit did not include the internal control over financial reporting of DXI. The Company's management is responsible for these consolidated 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 the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and schedule 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 consolidated 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 consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 opinions.

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of 8x8, Inc., as of March 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, 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, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP

San Francisco, California
May 31, 2016

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

	March 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,576	\$ 53,110
Short-term investments	129,274	123,984
Accounts receivable, net	11,070	6,642
Inventory	520	704
Deferred cost of goods sold	634	428
Deferred tax asset	5,382	4,454
Other current assets	5,444	2,274
Total current assets	185,900	191,596
Property and equipment, net	12,375	10,248
Intangible assets, net	21,464	12,260
Goodwill	47,420	36,887
Non-current deferred tax asset	43,189	43,169
Other assets	3,104	1,464
Total assets	\$ 313,452	\$ 295,624
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,954	\$ 7,775
Accrued compensation	10,063	5,741
Accrued warranty	326	339
Accrued taxes	5,200	2,800
Accrued outside commissions	2,186	442
Deferred revenue	1,925	1,768
Other accrued liabilities	4,080	2,965
Total current liabilities	34,734	21,830
Non-current liabilities	3,258	1,352
Non-current deferred revenue	154	231
Total liabilities	38,146	23,413
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.001 par value:		
Authorized: 5,000,000 shares;		
Issued and outstanding: no shares at March 31, 2016 and 2015	-	-
Common stock, \$0.001 par value:		
Authorized: 200,000,000 shares;		
Issued and outstanding: 89,213,205 shares and 88,065,528 shares at March 31, 2016 and 2015, respectively	89	88
Additional paid-in capital	389,260	378,971
Accumulated other comprehensive loss	(4,184)	(2,109)
Accumulated deficit	(109,859)	(104,739)
Total stockholders' equity	275,306	272,211
Total liabilities and stockholders' equity	\$ 313,452	\$ 295,624

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,

	2016	2015	2014
Service revenue	\$ 192,241	\$ 148,208	\$ 116,607
Product revenue	17,095	14,205	11,990
Total revenue	<u>209,336</u>	<u>162,413</u>	<u>128,597</u>
Operating expenses:			
Cost of service revenue	37,078	29,701	22,445
Cost of product revenue	20,168	15,863	15,170
Research and development	24,040	15,118	11,633
Sales and marketing	109,379	80,667	60,906
General and administrative	25,745	18,182	15,368
Gain on patent sale	-	(1,000)	-
Total operating expenses	<u>216,410</u>	<u>158,531</u>	<u>125,522</u>
Income (loss) from operations	(7,074)	3,882	3,075
Other income, net	1,107	833	742
Income (loss) from continuing operations before provision (benefit) for income taxes	(5,967)	4,715	3,817
Provision (benefit) for income taxes	(847)	2,789	2,219
Income (loss) from continuing operations	(5,120)	1,926	1,598
Income from discontinued operations, net of income tax provision	-	-	320
Gain on disposal of discontinued operations, net of income tax provision of \$456	-	-	596
Net income (loss)	<u>\$ (5,120)</u>	<u>\$ 1,926</u>	<u>\$ 2,514</u>
Income (loss) per share - continuing operations:			
Basic	\$ (0.06)	\$ 0.02	\$ 0.02
Diluted	\$ (0.06)	\$ 0.02	\$ 0.02
Income per share - discontinued operations:			
Basic	\$ 0.00	\$ 0.00	\$ 0.01
Diluted	\$ 0.00	\$ 0.00	\$ 0.01
Net income (loss) per share:			
Basic	\$ (0.06)	\$ 0.02	\$ 0.03
Diluted	\$ (0.06)	\$ 0.02	\$ 0.03
Weighted average number of shares:			
Basic	88,477	89,071	78,310
Diluted	88,477	91,652	81,658

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

8X8, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)

	Years Ended March 31,		
	2016	2015	2014
Net income (loss)	\$ (5,120)	\$ 1,926	\$ 2,514
Other comprehensive income (loss), net of tax			
Unrealized loss on investments in securities	(50)	(26)	(41)
Foreign currency translation adjustment	(2,025)	(2,513)	507
Comprehensive income (loss)	<u>\$ (7,195)</u>	<u>\$ (613)</u>	<u>\$ 2,980</u>

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, 2013	72,108,980	\$ 72	\$ 246,176	\$ (36)	\$ (109,179)	\$ 137,033
Issuance of common stock, net of issuance costs	14,375,000	14	125,736	-	-	125,750
Issuance of common stock under stock plans	2,091,435	2	5,165	-	-	5,167
Repurchase of common stock	(50,400)	-	(489)	-	-	(489)
Stock-based compensation expense	-	-	7,595	-	-	7,595
Income tax benefit from stock- based compensation	-	-	142	-	-	142
Unrealized investment loss	-	-	-	(41)	-	(41)
Foreign currency translation adjustment	-	-	-	507	-	507
Net income	-	-	-	-	2,514	2,514
Balance at March 31, 2014	<u>88,525,015</u>	<u>88</u>	<u>384,325</u>	<u>430</u>	<u>(106,665)</u>	<u>278,178</u>
Issuance of common stock under stock plans	2,043,781	2	4,525	-	-	4,527
Cost of issuance of common stock	-	-	(8)	-	-	(8)
Repurchase of common stock	(2,503,268)	(2)	(19,369)	-	-	(19,371)
Stock-based compensation expense	-	-	9,347	-	-	9,347
Income tax benefit from stock- based compensation	-	-	151	-	-	151
Unrealized investment loss	-	-	-	(26)	-	(26)
Foreign currency translation adjustment	-	-	-	(2,513)	-	(2,513)
Net income	-	-	-	-	1,926	1,926
Balance at March 31, 2015	<u>88,065,528</u>	<u>88</u>	<u>378,971</u>	<u>(2,109)</u>	<u>(104,739)</u>	<u>272,211</u>
Issuance of common stock under stock plans	2,218,470	2	5,386	-	-	5,388
Cost of issuance of common stock	-	-	(3)	-	-	(3)
Repurchase of common stock	(1,422,837)	(1)	(11,652)	-	-	(11,653)
Stock-based compensation expense	-	-	16,334	-	-	16,334
Issuance of common stock for acquisition of DXI	352,044	-	-	-	-	-
Income tax benefit from stock- based compensation	-	-	224	-	-	224
Unrealized investment loss	-	-	-	(50)	-	(50)
Foreign currency translation adjustment	-	-	-	(2,025)	-	(2,025)
Net loss	-	-	-	-	(5,120)	(5,120)
Balance at March 31, 2016	<u>89,213,205</u>	<u>89</u>	<u>389,260</u>	<u>(4,184)</u>	<u>(109,859)</u>	<u>275,306</u>

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

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

	Years Ended March 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	\$ (5,120)	\$ 1,926	\$ 2,514
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	4,994	3,540	2,567
Amortization of intangibles	3,557	2,232	1,643
Impairment of long-lived assets	640	-	-
Amortization of capitalized software	456	341	147
Net accretion of discount and amortization of premium on marketable securities	740	896	114
Gain on disposal of discontinued operations	-	-	(596)
Gain on escrow settlement	-	-	(565)
Stock-based compensation expense	16,334	9,347	7,595
Tax benefit from stock-based compensation expense	(224)	(151)	(142)
Deferred income tax (benefit) expense	(1,493)	2,390	2,266
Other	533	256	650
Changes in assets and liabilities:			
Accounts receivable	(4,539)	(1,529)	(1,575)
Inventory	136	52	(276)
Other current and noncurrent assets	(1,432)	(196)	(488)
Deferred cost of goods sold	(224)	(207)	163
Accounts payable	2,473	610	(1,237)
Accrued compensation	3,566	1,632	488
Accrued warranty	(13)	(321)	208
Accrued taxes	2,292	490	276
Accrued outside commissions	1,744	(5)	202
Deferred revenue	(273)	(1,065)	681
Other current and noncurrent liabilities	(580)	1,002	282
Net cash provided by operating activities	<u>23,567</u>	<u>21,240</u>	<u>14,917</u>
Cash flows from investing activities:			
Acquisitions of property and equipment	(4,894)	(5,826)	(2,853)
Cost of capitalized software	(2,095)	(724)	(755)
Purchase of investments - available for sale	(126,723)	(106,021)	(141,604)
Sales of investments - available for sale	56,302	36,764	24,219
Proceeds from maturities of investments - available for sale	64,361	63,546	-
Acquisition of businesses, net of cash acquired	(23,246)	-	(18,474)
Proceeds from disposition of discontinued operations, net of transaction costs	-	-	3,000
Net cash used in investing activities	<u>(36,295)</u>	<u>(12,261)</u>	<u>(136,467)</u>
Cash flows from financing activities:			
Capital lease payments	(446)	(149)	(85)
Payment of contingent consideration	(200)	-	-
Repurchase of common stock	(11,653)	(19,371)	(489)
Tax benefit from stock-based compensation expense	224	151	142
Proceeds from issuance of common stock, net of issuance costs	-	-	125,750
Proceeds from issuance of common stock under employee stock plans	4,827	4,455	5,167
Net cash (used in) provided by financing activities	<u>(7,248)</u>	<u>(14,914)</u>	<u>130,485</u>
Effect of exchange rate changes on cash	442	(114)	(81)
Net (decrease) increase in cash and cash equivalents	<u>(19,534)</u>	<u>(6,049)</u>	<u>8,854</u>
Cash and cash equivalents, beginning of year	53,110	59,159	50,305
Cash and cash equivalents, end of year	<u>\$ 33,576</u>	<u>\$ 53,110</u>	<u>\$ 59,159</u>
Supplemental and non-cash disclosures:			
Acquisition of property and equipment, net in connection with acquisitions of businesses	\$ 1,453	\$ -	\$ 956
Acquisition of capital lease in connection with acquisitions of businesses	1,332	-	216
Equipment acquired under capital leases	573	-	-
Cash paid for interest	44	5	5
Cash paid for income taxes	445	159	427

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

8x8, Inc. ("8x8" or the "Company") was incorporated in California in February 1987 and was reincorporated in Delaware in December 1996.

The Company is a provider of cloud-based, enterprise-class software solutions that transform the way businesses communicate and collaborate globally. The Company's comprehensive software platform brings together the power of cloud, mobile, collaboration, video and data science technologies to enhance the way employees communicate with each other, and how they connect and interact with their customers. The Company's integrated, "pure-cloud" offering combines global voice, conferencing, messaging and video with integrated workflows and big data analytics on a single platform to enable increased team productivity, better customer engagement and real-time insights into business performance. Since fiscal 2004, substantially all of our revenue has been generated from the sale, license and provision of communications services. Prior to fiscal 2003, our focus was on our Voice over Internet Protocol semiconductor business.

The Company's fiscal year ends on March 31 of each calendar year. Each reference to a fiscal year in these notes to the consolidated financial statements refers to the fiscal year ended March 31 of the calendar year indicated (for example, fiscal 2016 refers to the fiscal year ended March 31, 2016).

Common Stock Offering

In November 2013, the Company completed an underwritten registered offering of common stock in which it sold 14,375,000 shares for total cash proceeds of approximately \$125.8 million, net of issuance costs of \$0.6 million. The shares issued in the offering had been registered under a shelf registration statement previously filed with the Securities and Exchange Commission relating to up to \$250,000,000 of the Company's securities. A member of the Company's board of directors participated in the offering and purchased 30,000 shares at the public offering price.

Acquisitions

In November 2013, the Company entered into a share purchase agreement with the shareholders and option holders of Voicenet Solutions Limited, a provider of cloud communications and collaboration services in the United Kingdom.

In May 2015, the Company entered into a share purchase agreement with the shareholders of DXI Limited, API Telecom Limited, Easycallnow Limited and RAS Telecom Limited, a provider of in cloud-based outbound and blended contact center solutions,

In June 2015, the Company entered into an asset purchase agreement with the shareholder of Quality Software Corporation and other parties affiliated with the shareholder and Quality Software Corporation, a developer of cloud-native quality management capabilities and analytics.

See Note 13 for further discussion.

Reclassification

Certain amounts previously reported within the Company's consolidated balance sheets and statements of cash flows have been reclassified to conform to the current period presentation. The reclassification had no impact on the Company's previously reported net income (loss), cash flows, or basic or diluted net income per share amounts.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of 8x8 and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to bad debts, returns reserve for expected cancellations, valuation of inventories, income and sales tax, and litigation and other contingencies. The Company bases its 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, and equity that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

REVENUE RECOGNITION

Service and Product Revenue

The Company recognizes service revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured. The Company defers recognition of service revenues in instances when cash receipts are received before services are delivered and recognizes deferred revenues ratably as services are provided.

The Company recognizes revenue from product sales for which there are no related services to be rendered upon shipment to customers provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations. Gross outbound shipping and handling charges are recorded as revenue, and the related costs are included in cost of goods sold. Reserves for returns and allowances for customer sales are recorded at the time of shipment. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, *Revenue Recognition*, the Company records shipments to distributors, retailers, channel partners, and resellers, where the right of return exists, as deferred revenue. The Company defers recognition of revenue on product sales to distributors, retailers, channel partners, and resellers until the products have been sold to the end customer.

The Company records revenue net of any sales and service related taxes and mandatory government charges that are billed to its customers. The Company believes this approach results in consolidated financial statements that are more easily understood by users.

Under the terms of the Company's typical subscription agreement, new customers can terminate their service within 30 days of order placement and receive a full refund of fees previously paid. The Company has determined that it has sufficient history of subscriber conduct to make a reasonable estimate of cancellations within the 30-day trial period. Therefore, the Company recognizes new subscriber revenue that is fixed or determinable and that are not contingent on future performance or future deliverables in the month in which the new order was shipped, net of an allowance for expected cancellations.

Multiple Element Arrangements

ASC 605-25, *Revenue Recognition - Multiple Element Arrangements*, requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. The provisioning of the 8x8 cloud service with the accompanying 8x8 IP telephone constitutes a revenue arrangement with multiple deliverables. For arrangements with multiple deliverables, the Company allocates the arrangement consideration to all units of accounting based on their relative selling prices. In such circumstances, the accounting principles establish a hierarchy to determine the relative selling price to be used for allocating arrangement consideration to units of accounting as follows: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("BESP").

VSOE generally exists only when the Company sells the deliverable separately, on more than a limited basis, at prices within a relatively narrow range. When VSOE cannot be established, the Company attempts to establish the selling price of deliverables based on relevant TPE. TPE is determined based on manufacturer's prices for similar deliverables when sold separately, when possible. When the Company is unable to establish selling price using VSOE or TPE, it uses a BESP for the allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service was sold

on a stand-alone basis. BEBP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. The Company determines BEBP for a product or service by considering multiple factors including, but not limited to:

- the price list established by its management which is typically based on general pricing practices and targeted gross margin of products and services sold; and
- analysis of pricing history of new arrangements, including multiple element and stand-alone transactions.

In accordance with the guidance of ASC 605-25, when the Company enters into revenue arrangements with multiple deliverables the Company allocates arrangement consideration, including activation fees, among the 8x8 IP telephones and subscriber services based on their relative selling prices. Arrangement consideration allocated to the IP telephones that is fixed or determinable and that is not contingent on future performance or future deliverables is recognized as product revenues during the period of the sale less the allowance for estimated returns during the 30-day trial period. Arrangement consideration allocated to subscriber services that is fixed or determinable and that is not contingent on future performance or future deliverables is recognized ratably as service revenues as the related services are provided, which is generally over the initial contract term.

DEFERRED COST OF GOODS SOLD

Deferred cost of goods sold represents the cost of products sold for which the end customer or distributor has a right of return. The cost of the products sold is recognized contemporaneously with the recognition of revenue, when the subscriber has accepted the service.

CASH, CASH EQUIVALENTS AND INVESTMENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Management determines the appropriate categorization of its investments at the time of purchase and reevaluates the classification at each reporting date. The cost of the Company's investments is determined based upon specific identification.

The Company's investments are comprised of mutual funds, commercial paper, corporate debt, municipal securities, asset backed securities, mortgage backed securities, agency bonds, international government securities, certificates of deposit and money market funds. At March 31, 2016 and 2015, all investments were classified as available-for-sale and reported at fair value, based either upon quoted prices in active markets, quoted prices in less active markets, or quoted market prices for similar investments, with unrealized gains and losses, net of related tax, if any, included in other comprehensive income (loss) and disclosed as a separate component of consolidated stockholders' equity. Realized gains and losses on sales of all such investments are reported within the caption of other income, net in the consolidated statements of operations and computed using the specific identification method. The Company classifies its investments as current based on the nature of the investments and their availability for use in current operations. The Company's investments in marketable securities are monitored on a periodic basis for impairment. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. These available-for-sale investments are primarily held in the custody of a major financial institution.

ACCOUNTS RECEIVABLE ALLOWANCE

The Company estimates the amount of uncollectible accounts receivable at the end of each reporting period based on the aging of the receivable balance, current and historical customer trends, and communications with its customers. Amounts are written off only after considerable collection efforts have been made and the amounts are determined to be uncollectible.

INVENTORY

Inventory is stated at the lower of standard cost, which approximates actual cost using the first-in, first-out method, or market. Any write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently would not be marked up based on changes in underlying facts and circumstances. On an on-going basis, the Company evaluates inventory for obsolescence and slow-moving items. This evaluation includes analysis of sales levels, sales projections, and purchases by item, as well as raw material usage related to the Company's manufacturing facilities. If the Company's review indicates a reduction in utility below carrying value, it reduces inventory to a new cost basis. If future demand or market conditions are different than the Company's current estimates, an inventory adjustment may be required, and would be reflected in cost of goods sold in the period the revision is made.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method. Estimated useful lives of three years are used for equipment and software and five years for furniture and fixtures. Amortization of leasehold improvements is computed using the shorter of the remaining facility lease term or the estimated useful life of the improvements.

Maintenance, repairs and ordinary replacements are charged to expense. Expenditures for improvements that extend the physical or economic life of the property are capitalized. Gains or losses on the disposition of property and equipment are recorded in the Consolidated Statements of Operations.

Construction in progress primarily relates to costs to acquire or internally develop software for internal use not fully completed as of March 31, 2016.

ACCOUNTING FOR LONG-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets, such as property and equipment, definite lived intangibles or capitalized software, when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. Examples of such events could include a significant disposal of a portion of such assets, an adverse change in the market involving the business employing the related asset or a significant change in the operation or use of an asset. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets. See Note 5 for further discussion on impairment charges incurred as of March 31, 2016.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite useful lives are not amortized. Goodwill represents the excess fair value of consideration transferred over the fair value of net assets acquired in business combinations. The carrying value of goodwill and indefinite lived intangible assets are not amortized, but are tested annually for impairment and more often if there is an indicator of impairment. The Company has determined that it has two reporting units, and allocates goodwill to the reporting units for the purposes of the annual test for impairment.

The Company's annual goodwill impairment test is performed on January 1 each year. No goodwill impairment charges were recorded in the periods presented.

Intangible assets with finite useful lives are amortized on a straight-line basis over the periods benefited. Amortization expense for the customer relationship intangible asset is included in sales and marketing expenses. Amortization expense for technology is included in cost of service revenue.

WARRANTY EXPENSE

The Company accrues for estimated product warranty cost upon revenue recognition. Accruals for product warranties are calculated based on the Company's historical warranty experience adjusted for any specific requirements.

RESEARCH, DEVELOPMENT AND SOFTWARE COSTS

The Company accounts for software to be sold or otherwise marketed in accordance with ASC 985-20, *Costs of Software to be Sold, Leased or Marketed* (ASC 985-20) which requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. The Company defines establishment of technological feasibility as the completion of a working model. Software development costs for software to be sold or otherwise marketed incurred prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability of the product are capitalized, if material.

In fiscal 2016 and 2015, the Company capitalized approximately \$0 of software development costs in accordance with ASC 985-20. At March 31, 2016 and 2015, total capitalized software development costs included in other long-term assets was approximately \$0 and \$1.0 million, respectively, and accumulated amortization costs related to capitalized software was approximately \$0 million and \$0.5 million, respectively.

The Company accounts for computer software developed or obtained for internal use in accordance with ASC 350-40, *Internal Use Software* (ASC 350-40), which requires capitalization of certain software development costs incurred during the application development stage. In fiscal 2016, the Company capitalized \$3.4 million in accordance with ASC 350-40, of which \$0.8 million is classified as property and equipment and \$2.1 million is classified as other long-term assets. In fiscal 2015, the Company capitalized \$1.5 million in accordance with ASC 350-40, of which \$0.8 million is classified as property and equipment and \$0.7 million is classified as other long-term assets. At March 31, 2016, total capitalized software development costs included in property and equipment and other long-term assets was approximately \$1.2 and \$2.5 million, respectively, and accumulated amortization costs related to capitalized software was approximately \$0.2 million and \$0, respectively.

ADVERTISING COSTS

Advertising costs are expensed as incurred and were \$8.5 million, \$6.8 million and \$7.3 million for the years ended March 31, 2016, 2015 and 2014, respectively.

FOREIGN CURRENCY TRANSLATION

The Company has determined that the functional currencies of all its foreign subsidiaries are the subsidiary's local currency. The Company believes this most appropriately reflects the current economic facts and circumstances of the Company's subsidiaries operations. The assets and liabilities of the subsidiaries are translated at the applicable exchange rate as of the end of the balance sheet period and revenue and expenses are translated at an average rate over the period presented. Resulting currency translation adjustments are recorded as a component of accumulated other comprehensive income or loss within the stockholder's equity in the consolidated balance sheets.

BUSINESS SEGMENTS

The Company has two reportable segments, Americas and Europe. The Company's chief operating decision makers, the Chief Executive Officer, Chief Financial Officer, and Chief Technology Officer, evaluate performance of the Company and makes decisions regarding allocation of resources based on geographical results (see Note 12).

SUBSCRIBER ACQUISITION COSTS

Subscriber acquisition costs are expensed as incurred and include the advertising, marketing, promotions, commissions, rebates and equipment subsidy costs associated with the Company's efforts to acquire new subscribers.

INCOME TAXES

Income taxes are accounted for using the asset and liability approach. Under the asset and liability approach, a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year. A deferred tax liability or asset is recognized for the estimated future tax effects attributed to temporary differences and carryforwards. If necessary, the deferred tax assets are reduced by the amount of benefits that, based on available evidence, is more likely than not expected to be realized.

CONCENTRATIONS

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, investments and trade accounts receivable. The Company has cash equivalents and investment policies that limit the amount of credit exposure to any one financial institution and restrict placement of these funds to financial institutions evaluated as highly credit-worthy. The Company has not experienced any material losses relating to its investment instruments.

The Company sells its products to business customers and distributors. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from its customers. At March 31, 2016 and 2015, no customer accounted for more than 10% of accounts receivable.

The Company purchases all of its hardware products from suppliers that manufacturer the hardware directly. The inability of any supplier to fulfill supply requirements of the Company could materially impact future operating results, financial position or cash flows. If any of these suppliers fail to perform on their obligations to the Company, such failure to fulfill supply requirements of the Company could materially impact future operating results, financial position and cash flows.

The Company also relies primarily on third party network service providers to provide telephone numbers and PSTN call termination and origination services for its customers. If these service providers failed to perform their obligations to the Company, such failure could materially impact future operating results, financial position and cash flows.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal market or the most advantageous market in which it would transact.

The accounting guidance for fair value measurement requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability developed based on the best information available in the circumstances.

The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value by requiring that the most observable inputs be used when available. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 applies to assets or liabilities for which fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including the Company's own assumptions.

The estimated fair value of financial instruments is determined by the Company using available market information and valuation methodologies considered to be appropriate. The carrying amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their short maturities. The Company's investments are carried at fair value.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for its employee stock options, stock purchase rights, restricted stock units and restricted performance stock units granted under the 1996 Stock Plan, 1996 Director Option Plan, the 2006 Stock Plan, the 2003 Contactual Plan, the 2012 Equity Incentive Plan, the 2013 New Employee Inducement Incentive Plan and stock purchase rights under the 1996 Employee Stock Purchase Plan (collectively "Equity Compensation Plans") under the provisions of ASC 718 - *Stock Compensation* . Under the provisions of ASC 718, stock-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.

To value option grants, stock purchase rights and restricted stock units under the Equity Compensation Plans for stock-based compensation the Company 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 2016, 2015 and 2014, the Company used the historical volatility of its stock over a period equal to the expected life of the options. 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 is 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 is based on the Company's history and expectation of

future dividend payout. Compensation expense for stock-based payment awards is recognized using the straight-line single-option method and includes the impact of estimated forfeitures.

The Company issued restricted performance stock units (PSUs) to a group of executives with vesting that is contingent on both market performance and continued service during the fiscal year ended March 31, 2016:

- These PSUs vest (1) 50% on September 22, 2017 and (2) 50% on September 27, 2018, in each case subject to performance of the Company's common stock relative to the Russell 2000 Index during the period from grant date through such vesting date. A 2x multiplier will be applied to the total shareholder returns (TSR) for each 1% of positive or negative relative TSR, and the number of shares earned will increase or decrease by 2% of the target numbers. In the event 8x8's common stock performance is below negative 30%, relative to the benchmark, no shares will be issued.

The Company issued restricted (PSUs) to a group of executives with vesting that is contingent on both market performance and continued service. For the market-based restricted performance stock units issued during the fiscal year ended March 31, 2015:

- the number of shares of the Company's stock to be received at vesting if applicable service requirements are also met will range from 0% to 100% of the target amount based total shareholder return ("TSR"), which compares the performance of the price per share of the Company's common stock with the NASDAQ Composite Index ("Index") for the three performance periods ending March 31, 2016, March 31, 2017 and March 31, 2018, for the fiscal year ended March 31, 2015; and for the three performance periods ending March 31, 2015, March 31, 2016 and March 31, 2017 for the fiscal year ended March 31, 2014, in the following manner: where in each such measurement period, (1) if the performance return on the price per share of the Company's common stock exceeds the performance return on the NASDAQ Composite Index, (which shall be determined by subtracting the percentage return on the NASDAQ Composite Index from the percentage return on the price per share of the Common Stock), then all of the TSR Performance Shares for such measurement period will be deemed earned and will vest; (2) if the performance return on the price per share of Common Stock is more than 50% lower than the performance return on the NASDAQ Composite Index, then none of the TSR Performance Shares for such measurement period will be deemed earned and will vest; and (3) if the performance return on the price per share of Common Stock is between 0% and 50% lower than the performance return on the NASDAQ Composite Index, then the number of TSR Performance Shares deemed earned and vesting for such measurement period will be reduced by 2% for each 1% by which the performance return on the NASDAQ Composite Index exceeds the performance return on the Common Stock, (4) if the performance return on the price per share of Common Stock is between 0% and 50% higher than the performance return on the NASDAQ Composite Index, then the number of TSR Performance Shares deemed earned and vesting for such measurement period will increase by 2% for each 1% by which the performance return on the Common Stock exceeds the performance return on the NASDAQ Composite Index, and
- the number of shares of the Company's stock to be received at vesting will range from 0% or 100% of the target amount based on four tranches, with each tranche vesting at the later of (a) the satisfaction of the applicable service-based vesting requirement for that tranche, and (b) on the first date that the average stock price of the Company's common stock for a consecutive 30 trading day period exceeds 150% of the grant date stock price. The minimum service vesting requirement for each tranche is as follows:

Tranche 1: One year following the date of the grant

Tranche 2: Two years following the date of the grant

Tranche 3: Three years following the date of the grant

Tranche 4: Four years following the date of the grant

Market-based restricted performance stock units are valued using a Monte Carlo simulation model on the date of grant. Fair value determined using the Monte Carlo simulation model varies based on the assumptions used for the expected stock price volatility, the correlation coefficient between the Company and the NASDAQ Composite Index, risk-free interest rates, and future dividend payments.

In October 2013, the board of directors approved the modification of unvested stock options to purchase 74,479 shares of common stock and unvested stock purchase rights totaling 37,000 shares of common stock held by the Company's president upon his resignation. The options held by the Company's president upon his resignation, taken as a whole, had a weighted average exercise price of \$4.05 per share and range from \$2.72 to \$5.87 per share, and a weighted average remaining vesting term of 0.5 years. Approximately \$1.1 million of the \$7.6 million of stock-based compensation charge in fiscal year 2014 applied to the options held by the former president of the Company and was recorded in general and administrative expenses.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), as defined, includes all changes in equity (net assets) during a period from non-owner sources. The difference between net income (loss) and comprehensive (loss) income is due to foreign currency translation adjustments and unrealized gains or losses on investments classified as available-for-sale.

NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders (numerator) by the weighted average number of vested, unrestricted common shares outstanding during the period (denominator). Diluted net income per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and employee restricted purchase rights.

DEFERRED RENT

In April 2012, the Company entered into an 87-month lease agreement for its new headquarters. Under the terms of the lease agreement:

- the Company received a three month rent holiday from rental payments;
- base rent is \$130,821 for the 15 months after the rent holiday; and
- rent expense increases 3% each year thereafter.

In the second quarter of fiscal 2013, the Company received a \$1.7 million allowance for reimbursement for the cost of tenant improvements that the Company included in cash flows from operating activities. In accordance with the guidance in ASC 840-20, *Leases*, the Company accounts for its headquarters facility operating lease as follows:

Rent Holidays. The Company recognizes the related rent expense on a straight-line basis at the earlier of the first rent payment or the date of possession of the leased property. The difference between the amounts charged to expense and the rent paid is recorded as deferred lease incentives and amortized over the lease term.

Rent Escalations. The Company recognizes escalating rent provisions on a straight-line basis over the lease term. The difference between the amounts charged to expense and the rent paid is recorded as deferred lease incentives and amortized over the lease term.

Tenant Improvement Allowance. The tenant improvement allowance is deferred and amortized on a straight-line basis over the life of the lease as a reduction to rent expense.

In January 2016, the Company entered into a 48-month lease for additional office space near the Company's US headquarters. In April 2016, the lease was amended for actual move in date. Base rent begins at \$105,628 and increases 3% each year thereafter. Future minimum annual lease payments under this lease is included in "Leases" in Note 7.

At March 31, 2016, total deferred rent included in other accrued liabilities and non-current liabilities was \$0.3 million and \$1.0 million, respectively. At March 31, 2015, total deferred rent included in other accrued liabilities and non-current liabilities was \$0.3 million and \$1.3 million, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU changes the requirements for reporting discontinued operations in FASB ASU 205-20, such that a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This ASU requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position, as well as additional disclosures about discontinued operations. Additionally, the ASU requires disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements and expands the disclosures about an entity's

significant continuing involvement with a discontinued operation. The accounting update is effective for annual periods beginning on or after December 15, 2014. We adopted this pronouncement for our fiscal year beginning April 1, 2015, and there was no effect on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, (Topic 330), which amends the guidelines for the measurement of inventory. Under the amendments, an entity should measure inventory valued using a first-in, first-out or average cost method at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This amendment is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact of this pronouncement to its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will become effective for the Company on April 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method. The Company is currently assessing the impact of this pronouncement to its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. Topic 805 requires an acquirer to retrospectively adjust provisional amounts recognized in a business combination during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendment requires that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

The amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company is currently assessing the impact of this pronouncement to its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, (Topic 740), which amends the current requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Under the amendment, an entity will be required to classify all deferred tax assets and liabilities as noncurrent.

This amendment is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact of this pronouncement to its consolidated financial statements.

In February 2016, the FASB issued 2016-02, *Leases (Topic 842)*. Topic 842 requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The update also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The update requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply.

This amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact of this pronouncement to its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.

The amendment is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. The Company is currently assessing the impact of this pronouncement to its consolidated financial statements.

2. FAIR VALUE MEASUREMENTS

Cash, cash equivalents, available-for-sale investments, and contingent consideration were (in thousands):

As of March 31, 2016	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
Cash	\$ 18,596	\$ -	\$ -	\$ 18,596	\$ 18,596	\$ -
Level 1:						
Money market funds	14,980	-	-	14,980	14,980	-
Mutual funds	2,000	-	(187)	1,813	-	1,813
Subtotal	35,576	-	(187)	35,389	33,576	1,813
Level 2:						
Commercial paper	6,794	2	-	6,796	-	6,796
Corporate debt	85,164	78	(28)	85,214	-	85,214
Municipal securities	1,007	-	(1)	1,006	-	1,006
Asset backed securities	24,614	7	(11)	24,610	-	24,610
Mortgage backed securities	2,045	-	(17)	2,028	-	2,028
Agency bond	6,805	1	-	6,806	-	6,806
International government securities	1,000	1	-	1,001	-	1,001
Subtotal	127,429	89	(57)	127,461	-	127,461
Total assets	\$ 163,005	\$ 89	\$ (244)	\$ 162,850	\$ 33,576	\$ 129,274
Level 3:						
Contingent consideration	\$ -	\$ -	\$ -	\$ 341	\$ -	\$ -
Total liabilities	\$ -	\$ -	\$ -	\$ 341	\$ -	\$ -

As of March 31, 2015	Amortized Costs	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
Cash	\$ 24,734	\$ -	\$ -	\$ 24,734	\$ 24,734	\$ -
Level 1:						
Money market funds	28,376	-	-	28,376	28,376	-
Mutual funds	2,000	-	(107)	1,893	-	1,893
Subtotal	55,110	-	(107)	55,003	53,110	1,893
Level 2:						
Commercial paper	9,043	1	-	9,044	-	9,044
Corporate debt	75,284	57	(10)	75,331	-	75,331
Municipal securities	5,435	2	(1)	5,436	-	5,436
Asset backed securities	21,503	4	(5)	21,502	-	21,502
Mortgage backed securities	5,822	-	(52)	5,770	-	5,770
Agency bond	4,201	3	-	4,204	-	4,204
International government securities	800	4	-	804	-	804
Subtotal	122,088	71	(68)	122,091	-	122,091
Total	\$ 177,198	\$ 71	\$ (175)	\$ 177,094	\$ 53,110	\$ 123,984

Contractual maturities of investments as of March 31, 2016 are set forth below (in thousands):

	Estimated Fair Value
Due within one year	\$ 71,071
Due after one year	58,203
Total	<u>\$ 129,274</u>

Contingent Consideration and Escrow Liability

The Company's contingent consideration liability and escrow liability, included in other accrued liabilities and noncurrent liabilities on the consolidated balance sheets, was associated with the Quality Software Corporation (QSC) acquisition made in the first quarter of fiscal 2016. Amounts held in escrow were measure at fair value using present value computations. The contingent consideration was measured at fair value using a probability weighted average of the potential payment outcomes that would occur should certain contract milestones be reached. There is no market data available to use in valuing the contingent consideration; therefore, the Company developed its own assumptions related to the achievement of the milestones to evaluate the fair value of the liability. As such, the contingent consideration is classified within Level 3 as described below.

The items are classified as Level 3 within the valuation hierarchy, consisting of contingent consideration and escrow liability related to the QSC acquisition, were valued based on an estimate of the probability of success of the milestones being achieved and present value computations, respectively. The table below presents a roll-forward of the contingent consideration and escrow liability valued using a Level 3 input (in thousands):

	Years Ended March 31,	
	2016	2015
Balance at beginning of period	\$ -	\$ -
Purchase price contingent consideration	541	-
Contingent consideration payments	(200)	-
Balance at end of period	<u>\$ 341</u>	<u>\$ -</u>

3. INVENTORIES

Components of inventories were as follows (in thousands):

	March 31,	
	2016	2015
Work-in-process	\$ 76	\$ 169
Finished goods	444	535
	<u>\$ 520</u>	<u>\$ 704</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	<u>March 31,</u>	
	<u>2016</u>	<u>2015</u>
Machinery and computer equipment	\$ 20,040	\$ 16,099
Furniture and fixtures	1,067	759
Licensed software	6,350	4,696
Leasehold improvements	3,865	3,812
Construction in progress	967	942
	<u>32,289</u>	<u>26,308</u>
Less: accumulated depreciation and amortization	<u>(19,914)</u>	<u>(16,060)</u>
	<u>\$ 12,375</u>	<u>\$ 10,248</u>

5. INTANGIBLE ASSETS

The carrying value of intangible assets consisted of the following (in thousands):

	<u>March 31, 2016</u>			<u>March 31, 2015</u>		
	<u>Gross</u>		<u>Net</u>	<u>Gross</u>		<u>Net</u>
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>
Technology	\$ 18,640	\$ (4,622)	\$ 14,018	\$ 8,242	\$ (2,905)	\$ 5,337
Customer relationships	9,993	(4,847)	5,146	9,686	(3,720)	5,966
Trade names/domains	2,205	-	2,205	957	-	957
In-process research and development	95	-	95	-	-	-
Total acquired identifiable intangible assets	<u>\$ 30,933</u>	<u>\$ (9,469)</u>	<u>\$ 21,464</u>	<u>\$ 18,885</u>	<u>\$ (6,625)</u>	<u>\$ 12,260</u>

At March 31, 2016, annual amortization of intangible assets, based upon our existing intangible assets and current useful lives, is estimated to be the following (in thousands):

	<u>Amount</u>
2017	\$ 3,845
2018	3,577
2019	3,327
2020	3,327
2021	2,936
Thereafter	2,152
Total	<u>\$ 19,164</u>

Impairment of Long-Lived Assets

During the year ended March 31, 2016, the Company decided to end-of-life its hosted virtual desktop service (Zerigo). The Company evaluated long-lived assets related to Zerigo including the technology, customer relationships, and trade name intangible assets for impairment. The Company determined it was appropriate to record an impairment charge equal to the remaining value of the impaired long-lived assets in the third fiscal quarter. The impairment recorded during the fiscal year was \$0.6 million, of which \$0.4 million and \$0.2 million was recorded in cost of service and sales and marketing, respectively, in the consolidated statements of operations. Revenues and net income (loss) from Zerigo were not material for all periods presented.

6. GOODWILL

The following table provides a summary of the changes in the carrying amounts of goodwill by reporting segment (in thousands):

	<u>Americas</u>	<u>Europe</u>	<u>Total</u>
Balance as of March 31, 2014	\$ 23,940	\$ 14,521	\$ 38,461
Foreign currency translation	-	(1,574)	(1,574)
Balance as of March 31, 2015	<u>23,940</u>	<u>12,947</u>	<u>36,887</u>
Additions due to acquisitions	1,789	10,125	11,914
Foreign currency translation	-	(1,381)	(1,381)
Balance as of March 31, 2016	<u>\$ 25,729</u>	<u>\$ 21,691</u>	<u>\$ 47,420</u>

7. COMMITMENTS AND CONTINGENCIES

Guarantees

Indemnifications

In the normal course of business, the Company may agree to indemnify other parties, including customers, lessors and parties to other transactions with the Company, with respect to certain matters such as breaches of representations or covenants or intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors.

It is not possible to determine the maximum potential amount of the Company's exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material impact on the Company's operating results, financial position or cash flows. Under some of these agreements, however, the Company's potential indemnification liability might not have a contractual limit.

Product Warranties

The Company accrues for the estimated costs that may be incurred under its product warranties upon revenue recognition. Changes in the Company's product warranty liability, which is included in cost of product revenues in the consolidated statements of operations were as follows (in thousands):

	<u>Years Ended March 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 339	\$ 660	\$ 452
Accruals for warranties	355	185	953
Settlements	(303)	(364)	(745)
Changes in estimate	(65)	(142)	-
Balance at end of year	<u>\$ 326</u>	<u>\$ 339</u>	<u>\$ 660</u>

Leases

The Company's operating lease obligations consist of the Company's principal facility and various leased facilities under operating lease agreements, which expire on various dates from fiscal 2017 through fiscal 2021. The Company leases its headquarters facility in San Jose, California under an operating lease agreement that expires in October 2019.

At March 31, 2016, future minimum annual lease payments under non-cancelable operating leases were as follows (in thousands):

Year ending March 31:

2017	\$ 3,663
2018	3,552
2019	3,645
2020	2,862
2021 and Thereafter	283
Total	<u>\$ 14,005</u>

Rent expense for the years ended March 31, 2016, 2015 and 2014 was \$2.1 million, \$1.8 million and \$1.5 million, respectively.

Capital Leases

The Company has non-cancelable capital lease agreements for office and computer equipment bearing interest at various rates. At March 31, 2016, future minimum annual lease payments under non-cancelable capital leases were as follows (in thousands):

Year ending March 31:

2017	\$ 608
2018	540
2019	349
Total minimum payments	1,497
Less: Amount representing interest	(93)
	1,404
Less: Short-term portion of capital lease obligations	(588)
Long-term portion of capital lease obligations	<u>\$ 816</u>

Capital leases included in computer and office equipment were approximately \$1.6 million and \$0.5 million at March 31, 2016 and 2015, respectively. Total accumulated amortization was approximately \$0.1 million and \$0.3 million at March 31, 2016 and 2015, respectively. Amortization expense for assets recorded under capital leases is included in depreciation expense.

Minimum Third Party Customer Support Commitments

In the third quarter of 2010, the Company amended its contract with one of its third party customer support vendors containing a minimum monthly commitment of approximately \$0.4 million effective April 1, 2010. As the agreement requires a 150-day notice to terminate, the total remaining obligation under the contract was \$2.2 million at March 31, 2016.

Minimum Third Party Network Service Provider Commitments

The Company entered into contracts with multiple vendors for third party network service which expire on various dates in fiscal 2017 through 2018. At March 31, 2016, future minimum annual payments under these third party network service contracts were as follows (in thousands):

Year ending March 31:

2017	\$ 2,572
2018	891
Total minimum payments	<u>\$ 3,463</u>

The Company, from time to time, is involved in various legal claims or litigation, including patent infringement claims that can arise in the normal course of the Company's operations. Pending or future litigation could be costly, could cause the diversion of management's attention and could upon resolution, have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

On February 22, 2011, the Company was named a defendant in *Bear Creek Technologies, Inc. v. 8x8, Inc. et al.*, along with 20 other defendants. On August 17, 2011, the suit was dismissed without prejudice as to the Company under Rule 21 of the Federal Rules of Civil Procedure. On August 17, 2011, Bear Creek Technologies, Inc. refiled its suit against the Company in the United States District Court for the District of Delaware. Further, on November 28, 2012, the U.S. Patent & Trademark Office initiated a Reexamination proceeding with a Reexamination Declaration explaining that there is a substantial new question of patentability, based on four separate grounds and affecting each claim of the patent which is the basis for the complaint filed against us. On March 26, 2013, the USPTO issued a first Office Action in the Reexamination, with all claims of the '722 patent being rejected on each of the four separate grounds raised in the Request for Reexamination. On July 10, 2013, the Company filed an informational pleading in support of and joining a motion to stay the proceeding in the District Court; the District Court granted the motion on July 17, 2013, based on the possibility that at least one of the USPTO rejections will be upheld and considering the USPTO's conclusion that Bear Creek's patent suffers from a defective claim for priority. On March 24, 2014, the USPTO issued another Office Action in which the rejections of the claims were maintained. On August 15, 2014, the USPTO issued a Right of Appeal Notice, as the USPTO maintained all rejections of the patent claims.

On September 15, 2014, Bear Creek Technologies, Inc. filed a Notice of Appeal of this decision with the Patent Trial and Appeal Board. The case is currently on appeal. The Company believes that it has meritorious defenses to these claims and is presenting a vigorous defense, but the Company cannot estimate potential liability in this case at this early stage of litigation.

On April 16, 2015, the Company was named as a defendant in *Slocumb Law Firm v. 8x8, Inc.* The Slocumb Law Firm has alleged that it purchased certain business services from the Company that did not perform as advertised or expected, and has asserted causes of actions for fraud, breach of contract, violations of the Alabama Deceptive Trade Practices Act and negligence. On May 7, 2015, the Company filed a motion with the U.S. District Court for the Middle District of Alabama, seeking an order compelling the Slocumb Law Firm to arbitrate its claims against the Company in Santa Clara County, California pursuant to a clause mandating arbitration of disputes set forth in the terms and conditions to which Slocumb Law Firm agreed in connection with its purchase of business services from the Company. No briefing schedule or hearing date for the motion has been set as of this time. Discovery has not yet commenced in the case. The Company intends to vigorously defend against Slocumb Law Firm's claims.

From time to time, the Company has received inquiries from a number of state and municipal taxing agencies with respect to the remittance of taxes. Several jurisdictions currently are conducting tax audits of the Company's records. The Company collects or has accrued for taxes that it believes are required to be remitted. The amounts that have been remitted have historically been within the accruals established by the Company.

Regulatory

VoIP communication services, like the Company's, are subject to less regulation at the federal level than traditional telecommunication services and states are pre-empted from regulating such services. Many regulatory actions are underway or are being contemplated by federal and state authorities, including the FCC, and state regulatory agencies. The FCC initiated a notice of public rule-making in early 2004 to gather public comment on the appropriate regulatory environment for IP telephony which would include the services we offer. In November 2004, the FCC ruled that the VoIP service of a competitor and "similar" services are jurisdictionally interstate and not subject to state certification, tariffing and other legacy telecommunication carrier regulations.

The effect of any future laws, regulations and the orders on the Company's 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 the Company's costs of providing service that may or may not be recoverable from the Company's customers which could result in making the Company's services less competitive with traditional telecommunications services if the Company increases its retail prices or decreases the Company's profit margins if it attempts to absorb such costs.

8. STOCKHOLDERS' EQUITY

1996 Stock Plan

In June 1996, the Company's board of directors adopted the 1996 Stock Plan ("1996 Plan"). A total of 12,035,967 shares were reserved for issuance under the 1996 Plan prior to its expiration in June 2006. As of March 31, 2016, there are no shares available for future grants under the 1996 Plan. The 1996 Plan provided for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted could not be less than the determined fair market value at the date of grant. Options generally vested over four years and had a ten-year term.

1996 Director Option Plan

The Company's 1996 Director Option Plan ("Director Plan") was adopted in June 1996 and became effective in July 1997. A total of 1,650,000 shares of common stock were reserved for issuance under the Director Plan prior to its expiration in June 2006. As of March 31, 2016 there are no shares available for future grants under the Director Plan. The Director Plan provided for both discretionary and periodic grants of nonstatutory stock options to non-employee directors of the Company (the "Outside Directors"). The exercise price per share of all options granted under the Director Plan was equal to the fair market value of a share of the Company's common stock on the date of grant. Options generally vested over a period of four years. Options granted to Outside Directors under the Director Plan had a ten year term, or shorter upon termination of an Outside Director's status as a director.

2006 Stock Plan

In May 2006, the Company's board of directors approved the 2006 Stock Plan ("2006 Plan"). The Company's stockholders subsequently adopted the 2006 Plan in September 2006, and the 2006 Plan became effective in October 2006. The Company reserved 7,000,000 shares of the Company's common stock for issuance under this plan. As of March 31, 2016, 1,238 shares remained available for future grants under the 2006 Plan. The 2006 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants. The stock option price of incentive stock options granted may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2006 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options generally vest over four years and expire ten years after grant. In 2009, the 2006 Plan was amended to provide for the granting of stock purchase rights. The 2006 Plan expires in May 2016.

2003 Contactual Plan

In the second fiscal quarter of 2012, the Company assumed the Amended and Restated Contactual, Inc. 2003 Stock Option Plan (the "2003 Contactual Plan") and registered an aggregate of 171,974 shares of the Company's common stock that may be issued upon the exercise of stock options previously granted under the 2003 Contactual Plan and assumed by the Company when it acquired Contactual. No new stock options or other awards can be granted under 2003 Contactual Plan.

2012 Equity Incentive Plan

In June 2012, the Company's board of directors approved the 2012 Equity Incentive Plan ("2012 Plan"). The Company's stockholders subsequently adopted the 2012 Plan in July 2012, and the 2012 Plan became effective in August 2012. The Company reserved 4,100,000 shares of the Company's common stock for issuance under this plan. In August 2014, the 2012 Plan was amended to allow for an additional 6,800,000 shares reserved for issuance. As of March 31, 2016, 3,164,029 shares remained available under the 2012 Plan. The 2012 Plan provides for granting incentive stock options to employees and nonstatutory stock options to employees, directors or consultants, and granting of stock appreciation rights, restricted stock, restricted stock units and performance units, qualified performance-based awards and stock grants. The stock option price of incentive stock options granted may not be less than the fair market value on the effective date of the grant. Other types of options and awards under the 2012 Plan may be granted at any price approved by the administrator, which generally will be the compensation committee of the board of directors. Options, restricted stock and restricted stock units generally vest over four years and expire ten years after grant. The 2012 Plan expires in June 2022.

2013 New Employee Inducement Incentive Plan

In September 2013, the Company's board of directors approved the 2013 New Employee Inducement Incentive Plan ("2013 Plan"). The Company reserved 1,000,000 shares of the Company's common stock for issuance under this plan. In November 2014, the 2013 Plan was amended to allow for an additional 1,200,000 shares reserved for issuance. In July 2015, the Plan was amended to allow for an additional 1,200,000 shares reserved for issuance. As of March 31, 2016, 700,021 shares remained available for future grants under the 2013 Plan. The 2013 Plan provides for granting nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock and performance units and stock grants solely to newly hired employees as a material inducement to accepting employment with the Company. Options are granted at market value on the grant date under the 2013 Plan, unless determined otherwise at the time of grant by the administrator, which generally will be the compensation committee of the board of directors. Options, generally expire ten years after grant. The 2013 Plan expires in September 2023.

Stock-Based Compensation

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

	Years Ended March 31,		
	2016	2015	2014
Cost of service revenue	\$ 1,159	\$ 692	\$ 372
Cost of product revenue	-	-	-
Research and development	2,914	1,495	967
Sales and marketing	6,133	3,748	2,217
General and administrative	6,128	3,412	4,039
Total stock-based compensation expense			
related to employee stock options			
and employee stock purchases, pre-tax	16,334	9,347	7,595
Tax benefit	-	-	-
Stock based compensation expense related to			
employee stock options and employee			
stock purchases, net of tax	\$ 16,334	\$ 9,347	\$ 7,595

Stock Options, Stock Purchase Right and Restricted Stock Unit Activity

Stock Option activity under all the Company's stock option plans since March 31, 2013, is summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at March 31, 2013	5,991,544	\$ 2.52
Granted	1,465,400	9.66
Exercised	(1,283,470)	2.75
Canceled/Forfeited	<u>(171,092)</u>	5.25
Outstanding at March 31, 2014	6,002,382	4.14
Granted	1,110,466	7.29
Exercised	(1,326,385)	1.87
Canceled/Forfeited	<u>(458,556)</u>	6.06
Outstanding at March 31, 2015	5,327,907	5.19
Granted	723,776	8.63
Exercised	(1,162,175)	2.56
Canceled/Forfeited	<u>(96,242)</u>	8.06
Outstanding at March 31, 2016	<u>4,793,266</u>	\$ 6.29
Vested and expected to vest at March 31, 2016	<u>4,793,266</u>	\$ 6.29
Exercisable at March 31, 2016	<u>2,950,697</u>	\$ 4.99

Stock Purchase Right activity since March 31, 2013 is summarized as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term (in Years)
Balance at March 31, 2013	958,575	\$ 4.11	2.52
Granted	22,380	9.69	
Vested	(392,844)	3.25	
Forfeited	<u>(98,484)</u>	5.18	
Balance at March 31, 2014	489,627	4.83	1.93
Granted	31,432	7.88	
Vested	(223,360)	3.98	
Forfeited	<u>(73,864)</u>	5.39	
Balance at March 31, 2015	223,835	5.92	1.50
Granted	-	-	
Vested	(115,789)	5.32	
Forfeited	<u>(25,875)</u>	7.40	
Balance at March 31, 2016	<u>82,171</u>	\$ 6.30	0.76

Restricted Stock Unit activity since March 31, 2013 is summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in Years)
Balance at March 31, 2013	25,000	\$ 6.91	2.47
Granted	1,291,200	9.11	
Vested	(133,000)	9.49	
Forfeited	(48,344)	9.61	
Balance at March 31, 2014	1,134,856	9.00	2.00
Granted	1,965,786	6.68	
Vested	(187,788)	9.54	
Forfeited	(214,168)	8.30	
Balance at March 31, 2015	2,698,686	7.33	1.88
Granted	2,681,997	8.78	
Vested	(589,788)	7.79	
Forfeited	(246,096)	8.15	
Balance at March 31, 2016	4,544,799	\$ 8.08	1.67

Significant option groups outstanding at March 31, 2016 and related weighted average exercise price, contractual life, and aggregate intrinsic value information for 8x8, Inc.'s stock option plans are as follows:

	Options Outstanding			Options Exercisable			
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
\$ 0.55 to \$ 1.27	1,079,767	\$ 1.13	1.7	\$ 9,589,205	1,079,767	\$ 1.13	\$ 9,589,205
\$ 1.33 to \$ 6.86	1,500,242	\$ 5.77	7.0	6,368,920	1,000,701	\$ 5.27	4,744,126
\$ 7.52 to \$ 8.93	996,150	\$ 8.29	9.1	1,723,062	184,115	\$ 8.14	345,844
\$ 9.21 to \$ 9.74	983,835	\$ 9.62	7.5	384,463	603,302	\$ 9.63	232,944
\$ 10.50 to \$ 11.26	233,272	\$ 10.95	8.5	-	82,812	\$ 11.10	-
	<u>4,793,266</u>			<u>\$ 18,065,650</u>	<u>2,950,697</u>		<u>\$ 14,912,119</u>

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on March 31, 2016 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on March 31, 2016.

The total intrinsic value of options exercised in the years ended March 31, 2016, 2015 and 2014 was \$9.2 million, \$8.1 million and \$8.2 million, respectively. As of March 31, 2016, there was \$34.8 million of unamortized stock-based compensation expense related to unvested stock options and awards which is expected to be recognized over a weighted average period of 2.59 years.

Unamortized stock-based compensation expense related to shares issued as part of the DXI acquisition (see Note 13) was approximately \$1.9 million, which will be recognized over a weighted average period of 3.17 years.

Cash received from option exercises and purchases of shares under the Equity Compensation Plans for the years ended March 31, 2016, 2015 and 2014 were \$4.8 million, \$4.5 million and \$5.2 million, respectively. The total tax benefit attributable to stock options exercised in the year ended March 31, 2016, 2015 and 2014 was \$224,000, \$151,000 and \$142,000, respectively.

1996 Employee Stock Purchase Plan

The Company's 1996 Stock Purchase Plan ("Employee Stock Purchase Plan") was adopted in June 1996 and became effective upon the closing of the Company's initial public offering in July 1997. The Company suspended the Employee Stock Purchase Plan in 2003 and reactivated the Employee Stock Purchase Plan in fiscal 2005. Under the Employee Stock Purchase Plan, 500,000 shares of common stock were initially reserved for issuance. At the start of each fiscal year, the number of shares of common stock subject to the Employee Stock Purchase Plan increases so that 500,000 shares remain available for issuance. During fiscal 2016, 2015 and 2014, 365,555, 282,062 and 301,303 shares, respectively, were issued under the Employee Stock Purchase Plan. In May 2006, the Company's board of directors approved a ten-year extension of the Employee Stock Purchase Plan. Stockholders approved a ten-year extension of the Employee Stock Purchase Plan at the 2006 Annual Meeting of Stockholders held September 18, 2006. The Employee Stock Purchase Plan is effective until August 2017.

The Employee Stock Purchase Plan permits eligible employees to purchase common stock through payroll deductions at a price equal to 85% of the fair market value of the common stock at the beginning of each two year offering period or the end of a six month purchase period, whichever is lower. When the Employee Stock Purchase Plan was reinstated in fiscal 2005, the offering period was reduced from two years to one year. The contribution amount may not exceed ten percent of an employee's base compensation, including commissions, but not including bonuses and overtime. In the event of a merger of the Company with or into another corporation or the sale of all or substantially all of the assets of the Company, the Employee Stock Purchase Plan provides that a new exercise date will be set for each option under the plan which exercise date will occur before the date of the merger or asset sale.

Assumptions Used to Calculate Stock-Based Compensation Expense

The fair value of each of the Company's option grants has been estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Years Ended March 31,		
	2016	2015	2014
Expected volatility	53%	61%	64%
Expected dividend yield	-	-	-
Risk-free interest rate	1.5% to 1.8%	1.4% to 1.9%	0.7% to 2.2%
Weighted average expected option term	5.4 years	6.0 years	6.1 years
Weighted average fair value of options granted	\$ 4.17	\$ 4.14	\$ 5.70

The estimated fair value of stock purchase rights granted under the Employee Stock Purchase Plan was estimated using the Black-Scholes pricing model with the following weighted-average assumptions:

	Years Ended March 31,		
	2016	2015	2014
Expected volatility	43%	49%	40%
Expected dividend yield	-	-	-
Risk-free interest rate	0.39%	0.12%	0.09%
Weighted average expected rights term	0.83 years	0.80 years	0.75 years
Weighted average fair value of rights granted	\$ 3.25	\$ 2.52	\$ 2.83

Stock Repurchases

In February 2015, the Company's board of directors authorized the Company to purchase up to \$20.0 million of its common stock from time to time until February 29, 2016 (the "2015 Repurchase Plan"). Share repurchases, if any, will be funded with available cash. Repurchases under the Repurchase Plan may be made through open market purchases at prevailing market prices or in privately negotiated transactions. The timing, volume and nature of share repurchases are subject to market prices and conditions, applicable securities laws and other factors, and are at the discretion of the Company's management. Share repurchases under the Repurchase Plan may be commenced, suspended or discontinued at any time. This tranche of shares authorized for repurchase expired in February 2016.

In October 2015, the Company's board of directors authorized the Company to purchase an additional \$15.0 million of its common stock from time to time until October 20, 2016 under the 2015 Repurchase Plan. The remaining authorized repurchase amount at March 31, 2016 was approximately \$15.0 million.

The stock repurchase activity as of March 31, 2016 is summarized as follows:

	<u>Shares Repurchased</u>	<u>Weighted Average Price Per Share</u>	<u>Amount Repurchased ⁽¹⁾</u>
Balance as of March 31, 2014	-		-
Repurchase of common stock under 2015 Repurchase Plan	2,488,215	\$ 7.38	\$ 19,200,393
Balance as of March 31, 2015	2,488,215	7.38	19,200,393
Repurchase of common stock under 2015 Repurchase Plan	1,392,135	8.02	11,164,329
Balance as of March 31, 2016	<u>3,880,350</u>	\$ 7.83	<u>\$ 30,364,722</u>

(1) Amount excludes commission fees.

The total purchase prices of the common stock repurchased and retired were reflected as a reduction to consolidated stockholders' equity during the period of repurchase.

In fiscal 2016, 2015 and 2014, the Company also withheld 30,702, 15,053, and 50,400 shares, respectively, shares related to tax withholdings on restricted stock awards with a total price of \$0.5 million, \$0.1 million, and \$0.5 million, respectively.

9. INCOME TAXES

For the years ended March 31, 2016, 2015 and 2014, the Company recorded a (benefit) provision for income taxes of approximately (\$0.8) million, \$2.8 million and \$2.2 million, respectively. The provision in each year was attributable to federal and state current and deferred taxes. The components of the consolidated (benefit) provision for income taxes for fiscal 2016, 2015 and 2014 consisted of the following (in thousands):

	<u>March 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current:			
Federal	\$ 97	\$ 92	\$ -
State	551	457	276
Foreign	71	1	-
Total current tax provision	<u>719</u>	<u>550</u>	<u>276</u>
Deferred			
Federal	\$ 95	\$ 2,602	\$ 1,578
State	(854)	(363)	365
Foreign	(807)	-	-
Total deferred tax (benefit) provision	<u>(1,566)</u>	<u>2,239</u>	<u>1,943</u>
Income tax (benefit) provision	<u>\$ (847)</u>	<u>\$ 2,789</u>	<u>\$ 2,219</u>

The Company's income (loss) from continuing operations before income taxes included \$6.9 million, \$3.5 million and \$0.8 million of foreign subsidiary loss for the fiscal years ended March 31, 2016, 2015 and 2014, respectively. The Company is permanently reinvesting the earnings of its profitable foreign subsidiaries. The company intends to reinvest these profits in expansion of overseas operations. If the Company were to remit these earnings, the tax impact would be immaterial.

Deferred tax assets were comprised of the following (in thousands):

	March 31,	
	2016	2015
Current deferred tax assets		
Net operating loss carryforwards	\$ 2,739	\$ 2,179
Inventory valuation	14	14
Reserves and allowances	2,740	2,394
Net current deferred tax assets	<u>5,493</u>	<u>4,587</u>
Net operating loss carryforwards	38,449	44,228
Research and development and other credit carryforwards	7,106	5,414
Stock-based compensation	5,577	3,164
Fixed assets and intangibles	<u>(6,160)</u>	<u>(4,869)</u>
Net non-current deferred tax assets	44,972	47,937
Valuation allowance	<u>(3,760)</u>	<u>(4,901)</u>
Total	<u>\$ 46,705</u>	<u>\$ 47,623</u>

As of March 31, 2016 and 2015, management assessed the realizability of deferred tax assets based on the available evidence, including a history of taxable income and estimates of future taxable income. At March 31, 2016, management evaluated the need for a valuation allowance and determined that a valuation allowance of approximately \$3.8 million was needed. At March 31, 2015, management evaluated the need for a valuation allowance and determined that a valuation allowance of approximately \$4.9 million was needed. The net change in the valuation allowance for the years ended March 31, 2016 and 2015 was a decrease of \$1.1 million and an increase of \$0.7 million, respectively.

At March 31, 2016, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$137.9 million and \$38.7 million, respectively, which expire at various dates between 2017 and 2036. The net operating loss carryforwards include approximately \$40.7 million resulting from employee exercises of non-qualified stock options or disqualifying dispositions of incentive stock options, the tax benefits of which, when realized, will be accounted for as an addition to additional paid-in capital rather than as a reduction of the provision for income taxes. In addition, at March 31, 2016, the Company had research and development credit carryforwards for federal and California tax reporting purposes of approximately \$4.5 million and \$6.2 million, respectively. The federal income tax credit carryforwards will expire at various dates between 2021 and 2036, while the California income tax credits will carry forward indefinitely. A reconciliation of the Company's provision (benefit) for income taxes to the amounts computed using the statutory U.S. federal income tax rate of 34% is as follows (in thousands):

	Years Ended March 31,		
	2016	2015	2014
Tax provision at statutory rate	\$ (2,029)	\$ 1,599	\$ 1,285
State income taxes before valuation allowance, net of federal effect	9	269	196
Foreign tax rate differential	(769)	-	-
Research and development credits	(1,253)	(725)	(1,534)
Change in valuation allowance	(1,555)	(1,480)	1,264
Compensation/option differences	(471)	(331)	(264)
Non-deductible compensation	944	746	605
Acquisition costs	230	-	230
Expiring CA NOLs	1,626	1,484	240
Foreign loss not benefited	2,342	1,192	271
Other	79	35	(74)
Total income tax provision	<u>\$ (847)</u>	<u>\$ 2,789</u>	<u>\$ 2,219</u>

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Unrecognized Tax Benefits		
	2016	2015	2014
Balance at beginning of year	\$ 2,420	\$ 2,165	\$ 3,024
Gross increases - tax position in prior period	82	27	-
Gross decreases - tax position in prior period	-	-	(1,081)
Gross increases - tax positions related to the current year	379	228	222
Balance at end of year	<u>\$ 2,881</u>	<u>\$ 2,420</u>	<u>\$ 2,165</u>

At March 31, 2016, the company had a liability for unrecognized tax benefits of \$2.9 million, all of which, if recognized, would decrease the company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company files U.S. federal and state income tax returns in jurisdictions with varying statutes of limitations. The Company has not been under examination by income tax authorities in federal, state or other foreign jurisdictions. The 1997 through fiscal 2016 tax years generally remain subject to examination by federal and most state tax authorities.

The Company's policy for recording interest and penalties associated with tax examinations is to record such items as a component of operating expense income before taxes. During the fiscal year ended March 31, 2016, 2015 and 2014, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

Utilization of the Company's net operating loss and tax credit carryforwards can become subject to a substantial annual limitation due to the ownership change limitations provided by Section 382 of the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration or elimination of the net operating loss and tax credit carryforwards before utilization. The Company has performed an analysis of its changes in ownership under Section 382 of the Internal Revenue Code. The Company currently believes that the Section 382 limitation will not limit utilization of the carryforwards prior to their expiration, with the exception of certain acquired loss and tax credit carryforwards of Contactual, Inc.

10. EMPLOYEE BENEFIT PLAN

401(k) Savings Plan

In April 1991, the Company adopted a 401(k) savings plan (the "Savings Plan") covering substantially all of its U.S. employees. Eligible employees may contribute to the Savings Plan from their compensation up to the maximum allowed by the Internal Revenue Service. In January 2007, the Company reactivated the employer matching contribution. The matching contribution is 100% of each employee's contributions in each year, not to exceed \$1,500 per annum. The matching expense in 2016, 2015 and 2014 was \$0.9 million, \$0.7 million and \$0.4 million, respectively. The Savings Plan does not allow employee contributions to be invested in the Company's common stock.

11. NET INCOME (LOSS) PER SHARE

The following is a reconciliation of the weighted average number of common shares outstanding used in calculating basic and diluted net income (loss) per share (in thousands, except share and per share data):

	Years Ended March 31,		
	2016	2015	2014
	(In Thousands, Except Per Share Amounts)		
Numerator:			
Income (loss) from continuing operations	\$ (5,120)	\$ 1,926	\$ 1,598
Income from discontinued operations, net of income tax provision	-	-	916
Net income (loss) available to common stockholders	<u>\$ (5,120)</u>	<u>\$ 1,926</u>	<u>\$ 2,514</u>
Denominator:			
Common shares	<u>88,477</u>	<u>89,071</u>	<u>78,310</u>
Denominator for basic calculation	88,477	89,071	78,310
Employee stock options	-	2,088	2,927
Employee restricted purchase rights	-	493	421
Denominator for diluted calculation	<u>88,477</u>	<u>91,652</u>	<u>81,658</u>
Income (loss) per share - continuing operations:			
Basic	\$ (0.06)	\$ 0.02	\$ 0.02
Diluted	\$ (0.06)	\$ 0.02	\$ 0.02
Income per share - discontinued operations:			
Basic	\$ 0.00	\$ 0.00	\$ 0.01
Diluted	\$ 0.00	\$ 0.00	\$ 0.01
Net income (loss) per share:			
Basic	\$ (0.06)	\$ 0.02	\$ 0.03
Diluted	\$ (0.06)	\$ 0.02	\$ 0.03

The following shares attributable to outstanding stock options and restricted stock purchase rights were excluded from the calculation of diluted earnings per share because their inclusion would have been antidilutive (in thousands):

	Years Ended March 31,		
	2016	2015	2014
Common stock options	2,193	1,812	750
Stock purchase rights	50	57	18
	<u>2,243</u>	<u>1,869</u>	<u>768</u>

12. SEGMENT REPORTING

ASC 280, *Segment Reporting*, establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Under ASC 280, the method for determining what information to report is based upon the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance.

The Company manages its operations primarily on a geographic basis. The Chief Executive Officer, the Chief Financial Officer, and the Chief Technology Officer or the Company's Chief Operating Decision Makers (CODMs), evaluate performance of the Company and make decisions regarding allocation of resources based on geographic results. The Company's reportable segments are the Americas and Europe. The Americas segment is primarily North America. The Europe segment is primarily the United Kingdom. Each operating segment provides similar products and services.

The Company's CODMs evaluate the performance of its operating segments based on revenues and net income. Revenues are attributed to each segment based on the ordering location of the customer or ship to location. The Company does not allocate research and development, sales and marketing, general and administrative, amortization expense, stock-based compensation expense, and commitment and contingencies for each segment as management does not consider this information in its evaluation of the performance of each operating segment. The Company's revenue distribution by geographic region (based upon the destination of shipments and the customer's service address) was as follows:

	Years Ended March 31,		
	2016	2015	2014
Americas (principally US)	87%	92%	97%
Europe	12%	7%	2%
Asia Pacific	1%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Geographic area data is based upon the location of the property and equipment and is as follows (in thousands):

	March 31,	
	2016	2015
Americas (principally US)	\$ 9,165	\$ 8,348
Europe	2,642	1,411
Asia-Pacific	568	489
	<u>\$ 12,375</u>	<u>\$ 10,248</u>

The following table provides financial information by segment (in thousands):

	Years Ended March 31,		
	2016	2015	2014
Americas (principally US):			
Net Revenue	\$ 185,241	\$ 150,764	\$ 125,270
Net Income	\$ 940	\$ 5,433	\$ 3,296
Europe (principally UK):			
Net Revenue	\$ 24,095	\$ 11,649	\$ 3,327
Net loss	\$ (6,060)	\$ (3,507)	\$ (782)

13. ACQUISITIONS

Voicenet Solutions Limited

On November 11, 2013, the Company entered into a share purchase agreement with the shareholders and optionholders of Voicenet Solutions Limited ("Voicenet"), a provider of cloud communications and collaboration services in the United Kingdom. The total consideration transferred for Voicenet was approximately \$19.3 million. The Company recorded \$2.9 million of net tangible assets, \$4.1 million in current and non-current liabilities, \$6.4 million of identifiable intangible assets, based on their estimated fair values, and \$14.1 million of residual goodwill.

DXI Group Limited

On May 26, 2015, the Company entered into a share purchase agreement with the shareholders of DXI Limited, and its wholly owned subsidiaries, (collectively, DXI) for the purchase of the entire share capital of DXI. The transaction closed effective May 29, 2015 and was not subject to regulatory approvals. The total aggregate purchase price was approximately \$22.5 million, consisting of \$18.7 million in cash paid to the DXI shareholders at closing, and \$3.8 million in cash deposited into escrow to be held for two years as security against indemnity claims made by the Company after the closing date. Approximately 352,000 shares of common stock valued at approximately \$3.0 million were issued only to former management shareholders of DXI as part of the share purchase agreement and are subject to certain restrictions, including a four-year annual vesting requirement based on the continued employment of such shareholders. The shares are considered post-acquisition compensation and are not included in the consideration transferred. The value of the shares will be amortized over the vesting period of forty-eight months. The shares are further subject to indemnity claims asserted by the Company prior to vesting. Vesting of the shares is subject to acceleration in the event of the shareholder's death or disability, or upon an employment termination without adequate cause, as provided in the share purchase agreement. The cash escrow also applies only to the management shareholders of DXI and is to be released in annual installments over two years. The share purchase agreement contains representations and warranties by the management shareholders that are customary in the UK for transactions of this size and nature. The Company also awarded restricted stock units representing the right to receive approximately 53,000 shares of common stock that were valued at approximately \$482,000 to certain continuing employees of DXI, which will be amortized as stock-based compensation over the requisite service period.

The Company recorded the acquired tangible and identifiable intangible assets and liabilities assumed based on their estimated fair values. The excess of the consideration transferred over the aggregate fair values of the assets acquired and liabilities assumed is recorded as goodwill. The amount of goodwill recognized is primarily attributable to the expected contributions of the entity to the overall corporate strategy in addition to synergies and acquired workforce of the acquired business. The finite-lived intangible assets consist of the following: customer relationships, with an estimated weighted-average useful life of two and five years; and developed technology, with an estimated weighted-average useful life of six years. The indefinite lived intangible asset consisted of a tradename. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management using various income approach methods. Intangible assets are amortized on a straight-line basis.

The fair values of the assets acquired and liabilities assumed are as follows (in thousands):

	<u>Fair Value</u>
Assets acquired:	
Cash	\$ 1,318
Current assets	2,016
Property and equipment	1,453
Intangible assets	13,374
Total assets acquired	<u>18,161</u>
Liabilities assumed:	
Current liabilities and non-current liabilities	<u>(5,734)</u>
Total liabilities assumed	<u>(5,734)</u>
Net identifiable assets acquired	12,427
Goodwill	10,125
Total consideration transferred	<u>\$ 22,552</u>

None of the goodwill recognized is expected to be deductible for income tax purposes.

DXI contributed revenue of approximately \$10.0 million and a net loss of approximately (\$3.2) million for the period from the date of acquisition to March 31, 2016. Total acquisition related costs were approximately \$0.9 million, which were included in general and administrative expenses. The Company determined that it is impractical to include pro forma information given the difficulty in obtaining the historical financial information of DXI. Inclusion of such information would require the Company to make estimates and assumptions regarding DXI's historical financial results that we believe may ultimately prove inaccurate.

In the second quarter of fiscal 2016, the Company updated its analysis of the valuation of the assets and liabilities acquired, which resulted in an increase of approximately \$1.1 million to goodwill, a decrease in intangible assets of approximately \$1.3 million, and a decrease to current and non-current liabilities of \$0.2 million, compared with the preliminary estimates recorded for the first quarter of fiscal 2016. The impact of the change in preliminary values on the first quarter of fiscal 2016 statement of operations was not material. Therefore, no measurement period adjustment was required.

Quality Software Corporation

On June 3, 2015, the Company entered into an asset purchase agreement with the shareholder of QSC and other parties affiliated with the shareholder and QSC for the purchase of certain assets as per the purchase agreement. The total aggregate fair value of the consideration was approximately \$2.9 million, which \$2.2 million was paid in cash to the QSC shareholder at closing. As part of the aggregate purchase price, there is also \$0.5 million in contingent consideration payable subject to attainment of certain revenue and product release milestones for the acquired business, and \$0.3 million in cash held by the Company in escrow to be retained for two years as security against indemnity claims made by the Company after the closing date. The preliminary fair value of the contingent consideration and escrow amounts was \$0.7 million at the acquisition date.

The Company recorded the acquired identifiable intangible assets and liabilities assumed based on their estimated fair values. The excess of the consideration transferred over the aggregate fair values of the assets acquired and liabilities assumed is recorded as goodwill. The amount of goodwill recognized is primarily attributable to the expected contributions of the entity to the overall corporate strategy in addition to synergies and acquired workforce of the acquired business. The finite-lived intangible assets consist of the following: customer relationships, with an estimated weighted-average useful life of five years; and developed technology, with an estimated weighted-average useful life of six years. The indefinite lived intangible asset consisted of in-process research and development and a tradename. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management using various income approach methods. Intangible assets are amortized on a straight-line basis.

The fair values of the assets acquired and liabilities assumed are as follows (in thousands):

	<u>Fair Value</u>
Assets acquired:	
Intangible assets	\$ 1,100
Goodwill	1,789
Total consideration transferred	<u>\$ 2,889</u>

QSC's contributions to revenue and income for the period from the date of acquisition to March 31, 2016 were not material. Total acquisition related costs were approximately \$0.1 million, which were included in general and administrative expenses. The Company determined that the acquisition was not deemed to be a material business combination and it is impractical to include such pro forma information given the difficulty in obtaining the historical financial information of QSC. Inclusion of such information would require the Company to make estimates and assumptions regarding QSC's historical financial results that we believe may ultimately prove inaccurate.

In the fourth quarter of fiscal 2016, the Company updated its analysis of the valuation of the assets and liabilities acquired, which resulted in an increase of approximately \$125,000 to goodwill, and a decrease in intangible assets of approximately \$125,000, compared with what was recorded for the third quarter of fiscal 2016. The impact of the change in preliminary values on the first quarter of fiscal 2016 statement of operations was not material. Therefore, no measurement period adjustment was required.

14. GAIN ON SETTLEMENT OF ESCROW CLAIM

In December 2013, the Company settled an escrow claim for indemnification with the sellers of Contactual, Inc. Under the terms of the settlement, the Company recorded a gain of \$0.6 million in other income, net, in the consolidated statement of operations for the year ended March 31, 2014. Under the terms of the Contactual merger agreement and the escrow agreement, each indemnifying seller paid his, her or its pro rata share of the obligations owed to the Company on January 29, 2014. Upon receipt of the cash on January 29, 2014, the Company released the remaining escrow account balance to the sellers of Contactual Inc.

15. PATENT SALE

In June 2012, the Company entered into a patent purchase agreement and sold a family of patents to a third party for approximately \$12.0 million plus a future payment of up to a maximum of \$3.0 million based on future license agreements entered into by the third party purchaser. In August 2014 and February 2013, the third party entered into two separate license agreements with its customers; therefore, the Company earned an additional \$1.0 million each under the patent purchase agreement for fiscal 2015 and 2013. Under the terms and conditions of the patent purchase agreement, the Company has retained certain limited rights to continue to use the patents. The patent purchase agreement contains representations and warranties customary for transactions of this type.

16. DISCONTINUED OPERATIONS

On September 30, 2013, the Company completed the sale of its dedicated server hosting business to IRC Company, Inc. ("IRC") and, as a result, no longer provides dedicated server hosting services. In the transaction, IRC purchased 100% of the stock of Central Host, Inc., which had been wholly owned by the Company and all of the assets specific to the dedicated server hosting business.

The Company sold its dedicated server hosting business for total consideration of \$3.0 million in cash, which was received on October 1, 2013.

The dedicated server hosting business has been reported as discontinued operations. The results of operations of these discontinued operations are as follows:

	Years Ended March 31,		
	2016	2015	2014
Revenue	\$ -	\$ -	\$ 1,430
Operating expense	-	-	922
Income before income taxes	-	-	508
Provision for income taxes	-	-	188
Income from discontinued operations	-	-	320
Gain on disposal of discontinued operations, net of income tax provision of \$456	-	-	596

17. CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands, except per share data amounts:

	QUARTER ENDED							
	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014
Service revenue	\$ 52,174	\$ 48,948	\$ 46,951	\$ 44,168	\$ 40,009	\$ 37,802	\$ 36,121	\$ 34,276
Product revenue	5,160	4,220	3,991	3,724	3,521	3,570	3,477	3,637
Total revenue	<u>57,334</u>	<u>53,168</u>	<u>50,942</u>	<u>47,892</u>	<u>43,530</u>	<u>41,372</u>	<u>39,598</u>	<u>37,913</u>
Operating expenses:								
Cost of service revenue	9,720	9,713	9,186	8,459	7,655	7,544	7,505	6,997
Cost of product revenue	6,103	5,087	4,596	4,382	4,173	3,959	3,762	3,969
Research and development	6,110	6,404	6,446	5,080	4,348	3,868	3,496	3,406
Sales and marketing	31,240	27,585	26,730	23,824	21,508	20,559	19,440	19,160
General, and administrative	7,132	6,888	5,657	6,068	5,794	4,617	3,893	3,878
Gain on patent sale	-	-	-	-	-	-	(1,000)	-
Total operating expenses	<u>60,305</u>	<u>55,677</u>	<u>52,615</u>	<u>47,813</u>	<u>43,478</u>	<u>40,547</u>	<u>37,096</u>	<u>37,410</u>
Income (loss) from operations	(2,971)	(2,509)	(1,673)	79	52	825	2,502	503
Other income, net	397	272	204	234	210	246	200	177
Income (loss) from operations before provision (benefit) for income taxes	(2,574)	(2,237)	(1,469)	313	262	1,071	2,702	680
Provision (benefit) for income taxes (1)	(1,498)	(557)	423	785	79	627	1,411	672
Net income (loss)	<u>\$ (1,076)</u>	<u>\$ (1,680)</u>	<u>\$ (1,892)</u>	<u>\$ (472)</u>	<u>\$ 183</u>	<u>\$ 444</u>	<u>\$ 1,291</u>	<u>\$ 8</u>
Net income (loss) per share:								
Basic	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00
Shares used in per share calculations:								
Basic	88,888	88,289	88,557	88,233	88,950	89,594	89,073	88,592
Diluted	88,888	88,289	88,557	88,233	91,266	91,974	91,615	91,445

(1) Comparability affected by the decrease in fiscal 2016 and 2015 in the valuation allowance related to the deferred tax asset which resulted in a decrease in the provision for income taxes of \$1.1 million and \$1.5 million, in the fourth quarter of fiscal 2016 and 2015, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of March 31, 2016. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2016, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. On May 29, 2015, the Company completed the acquisition of DXI Group Limited (DXI). As permitted by applicable guidelines established by the Securities and Exchange Commission, the Company's management excluded DXI's operations from its assessment of internal control over financial reporting as of March 31, 2016. DXI operations represented 1% of the Company's consolidated total assets, excluding goodwill and intangible assets, net, and 5% of the Company's consolidated net sales as of and for the year ended March 31, 2016.

Based on this assessment, our management concluded that its internal control over financial reporting was effective as of March 31, 2016.

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 risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Moss Adams LLP, an independent registered public accounting firm, has audited and reported on the consolidated financial statements of 8x8, Inc. and on the effectiveness of our internal control over financial reporting. The report of Moss Adams LLP is contained in Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K. The Registrant will file its definitive Proxy Statement for its Annual Meeting of Stockholders pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after the end of the fiscal year covered by this Annual Report, and certain information included in the 2015 Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors and corporate governance will be presented in our definitive proxy statement for our 2016 Annual Meeting of Stockholders to be held on or about July 22, 2016, which information is incorporated into this Annual Report by reference. However, certain information regarding current executive officers found under the heading "Executive Officers" in Item 1 of Part I hereof is also incorporated by reference in response to this Item 10.

We have adopted a Code of Conduct and Ethics that applies to our principal executive officer, principal financial officer and all other employees at 8x8, Inc. This Code of Conduct and Ethics is posted in the corporate governance section of our website at <http://investors.8x8.com>. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics by posting such information in the corporate governance section on its website at <http://investors.8x8.com>.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation will be presented in our definitive proxy statement for our 2016 Annual Meeting of Stockholders to be held on or about July 22, 2016, which information is incorporated into this Annual Report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to securities authorized for issuance under equity compensation plans and other information required to be provided in response to this item will be presented in our definitive proxy statement for our 2016 Annual Meeting of Stockholders to be held on or about July 22, 2016, which information is incorporated into this Annual Report by reference. In addition, descriptions of our equity compensation plans are set forth in Part II, Item 8 "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA – NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Note 8 STOCKHOLDERS' EQUITY."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2016 Annual Meeting of Stockholders to be held on or about July 22, 2016, which information is incorporated into this Annual Report by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2016 Annual Meeting of Stockholders to be held on or about July 22, 2016, which information is incorporated into this Annual Report by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements. The information required by this item is included in Item 8.

(a)(2) Financial Statement Schedules. See "Schedule II - Valuation of Qualifying Accounts" (below) within Item 15 of this Annual Report.

(a)(3) Exhibits. The documents listed on the Exhibit Index appearing in this Annual Report are filed herewith or hereby incorporated by reference. Copies of the exhibits listed in the Exhibit Index will be furnished, upon request, to holders or beneficial owners of the Company's common stock.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Year	Additions Charged to Expenses	Deductions (a)	Balance at End of Year
Total Allowance for Doubtful Accounts:				
Year ended March 31, 2014:	\$ 327	\$ 571	\$ (432)	\$ 466
Year ended March 31, 2015:	\$ 466	\$ 279	\$ (329)	\$ 416
Year ended March 31, 2016:	\$ 416	\$ 509	\$ (339)	\$ 586

(a) The deductions related to allowance for doubtful accounts represent accounts receivable which are written off.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, 8x8, Inc., a Delaware corporation, has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on May 31, 2016.

8X8, INC.

By: /s/ VIKRAM VERMA

Vikram Verma,

Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Vikram Verma and Mary Ellen Genovese, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ VIKRAM VERMA</u> Vikram Verma	Chief Executive Officer (Principal Executive Officer)	May 31, 2016
<u>/s/ MARY ELLEN GENOVESE</u> Mary Ellen Genovese	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	May 31, 2016
<u>/s/ BRYAN R. MARTIN</u> Bryan R. Martin	Chairman and Chief Technology Officer	May 31, 2016
<u>/s/ GUY L. HECKER</u> Guy L. Hecker, Jr.	Director	May 31, 2016
<u>/s/ ERIC SALZMAN</u> Eric Salzman	Director	May 31, 2016
<u>/s/ IAN POTTER</u> Ian Potter	Director	May 31, 2016
<u>/s/ JASWINDER PAL SINGH</u> Jaswinder Pal Singh	Director	May 31, 2016
<u>/s/ VLADIMIR JACIMOVIC</u> Vladimir Jacimovic	Director	May 31, 2016

8X8, INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1 (x)	Restated Certificate of Incorporation of Registrant, dated August 22, 2012
3.2 (a)	Bylaws of Registrant
10.1 (b)	Form of Indemnification Agreement between the Registrant and each of its directors and officers
10.2 (c)*	Employment Agreement dated September 9, 2013 between the Company and Vikram Verma
10.3 (d)*	1996 Stock Plan, as amended, and form of Stock Option Agreement
10.4 (e)*	Amended and Restated 1996 Employee Stock Purchase Plan, as amended, and form of Subscription Agreement
10.5 (f)*	1996 Director Option Plan, as amended and Form of Director Option Agreement
10.5.1 (g)*	Form of Director Option Agreement for 1996 Director Option Plan
10.6 (h)	Employment Agreement dated September 9, 2013 between the Company and Darren Hakeman
10.7 (i)*	2006 Stock Plan, as amended
10.8 (j)*	Severance Agreement and General Release
10.9 (k)*	Form of 2006 Stock Option Agreement under the 2006 Stock Plan
10.10 (l)*	Form of Notice of Award of Stock Purchase Right and Stock Purchase Agreement under the 2006 Stock Plan
10.11	Reserved
10.12 (m)	Lease dated April 27, 2012, between Registrant and O'Nel Office Holdings, LLC
10.13 (n)	Reserved
10.14 (o)	Reserved
10.15	Reserved
10.16(p)*	Annual Executive Incentive Plan.
10.17(q)*	Amended and Restated Contactual, Inc. 2003 Stock Option Plan
10.18(q)*	Form of Stock Option Agreement under the Amended and Restated Contactual, Inc. 2003 Stock Option Plan
10.19(r)*	Amended and Restated 2012 Equity Incentive Plan
10.20(s)*	Form of Stock Option Agreement under the Amended and Restated 2012 Equity Incentive Plan
10.21(s)*	Notice of Grant of Restricted Stock Unit Award and Agreement under the 2012 Equity Incentive Plan

- 10.22(t)* Management Incentive Bonus Plan
- 10.23(u) 8x8, Inc. Amended and Restated 2013 New Employee Inducement Incentive Plan
- 10.24(u) Form of Stock Option Agreement under the Amended and Restated 2013 New Employee Inducement Incentive Plan
- 10.25(u) Form of Notice of Grant of Restricted Stock Unit Award and Agreement under the Amended and Restated 2013 New Employee Inducement Incentive Plan
- 10.23(v) Share Purchase Agreement, dated November 11, 2013, by and among 8x8 UK Investments Limited and 8x8, Inc. and the material sellers and the material option holders and Voicenet Solutions Limited
- 10.27(w)* Employment Agreement dated October 6, 2014 between the Company and Mary Ellen Genovese
- 10.28(y)* Employment Agreement dated January 7, 2015 between the Company and Puneet Arora
- 10.29(z) Executive Change-in-Control and Severance policy
- 10.30(aa)* Amended Employment Agreement dated July 31, 2015 between the Company and Vikram Verma
- 10.31(bb) Form of Indemnification Agreement for Directors and Certain Officers
- 10.32** Standard Form Office Lease, dated for reference purposes only as of January 20, 2016, by and between MNCVAD-Seagate 2665 North First LLC, and the Company
 - 21.1 Subsidiaries of Registrant
 - 23.1 Consent of Independent Registered Public Accounting Firm
 - 24.1 Power of Attorney (included on page 83)
 - 31.1 Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14
 - 31.2 Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14
 - 32.1 Certification of Chief Executive Officer of the Registrant pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - 32.2 Certification of Chief Financial Officer of the Registrant pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS** XBRL Instance Document
- 101.SCH** XBRL Taxonomy Extension Schema
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase
- 101.LAB** XBRL Taxonomy Extension Label Linkbase
- 101.PRE** XBRL Taxonomy Extension Presentation Linkbase

* Indicates management contract or compensatory plan or arrangement.

**Filed herewith.

- (a) Incorporated by reference to exhibit 3.2 to the Registrant's Report on Form 8-K filed October 23, 2013 (File No. 000-21783).
- (b) Incorporated by reference to the same numbered exhibits to the Registrant's Registration Statement on Form S-1 Commission (File No. 333-15627) as amended, declared effective July 1, 1997.
- (c) Incorporated by reference to exhibit 10.2 to the Registrant's Form 10-Q filed November 8, 2013 (File No. 000-21783).
- (d) Incorporated by reference to exhibit 4.1 to the Registrant's Form S-8 filed November 7, 2000 (File No. 333-49410).
- (e) Incorporated by reference to exhibit 10.5 to the Registrant's Form S-8 filed September 26, 2006 (File No. 333-137599).
- (f) Incorporated by reference to exhibit 10.3 to the Registrant's Form S-8 filed August 28, 2003 (File No. 333-108290).
- (g) Incorporated by reference to exhibit 4.2 to the Registrant's Form S-8 filed November 7, 2000 (File No. 333-49410).
- (h) Incorporated by reference to exhibit 10.6 to the Registrant's Form 10-Q filed November 8, 2013 (File No. 000-21783).
- (i) Incorporated by reference to exhibit 10.7 to the Registrant's Form 10-K filed May 26, 2009 (File No. 000-21783).
- (j) Incorporated by reference to exhibit 10.8 to the Registrant's Form 8-K filed November 5, 2013 (File No. 000-21783).
- (k) Incorporated by reference to exhibit 10.1 to the Registrant's Form 10-Q filed February 7, 2007 (File No. 000-21783).
- (l) Incorporated by reference to exhibit 10.10 to the Registrant's Form 10-K filed May 26, 2009 (File No. 000-21783).
- (m) Incorporated by reference to exhibit 10.12 to the Registrant's Form 10-K filed May 24, 2012 (File no. 000-21783).
- (n) Reserved
- (o) Reserved
- (p) Incorporated by reference to exhibit 10.15 to the Registrant's Form 10-Q filed July 22, 2011 (File No. 000-21783).
- (q) Incorporated by reference to exhibit 10.16 and 10.17 to the Registrant's Form S-8 filed September 19, 2011 (File No. 333-176895).
- (r) Incorporated by reference to exhibit 10.19 to the Registrant's Form S-8 filed August 11, 2014 (File No. 333-198012).
- (s) Incorporated by reference to exhibit 10.20 and 10.21 to the Registrant's Form S-8 filed August 28, 2012 (File No. 333-183597).
- (t) Incorporated by reference to exhibit 10.19 to the Registrant's Form 10-Q filed January 25, 2013 (File No. 000-21783).
- (u) Incorporated by reference to exhibit 10.23, 10.24 and 10.25 to the Registrant's Form S-8 filed September 10, 2013 (File No. 333-191080).
- (v) Incorporated by reference to exhibit 2.2 to the Registrant's Form 8-K filed November 13, 2013 (File no. 000-21783).
- (w) Incorporated by reference to exhibit 10.2 to the Registrant's Form 10-Q filed October 22, 2014 (File no. 000-21783).
- (x) Incorporated by reference to exhibit 3.1 to the Registrant's Form 10-K filed May 28, 2013 (File No. 000-21783).

- (y) Incorporated by reference to exhibit 10.28 to the Registrant's Form 10-K filed May 29, 2015 (File No. 000-21783).
- (z) Incorporated by reference to exhibit 3.2 to the Registrant's Form 10-Q filed July 31, 2015 (File No. 000-21783).
- (aa) Incorporated by reference to exhibit 10.2 to the Registrant's Form 10-Q filed July 31, 2015 (File No. 000-21783).
- (bb) Incorporated by reference to exhibit 10.3 to the Registrant's Form 10-Q filed July 31, 2015 (File No. 000-21783).

STANDARD FORM OFFICE LEASE

This Standard Form Office Lease (" **Lease** "), dated for reference purposes only as of January 20, 2016, is entered into by and between MNCVAD-SEAGATE 2665 NORTH FIRST LLC, a Delaware limited liability company (" **Landlord** "), and 8x8, INC., a Delaware corporation (" **Tenant** ").

ARTICLE I

BASIC LEASE PROVISIONS

Each reference in this Lease to the " **Basic Lease Provisions** " shall mean and refer to the following terms, the application of which shall be governed by the provisions in the remaining Articles of this Lease.

1. Address of Landlord:

- a. Notices: MNCVAD-Seagate 2665 North First LLC
c/o Seagate Properties, Inc.
980 Fifth Avenue
San Rafael, CA 94901
Attn: Property Manager

with a copy to:

c/o NYL Investors LLC
One Front Street, Suite 550
San Francisco, CA 94111
Attn: Asset Manager

and:

MNCVAD-Seagate 2665 North First LLC
Attn. General Counsel
One Front Street, Suite 550
San Francisco, CA 94111
Fax: (415) 402-4149

b. Rent Payments:

By wire:

First Republic Bank
ABA: 321081669
Account 80006005896
For: MNCVAD-Seagate 2665 North First LLC

By check, if by first-class mail:

MNCVAD-Seagate 2665 North First LLC
DEPT LA 24356
PASADENA, CA 91185-4356

By check, if by courier/overnight delivery:

MNCVAD-Seagate 2665 North First LLC
Lockbox 24356
14005 Live Oak Ave.
Irwindale, CA 91706-1300

2. Premises Address: 2665 North First Street, Suite 300
San Jose, California 95134

3. Address of Tenant: 2125 O'Nel Drive
San Jose, California 95131
Attn: Chief Financial Officer

4. Tenant's Trade Name: 8x8, Inc.

5. Tenant's Contact: _____ Telephone: _____

6. Premises Square Footage: Approximately 36,174 rentable square feet, consisting of (i) 10,757 rentable square feet in Suites 202 and 204 and (ii) 25,417 rentable square feet in Suite 300

Building Square Footage: Approximately 130,722 rentable square feet

7. Anticipated Commencement Date: March 1, 2016

8. Term: Forty-eight (48) full calendar months

9. Monthly Rent: The Monthly Rent payable by Tenant under the Lease during the Term shall be as follows:

<u>Months</u>	<u>Monthly Rent</u>
1 - 12	\$105,628.08 per month
13 - 24	\$108,796.92 per month
25 - 36	\$112,060.83 per month
37 - 48	\$115,422.64 per month

10. Security Deposit: None.

11. Permitted Uses: General office purposes consistent with a first-class office building, all in accordance with Applicable Laws and Restrictions (as hereafter defined) and pursuant to approvals to be obtained by Tenant from all relevant City, County and other required governmental agencies and authorities.

12. Broker: CBRE, Inc., representing Landlord

CBRE, Inc., representing Tenant

13. Landlord's Architect: As designated by Landlord from time to time

14. Guarantor: None.

15. Vehicle Parking Spaces: One hundred twelve (112) unreserved, unassigned vehicle parking spaces (" **Unreserved Spaces** "), which shall be provided subject to Section 10.7 of this Lease.

16. Tenant's Share: 27.70%

17. Project Costs Expense Base: Project Costs for the 2016 calendar year

18. Tax Expense Base: Real Property Taxes for the 2016 calendar year

Exhibits : Exhibits A (Diagram of Premises), B (Commencement Date Memorandum), C (Rules and Regulations), and D (Work Letter).

ARTICLE II

DEFINITIONS

2.1 Certain Definitions . The capitalized terms set forth below, unless the context clearly requires otherwise, shall have the following meanings in this Lease.

" **Additional Rent** " means any and all sums (whether or not specifically called "Additional Rent" in this Lease), other than Monthly Rent, which Tenant is or becomes obligated to pay to Landlord under this Lease. See also Rent.

" **Alterations** " means any alterations, decorations, modifications, additions or improvements made in, on, about, under or contiguous to the Premises (or relating to Tenant's use thereof) by or for the benefit of Tenant (other than the Tenant Improvements), including, but not limited to, telecommunications and data cabling and wiring, lighting, HVAC and electrical fixtures, pipes and conduits, transfer, storage and disposal facilities, partitions, drapery, wall coverings, shelves, cabinetwork and carpeting, but excluding alterations made by Landlord pursuant to Section 8.4 below.

" **Applicable Laws** " is defined in Section 5.2.

" **Applicable Rate** " means the greater of eight (8%) per annum or five percent (5%) in excess of the discount rate of the Federal Reserve Bank of San Francisco in effect on the twenty-fifth (25th) day of the calendar month immediately prior to the event giving rise to the Applicable Rate imposition; provided, however, the Applicable Rate shall in no event exceed the maximum interest rate permitted to be charged by Applicable Laws.

" **Broker** " means, collectively, the person(s) or entity(ies) identified in Item 12 of the Basic Lease Provisions.

" **Building** " means that certain building within which the Premises are located.

" **Business Day** " is a day which is not a Saturday, a Sunday or a state or federal holiday in the state where the Building is located.

" **Casualty** " is defined in Section 12.1.

" **CC&R's** " means any declaration of covenants, conditions and restrictions (or similar instrument), if any, applicable to all or any part of the Property and recorded in the Official Records of the County, as the same may be amended from time to time.

" **City** " means the city in which the Premises are located.

" **Commencement Date** " means the commencement date of the Term, described in Section 3.2.

" **Common Area** " is defined in Section 3.1.

" **County** " means the county in which the Premises are located.

" **Event of Default** " means the Tenant defaults described in Section 15.1.

" **Excess Project Costs** " is defined in Section 7.1.

" **Excess Real Property Taxes** " is defined in Section 7.1.

" **Guarantor** " means the person(s) or entity identified in Item 14 of the Basic Lease Provisions, if any.

" **HVAC** " means the heating, ventilating and air conditioning system serving the Building.

" **Hazardous Materials** " is defined in Article VI.

" **Holidays** " is defined in Section 7.7.

" **Landlord's Agents** " means Landlord's agents, trustees, representatives, property managers (whether as agents or independent contractors), investment managers, attorneys, consultants, contractors, partners, managers, members, subsidiaries, affiliates, directors, officers and employees.

" **Landlord's Architect** " means the architect or architectural firm from time to time designated by Landlord to perform the function of Landlord's Architect set forth in this Lease.

" **Lease** " means this instrument together with all exhibits, amendments, addenda and riders attached hereto and made a part hereof.

" **Monthly Rent** " means the monthly rental which Tenant is to pay to Landlord pursuant to Section 4.1, as the same may be adjusted from time to time as set forth in this Lease. See also Rent.

" **Mortgage** " means any mortgage, deed of trust, or similar lien now or hereafter affecting the Property or any portion thereof, and any renewal, modification, consolidation, replacement and/or extension thereof.

" **Mortgagee** " means any mortgagee, beneficiary or lender under any Mortgage now or hereafter affecting the Property or any portion thereof.

" **Notice** " means each and every notice, communication, request, demand, reply or advice, or duplicate thereof, in this Lease provided or permitted to be given, made or accepted by either party to the other party, which shall be in writing and given in accordance with the provisions of Section 21.6.

" **Operating Expenses** " means, collectively, Project Costs and Real Property Taxes.

" **Premises** " means the premises shown in Exhibit A, and all areas appurtenant thereto, if any, for the exclusive use of Tenant, as shown in Exhibit A. The Premises are located within and constitute a portion of the Building at the address set forth in Item 2 of the Basic Lease Provisions.

" **Premises Square Footage** " means (a) the entire area included within the Premises, being the area bounded by the inside surface of any exterior glass walls (or the inside surface of the permanent exterior wall where there is no glass) of the Building bounding the Premises, the inside surface of the exterior of all walls separating the Premises from any public corridors or such other public areas on such floor, and the centerline of all walls separating the Premises from other areas leased or to be leased to other tenants on such floor; and (b) an amount equal to Tenant's Share of the lobby areas, corridors, restrooms, mechanical rooms, janitorial rooms, electrical rooms and telephone closets in the Building. The Premises Square Footage as of the execution of this Lease is set forth in Item 6 of the Basic Lease Provisions.

" **Property** " is defined in Section 3.1.

" **Project Costs** " is defined in Section 7.3.

" **Project Costs Expense Base** " means the allowance for Project Costs that Landlord will credit to Tenant's Share of Project Costs under Article VII, which allowance amount is set forth under Item 17 of the Basic Lease Provisions.

" **Real Property Taxes** " is defined in Section 7.4.

" **Rent** " means Monthly Rent and Additional Rent, collectively.

" **Restrictions** " means, collectively, the CC&Rs and any other covenants, conditions or restrictions of which Tenant has received actual or constructive notice affecting the Premises or any portion thereof, as the same may be amended from time to time.

" **Rules and Regulations** " means, collectively, the rules and regulations attached hereto as Exhibit C and any modifications thereto promulgated by Landlord or Landlord's Agents from time to time, and such rules and regulations promulgated by the Restrictions.

" **Security Deposit** " means the amount set forth in Item 10 of the Basic Lease Provisions, which shall be paid to Landlord by Tenant pursuant to Section 4.6.

" **Substantial Completion** " and " **Substantially Completed** " mean, with respect to the Tenant Improvements, or repair of the Premises following a Casualty or any other repairs or works of construction to be performed by Landlord, that such work or repairs have been fully completed except for minor details of construction, mechanical adjustments or decoration which do not materially interfere with Tenant's use and enjoyment of the Premises (items normally referred to as "punch list" items), all as reasonably determined by Landlord.

" **Tax Expense Base** " means the allowance for Real Property Taxes that Landlord will credit to Tenant's Share of Real Property Taxes under Article VII, which allowance amount is set forth under Item 18 of the Basic Lease Provisions.

" **Tenant Delays** " means any and all delays due to the fault of Tenant, including, without limitation, Tenant's failure to deliver to Landlord, concurrently with Tenant's execution of this Lease, executed copies of policies of insurance or certificates thereof as required under Section 11.8 and the Security Deposit and Monthly Rent for the first month such Monthly Rent is due hereunder and delays in the construction of the Tenant Improvements due to the fault of Tenant, as described in the Work Letter.

" **Tenant Improvements** " means those certain improvements to be constructed on the Premises as provided in the Work Letter.

" **Tenant's Agents** " means Tenant's agents, representatives, consultants, contractors, affiliates, subsidiaries, officers, directors, employees, subtenants, guests, visitors and invitees.

" **Tenant's Personal Property** " means Tenant's removable trade fixtures, furniture, equipment and other personal property located in or on the Premises.

" **Tenant's Share** " is defined in Section 7.2.

" **Term** " means the term of this Lease, as provided in Section 3.2.

" **Unavoidable Delay** " means any delays which are beyond a party's reasonable control, including, but not limited to, delays due to inclement weather, strikes, acts of God, inability to obtain labor or materials, inability to secure governmental approvals or permits, governmental restrictions, civil commotion, fire, earthquake, explosion, flood, hurricane, the elements, or the public enemy, action or interference of governmental authorities or agents, war, invasion, insurrection, rebellion, riots, lockouts or any other cause whether similar or dissimilar to the foregoing which is beyond a party's reasonable control; provided however, that in no event shall any of the foregoing ever apply with respect to the payment of any monetary obligation.

" **Work Letter** " means the work letter between Landlord and Tenant regarding the construction of the Tenant Improvements in the form of Exhibit D attached hereto.

2.2 Other Definitions. Terms defined elsewhere in this Lease, unless the context clearly requires otherwise, shall have the meaning as there given.

ARTICLE III

PREMISES AND TERM

3.1 Lease of Premises. Subject to and upon the terms and conditions set forth herein, Landlord hereby leases the Premises to Tenant, and Tenant hereby leases the Premises from Landlord. The Premises are part of that certain office building commonly known as 2665 North First Street, San Jose, California (" **Building** "). The Building is located on a parcel of land owned by Landlord (which parcel and all improvements located thereon from time to time, including, without limitation, the Building, driveways, landscaping and hardscaping, are referred to herein as the " **Property** ").

The term " **Common Area** " as used in this Lease shall mean those interior common areas of the Building (including, without limitation, common entrances, lobbies, corridors, stairways and stairwells, public restrooms and elevators) and exterior common areas of the Property (including, without limitation, the surface parking areas, vehicle lanes, driveways, sidewalks, walkways and similar areas) that are provided and designated by Landlord from time to time for the general non-exclusive use of Landlord, tenants of the Building (and other authorized users) and their respective agents, employees, suppliers, shippers, customers and invitees.

3.2 Term and Commencement. Unless sooner terminated as provided herein, the Term of this Lease shall be for that period set forth in Item 8 of the Basic Lease Provisions, as the same may be extended in accordance with any option or options to extend the Term granted herein, and shall commence (the " **Commencement Date** ") on the earlier of (i) the date that the Tenant Improvements have been Substantially Completed (as reasonably determined by Landlord), (ii) the date that the Tenant Improvements would have otherwise been Substantially

Completed (as reasonably determined by Landlord) but for the occurrence of any Tenant Delays, or (iii) the date Tenant commences occupancy of all or any portion of the Premises for the conduct of business. When the actual Commencement Date has occurred, Tenant shall execute a Commencement Date Memorandum in the form shown in Exhibit B (the " **Commencement Date Memorandum** ") as provided by Landlord within five (5) days after Landlord's request therefore. Tenant's failure to execute the Commencement Date Memorandum within said five (5) day period shall, at Landlord's option, be an Event of Default hereunder and shall constitute Tenant's acknowledgment of the truth of the facts contained in the Commencement Date Memorandum delivered by Landlord to Tenant. Landlord and Tenant anticipate that the Term will commence on the " **Anticipated Commencement Date** " set forth in Item 7 of the Basic Lease Provisions, but the Anticipated Commencement Date shall in no event affect the actual Commencement Date, which shall be determined as set forth in this Section 3.2.

3.3 Early Entry. Tenant and its authorized agents, contractors, subcontractors and employees shall be granted a license by Landlord to enter upon the Premises, at Tenant's sole risk and expense, at least ten (10) days prior to the Commencement Date to install fixtures and equipment, so long as such entry does not interfere with Landlord's work in the Premises or in the Project; provided, however, that (a) the provisions of this Lease (other than with respect to the payment of Monthly Rent or payment of Operating Expenses and Additional Rent for Operating Expenses (i.e. both Project Costs and Real Property Taxes)), shall apply during such early entry, including, but not limited to, the provisions of Article XI relating to Tenant's indemnification of Landlord, (b) prior to any such entry, Tenant shall pay for and provide evidence of the insurance to be provided by Tenant pursuant to the provisions of Article XI, (c) Tenant shall pay all separately metered utility, service and maintenance charges for the Premises attributable to Tenant's early entry and use of the Premises as reasonably determined by Landlord, (d) prior to such entry, Tenant shall have delivered to Landlord an executed original of this Lease and payment in an amount equal to: (i) Monthly Rent and Tenant's Share of estimated Operating Expenses for the first (1st) month) of the Term in which such amounts are due, plus (ii) the Security Deposit set forth in Item 10 of the Basic Lease Provisions, and (e) Tenant shall not interfere with the completion of the Tenant Improvements or Landlord's other improvements in any way. Upon Tenant's breach of any of the foregoing conditions, Landlord may, in addition to exercising any of its other rights and remedies set forth herein, revoke such license upon notice to Tenant.

3.4 Delay in Possession. If Landlord cannot deliver possession of the Premises to Tenant with the Tenant Improvements Substantially Completed on or before the Anticipated Commencement Date or any other date for any reason, Landlord shall not be subject to any liability therefor, and such failure shall not affect the validity of this Lease or the obligations of Tenant hereunder, but in such case, Tenant shall not be obligated to pay Monthly Rent or Additional Rent other than as provided in Section 3.5 until possession of the Premises has been delivered to Tenant (which date shall then be deemed the Commencement Date for all purposes under this Lease). Tenant understands that, notwithstanding anything to the contrary contained herein, Landlord shall have no obligation to deliver possession of the Premises to Tenant for so long as Tenant fails to deliver to Landlord executed copies of policies of insurance or certificates thereof as required under Section 11.8.

3.5 Tenant Delays. The Commencement Date shall not be delayed or postponed due to Tenant Delays, and the Term, Tenant's obligations to pay Rent and all of Tenant's other obligations under this Lease shall commence upon the date which would have been the Commencement Date but for Tenant Delays.

3.6 " AS-IS " Condition of Premises. Except for the Tenant Improvements, removal of all existing phone, IT and data cabling and wiring currently in the Premises, and as otherwise specifically provided herein, Tenant shall accept the Premises from Landlord in its "AS-IS" condition and Tenant acknowledges and agrees that Landlord has no obligation to improve, alter or remodel the Premises in any manner whatsoever. The taking of possession or use of the Premises by Tenant for any purpose shall conclusively establish that Tenant has inspected the Premises and accepts them as being in good and sanitary order, condition and repair. Landlord hereby informs Tenant that the Building and the Project have not undergone an inspection by a person certified pursuant to Section 4459.2 of the California Government Code (a Certified Access Specialist). Tenant hereby waives any and all rights it otherwise might now or hereafter have under Section 1938 of the California Civil Code.

3.7 No Representations. Tenant acknowledges that neither Landlord nor any of Landlord's Agents has made any representations or warranties as to the suitability or fitness of the Premises for the conduct of Tenant's business, including, but not limited to, any representations or warranties regarding zoning or other land use matters, or for any other purpose, and that neither Landlord nor any of Landlord's Agents has agreed to undertake any alterations or additions or construct any tenant improvements to the Premises except as expressly provided in this Lease.

3.8 Relocation of Premises. Landlord shall have the right, at any time before or during the Term, to relocate Tenant from the Premises to other space located within the Building or the Property upon no less than ninety

(90) days prior written Notice to Tenant (which Notice shall specify the anticipated date of such relocation). Such space (" **Relocation Space** ") shall be comparable in size, quality, level of finish, of similar view to the exterior and with a similar amount of skylights, utility and condition to the Premises (provided that such requirement to provide similar views and skylights shall only apply in connection with a relocation of the 3rd floor of the Premises, but not the 2nd floor of the Premises). Landlord shall pay all reasonable moving expenses, including all cabling, IT and wiring costs, costs of third party moving consultants, and all costs for improving the Relocation Space so that the condition thereof is comparable to the Premises, and shall reimburse Tenant for stationary reprinting costs necessitated by such relocation, up to, but not exceeding, a total reimbursement for such stationary reprinting costs of \$1,500.00. Tenant shall cooperate with Landlord in all reasonable ways to facilitate any such relocation, which relocation shall occur at such times and on such date(s) as may be reasonably designated by Landlord. Prior to the date that Tenant is moved to the Relocation Space, Tenant shall remain in the Premises and shall continue to perform all of its obligations under this Lease. Upon the delivery of possession of the Relocation Space to Tenant, the Relocation Space shall thereupon become the premises leased by Tenant under this Lease (and all references in this Lease to the " **Premises** " shall thereafter refer to the relocated Premises), and the terms of the Lease shall remain in full force and shall thereupon apply to the Relocation Space, except that, if the size of the Relocation Space is smaller than the Premises as they existed before the relocation (as reasonably determined by Landlord), then, effective as of such relocation, Monthly Rent and Tenant's Share shall each be adjusted downwards based on the relationship between the number of rentable square feet of the pre-relocation Premises and the number of rentable square feet of the Relocation Space (all as reasonably determined by Landlord). No amendment or other instrument shall be necessary to effectuate a relocation of the Premises pursuant to this Section 3.8, except that, if requested by Landlord, Tenant shall execute an appropriate amendment document within twenty (20) days after Landlord's written request therefor. If Tenant fails to execute such relocation amendment within such time period, or if Tenant fails to be ready to relocate on the date(s) designated by Landlord, then any such failure shall constitute an Event of Default by Tenant under this Lease.

3.9 Option to Renew.

- A. General. Landlord hereby grants Tenant one (1) option to extend the Term for one (1) period of five (5) years (the " **Option Term** "), which option shall be exercisable only by written Exercise Notice (as defined below) delivered by Tenant to Landlord as provided below. Upon the proper exercise of this option to extend, the Term shall be extended for the Option Term (which shall be on the same terms and conditions as the Lease except for Monthly Rent which shall be determined as set forth below) and the parties shall promptly execute an amendment to this Lease setting forth the Monthly Rent and other terms applicable to such Option Term once such terms are finally determined in accordance with this Section 3.9. Landlord shall have no obligation to construct any improvements on, in or around the Premises or in the Property or to provide any tenant improvement allowance. The right set forth in this Section 3.9 shall be personal to the entity executing this Lease as Tenant (the " **Original Tenant** ") or any Permitted Assignee (as defined below) and such right may only be exercised by such Original Tenant or Permitted Assignee (and not any other assignee, sublessee or other transferee of Original Tenant's interest in this Lease) if such Original Tenant occupies the entire Premises as of both the date of the Exercise Notice and the commencement of the Option Term. At Landlord's option, Tenant shall not have the right to extend the Term of the Lease for the Option Term if at any time between the date of delivery of the Exercise Notice by Tenant and the end of the Term, Tenant has committed or permitted to occur an Event of Default.
- B. Extension Option Rent. The annual Monthly Rent payable by Tenant during the Option Term shall be equal to the Fair Market Rental Rate for the Premises. As used herein, the " **Fair Market Rental Rate** " shall mean the monthly base rent at which non-equity tenants, as of the commencement of the Option Term, will be leasing non-sublease space comparable in size, location and quality to the Premises for a comparable term, which comparable space is located in the Building and in other comparable office buildings in San Jose, California, taking into consideration all free rent and other out-of-pocket concessions generally being granted at such time for such comparable space for the Option Term. All other terms and conditions of this Lease shall apply throughout the Option Term; however, Tenant shall, in no event, have any further option to extend the Term unless Landlord and Tenant otherwise agree in writing.
- C. Exercise of Extension Option. The option provided under this Section 3.9 shall be exercised by Tenant, if at all, only in the following manner: (i) Tenant shall deliver written notice (" **Exercise Notice** ") to Landlord no earlier than twelve (12) months before the expiration of the Term and no later than nine (9) months before the expiration of the Term, irrevocably exercising the option; (ii) Landlord, after receipt of Tenant's notice, shall deliver notice (the " **Option Rent Notice** ") to Tenant no later than seven (7) months before the expiration of the Term, setting forth its determination of Fair Market Rental Rate. In the event Tenant objects to the Fair Market Rental Rate submitted by Landlord, Tenant shall do so in writing within ten (10) Business Days and, with such objection, set forth Tenant's determination of the Fair Market Rental Rate for the Premises. If Tenant does not object in such time and

manner, Tenant shall be deemed to have accepted Landlord's determination. If Tenant has properly objected to Landlord's determination, then Landlord and Tenant shall attempt in good faith to agree upon such Fair Market Rental Rate. If Landlord and Tenant fail to reach agreement on such Fair Market Rental Rate on or before the last day of the sixth (6th) full calendar month prior to the expiration of the Term, then each party's determination shall be submitted to arbitration in accordance with clause (d) below. Tenant's failure to deliver the Exercise Notice on or before the applicable delivery date specified hereinabove shall be deemed to constitute Tenant's waiver of its extension rights hereunder.

D. Determination of Option Term Rent.

- I. Landlord and Tenant shall each appoint one arbitrator who shall by profession be a real estate broker who shall have been active over the ten (10) year period ending on the date of such appointment in the leasing of commercial properties in the vicinity of the Building. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Fair Market Rental Rate for the Premises is closer to the actual Fair Market Rental Rate for such space as determined by the arbitrators, taking into account the requirements of subsection (b) above and this subsection (d) regarding the same. Each such arbitrator shall be appointed by the last day of the fifth (5th) full calendar month before the expiration of the Term.
- II. The two arbitrators so appointed shall on or before four (4) months before the expiration of the Term agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two arbitrators.
- III. On or before three (3) months prior to the expiration of the Term, the arbitrators shall reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Rental Rate, and shall notify Landlord and Tenant thereof. Such decision shall be based upon the factors described in subsection (b) above.
- IV. The decision of the majority of the three arbitrators shall be binding upon Landlord and Tenant.
- V. If either Landlord or Tenant fails to appoint an arbitrator within the time period specified in subsection (d)(i) hereinabove, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.
- VI. If the two arbitrators fail to agree upon and appoint a third arbitrator, then the appointment of the arbitrator shall be made by the presiding judge of the Superior Court of the County in which the Building is located, or, if he or she refuses to act, by any judge having jurisdiction over the parties.
- VII. The cost of arbitration shall be paid by Landlord and Tenant equally .

E. Payment of Fair Market Rental Rate. If for any reason the determination of Fair Market Rental Rate has not been completed prior to the commencement of the Option Term, Tenant shall pay as Monthly Rent Landlord's opinion of Fair Market Rental Rate, and if such Fair Market Rental Rate is thereafter fixed or readjusted in a different amount by the arbitrators or agreement of the parties as provided above, such new Fair Market Rental Rate shall take effect retroactively back to the commencement of the Option Term. In the event the Fair Market Rental Rate is determined to be higher than Landlord's opinion of Fair Market Rental Rate, Tenant shall immediately pay to Landlord that sum which is accrued and underpaid as a result of such retroactive application. In the event the Fair Market Rental Rate is determined to be lower than Landlord's opinion of Fair Market Rental Rate, Landlord shall apply the sum which is accrued and overpaid as a result of such retroactive application to the next installment of Monthly Rent due.

ARTICLE IV

RENT AND ADJUSTMENTS

4.1 Monthly Rent. From and after the Commencement Date, Tenant shall pay to Landlord, for each calendar month of the Term, the Monthly Rent set forth in Item 9 of the Basic Lease Provisions. Monthly Rent shall be due and payable to Landlord in lawful money of the United States, in advance, on the first (1st) day of each calendar month of the Term, without abatement, deduction, claim or offset, and without prior Notice, invoice or demand, at Landlord's address for payment of Rent set forth in Item 1 of the Basic Lease Provisions or at such place

as Landlord may from time to time designate. Tenant's payment of Monthly Rent for the first (1st) month of the Term for which Monthly Rent is payable shall be delivered to Landlord concurrently with Tenant's execution of this Lease.

4.2 Additional Rent. All Additional Rent shall be due and payable to Landlord in lawful money of the United States, at Landlord's address for payment of Rent set forth in Item 1 of the Basic Lease Provisions or at such other place as Landlord may from time to time designate, without abatement, deduction, claim or offset, within ten (10) days of receipt of Landlord's invoice or statement for same, or, if this Lease provides another time for the payment of certain items of Additional Rent, then at such other time. Notwithstanding the foregoing, Additional Rent for Tenant's Share of Operating Expenses shall be payable on the first (1st) day of each calendar month of the Term, without abatement, deduction, claim or offset.

4.3 Prorations. If the Commencement Date is not the first (1st) day of a month, or if the expiration of the Term of this Lease is not the last day of a month, a prorated installment of Monthly Rent based on a thirty (30) day month shall be paid for the fractional month during which the Term commences or expires, as applicable.

4.4 Application of Payments. Landlord shall have the right to apply payments received from Tenant under this Lease to any sums past or currently due under this Lease, whether Monthly Rent, Additional Rent or otherwise, in such order and in such amounts as Landlord, in its sole discretion, may elect, regardless of any designation of such payments by Tenant to the contrary.

4.5 Late Payment Charges. Tenant acknowledges that late payment by Tenant to Landlord of Rent under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is extremely difficult or impracticable to determine. Such costs include, but are not limited to, processing and accounting charges, late charges that may be imposed on Landlord by the terms of any Mortgage, and late charges and penalties that may be imposed due to late payment of Real Property Taxes. Therefore, if any installment of Monthly Rent or any payment of Additional Rent due from Tenant is not received by Landlord in good funds by the fifth (5th) calendar day from the applicable due date, Tenant shall pay to Landlord an additional sum equal to five percent (5%) of the amount overdue as a late charge for every month or portion thereof that such amount remains unpaid (provided that such charge shall be imposed with respect to the first occurrence of such a delinquency only if Tenant fails to cure such delinquency within three (3) Business Days of Notice from Landlord thereof). The parties acknowledge that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of the late payment by Tenant. Acceptance of any late Rent and late charge therefor shall not prevent Landlord from exercising any of the other rights and remedies available to Landlord for any other Event of Default under this Lease. In no event shall this provision for a late charge be deemed to grant Tenant a grace period or extension of time within which to pay Rent or prevent Landlord from exercising any of the other rights and remedies available to Landlord for any Event of Default under this Lease. Notwithstanding the foregoing (i) should any payment of Rent by personal check be rejected for insufficient funds, Landlord shall have the right, upon Notice to Tenant, to require that all future payments by Tenant under this Lease be by cashier's check acceptable to Landlord, and (ii) upon the third (3rd) occurrence during the Term of Tenant's failure to timely pay Rent when due, Landlord may, upon Notice to Tenant, require that Monthly Rent for the balance of the Term be made in quarterly installments, in advance, in an amount equal to the sum of the Monthly Rent amounts payable during such three (3) month period. Notice is hereby given to Tenant that the acceptance of partial Rent by Landlord shall not constitute a waiver by Landlord of any rights, including, without limitation, the right of Landlord to recover possession of the Premises and/or sue for the remaining balance owed. The foregoing Notice shall be deemed to constitute Notice to Tenant as required under California Code of Civil Procedure Section 1161.1(c).

ARTICLE V

USE

5.1 Tenant's Use. Tenant shall use the Premises solely for the purposes set forth in Item 11 of the Basic Lease Provisions and shall use the Premises for no other purpose. Tenant's use of the Premises shall be subject to all of the terms and conditions of this Lease, including, but not limited to, all the provisions of this Article V. Tenant, at Tenant's sole cost and expense, shall procure, maintain and make available for Landlord's reasonable inspection throughout the Term, all governmental approvals, licenses and permits required for the proper and lawful conduct of Tenant's permitted use of the Premises. At Landlord's request, Tenant shall deliver copies of all such approvals, licenses and permits to Landlord.

5.2 Compliance with Applicable Laws. Throughout the Term, Tenant, at Tenant's sole cost and expense, shall comply with, and shall not use the Premises, Building Property or Common Area, or suffer or permit anything to be done in or about the same which will in any way conflict with, (i) any and all present and future laws,

statutes, zoning restrictions, ordinances, orders, regulations, directions, rules and requirements of all governmental or private authorities having jurisdiction over all or any part of the Property or Premises (including, but not limited to, state, municipal, county and federal governments and their departments, bureaus, boards and officials) pertaining to the use or occupancy of, or applicable to, the Premises or privileges appurtenant to or in connection with the enjoyment of the Premises, (ii) any and all applicable federal, state and local laws, regulations or ordinances pertaining to air and water quality, Hazardous Materials (as defined in Article VI), waste disposal, air emissions and other environmental or health and safety matters, zoning, land use and utility availability, which impose any duty upon Landlord or Tenant directly or with respect to the use or occupation of the Property or any portion thereof, (iii) the requirements of the Board of Fire Underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises, Building or Property or any portion thereof, (iv) any covenants, conditions, easements or restrictions, including, but not limited to, the Restrictions, now or hereafter affecting or encumbering the Building or the Property, or any portion thereof, regardless of when they become effective, (v) the Rules and Regulations, and (vi) good business practices (collectively, (i) through (vi) above are hereinafter referred to as "**Applicable Laws**"). Tenant shall not commit any waste of the Premises, Building or Property, or any public or private nuisance or any other act or thing which would reasonably be expected to disturb the quiet enjoyment of any other tenant of the Building or any occupant of nearby property. Tenant shall not place or permit to be placed any loads upon the floors, walls or ceilings in excess of the maximum designed load specified by Landlord or which would reasonably be expected to damage the Premises, Building or Property, or place or permit to be placed any harmful liquids in the drainage systems, and Tenant shall not dump or store, or permit to be placed or stored, any inventory, waste materials, refuse or other materials or allow any such materials to remain outside the Building proper, except in designated enclosed trash areas. Tenant shall not conduct or permit any auctions, sheriff's sales or other like activities at the Property or any portion thereof.

5.3 Restrictions. Tenant agrees that this Lease is subject and subordinate to the Restrictions, as the same may now or hereafter exist, and that it will execute and deliver to Landlord within ten (10) days of Landlord's request therefor, any further documentation or instruments which Landlord deems necessary or desirable to evidence or effect such subordination. Without limiting the provisions of Section 5.2, Tenant shall throughout the Term timely comply with all of the terms, provisions, conditions and restrictions of the Restrictions which pertain to, restrict or affect the Premises or Tenant's use thereof, or Tenant's use of any other area of the Property or Building permitted hereunder, including the payment by Tenant of any periodic or special dues or assessments charged against the Premises or Tenant which may be allocated to the Premises or Tenant in accordance with the provisions of the Restrictions. Tenant shall hold Landlord, Landlord's Agents and the Premises harmless and shall indemnify, protect and defend Landlord and Landlord's Agents from and against any loss, expense, damage, attorneys' fees and costs or liability arising out of or in connection with the failure of Tenant to so perform or comply with the Restrictions. Tenant agrees that it will subordinate this Lease to any other covenants, conditions and restrictions and any reciprocal easement agreements or any similar agreements which Landlord may hereafter record against the Premises and to any amendment or modification to any of the existing Restrictions, provided that such subordination does not unreasonably interfere with Tenant's use and enjoyment of the Premises.

5.4 Landlord's Right of Entry. Landlord and Landlord's Agents shall have the right to enter the Premises at all reasonable times upon reasonable Notice to Tenant (except for emergencies or to provide janitorial services, in which case no Notice shall be required) to inspect the Premises, to take samples and conduct environmental investigations, to post notices of nonresponsibility and similar notices and signs indicating the availability of the Premises for sale, to show the Premises to interested parties such as prospective lenders and purchasers, to perform Landlord's obligations under this Lease, to perform Tenant's obligations as permitted herein when Tenant has failed to do so to exercise Landlord's rights under this Lease and, at any reasonable time, to place upon the Premises reasonable signs indicating the availability of the Premises for lease and to show the Premises to prospective tenants, all without being deemed to have caused an eviction of Tenant and without any liability to Tenant or abatement of Rent. The above rights are subject to reasonable security regulations and requirements of Tenant, and in exercising its rights set forth herein, Landlord shall use commercially reasonable efforts to minimize interference with Tenant's business. Landlord shall at all times have the right to retain a key which unlocks all of the doors in the Premises, excluding Tenant's vaults and safes, and Landlord and Landlord's Agents shall have the right to use any and all means which Landlord may deem proper to open the doors in an emergency to obtain entry to the Premises, and any entry to the Premises so obtained by Landlord or Landlord's Agents shall not under any circumstances be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction of Tenant from the Premises.

ARTICLE VI

HAZARDOUS MATERIALS

Tenant, at its sole cost and expense, shall comply and shall cause Tenant's Agents to comply with all laws, ordinances, regulations, and standards regulating or controlling hazardous wastes or hazardous substances, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. 9601, et seq., the Hazardous Material Transportation Act, 49 U.S.C. 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq.; the Carpenter-Presley-Tanner Hazardous Substance Account Act, Health and Safety Code Section 25300, et seq.; the Underground Storage of Hazardous Substance Act, Health and Safety Code Section 25280, et seq.; the Safe Drinking Water and Toxic Enforcement Act of 1986 (Health and Safety Code Section 25249.5, et seq.); and the Hazardous Waste Control Law, Health and Safety Code Section 25100, et seq. (the "**Environmental Laws**"). Tenant hereby indemnifies and at all times shall indemnify and hold harmless the Landlord, the Landlord's Agents and any successors to the Landlord's interest in the chain of title to the Property, their respective Landlord's Agents, and agents from and against any and all claims, suits, demands, response costs, contribution costs, liabilities, losses, or damages, directly or indirectly arising out of the existence, use, generation, manufacture, storage, transportation, release, threatened release, or disposal of Hazardous Materials (defined below) in, on, or under the Property or in the groundwater under the Property and the migration or transportation of Hazardous Materials to or from the Property or the groundwater underlying the Property caused by or exacerbated by Tenant or Tenant's Agents. This indemnity extends to the costs incurred by Landlord or its successors to reasonably repair, clean up, dispose of, or remove such Hazardous Materials in order to comply with the Environmental Laws, provided Landlord gives Tenant not less than thirty (30) days advance written Notice of its intention to incur such costs. Tenant's obligations pursuant to the foregoing indemnification and hold harmless agreement shall survive the expiration or sooner termination of this Lease. Notwithstanding anything to the contrary contained herein, Tenant shall not be responsible for the contamination of the Property by Hazardous Materials existing as of the date the Premises are delivered to Tenant and for contamination of the Property by Hazardous Materials that are not caused or exacerbated by Tenant or Tenant's Agents. Except as provide herein, Tenant's Agents shall not use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials in, on, or about the Property unless Tenant shall have received Landlord's prior written consent therefor, which Landlord may withhold or revoke at any time in its reasonable discretion, and shall not cause or permit the release or disposal of Hazardous Materials from the Property except in compliance with applicable Environmental Laws. Except as provided herein, Tenant shall not permit any person, including, without limitation, Tenant's Agents to use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials in, on, or about the Property or transport Hazardous Materials from the Property unless Tenant shall have received Landlord's prior written consent therefor, which Landlord may withhold or revoke at any time in its reasonable discretion and shall not cause or permit the release or disposal of Hazardous Materials. Tenant shall promptly deliver written Notice to Landlord if it obtains knowledge sufficient to infer that Hazardous Materials are located on the Property that are not in compliance with applicable Environmental Laws or if any third party, including, without limitation, any governmental agency, claims a significant disposal of Hazardous Materials occurred on the Property or is being or has been released from the Property, or any such party gives Notice of its intention to declare the Property to be Border Zone Property (as defined in Section 25117.4 of the California Health and Safety Code). Upon reasonable written request of Landlord (so long as Landlord has a reasonable basis for making such request), Tenant, through its professional engineers and at its cost, shall thoroughly investigate suspected Hazardous Materials contamination of the Property; provided, however, that Tenant shall be promptly reimbursed such costs unless the presence of Hazardous Materials on the Property is caused or exacerbated by Tenant or Tenant's Agents in violation of this Article VI. In the event that the presence of Hazardous Materials on the Property is caused or exacerbated by Tenant or Tenant's Agents in violation of this Article VI, Tenant, using duly licensed and insured contractors, shall promptly commence and diligently complete the removal, repair, clean-up, and detoxification of any Hazardous Materials from the Property as may be required by applicable Environmental Laws.

Notwithstanding anything to the contrary in this Lease, nothing herein shall prevent Tenant from using Hazardous Materials on the Premises which are normal quantities of ordinary office supplies or cleaning supplies ("**Per mitted Materials**") and as would be used in the ordinary course of the Tenant's business as contemplated by this Lease. Tenant warrants and represents to Landlord that Tenant does not in the course of the Tenant's current business use Hazardous Materials other than Permitted Materials. If, during the Term, Tenant contemplates utilizing Hazardous Materials other than Permitted Materials (or subleases/assigns this Lease to a subtenant or assignee who utilizes Hazardous Materials), Tenant shall obtain prior written approval from Landlord. Landlord, at its option, and subject to reasonable prior notice to Tenant, may cause an engineer selected by Landlord, to review (a) the Tenant's operations including materials used, generated, stored, disposed, and manufactured in the Tenant's business, and (b) the Tenant's compliance with terms of this Article VI. Tenant shall provide the engineer with such information reasonably requested by the engineer to complete the review. The first such review may occur prior to or shortly following the Commencement Date. Thereafter, such review shall not occur more frequently than once each year

unless cause exists for some other review schedule. Such testing shall be at Tenant's expenses only if Landlord has a reasonably basis for suspecting and confirms the presence of Hazardous Materials about the Property which are caused by Tenant or Tenant's Agents in violation of this Article VI.

" **Hazardous Materials** " means any hazardous waste or hazardous substance as defined in any federal, state, county, municipal, or local statute, ordinance, rule, or regulation applicable to the Property, including, without limitation, the Environmental Laws. " **Hazardous Materials** " shall also include asbestos or asbestos-containing materials, radon gas, petroleum or petroleum fractions, urea formaldehyde foam insulation, transformers containing levels of polychlorinated biphenyls greater than 50 parts per million, and chemicals known to cause cancer or reproductive toxicity, whether or not defined as a hazardous waste or hazardous substance in any such statute, ordinance, rule, or regulation.

ARTICLE VII

OPERATING EXPENSES; TAXES; UTILITIES

7.1 Tenant to Bear Tenant's Share of Operating Expenses . Tenant shall pay to Landlord, as an item of Additional Rent, Tenant's Share (as defined in Section 7.2) of (i) Project Costs in excess of the Project Costs Expense Base ("Excess Project Costs"), and (ii) Real Property Taxes in excess of the Tax Expense Base (" **Excess Real Property Taxes** "). Prior to the Commencement Date and thereafter prior to the commencement of each of Landlord's fiscal years during the Term, Landlord shall give Tenant a written estimate of Tenant's Share of Excess Project Costs and Excess Real Property Taxes for the ensuing fiscal year or partial fiscal year, as the case may be. Commencing on January 1, 2017 and continuing thereafter throughout the Term, Tenant shall pay, as an item of Additional Rent, such estimated amount in equal monthly installments, in advance, on or before the first (1st) day of each calendar month. If Landlord has not furnished its written estimate by the time set forth above, Tenant shall pay monthly installments of Excess Project Costs and Excess Real Property Taxes at the rate established for the prior fiscal year, if any; provided that when the new estimate is delivered to Tenant, Tenant shall at the next monthly payment date pay Landlord any accrued deficiency based on the new estimate, or Landlord shall credit any accrued overpayment based on such estimate toward Tenant's next installment payment hereunder. Within a reasonable period of time after the end of each fiscal year, Landlord shall furnish Tenant a statement (" **Annual Statement** ") showing in reasonable detail Tenant's Share of the actual Excess Project Costs and Excess Real Property Taxes incurred for the period in question; provided, however, with respect to the fiscal year during which this Lease expires or sooner terminates, rather than wait until after the determination of actual Operating Expenses for such fiscal year to furnish Tenant with an Annual Statement for said fiscal year, Landlord may, at its election, provide Tenant with an Annual Statement for such fiscal year prior to the end of such fiscal year based on estimated (not actual) Operating Expenses for such fiscal year, as determined by Landlord, which Annual Statement shall not be subject to further adjustment or reconciliation once actual Operating Expenses are determined for such fiscal year. If Tenant's estimated payments are less than Tenant's Share of actual Operating Excess Project Costs and Excess Real Property Taxes as shown by the applicable Annual Statement, Tenant shall pay the difference to Landlord within thirty (30) days thereafter. If Tenant shall have overpaid Landlord, Landlord shall credit such overpayment toward Tenant's next installment payment hereunder. When the Annual Statement is furnished to Tenant for the fiscal year in which this Lease expires or sooner terminates, Tenant shall, even if this Lease has expired or sooner terminated, pay to Landlord within fifteen (15) days after Notice the excess of Tenant's Share of the actual Excess Project Costs and Excess Real Property Taxes set forth in such Annual Statement over the estimate of Tenant's Share of such Excess Project Costs and Excess Real Property Taxes paid by Tenant. Conversely, any overpayment shall be rebated by Landlord to Tenant. If this Lease expires or sooner terminates on a day other than the last day of a fiscal year, Tenant's Share of Excess Project Costs and Excess Real Property Taxes for such partial fiscal year shall be calculated over the entire twelve-month fiscal year, but shall be prorated on the basis by which the number of days from the commencement of such fiscal year to and including the expiration or sooner termination of this Lease bears to 365. If Landlord shall determine at any time that the estimate of Tenant's Share of Excess Project Costs and Excess Real Property Taxes for the current fiscal year is or will become inadequate to meet Tenant's Share of all such Operating Expenses for any reason, Landlord may, at its election, determine the approximate amount of such inadequacy and issue a supplemental estimate as to Tenant's Share of such Operating Expenses, and Tenant shall pay any increase as reflected by such supplemental estimate. Landlord shall keep or cause to be kept separate and complete books of accounting covering all Operating Expenses and showing the method of calculating Tenant's Share of Excess Project Costs and Excess Real Property Taxes, and shall preserve for at least twelve (12) months after the close of each fiscal year all material documents evidencing said Operating Expenses for that fiscal year. Any delay or failure by Landlord in delivering any estimate or statement pursuant to this Section 7.1 shall not constitute a waiver of its right to require Tenant to pay Tenant's Share of Excess Project Costs and Excess Real Property Taxes pursuant hereto. If the Building is not at least 95% occupied during any fiscal year, as determined by Landlord, then Operating Expenses shall be computed by Landlord for such fiscal year as if the Building had been 95% occupied during such fiscal year.

A. Books and Records. Within one hundred eighty (180) days after receiving any Annual Statement (the "**Review Notice Period**"), Tenant may give Landlord Notice ("**Review Notice**") stating that Tenant elects to review Landlord's calculation of the Operating Expenses for the calendar year to which such Annual Statement applies and identifying, with reasonable specificity, the components ("**Components**") of the Operating Expenses which Tenant wishes to review, the reasonable grounds Tenant has for believing that the Components are overstated or computed incorrectly, and the records of Landlord reasonably relating to the Components that Tenant desires to review. Within a reasonable time after receiving a timely Review Notice (and, at Landlord's option, an executed commercially reasonable confidentiality agreement as described below), Landlord shall deliver to Tenant, or make available for inspection at a location reasonably designated by Landlord, copies of such records. Landlord shall make all pertinent records available for inspection that are reasonably necessary for Tenant to conduct its review. Within sixty (60) days after such records are made available to Tenant (the "**Objection Period**"), Tenant may deliver to Landlord Notice (an "**Objection Notice**") stating with reasonable specificity any objections to the amount of or inclusion of the Components in the Annual Statement, in which event Landlord and Tenant shall work together in good faith to resolve Tenant's objections. Tenant may not deliver more than one Review Notice or more than one Objection Notice with respect to any fiscal or calendar year used by Landlord for computing Operating Expenses. If Tenant fails to give Landlord a Review Notice before the expiration of the Review Notice Period or fails to give Landlord an Objection Notice before the expiration of the Objection Period, Tenant shall be deemed to have approved the Annual Statement. If Tenant retains an agent to review Landlord's records, the agent must be with a CPA firm licensed to do business in the State of California and its fees shall not be contingent, in whole or in part, upon the outcome of the review. No such audit may be performed by any person or entity who, within the last five (5) years, has performed any review or audit of Operating Expenses for any tenant in any part of the Project. Tenant shall be responsible for all costs of such review. The records and any related information obtained from Landlord shall be treated as confidential, and as applicable only to the Premises, by Tenant, its auditors, consultants, and any other parties reviewing the same on behalf of Tenant (collectively, "**Tenant's Auditors**"). Before making any records available for review, Landlord may require Tenant and Tenant's Auditors to execute a reasonable confidentiality agreement, in which event Tenant shall cause the same to be executed and delivered to Landlord within thirty (30) days after receiving it from Landlord, and if Tenant fails to do so, the Objection Period shall be reduced by one day for each day by which such execution and delivery follows the expiration of such thirty (30) -day period. Notwithstanding any contrary provision hereof, Tenant may not give any notice hereunder, examine Landlord's records or dispute any Annual Statement if and Event of Default has occurred and is continuing hereunder. If, for any fiscal or calendar year used by Landlord for computing Operating Expenses, Landlord and Tenant determine that the sum of Tenant's Share of the Components is less or more than the amount reported, Tenant shall receive a credit in the amount of its overpayment against Rent then or next due hereunder, or shall pay Landlord the amount of its underpayment with the Rent next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Landlord shall pay Tenant the amount of Tenant's overpayment (less any Rent due), or Tenant shall pay Landlord the amount of Tenant's underpayment, within thirty (30) days after such determination. Further, in the event that such examination reveals that Tenant was over-charged by more than five percent (5%) of aggregate Operating Expenses, then Landlord shall also promptly reimburse Tenant for the actual cost of performing the audit. Tenant agrees that Tenant's sole right to inspect Landlord's books and records and to contest the amount of Operating Expenses payable by Tenant shall be as set forth in this Section 7.1(a) and Tenant waives any and all other rights to inspect such books and records and/or to contest the amount of Operating Expenses payable by Tenant.

7.2 Definition of Tenant's Share. The term "**Tenant's Share**" means that portion of an Operating Expense determined by multiplying the cost of such item by a fraction, the numerator of which is the Premises Square Footage and the denominator of which is the total square footage of the floor area of the Building or the Property, depending on the nature of the Operating Expense to be charged, as of the date on which the computation is made. A determination of Tenant's Share for various Operating Expenses for the Building is set forth in Item 16 of the Basic Lease Provisions. Tenant acknowledges that the total square footage of the Building or Property may change from time to time, and that Tenant's Share under any or all of the foregoing categories of Operating Expenses may vary accordingly, effective on the first day of the month after each such change occurs. A determination of Tenant's Share and Building square footage as of the date hereof is set forth in Items 16 and 6, respectively, of the Basic Lease Provisions.

7.3 Definition of Project Costs. The term "**Project Costs**" means all costs and expenses incurred by Landlord or Landlord's Agents in connection with the operation of the Building, including, but not limited to, the following: repair and maintenance of the roof, structural frame, foundation and exterior walls of the Building, periodic painting of the Building, periodic cleaning of the exterior windows of the Building, landscaping services, outside pest control, normal maintenance and repair of the HVAC through maintenance contracts or otherwise, sweeping, maintenance services, repairs to and replacement of asphalt paving, bumpers, striping, light bulbs, light standards, monument and directional signs and lighting systems, perimeter walls, retaining walls, sidewalks, planters, landscaping and sprinkler system in planting area, any and all assessments levied against the Building pursuant to

the Restrictions, water, electrical and other utility services not supplied directly to a tenant, removal of trash, rubbish and other refuse from the Building, cleaning of and replacement of signs of the Building, including relamping and repairs made as required; repair, operation and maintenance of the Common Area, including, but not limited to, removal of any obstructions not reasonably required for the Common Area uses, prohibition and removal of the sale or display of merchandise or the storing of materials and/or equipment in the Common Area, and payment of all electrical, water and other utility charges or fees for services furnished to the Common Area; obtaining and maintaining public liability, property damage and other forms of insurance which Landlord may or is required to maintain in connection with the Building (including the payment of any deductibles thereunder); costs incurred in connection with compliance with Applicable Laws, including, without limitation, any Applicable Laws or changes in Applicable Laws regarding Hazardous Materials; establishment of reasonable reserves for replacements and/or repair of Common Area improvements, equipment and supplies; employment of such personnel as Landlord may deem reasonably necessary, if any, to police the Common Area and facilities; the cost of any capital improvements (other than tenant improvements for specific tenants) made by or on behalf of Landlord to the Building or Common Area to the extent of the amortized amount thereof over the lesser of (i) the useful life of such capital improvements or (ii) ten (10 years, in either case, calculated at a market cost of funds, all as determined by Landlord, for each year of the applicable amortization period during the Term; depreciation of machinery and equipment used in connection with the maintenance and operation of the Common Area for which a reasonable reserve has not been established as herein provided; employment of personnel used in connection with any of the foregoing, including, but not limited to, payment or provision for unemployment insurance, worker's compensation insurance and other employee costs; the cost of bookkeeping, accounting and auditing and legal services provided in connection with any of the foregoing; the cost of any environmental consultant or other services used in connection with Landlord's monitoring of the Property with respect to Hazardous Materials; the cost of any tax, insurance or other consultant utilized in connection with the Property; and any other items reasonably necessary from time to time to properly repair, replace, maintain and operate the Property or Building. Project Costs shall also include a management fee to cover Landlord's management, overhead and administrative expenses; provided however, if Landlord elects to delegate its duties hereunder to a professional property manager, then Project Costs shall not include any management fee to Landlord (except for any costs and/or administrative and overhead expenses reasonably incurred by Landlord in monitoring and auditing the performance delegated to the professional property manager), but under such circumstances any reasonable amounts paid to the professional property manager shall be added to and deemed a part of Project Costs. If Landlord elects to perform any maintenance or repair herein described in conjunction with properties other than the Property, and if a common maintenance contractor is contracted with for such purpose, the contract amount allocable to the Property, as reasonably determined by Landlord, shall be added to and deemed a part of Project Costs hereunder. Project Costs shall also include any costs, expenses and other charges levied or charged against Landlord and/or the Property by or under the Restrictions. Increases in Project Costs by reason of a disproportionate impact by Tenant thereon (for example, and not by way of limitation, increases in costs of trash collection because of Tenant's excessive generation of trash or increases in costs of Common Area maintenance because of Tenant's unpermitted storage of inventory or materials in the Common Area), in Landlord's reasonable judgment, may be billed by Landlord, as an item of Additional Rent, directly to Tenant.

7.4 Definition of Real Property Taxes. The term "**Real Property Taxes**" means any form of tax, assessment, charge, license, fee, rent tax, levy, penalty (if a result of Tenant's delinquency), real property or other tax (other than Landlord's net income, estate, succession, inheritance, or franchise taxes), now or hereafter imposed with respect to the Property or any part thereof (including any Alterations), this Lease or any Rent payable under this Lease by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement district or other district or division thereof, whether such tax or any portion thereof (i) is determined by the area of the Property or any part thereof or the Rent payable under this Lease by Tenant, including, but not limited to, any gross income or excise tax levied by any of the foregoing authorities with respect to receipt of the Rent due under this Lease, (ii) is levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes with respect to the Property or any part thereof whether or not now customary or within the contemplation of Landlord or Tenant, or (iii) is based upon any legal or equitable interest of Landlord in the Property or any part thereof.

7.5 Apportionment of Taxes. If the Property is assessed as part of a larger parcel, then Landlord shall equitably apportion the Real Property Taxes assessed against the real property, which includes the Property, and reasonably determine the amount of Real Property Taxes attributable to the Property. If other buildings exist on the assessed parcel, the Real Property Taxes apportioned to the Property shall be based upon the ratio of the square footage of all buildings within the Property to the square footage of all buildings on the assessed parcel, and the amount of Real Property Taxes so apportioned to the Property shall be included as part of Operating Expenses. Landlord's reasonable determination of such apportionment shall be conclusive.

7.6 Tax on Improvements. Tenant shall, at Landlord's election, be directly responsible for and shall pay the full amount of any increase in Real Property Taxes attributable to the Tenant Improvements and any other

improvements of any kind whatsoever placed in, on or about the Premises for the benefit of, at the request of, or by Tenant, which payment shall be made by Tenant to Landlord within ten (10) days following Landlord's written demand therefor from time to time.

7.7 Utilities and Services. Provided that no Event of Default has occurred and is continuing, Landlord agrees to furnish to the Premises (a) during reasonable hours of generally recognized Business Days, as established by Landlord from time to time ("**Building standard hours** "; currently Monday through Friday (excluding Holidays (as defined below)), 7:30 a.m. to 6 p.m.), subject to the conditions and in accordance with the standards set forth in the Rules and Regulations, as may be amended in writing by Landlord from time to time during the Term of this Lease and delivered to Tenant, reasonable quantities of electric current for normal lighting and fractional horsepower office machines, water for lavatory and drinking purposes, heat and air conditioning required in Landlord's judgment for the comfortable use and occupation of the Premises, and to the extent provided in the Building only, elevator service by non-attended automatic elevators, and (b) janitorial service, five (5) days per week (excluding Holidays), at such times as determined by Landlord from time to time. Except as otherwise provided herein, the cost of all such utilities and services shall be included within the definition of Project Costs, and shall be paid by Tenant in the manner set forth in Section 7.1. Landlord shall not be liable for, and Tenant shall not be entitled to terminate this Lease or to any abatement or reduction of Rent by reason of Landlord's failure to furnish any of the foregoing when such failure is caused by accident, breakage, repairs, Unavoidable Delay or by any other cause. If Tenant requires or utilizes more water or electrical power than is considered reasonable or normal by Landlord, Landlord may at its option require Tenant to pay, as Additional Rent, the cost, as reasonably determined by Landlord, incurred by such extraordinary usage. In addition, Landlord may install separate meter(s) for the Premises, at Tenant's sole expense, and Tenant thereafter shall pay all charges of the metered service; provided that Tenant shall only be required to pay for such installation if the reason for such installation is as a result of Tenant's excess use of such services prior thereto. If such utilities and services (including, without limitation, HVAC service) are requested by Tenant during hours other than the Building standard hours, Landlord shall use reasonable efforts to furnish such utilities and services upon reasonable Notice from Tenant, and Tenant shall pay Landlord's charges for such utilities and services therefor on demand as Additional Rent (after-hours HVAC services are charged by Landlord on a per hour basis; Landlord's current charge for after-hours HVAC services is variable according to several factors, but may be provided to Tenant upon request from time to time, provided that such charge is subject to adjustment by Landlord from time to time). Tenant shall cooperate with any present or future government conservation requirements and with any conservation practices established by Landlord. If there is any failure, stoppage or interruption of any services provided hereunder, Landlord shall use reasonable diligence to resume services promptly. Landlord shall at all times have free access to all mechanical installations of the Building and Premises, including, but not limited to, air conditioning equipment and vents, fans, ventilating and machine rooms and electrical closets. Tenant shall be solely responsible for securing telecommunications services to the Premises, all at its sole cost and expense, and Landlord shall have no responsibility therefor. For purposes of this Lease, "**Holidays**" means those days recognized by any federal, state or local governmental agency as a holiday which Landlord, in its sole discretion, designates from time to time as "**Holidays**" for purposes of this Lease, such designation being subject to change from time to time.

7.8 Energy Disclosure Regulations. Tenant acknowledges that Landlord may, from time to time, be required to disclose certain information concerning the Building's energy use pursuant to California Public Resources Code Section 25402.10 and the regulations promulgated pursuant thereto (collectively, together with any future law or regulation regarding disclosure of energy efficiency data with respect to the Building, "**Energy Disclosure Regulations** "). Tenant shall cooperate with Landlord with respect to any disclosure and/or reporting requirements pursuant to any Energy Disclosure Regulations. Without limiting the generality of the foregoing, Tenant shall, within ten (10) days following request from Landlord, disclose to Landlord all information requested by Landlord in connection with the Energy Disclosure Regulations, including, but not limited to, the amount of power or other utilities consumed within the Premises for which the meters for such utilities are in Tenant's name, the number of employees working within the Premises, the operating hours for Tenant's business in the Premises, and the type and number of equipment operated by Tenant in the Premises. Tenant acknowledges that this information shall be provided on a non-confidential basis and may be provided by Landlord to the applicable utility providers, the California Energy Commission (and other governmental entities having jurisdiction with respect to the Energy Disclosure Regulations), and any third parties to whom Landlord is required to make the disclosures pursuant to the Energy Disclosure Regulations. Tenant agrees that neither Landlord nor any Mortgagee shall be liable for any loss, cost, damage, expense or liability related to Landlord's disclosure of such information provided by Tenant. In addition, Tenant represents to Landlord that any and all information provided by Tenant to Landlord pursuant to this Section 7.8 shall be, to the best of Tenant's knowledge, true and correct in all material respects, Tenant acknowledges that Landlord shall rely on such information, and Tenant shall indemnify, defend and hold harmless the Landlord and any Mortgagee from and against all claims, demands, liabilities, damages, losses, costs and expenses, including, without limitation, reasonable attorneys' fees, incurred in connection with or arising from any breach of the foregoing representation and/or Tenant's failure to timely provide any information requested by Landlord pursuant to this Section 7.8.

ARTICLE VIII

ALTERATIONS

8.1 Permitted Alterations. Tenant shall not make or permit any Alterations without the prior written consent of Landlord (which consent shall not be unreasonably withheld). Notwithstanding the foregoing, in no event shall any Alterations (i) affect the exterior of the Building or the outside areas of the Property or the Building (or be visible from adjoining sites), (ii) affect or penetrate any of the structural portions of the Building, including, but not limited to, the roof, (iii) require any change to the basic floor plan of the Premises, any change to the structural or mechanical components of the Premises, or any governmental approval or permit as a prerequisite to the construction thereof, (iv) interfere in any manner with the proper functioning of or Landlord's access to any mechanical, electrical, plumbing or HVAC systems, facilities or equipment located in or serving the Building, or (v) diminish the value of the Premises. All Alterations shall be constructed pursuant to plans and specifications previously provided to and, when applicable, approved in writing by Landlord, shall be installed by a licensed contractor at Tenant's sole expense in compliance with all Applicable Laws, and shall be accomplished in a good and workmanlike manner conforming in quality and design with the Premises existing as of the Commencement Date and in accordance with the provisions of Section 22.1 below. No Hazardous Materials, including, but not limited to, asbestos or asbestos-containing materials, shall be used by Tenant or Tenant's Agents in the construction or installation of any Alterations permitted hereunder. Tenant shall, if required by Landlord, obtain and pay for, at Tenant's own expense, a completion and indemnity bond covering such Alterations, the form and amount of which shall be subject to reasonable approval of Landlord. All Alterations made by Tenant shall be and become the property of Landlord upon the construction or installation thereof and shall not be deemed Tenant's Personal Property; provided, however, that Landlord may, at its option upon Notice given to Tenant at the time Landlord's consents to the Alteration, require that Tenant, upon the expiration or sooner termination of this Lease, at Tenant's expense, remove any or all Alterations and return the Premises to its condition as of the Commencement Date, normal wear and tear excepted. Notwithstanding any other provisions of this Lease to the contrary, Tenant shall be solely responsible for the maintenance, repair and replacement of any and all Alterations made by or for the benefit of Tenant (including, without limitation, by Landlord for the benefit of Tenant). In addition, Tenant shall be responsible for the payment of any increase in Real Property Taxes that are attributable to any Alterations, which payment shall be made by Tenant to Landlord within ten (10) days following Landlord's written demand therefor from time to time.

8.2 Trade Fixtures; Taxes. Tenant shall, at its own expense, provide, install and maintain in good condition all of Tenant's Personal Property required in the conduct of its business in the Premises. Tenant shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed against Tenant or Tenant's estate in this Lease or the property of Tenant situated within the Premises which become due during the Term, including, without limitation any Alterations and Tenant's Personal Property. Upon request by Landlord, Tenant shall promptly furnish Landlord with satisfactory evidence of these payments.

8.3 Mechanics' Liens. From and after the Commencement Date (or such earlier date that Tenant enters the Premises) Tenant shall give Landlord Notice of Tenant's intention to perform any work on the Premises which might result in any claim of lien at least twenty (20) days prior to the commencement of such work to enable Landlord to post and record a notice of nonresponsibility or other notice Landlord deems proper prior to the commencement of any such work. Tenant shall not permit any mechanic's, materialmen's or other liens to be filed against the Property or the Building or any portion thereof or against Tenant's leasehold interest in the Premises. If Tenant fails to cause the release of record of any lien(s) filed against the Property or the Building or any portion thereof or its leasehold estate in the Premises by payment or posting of a proper bond within ten (10) days from the date of the lien filing(s), then Landlord may, at Tenant's expense, cause such lien(s) to be released by any means Landlord deems proper, including, but not limited to, payment of or defense against the claim giving rise to the lien(s). All sums reasonably disbursed, deposited or incurred by Landlord in connection with the release of the lien(s), including, but not limited to, all costs, expenses and actual attorneys' fees, shall be due and payable by Tenant to Landlord, as an item of Additional Rent, on demand by Landlord, together with interest thereon at the Applicable Rate from the date of such demand until paid by Tenant.

8.4 Alterations by Landlord. Landlord reserves the right at any time and from time to time without the same constituting an actual or constructive eviction and without incurring any liability to Tenant therefor or otherwise affecting Tenant's obligations under this Lease, to make such changes, alterations, additions, improvements, repairs or replacements in or to the Building (including the Premises if required to do so by any Applicable Laws) and the fixtures and equipment thereof, as well as in or to the street entrances, walls, passages, and stairways thereof, or to change the name by which the Building or the Property is commonly known, as Landlord may deem necessary or desirable. Nothing contained herein shall be deemed to relieve Tenant of any duty, obligation or liability of Tenant with respect to making any repair, replacement or improvement or complying with any Applicable Laws in connection

with the Premises, and nothing contained herein shall be deemed or construed to impose upon Landlord any obligation, responsibility or liability whatsoever for the care of the Building or any part thereof other than as otherwise especially provided in this Lease.

ARTICLE IX

MAINTENANCE AND REPAIR

9.1 Landlord's Maintenance and Repair Obligations. Landlord shall, subject to receiving Tenant's Share of Excess Project Costs and Excess Real Property Taxes, and subject to Section 9.2, Article XII and Article XIII, maintain in good condition and repair the roof, exterior walls and foundation of the Building, provide normal maintenance services for the HVAC serving the Building through maintenance contracts or otherwise, and paint the exterior of the Building and clean the exterior windows of the Building as and when such painting or window cleaning, as the case may be, becomes necessary in Landlord's reasonable discretion. Landlord shall also provide maintenance and repair services to the electrical, plumbing, and mechanical systems serving the Premises. Landlord shall not be required to make any repairs unless and until Tenant has notified Landlord in writing of the need for such repair and Landlord shall have a reasonable period of time thereafter to commence and complete said repair, if warranted. The cost of any maintenance and repairs on the part of Landlord provided for in this Section 9.1 shall be considered part of Project Costs, except that repairs which Landlord deems arise out of any act or omission of Tenant or Tenant's Agents shall be made at the expense of Tenant. Landlord's obligation to so repair and maintain the Premises shall be limited to the cost of effecting such repair and maintenance and in no event shall Landlord be liable for any costs or expenses in excess of said amounts, including, but not limited to, any consequential damages, opportunity costs or lost profits incurred or suffered by Tenant.

9.1 Tenant's Maintenance and Repair Obligations. Tenant shall at all times during the Term of this Lease, at Tenant's sole cost and expense, clean, keep, maintain, repair and make necessary improvements to, the Premises and every portion thereof and all improvements therein or thereto, in good and sanitary order and condition to the reasonable satisfaction of Landlord and in compliance with all Applicable Laws, usual wear and tear excepted. The performance of such obligations shall be subject to the requirements of Section 22.1 below. Tenant's repair and maintenance obligations herein shall include, but are not limited to, all necessary maintenance and repairs to all portions of the Premises, and all exterior entrances to the Premises, all glass, windows, window casements, show window moldings, partitions, doors, doorjambes, door closures, hardware, fixtures, electrical lighting and outlets, plumbing fixtures, sewage facilities, interior walls, floors, ceilings, skylights, fans and exhaust equipment, and fire extinguisher equipment and life safety and other systems to the extent located within the Premises. As part of its maintenance obligations hereunder, Tenant shall, at Landlord's request, provide Landlord with copies of all maintenance schedules, reports and notices prepared by, for, or on behalf of Tenant. Landlord may impose reasonable restrictions and requirements with respect to repairs by Tenant, which repairs shall be at least equal in quality to the original work, and the provisions of Section 8.3 above shall apply to all such repairs. Tenant's obligation to repair includes the obligation to replace, as necessary, regardless of whether the benefit of such replacement extends beyond the Term. Notwithstanding the foregoing, Landlord shall have the right (but not the obligation), upon Notice to Tenant, to undertake the responsibility for maintenance and repair of automatic fire extinguisher equipment, such as sprinkler systems and alarms, and other obligations of Tenant hereunder which Landlord deems appropriate to undertake that affect the Building as a whole, in which event the cost thereof shall be included as part of Project Costs and paid by Tenant in the manner set forth in Section 7.1. Landlord has no obligation to construct, remodel, improve, repair, decorate or paint the Premises or any improvement on or part of the Premises. Tenant shall pay for the cost of all repairs to the Premises not required to be made by Landlord and shall be responsible for any redecorating, remodeling, alteration, painting and carpet cleaning other than routine vacuuming during the Term. Tenant shall not permit or authorize any person to go onto the roof of the Building without the prior written consent of Landlord.

9.1 Waiver. Tenant hereby waives all rights provided for by the provisions of Sections 1932(1), 1941 and 1942 of the California Civil Code and any present or future laws regarding Tenant's right to make repairs at the expense of Landlord or to terminate this Lease because of the condition of the Premises.

9.4 Self-Help. If Tenant refuses or fails to repair and maintain the Premises as required hereunder within ten (10) days from the date on which Landlord makes a written demand on Tenant to effect such repair and maintenance (or such shorter time as may be required in the event of an emergency), Landlord may enter upon the Premises and make such repairs or perform such maintenance without liability to Tenant for any loss or damage that may accrue to Tenant or its merchandise, fixtures or other property or to Tenant's business by reason thereof. All sums reasonably disbursed, deposited or incurred by Landlord in connection with such repairs or maintenance, plus ten percent (10%) for overhead, shall be due and payable by Tenant to Landlord, as an item of Additional Rent, on

demand by Landlord, together with interest at the Applicable Rate on such aggregate amount from the date of such demand until paid by Tenant.

ARTICLE X

COMMON AREA AND PARKING

10.1 Grant of Nonexclusive Common Area License and Right. Tenant and its permitted subtenants shall have a non-exclusive license and right, equal to that of the general public and in common with Landlord and all persons, firms and entities conducting business in the Building and their respective agents, employees, guests, customers, invitees and subtenants, to use the Common Area for pedestrian and vehicular ingress, egress and travel in and over designated areas, and for such other purposes and for doing such other things as may be provided for, authorized and/or permitted by this Lease and the Restrictions, such nonexclusive license and right to be appurtenant to Tenant's leasehold estate created by this Lease. The nonexclusive license and right granted pursuant to the provisions of this Article X shall be subject to the provisions of the Restrictions, which pertain in any way to the Common Area covered by such Restrictions, and the provisions of this Lease.

10.2 Use of Common Area. Notwithstanding anything to the contrary herein, Tenant and its successors, assigns, employees, agents and invitees shall use the Common Area only for the purposes permitted hereby and by the Restrictions and the Rules and Regulations. All uses permitted within the Common Area shall be undertaken in such reasonable manner so as not to interfere with the primary use of the Common Area which is to provide parking and vehicular and pedestrian access throughout the Common Area within the Building or Property and to adjacent public streets for Landlord, Landlord's Agents, and its tenants, subtenants, contractors and all persons, firms and entities conducting business within the Property and their respective agents, employees, guests, customers and invitees. In no event shall Tenant erect, install, or place, or cause to be erected, installed, or placed any structure, building, trailer, fence, wall, signs or other obstructions on the Common Area, and Tenant shall not store or sell any merchandise, equipment or materials on the Common Area.

10.3 Control of Common Area. Subject to provisions of the Restrictions, all Common Area and all improvements located from time to time within the Common Area shall at all times be subject to the exclusive control and management of the Landlord. Without in any way limiting the foregoing, Landlord shall have the right to construct, maintain and operate lighting facilities and other improvements within the Common Area; to police the Common Area from time to time; to change the area, level, location and arrangement of the parking areas and other improvements within the Common Area; to restrict parking by tenants, their officers, agents and employees to employee parking areas; to enforce parking charges (by operation of meters or otherwise); to close all or any portion of the Common Area or improvements therein to such extent as may, in the opinion of counsel for Landlord, be legally sufficient to prevent a dedication thereof or the accrual of any rights to any person or to the public therein; to close temporarily all or any portion of the Common Area and/or the improvements thereon (including, without limitation, in connection with any repairs, maintenance and renovations thereof); to discourage noncustomer parking; and to do and perform such other acts in and to said Common Area and improvements thereon as, in the use of good business judgment, Landlord shall determine to be advisable. Landlord reserves the right to promulgate such reasonable rules and regulations relating to the use of the Common Area as Landlord may deem appropriate, and Tenant agrees to comply with (and cause its agents, employees, guests, customers, invitees and subtenants to comply with) any such rules and regulations so promulgated by Landlord. In the event Landlord elects or is required by any Applicable Law to limit or control parking within the Common Area, by validation of parking tickets or any other method, Tenant agrees to participate in such validation or other program under such reasonable rules and regulations as are from time to time established by Landlord.

10.4 Maintenance of Common Area. Subject to the provisions of the Restrictions, Landlord shall operate and maintain (or cause to be operated and maintained) the Common Area in a similar condition to comparable office building projects located in the general vicinity of the Property, in such manner as Landlord in its reasonable discretion shall determine from time to time. Without limiting the scope of such discretion, Landlord shall have the full right and authority to employ or cause to be employed all personnel and to make or cause to be made all rules and regulations pertaining to or necessary for the proper operation and maintenance of the Common Area and the improvements located thereon. The cost of such maintenance of the Common Area shall be included as part of Project Costs. Tenant shall not use any part of the Common Area for the storage of any items, including, without limitation, vehicles, materials, inventory and equipment. Tenant shall place all trash and other refuse in designated receptacles. Tenant shall not perform or permit any work of any kind in the Common Area, including, but not limited to, painting, drying, cleaning, repairing, manufacturing, assembling, cutting, merchandising or displaying.

10.5 Revocation of License. All Common Area and improvements located thereon which Tenant is permitted to use and occupy pursuant to the provisions of this Lease are to be used and occupied under a revocable license and right, and if the amount of such areas be diminished, Landlord shall not be subject to any liability nor shall Tenant be entitled to compensation or diminution or abatement of Rent, and such revocation or diminution of such areas shall not be deemed constructive or actual eviction. It is understood and agreed that the condemnation or other taking or appropriation by any public or quasi- public authority, or sale in lieu of condemnation of all or any portion of the Common Area shall not constitute a violation of Landlord's agreements hereunder, and Tenant shall not be entitled to terminate this Lease or participate in or make any claim for any award or other condemnation proceeds arising from any such taking or appropriation of the Common Area.

10.6 Landlord's Reserved Rights. Landlord reserves the right to install, use, maintain, repair, relocate and replace pipes, ducts, conduits, wires and appurtenant meters and equipment included in the Premises or outside the Premises, change the boundary lines of the Property and install, use, maintain, repair, alter or relocate, expand and replace any Common Area; provided, however, Landlord shall not unreasonably interfere with Tenant's use of the Premises. Such rights of Landlord shall include, but are not limited to, designating from time to time certain portions of the Common Area as exclusively for the benefit of certain tenants in the Property or the Building (and Tenant shall not be permitted to use any portions so designated by Landlord).

10.7 Parking. Tenant shall be entitled to the number of vehicle parking spaces set forth in Item 15 of the Basic Lease Provisions. The Unreserved Spaces shall be unreserved and unassigned, on those portions of the Common Area designated by Landlord from time to time for unreserved and unassigned parking. Tenant shall not use more parking spaces than such numbers. All parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Landlord for such activities. Parking within the Common Area shall be limited to striped parking stalls, and no parking shall be permitted in any driveways, accessways or in any area which would prohibit or impede the free flow of traffic within the Common Area. There shall be no overnight parking of any vehicles of any kind. If Tenant commits, permits or allows a violation of any of the terms and conditions of this Lease relating to the use of the Common Area or the rules then in effect with respect thereto, or if a vehicle is being operated by Tenant or its agents, employees, guests, customers, invitees or subtenants in a manner that Landlord or its designated agent reasonably determines is a danger to the health and safety of persons on or about the Project, then Landlord, through its designated agent, shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved from the Project and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord. Landlord may delegate its responsibilities under this Section 10.7 to a parking operator, in which case (i) such parking operator shall have all the rights of control reserved herein by Landlord, (ii) Tenant shall enter into a parking agreement with such parking operator, and (iii) Landlord shall have no liability for claims arising through acts or omissions of such parking operator except to the extent caused by Landlord's gross negligence or willful misconduct. Tenant's parking rights under this Section 10.7 are solely for the benefit of Tenant's employees and invitees and such rights may not be transferred without Landlord's prior consent, except pursuant to a Transfer permitted under Article XIV.

ARTICLE XI

INDEMNITY AND INSURANCE

11.1 Indemnification. To the fullest extent permitted by Applicable Law, Tenant hereby agrees to defend (with attorneys acceptable to Landlord), indemnify, protect and hold harmless Landlord and Landlord's Agents and any successors to all or any portion of Landlord's interest in the Premises and their directors, officers, partners, managers, members, employees, authorized agents, representatives, affiliates and Mortgagees (collectively, the "**Landlord Parties**"), from and against any and all damage, loss, claim, liability and expense, including, but not limited to, actual attorneys' fees and legal costs, incurred directly or indirectly by reason of any claim, suit or judgment brought by or on behalf of (i) any person or persons for damage, loss or expense due to, but not limited to, personal or bodily injury or property damage sustained by such person or persons which arise out of, are occasioned by, or are in any way attributable to the use or occupancy of the Premises or the acts or omissions of the Tenant or Tenant's Agents in or about the Premises, the Property or the Building (including, but not limited to, any Event of Default hereunder), or (ii) Tenant or Tenant's Agents for damage, loss or expense due to, but not limited to, personal or bodily injury or property damage which arise out of, are occasioned by, or are in any way attributable to the use of any of the Common Area, except to the extent caused by the negligence or willful misconduct of Landlord.

11.2 Property Insurance. Landlord shall obtain and keep in force during the Term of this Lease a policy or policies of insurance, with deductibles at the sole discretion of Landlord, covering loss or damage to the Premises,

the Building, the Tenant Improvements and objects owned by Landlord and normally covered under a " **Boiler and Machinery** " policy (as such term is used in the insurance industry), at least in the amount of eighty percent (80%) of the full replacement cost thereof, and in no event less than the total amount required by Mortgagees, against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils ("all risk" or "special causes of loss," as such terms are used in the insurance industry, including, at Landlord's option, collapse, earthquake and flood) and other perils as required by the Mortgagees or deemed necessary by Landlord. A stipulated value or agreed amount endorsement deleting any co-insurance provision of said policy or policies shall be procured with said insurance. The cost of such insurance policies shall be included in the definition of Project Costs, and shall be paid by Tenant in the manner set forth in Section 7.1. Such insurance policies shall provide for payment of loss thereunder to Landlord or, at Landlord's election, to the Mortgagees. If the Premises are part of a larger building, or if the Premises are part of a group of buildings owned by Landlord which are adjacent to the Premises, then Tenant shall pay for any increase in the property insurance of the Building or such other building or buildings within the Property if such increase is caused by Tenant's acts, omissions, use or occupancy of the Premises. Tenant shall obtain and keep in force during the Term, at its sole cost and expense, (i) an "all risk" or "special causes of loss" property policy in the amount of the full replacement cost covering Tenant's Personal Property and any Alterations made by or at the request of Tenant, with Landlord insured as its interest may appear, and (ii) an "all risk" or "special causes of loss" policy of business interruption and/or loss of income insurance covering a period of two (2) years, plus such additional period of time, if any, as will permit Tenant to be in a position to have the same revenues as were in effect the day before a loss giving rise to a claim under such insurance occurs, with loss payable to Landlord to the extent of Monthly Rent and Additional Rent only.

11.3 Liability/Miscellaneous Insurance. Tenant shall maintain in full force and effect at all times during the Term (plus such earlier and later periods as Tenant may be in occupancy of the Premises), at its sole cost and expense, for the protection of Tenant, Landlord and the Landlord Parties, policies of insurance issued by a carrier or carriers acceptable to Landlord and the Mortgagees which afford the following coverage:

(i) statutory workers' compensation;

(ii) employer's liability for bodily injury by disease per person and bodily injury by accident with minimum limits of One Million Dollars (\$1,000,000);

(iii) comprehensive/commercial general liability insurance, including, but not limited to, blanket contractual liability (including the indemnity set forth in Section 11.1), fire and water legal liability, broad form property damage, contractual liability, personal injury, completed operations, products liability, independent contractors, and, if alcoholic beverages are served, manufactured, distributed or sold in the Premises, and comprehensive liquor liability, of not less than One Million Dollars (\$1,000,000) per occurrence, Two Million Dollars (\$2,000,000) general aggregate (or current limits carried, whichever are greater);

(iv) Automobile liability for owned, non-owned and hired vehicles as applicable for a limit of not less than One Million Dollars (\$1,000,000) per occurrence;

(v) umbrella/excess liability on a following form basis with minimum limits of Five Million Dollars (\$5,000,000); and

(vi) such increased amounts of insurance and other insurance in such form and amounts as may be required by Landlord or any current or prospective Mortgagees from time to time.

The insurance listed in (iii), (iv) and (v) above shall name Landlord, NYL Investors, LLC, and the Landlord Parties as additional insureds, and shall include a cross-liability or severability of interests endorsement. Tenant shall deliver to Landlord a certificate evidencing such insurance coverage not less than fifteen (15) days prior to the Commencement Date. Tenant is responsible for ensuring that certificates provided to Landlord are accurate, current and in effect. Landlord's failure to monitor compliance or to object to noncompliance or unsatisfactory compliance with any terms of these insurance requirements does not modify or waive Tenant's obligations set forth in this Article XI in any way. Tenant is responsible for providing certificates for renewal policies within ten (10) business days of renewal of each policy mentioned above. Landlord or Landlord's Agents on behalf of Landlord may, at Landlord's election, obtain liability insurance in such amounts and on such terms as Landlord shall determine, and the cost thereof shall be included in Project Costs and paid by Tenant in the manner described in Section 7.1.

11.4 Deductibles. Any policy of insurance required pursuant to this Lease containing a deductible exceeding Ten Thousand Dollars (\$10,000.00) per occurrence must be approved in writing by Landlord prior to the issuance of such policy. Tenant shall be solely responsible for the payment of any deductible.

- 11.5 Blanket Coverage. Any insurance required of Tenant pursuant to this Lease may be provided by means of a so-called "blanket policy", so long as (i) the Premises are specifically covered (by rider, endorsement or otherwise), (ii) the limits of the policy are applicable on a "per location" basis to the Premises and provide for restoration of the aggregate limits, and (iii) the policy otherwise complies with the provisions of this Lease.
- 11.6 Increased Coverage. Upon demand, Tenant shall provide Landlord, at Tenant's expense, with such increased amount of existing insurance, and such other insurance as Landlord or the Mortgagees may reasonably require.
- 11.7 Sufficiency of Coverage. Neither Landlord nor any of Landlord's Agents makes any representation that the types of insurance and limits specified to be carried by Tenant under this Lease are adequate to protect Tenant. If Tenant believes that any such insurance coverage is insufficient, Tenant shall provide, at its own expense, such additional insurance as Tenant deems adequate. Nothing contained herein shall limit Tenant's liability under this Lease, and Tenant's liability under any provision of this Lease, including, without limitation, under any indemnity provisions, shall not be limited to the amount of any insurance obtained.
- 11.8 Insurance Requirements. Tenant's insurance (i) shall be in a form reasonably satisfactory to Landlord and the Mortgagees and shall be carried with companies that have a "Best Key Rating Guide" rating of A/VII or better and that are determined by Landlord, in its reasonable discretion, as financially sound on a current basis, (ii) shall provide that such policies shall not be subject to material alteration or cancellation except after at least thirty (30) days prior written Notice to Landlord (provided that if such insurer is unwilling or unable in accordance with industry standards to provide Landlord such prior Notice, then Tenant shall provide Landlord such Notice), and (iii) shall be primary, and any insurance carried by Landlord or Landlord's Agents shall be excess and noncontributing. Tenant's policy or policies, or duly executed certificates for them in the form and content acceptable to Landlord, shall be deposited with Landlord concurrently with Tenant's execution of this Lease, and prior to renewal of such policies. If Tenant fails to procure and maintain the insurance required to be procured by Tenant under this Lease, Landlord may, but shall not be required to, order such insurance at Tenant's expense. All sums reasonably disbursed, deposited or incurred by Landlord in connection therewith, including, but not limited to, all costs, expenses and actual attorneys' fees, shall be due and payable by Tenant to Landlord, as an item of Additional Rent, on demand by Landlord, together with interest thereon at the Applicable Rate from the date of such demand until paid by Tenant.
- 11.9 Impound Funds. If requested by any Mortgagees to whom Landlord has granted a security interest in the Premises, or if any Event of Default occurs under this Lease, Tenant shall, at Landlord's election, pay Landlord, concurrently with each payment of Monthly Rent, a sum equal to one-twelfth (1/12) of the annual insurance premiums payable by Tenant for all insurance which Tenant is required to obtain pursuant to this Article XI. Such sums (the "Impound Funds") shall be held by Landlord and applied to the payment of such insurance premiums when due; provided, however, Landlord shall not be required to keep the Impound Funds separate from other funds, Tenant shall not be entitled to interest on the Impound Funds and no trust relationship shall be created with respect to the Impound Funds. The amount of the Impound Funds when unknown shall be reasonably estimated by Landlord. If the Impound Funds paid to Landlord by Tenant under this Section 11.9 are insufficient to discharge the obligations of Tenant to pay such insurance premiums as the same become due, Tenant shall pay to Landlord, within ten (10) days after Landlord's written request therefor, such additional sums necessary to pay such obligations. If an Event of Default has occurred, any balance remaining from the Impound Funds may, at the option of Landlord, be applied to any obligation then due under this Lease in lieu of being applied to the payment of insurance premiums. The unused portion of the Impound Funds, if any, shall be returned to Tenant within thirty (30) days of the expiration of this Lease or any termination of this Lease not resulting from an Event of Default, provided that Tenant has vacated the Premises in the manner required by this Lease.
- 11.10 Landlord's Disclaimer. Notwithstanding any other provisions of this Lease, and to the fullest extent permitted by Applicable Law, Landlord and Landlord's Agents shall not be liable for any loss or damage to persons or property resulting from theft, vandalism, fire, explosion, falling materials, glass, tile or sheetrock, steam, gas, electricity, water or rain which may leak from any part of the Premises, or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface, or from acts of God or from any other cause whatsoever, unless caused by or due to the sole gross negligence or willful misconduct of Landlord (provided, however, in no event shall Landlord be liable for any consequential damages, opportunity costs or lost profits incurred or suffered by Tenant). Landlord and Landlord's Agents shall not be liable for interference with light or air, or for any latent defect in the Premises except as otherwise expressly provided in this Lease. Tenant shall give prompt Notice to Landlord in case of a casualty, accident or repair needed to the Premises.
- 11.11 Waiver of Subrogation. Landlord, except to the extent Tenant's insurance covers loss to Landlord plus Tenant's obligations with respect to maintenance and repair and payment of insurance deductibles hereunder,

and Tenant each hereby waives all rights of recovery against the other and the other's agents on account of loss and damage occasioned to such waiving party to the extent only that such loss or damage is insured against under any insurance policies required by this Article XI (and to the extent such insurance is inadequate to cover such loss, this waiver shall not apply to amounts of loss above such coverage) and to the extent permitted by Applicable Laws. Tenant and Landlord shall, upon obtaining policies of insurance required hereunder, give notice to the insurance carriers that the foregoing waiver of subrogation is contained in this Lease. Notwithstanding the foregoing, it is agreed that if any loss is due to the act, omission or negligence or willful misconduct of Tenant or Tenant's Agents, Tenant's liability insurance shall be primary and shall cover all losses and damages prior to any other insurance hereunder.

ARTICLE XII

DAMAGE OR DESTRUCTION

12.1 Landlord's Obligation to Rebuild. If the Premises are damaged or destroyed by fire or other casualty (a " **Casualty** "), Tenant shall promptly give Notice thereof to Landlord, and Landlord shall thereafter repair the Premises as set forth in Sections 12.3 and 12.4 unless Landlord has the right to terminate this Lease as provided in Section 12.2 and Landlord elects to so terminate this Lease.

12.2 Landlord's Right to Terminate. Landlord shall have the right to terminate this Lease following a Casualty if any of the following occurs: (i) insurance proceeds (together with any additional amounts Tenant elects, at its option, to contribute) are not available to Landlord to pay one hundred percent (100%) of the cost to fully repair the Premises, excluding the deductible (for which Tenant shall pay Tenant's Share of such deductible), regardless of whether such unavailability is due to coverage or other policy limits or the requirements of any Mortgagee; (ii) Landlord's Architect determines that the Premises cannot, with reasonable diligence, be fully repaired by Landlord (or cannot be safely repaired because of the presence of hazardous factors, including, but not limited to, Hazardous Materials, earthquake faults, radiation, chemical waste and other similar dangers) within three hundred sixty-five (365) days after the date of issuance of any necessary permits to complete the repair of the Premises; (iii) the Premises are destroyed or damaged during the last twelve (12) months of the Term; or (iv) an Event of Default has occurred and is continuing at the time of such Casualty. If Landlord elects to terminate this Lease following a Casualty pursuant to this Section 12.2, Landlord shall give Tenant Notice of Landlord's election to terminate within ninety (90) days after Landlord has knowledge of such Casualty, and this Lease shall terminate fifteen (15) days after the date of such Notice.

12.3 Effect of Termination. If this Lease is terminated following a Casualty pursuant to Section 12.2, Landlord shall, subject to the rights of the Mortgagees, be entitled to receive and retain all the insurance proceeds resulting from or attributable to such Casualty, except for those proceeds payable under policies obtained by Tenant which specifically insure Tenant's Personal Property. If Landlord does not exercise any such right to terminate this Lease, this Lease will continue in full force and effect, and Landlord shall, within sixty (60) days after the date of such Casualty and receipt of the amounts set forth in clause (i) of Section 12.2, commence the process of obtaining necessary permits and approvals for the repair of the Premises, and shall commence such repair and prosecute the same diligently to completion as soon as is practicable following Landlord's receipt of such permits and approvals. Tenant shall fully cooperate with Landlord in removing Tenant's Personal Property and any debris from the Premises to facilitate the making of such repairs.

12.4 Limited Obligation to Repair. Landlord's obligation, should it elect or be obligated to repair the Premises following a Casualty, shall be limited to the basic Building and Tenant Improvements and Tenant shall, at its expense, replace or fully repair all Tenant's Personal Property and any Alterations existing at the time of such Casualty. If the Premises are to be repaired in accordance with the foregoing, Tenant shall make available to Landlord any portion of insurance proceeds that Tenant receives which are allocable to the Tenant Improvements.

12.5 Abatement of Monthly Rent. During any period when Landlord or Landlord's Architect reasonably determines that there is substantial interference with Tenant's use of the Premises by reason of a Casualty, Monthly Rent shall be temporarily abated in proportion to the degree of such substantial interference, but only to the extent of any business interruption or loss of income insurance proceeds received by Landlord from Tenant's insurance described in Section 11.2. Subject to the immediately preceding sentence, such abatement shall commence upon the date Tenant notifies Landlord of such Casualty and shall end upon the Substantial Completion of the repair of the Premises which Landlord undertakes or is obligated to undertake hereunder. Tenant shall not be entitled to any compensation or damages from Landlord for loss of the use of the Premises, Tenant's Personal Property or other damage or any inconvenience occasioned by a Casualty or by the repair or restoration of the Premises thereafter, including, but not limited to, any consequential damages, opportunity costs or lost profits incurred or suffered by

Tenant. Tenant hereby waives the provisions of Section 1932(2) and Section 1933(4) of the California Civil Code, and the provisions of any similar or successor statutes.

13.2 Landlord's Determination. The determination in good faith by Landlord's Architect of or relating to the estimated cost of repair of any damage, replacement cost, the time period required for repair or the interference with or suitability of the Premises for Tenant's use or occupancy shall be conclusive for purposes of this Article XII and Article XIII.

ARTICLE XIII

CONDEMNATION

13.1 Total Taking--Termination. If title to the Premises or so much thereof is taken for any public or quasi-public use under any statute or by right of eminent domain so that reconstruction of the Premises will not result in the Premises being reasonably suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease shall terminate as of the date possession of the Premises or part thereof is so taken.

13.2 Partial Taking. If any part of the Premises is taken for any public or quasi-public use under any statute or by right of eminent domain and the remaining part is reasonably suitable for Tenant's continued occupancy for the uses permitted by this Lease as reasonably determined by Landlord, this Lease shall, as to the part so taken, terminate as of the date that possession of such part of the Premises is taken and the Monthly Rent shall be reduced in the same proportion that the floor area of the portion of the Premises so taken (less any addition thereto by reason of any reconstruction) bears to the original floor area of the Premises, as reasonably determined by Landlord or Landlord's Architect. Landlord shall, at its own cost and expense, make all necessary repairs or alterations to the Premises so as to make the portion of the Premises not taken a complete architectural unit. Such work shall not, however, exceed the scope of the work done by Landlord in originally constructing the Premises. If severance damages from the condemning authority are not available to Landlord in sufficient amounts to permit such restoration, Landlord may terminate this Lease upon Notice to Tenant. Monthly Rent due and payable hereunder shall be temporarily abated during such restoration period in proportion to the degree to which there is substantial interference with Tenant's use of the Premises, as reasonably determined by Landlord or Landlord's Architect. Each party hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure and any present or future law allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Building or Premises.

13.3 No Apportionment of Award. No award for any partial or total taking shall be apportioned, it being agreed and understood that Landlord shall be entitled to the entire award for any partial or entire taking. Tenant assigns to Landlord its interest in any award which may be made in such taking or condemnation, together with any and all rights of Tenant arising in or to the same or any part thereof. Nothing contained herein shall be deemed to give Landlord any interest in or require Tenant to assign to Landlord any separate award made to Tenant for the taking of Tenant's Personal Property, for the interruption of Tenant's business or its moving costs, or for the loss of its goodwill.

13.4 Temporary Taking. No temporary taking of the Premises (which for purposes hereof shall mean a taking of all or any part of the Premises for one hundred eighty (180) days or less) shall terminate this Lease or give Tenant any right to any abatement of Rent. Any award made to Tenant by reason of such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein. Each party agrees to execute and deliver to the other all instruments that may be required to effectuate the provisions of this Section 13.4.

13.5 Sale Under Threat of Condemnation. A sale made in good faith to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes of this Article XIII.

ARTICLE XIV

ASSIGNMENT AND SUBLETTING

14.1 Prohibition. Tenant shall not directly or indirectly, voluntarily or by operation of law, assign this Lease, or any right or interest hereunder, or sublet the Premises or any part thereof, or allow any other person or entity to occupy or use all or any part of the Premises without first obtaining the written consent of Landlord in each instance, which consent shall not be unreasonably withheld. In no event shall Tenant directly or indirectly, voluntarily or by operation of law, pledge, mortgage or hypothecate this Lease, or any right or interest hereunder or in or to the

Premises. In addition, if Landlord consents to a subletting, in no event shall the applicable sublessee be permitted to assign the sublease or sub-sublet all or any portion of the applicable sublease premises (and any subleases of the Premises or any part thereof shall specifically include the foregoing prohibition). Any attempted assignment, subletting, pledge, mortgaging, hypothecation or other transfer in violation of the terms of this Article XIV, whether voluntary or involuntary, by operation of law, under legal process or proceedings, by receivership, in bankruptcy, or otherwise shall constitute an Event of Default under this Lease and shall be voidable at Landlord's option. Tenant hereby waives all rights provided for by the provisions of Section 1995.310 of the California Civil Code and any present or future laws regarding Tenant's right to terminate this Lease or to an award of any consequential or special damages in connection with Landlord's consent or denial thereof with respect to a request by Tenant under this Article XIV. To the extent not prohibited by provisions of the Bankruptcy Code of 1978, 11 U.S.C. Section 101 et seq. (as amended, the "**Bankruptcy Code**"), Tenant on behalf of itself, creditors, administrators and assigns waives the applicability of Sections 541(c) and 365(e) of the Bankruptcy Code unless the proposed assignee of the trustee for the estate of the bankrupt meets Landlord's standards for consent as set forth below. Landlord has entered into this Lease with Tenant in order to obtain for the benefit of the Property the unique attraction of Tenant's name and business; the foregoing prohibition on assignment or subletting is expressly agreed to by Tenant in consideration of such fact. If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other considerations payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute property of Tenant or the estate of Tenant within the meaning of the Bankruptcy Code. Any and all monies or other considerations constituting Landlord's property under the preceding sentence not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and be promptly paid or delivered to Landlord. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease on and after the date of such assignment. Any such assignee shall upon demand execute and deliver to Landlord an instrument confirming such assumption.

14.2 Landlord's Consent. If Landlord consents to any assignment or subletting, then such consent shall not constitute a waiver of any of the restrictions of this Article XIV and the same shall apply to each successive assignment or subletting hereunder, if any. In no event shall an assignment or subletting affect the continuing primary liability of Tenant (which, following an assignment, shall be joint and several with the assignee), or relieve Tenant of any of its obligations hereunder without an express written release being given by Landlord. If Landlord shall consent to an assignment or subletting under this Article XIV, then such assignment or subletting shall not be effective until the assignee or sublessee shall assume in a writing delivered to Landlord all of the obligations of this Lease on the part of Tenant to be performed or observed and whereby the assignee or sublessee shall agree that the provisions contained in this Lease shall, notwithstanding such assignment or subletting, continue to be binding upon it with respect to all future assignments and sublettings, and Tenant and the applicable assignee or sublessee have entered into Landlord's standard consent to sublease agreement or consent to assignment agreement, as the case may be. Such assignment or sublease agreement and consent agreement shall be duly executed and a fully executed copy thereof shall be delivered to Landlord, and Landlord may collect Monthly Rent and Additional Rent due hereunder directly from the assignee or sublessee. Collection of Monthly Rent and Additional Rent directly from an assignee or sublessee shall not constitute a consent or a waiver of the necessity of consent to such assignment or subletting, nor shall such collection constitute a recognition of such assignee or sublessee as the Tenant hereunder or a release of Tenant from the performance of all of its obligations hereunder.

14.3 Information. Regardless of whether Landlord's consent is required under this Article XIV, Tenant shall notify Landlord in writing of Tenant's intent to assign this Lease or any right or interest hereunder, or to sublease the Premises or any part thereof, and of the name of the proposed assignee or sublessee, the nature of the proposed assignee's or sublessee's business to be conducted on the Premises, the terms and provisions of the proposed assignment or sublease, a copy of the proposed assignment or sublease form, and such other information as Landlord may reasonably request concerning the proposed assignee or sublessee, including, but not limited to, net worth, income statements and other financial statements for a two-year period preceding Tenant's request for consent, evidence of insurance complying with the requirements of Article XI, and the fee described in Section 14.7.

14.4 Landlord's Election. Landlord shall, within thirty (30) days of receipt of such Notice and all information requested by Landlord concerning the proposed assignee or sublessee, elect to take one of the following actions by Notice to Tenant:

- A. consent to such proposed assignment or sublease;
- B. refuse to consent to such proposed assignment or sublease, which refusal shall be on reasonable grounds;

- C. If Tenant proposes to sublease all or part of the Premises, elect to recapture such portion of the Premises as Tenant proposes to sublease and, as of the thirtieth (30th) day after Landlord so notifies Tenant of its election to recapture, this Lease shall terminate as to the portion of the Premises recaptured and the Monthly Rent payable under this Lease shall be reduced in the same proportion that the floor area of that portion of the Premises so recaptured bears to the floor area of the Premises prior to such recapture; or
- D. If Tenant proposes to assign this Lease, elect to recapture the Premises and, as of the thirtieth (30th) day after Landlord so notifies Tenant of its election to recapture, this Lease shall terminate.

Tenant agrees, by way of example and without limitation, that it shall not be unreasonable for Landlord to withhold its consent to a proposed assignment or subletting if any of the following situations exist or may exist:

- I. Landlord determines that the proposed assignee's or sublessee's use of the Premises conflicts with Article V or Article VI, presents an unacceptable risk, as determined by Landlord, under Article VI, or conflicts with any other provision under this Lease;
- II. Landlord determines that the proposed assignee or sublessee is not financially responsible as of the date of Tenant's request for consent or as of the effective date of such assignment or subletting;
- III. Landlord determines that the proposed assignee or sublessee lacks sufficient business reputation or experience to conduct on the Premises a business of a type and quality equal to that conducted by Tenant;
- IV. Landlord determines that the proposed assignment or subletting would breach a covenant, condition or restriction in some other lease, financing agreement or other agreement relating to the Property, the Building, the Premises or this Lease;
- V. Landlord determines that the proposed assignee or sublessee (A) has been required by any prior landlord, lender or governmental authority to take remedial action in connection with Hazardous Materials contaminating a property if such contamination resulted from the proposed assignee's or sublessee's actions or use of the property in question, or (B) is subject to any enforcement order issued by any governmental authority in connection with the use, disposal or storage of Hazardous Materials;
- VI. An Event of Default has occurred and is continuing at the time of Tenant's request for Landlord's consent, or as of the effective date of such assignment or subletting;
- VII. The proposed assignee or sublessee is either a governmental agency or instrumentality thereof; or
- VIII. The proposed assignee or sublessee or an affiliate thereof (a) occupies space in the Property at the time of the request for consent, (b) is negotiating with Landlord to lease space in the Property at such time, or (c) has negotiated with Landlord to lease space in the Property during the twelve (12) month period immediately preceding the request for consent.

Tenant acknowledges that if Tenant has any exterior sign rights under this Lease, such rights are personal to the original Tenant named herein and may not be assigned or transferred to any assignee of this Lease or sublessee of the Premises without Landlord's prior written consent, which consent may be withheld in Landlord's sole and absolute discretion.

14.5 Bonus Value. Tenant agrees that seventy-five percent (75%) of any amounts paid by the assignee or sublessee, however described, in excess of (i) the Monthly Rent payable by Tenant hereunder (or, in the case of sublease of a portion of the Premises, in excess of the Monthly Rent reasonably allocable to such portion), plus (ii) Tenant's direct out-of-pocket costs which Tenant certifies to Landlord have been paid to provide occupancy related services to such assignee or sublessee of a nature commonly provided by landlords of similar space (which direct out-of-pocket costs shall, for purposes of calculating the amounts payable to Landlord under this Section 14.5, be amortized on a straight-line basis over the applicable sublease term (in the case of a sublease) or the then-remaining balance of the Term of this Lease (in the case of an assignment)), shall be the property of Landlord and such amounts shall be payable directly to Landlord by the assignee or sublessee. At Landlord's request, a written

agreement shall be entered into by and among Tenant, Landlord and the proposed assignee or sublessee confirming the requirements of this Section 14.5.

14.6 Certain Transfers. The sale of all or substantially all of Tenant's assets (other than bulk sales in the ordinary course of business), or, if Tenant is a corporation, an unincorporated association, a limited liability company or a partnership, (i) any merger, reorganization or consolidation involving Tenant, and/or (ii) the transfer, assignment or hypothecation of any stock or interest in such corporation, association, limited liability company or partnership in the aggregate in excess of forty percent (40%) (except for publicly traded shares of stock constituting a transfer of forty percent (40%) or more in the aggregate, so long as no change in the controlling interests of Tenant occurs as a result thereof), shall be deemed an assignment within the meaning and provisions of this Article XIV. If the acquiring or surviving entity is wholly-owned or majority controlled by another entity or person (" **Parent** "), then, without in any way limiting the basis upon which Landlord may grant or withhold its consent to such assignment, it shall not be unreasonable for Landlord to condition its consent upon the execution and delivery by the Parent of a written guaranty of Tenant's obligations and liabilities under this Lease on a form of lease guaranty provided by Landlord.

14.7 Landlord's Fee and Expenses. If Tenant requests Landlord's consent to an assignment or subletting by Tenant under this Lease, Tenant shall pay to Landlord a fee of One Thousand Dollars (\$1,000) and all of Landlord's reasonable out-of-pocket expenses, including, but not limited to, attorneys' fees reasonably incurred related to such assignment or subletting by Tenant, whether or not the assignment or subletting is approved.

14.8 Prohibited Transfers and Users. Notwithstanding anything contained in this Article XIV to the contrary, in no event shall Tenant enter into any assignments or subleases with, or permit the Premises or any portion thereof to be used by, any person or entity that could not comply with the obligations of Tenant under Section 22.2 of this Lease or make the representations Tenant is required to make in Section 22.2 of this Lease. Any assignment, subletting or other agreement or arrangement made in violation of this Section 14.8 shall, at Landlord's option, be null and void and of no force or effect and constitute an Event of Default by Tenant under this Lease.

14.9 Permitted Transfer. Notwithstanding anything to the contrary contained in this Article XIV, Tenant shall be entitled to assign this Lease, without the requirement of obtaining Landlord's consent, to (each such person or entity, a "Permitted Transferee", and each such transaction, a "**Permitted Transfer**"): (a) a successor entity related to Tenant in connection with a merger, consolidation or non-bankruptcy reorganization, (b) any entity that controls, is controlled by or is under common control with Tenant (with "control" for the purposes of this subsection (b) to mean not less than fifty-one percent (51%) equity ownership of any entity together with the power to direct the management decisions thereof), or (c) any person or entity which acquires all or substantially all of the assets of Tenant; provided, however, that (i) for any assignment, such assignee has a net worth (calculated in accordance with GAAP) equal to or exceeding the net worth of Tenant as of the date hereof or the effective date of the Permitted Transfer, whichever is greater, (ii) Tenant provides not less than twenty-one (21) days prior written notice of any Permitted Transfer, including financial information reasonably satisfactory to Landlord evidencing compliance with the foregoing net worth requirements, (iii) within ten (10) days after any Permitted Transfer, Tenant delivers to Landlord a copy of the assignment wherein the Permitted Transferee assumes all of Tenant's obligations under the Lease or sublets the Premises, and (iv) Tenant complies with all other requirements under Article XIV other than the requirement of obtaining Landlord's prior written consent for any assignment or sublease meeting the requirements of a Permitted Transfer. As assignee of Landlord's interest under this Lease pursuant to this Section 14.9 is referred to herein as a "**Permitted Assignee**".

ARTICLE XV

DEFAULTS AND REMEDIES

15.1 Tenant's Default. At the option of Landlord, a default under this Lease by Tenant shall exist if any of the following events shall occur (each is called an "**Event of Default**"):

- A. Tenant fails to pay the Rent payable hereunder, as and when due, for a period of five (5) days after Notice by Landlord; provided, however, the Notice given hereunder shall be in lieu of, and not in addition to, any notice required under Section 1161, et seq., of the California Code of Civil Procedure;
- B. Tenant attempts to make or suffers to be made any transfer, assignment or subletting, except as permitted in Article XIV hereof;

- C. Any of Tenant's rights under this Lease are sold or otherwise transferred by or under court order or legal process or otherwise or if any of the actions described in Section 15.2 are taken by or against Tenant or any Guarantor;
- D. The Premises are used for any purpose other than as permitted pursuant to Article V;
- E. Tenant vacates or abandons the Premises or fails to continuously and uninterruptedly conduct its business in the Premises;
- F. Any representation or warranty given by Tenant under or in connection with this Lease proves to be materially false or misleading;
- G. Tenant fails to timely comply with the provisions of (i) Section 3.2 (" **Term and Commencement** ") within five (5) days after Notice thereof, (ii) Article VI (" **Hazardous Materials** ") within the time periods set forth therein, (iii) Article XI (**Indemnity and Insurance**) within five (5) days after Notice thereof, (iv) Article XIV (" **Assignment and Subletting** ") within five (5) days after Notice thereof, (v) Article XVI (" **Subordination; Estoppel Certificate; Financials** ") within the time periods set forth therein, (vi) Section 19.2 (" **Holding Over** ") within the time periods set forth therein, or (vii) Section 21.5 (" **Modifications for Mortgagees** ") within the time periods set forth therein; or
- H. Tenant fails to observe, keep, perform or cure within fifteen (15) days after Notice by Landlord any of the other terms, covenants, agreements or conditions contained in this Lease or those set forth in any other agreements or rules or regulations which Tenant is obligated to observe or perform. The Notice required by this Subparagraph 15.1(h) shall be in lieu of, and not in addition to, any notice required under Section 1161, et seq., of the California Code of Civil Procedure.

No Notice given under this Section 15.1 shall be deemed a forfeiture or a termination of this Lease unless Landlord so elects in the Notice.

15.2 Bankruptcy or Insolvency. In no event shall this Lease be assigned or assignable by operation of law and in no event shall this Lease be an asset of Tenant in any receivership, bankruptcy, insolvency or reorganization proceeding. If:

- A. A court makes or enters any decree or order adjudging Tenant to be insolvent, or approving as properly filed by or against Tenant a petition seeking reorganization or other arrangement of Tenant under any provisions of the Bankruptcy Code or any Applicable Law of the State of California, or directing the winding up or liquidation of Tenant and such decree or order shall have continued for a period of thirty (30) days;
- B. Tenant makes or suffers any transfer which constitutes a fraudulent or otherwise avoidable transfer under any provisions of the Bankruptcy Code or any Applicable Law of the State of California;
- C. Tenant assigns its assets for the benefit of its creditors; or
- D. The material part of the property of Tenant or any property essential to Tenant's business or of Tenant's interest in this Lease is sequestered, attached or executed upon, and Tenant fails to secure a return or release of such property within ten (10) days thereafter, or prior to sale pursuant to such sequestration, attachment or levy, whichever is earlier;

then this Lease shall, at Landlord's election, immediately terminate and be of no further force or effect whatsoever, without the necessity for any further action by Landlord, except that Tenant shall not be relieved of obligations which have accrued prior to the date of such termination. Upon such termination, the provisions herein relating to the expiration or earlier termination of this Lease shall control and Tenant shall immediately surrender the Premises in the condition required by the provisions of this Lease. Additionally, Landlord shall be entitled to all relief, including recovery of damages from Tenant, which may from time to time be permitted, or recoverable, under the Bankruptcy Code or any other Applicable Laws of the State of California.

15.3 Landlord's Remedies. Upon the occurrence of an Event of Default, then, in addition to and without waiving any other rights and remedies available to Landlord at law or in equity or otherwise provided in this Lease, Landlord may, at its option, cumulatively or in the alternative, to the fullest extent permitted by Applicable Laws exercise the following remedies:

A. Landlord may terminate Tenant's right to possession of the Premises, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. No act by Landlord other than giving Notice to Tenant of Landlord's election to terminate Tenant's right to possession shall terminate this Lease. Acts of maintenance, efforts to relet the Premises, or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. Termination shall terminate Tenant's right to possession of the Premises but shall not relieve Tenant of any obligation under this Lease which has accrued prior to the date of such termination. Upon such termination, Landlord shall have the right to re-enter the Premises, and remove all persons and property, and Landlord shall also be entitled to recover from Tenant:

- I. The worth at the time of award of the unpaid Monthly Rent and Additional Rent which had been earned at the time of termination;
- II. The worth at the time of award of the amount by which the unpaid Monthly Rent and Additional Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;
- III. The worth at the time of award of the amount by which the unpaid Monthly Rent and Additional Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided;
- IV. Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result from Tenant's default, including, but not limited to, the cost of recovering possession of the Premises, commissions and other expenses of reletting, including necessary repair, demolition and renovation of the Premises to the condition existing immediately prior to Tenant's occupancy, the unamortized portion of any brokerage commissions funded by Landlord in connection with this Lease, the cost of rectifying any damage to the Premises occasioned by the act or omission of Tenant, reasonable attorneys' fees, and any other reasonable costs; and
- V. At Landlord's election, all other amounts in addition to or in lieu of the foregoing as may be permitted by Applicable Law.

As used in Subsections (i) and (ii) above, the "worth at the time of award" shall be computed by allowing interest at the maximum legal rate permitted by Applicable Law. As used in Subsection (iii) above, the "worth at the time of award" shall be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

B. Landlord may elect not to terminate Tenant's right to possession of the Premises, in which event this Lease will continue in full force and effect as long as Landlord does not terminate Tenant's right to possession, and Landlord shall have the remedy described in California Civil Code section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations) and Landlord may continue to enforce all of its rights and remedies under this Lease, including the right to collect all Rent as it becomes due. If Landlord elects to avail itself of the remedy provided by this Section 15.3(b), Landlord shall not unreasonably withhold its consent to an assignment or subletting of the Premises subject to the standards and conditions for Landlord's consent as are contained in this Lease (which standards and conditions Tenant acknowledges and agrees are reasonable at the time this Lease is executed by Tenant). In addition, if Tenant has entered into a sublease which is valid under the terms of this Lease, Landlord may also, at its option, cause Tenant to assign to Landlord the interest of Tenant under said sublease, including, but not limited to, Tenant's right to payment of Rent as it becomes due. Landlord may elect to enter the Premises and relet them, or any part of them, to third parties for Tenant's account. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises, including, but not limited to, broker's commissions, expenses of cleaning and remodeling the Premises required by the reletting, attorneys' fees and like costs. Reletting can be for a period shorter or longer than the remaining Term of this Lease and for the entire Premises or any portion thereof. Tenant shall pay to Landlord the Monthly Rent and Additional Rent due under this Lease on the dates the Monthly Rent and such Additional Rent are due, less the Rent Landlord actually collects from any reletting. Except as provided in the preceding sentence, if Landlord relets the Premises or any portion thereof, such reletting shall not relieve Tenant of any obligation hereunder. Notwithstanding the above, no act by Landlord allowed by this Section 15.3(b) shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease.

15.4 No Surrender. Tenant waives any rights of redemption, reinstatement or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179 and California Civil Code Section 3275, and under any other present or future laws if Tenant is evicted or Landlord takes possession of the Premises or this Lease is terminated by reason of an Event of Default. No act or thing done by Landlord or Landlord's Agents during the Term shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender shall be valid unless in writing and signed by Landlord. No employee of Landlord or of Landlord's Agents shall have any power to accept the keys to the Premises prior to the termination of this Lease, and the delivery of the keys to any employee shall not operate as a termination of this Lease or a surrender of the Premises.

15.5 Interest on Late Payments. Any Rent due under this Lease that is not paid to Landlord within three (3) days of the date when due shall commence to bear interest at the Applicable Rate until fully paid. Neither the accrual nor the payment of interest shall cure any default by Tenant under this Lease.

15.6 Attorneys' and Other Fees. All sums reasonably incurred by Landlord in connection with an Event of Default or holding over of possession by Tenant after the expiration or termination of this Lease, including, but not limited to, all costs, expenses and actual accountants', appraisers', attorneys' and other professional fees, and any collection agency or other collection charges, shall be due and payable by Tenant to Landlord on demand, and shall bear interest at the Applicable Rate from the date of such demand until paid by Tenant. In addition, if any action shall be instituted by either of the parties hereto for the enforcement of any of its rights in and under this Lease, the party in whose favor judgment shall be rendered shall be entitled to recover from the other party all expenses reasonably incurred by the prevailing party in such action, including actual costs and reasonable attorneys' fees.

15.7 Landlord's Default. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within thirty (30) days after receipt of Notice by Tenant to Landlord (and the Mortgagees who have provided Tenant with Notice) specifying the nature of such default; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

15.8 Limitation of Landlord's Liability. The obligations of Landlord do not constitute the personal obligations of the individual partners, managers, members, trustees, directors, officers or shareholders of Landlord or its constituent partners. If Landlord shall fail to perform any covenant, term, or condition of this Lease upon Landlord's part to be performed, Tenant shall be required to deliver to Landlord Notice of the same. If, as a consequence of such default, Tenant shall recover a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of the sale received upon execution of such judgment and levied thereon against the right, title and interest of Landlord in the Building and out of rent or other income from such property receivable by Landlord or out of consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title or interest in the Building, and no action for any deficiency may be sought or obtained by Tenant. In addition, in no event shall Landlord be liable for (i) damages in excess of Landlord's equity in the Building to a maximum of twenty percent (20%) of the fair market value of the Building or (ii) any consequential damages, opportunity costs or lost profits incurred or suffered by Tenant as a result of a default by Landlord under this Lease.

15.9 Mortgagee Protection. Upon any default on the part of Landlord, Tenant will give Notice by registered or certified mail to any Mortgagee who has provided Tenant with Notice of its interest together with an address for receiving Notice, and shall offer such Mortgagee a reasonable opportunity to cure the default (which in no event shall be less than sixty (60) days), including time to obtain possession of the Premises by power of sale or a judicial foreclosure, if such should prove necessary, to effect a cure. Tenant agrees that each of the Mortgagees to whom this Lease has been assigned by Landlord is an express third party beneficiary hereof. Tenant shall not make any prepayment of Monthly Rent more than one (1) month in advance without the prior written consent of such Mortgagee. Tenant waives any right under any present or future law to the collection of any security deposit from such Mortgagee or any purchaser at a foreclosure sale of such Mortgagee's interest unless such Mortgagee or such purchaser shall have actually received and not refunded the security deposit in accordance with the terms of this Lease. Tenant agrees to make all payments under this Lease to the Mortgagee with the most senior encumbrance upon receiving a direction, in writing, to pay said amounts to such Mortgagee. Tenant shall comply with such written direction to pay without determining whether an event of default exists under such Mortgagee's loan to Landlord.

15.10 Landlord's Right to Perform. If Tenant shall at any time fail to make any payment or perform any other act on its part to be made or performed under this Lease, Landlord may (but shall not be obligated to), at Tenant's expense, and without waiving or releasing Tenant from any obligation of Tenant under this Lease, make such payment or perform such other act to the extent Landlord may deem desirable, and in connection therewith, pay

expenses and employ counsel. All sums paid by Landlord and all penalties, interest and costs, including, but not limited to, collection costs and attorneys' fees reasonably incurred in connection therewith, shall be due and payable by Tenant to Landlord, as an item of Additional Rent, on demand by Landlord, together with interest thereon at the Applicable Rate from the date of such demand until paid by Tenant.

15.11 Limitation of Actions Against Landlord. Any claim, demand or right of any kind by Tenant which is based upon or arises in connection with this Lease shall be barred unless Tenant commences an action thereon within twelve (12) months after the date that the act, omission, event or default upon which the claim, demand or right arises, has occurred. In addition, if Landlord commences any summary proceeding or action against Tenant for the nonpayment of Rent, Tenant shall not interpose any counterclaims of any nature or description in any such proceeding or action (unless such counterclaims shall be mandatory), rather Tenant shall be relegated to bringing an independent action at law therefor.

15.12 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY LAW, TENANT HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY TENANT ON ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES AND/OR ANY CLAIM OF INJURY OR DAMAGE.

ARTICLE XVI

SUBORDINATION; ESTOPPEL CERTIFICATE; FINANCIALS

16.1 Subordination, Attornment and Non-Disturbance. Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord or any Mortgagee or any ground lessor with respect to the land of which the Premises are a part, this Lease and any future amendment of this Lease shall be subject and subordinate at all times to (i) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Building, and (ii) the lien of any Mortgage which may now exist or hereafter be executed in any amount for which the Property, the Building, ground leases and/or underlying leases, and/or Landlord's interest or estate in any of said items, is specified as security. Landlord or any such Mortgagee or ground lessor shall have the right, at its election, to subordinate or cause to be subordinated any such ground leases or underlying leases or any such liens to this Lease. No subordination shall permit material interference with Tenant's rights hereunder, and any ground lessor or Mortgagee shall recognize Tenant and its permitted successors and assigns as the tenant of the Premises and shall not disturb Tenant's right to quiet possession of the Premises during the Term so long as no Event of Default has occurred and is continuing under this Lease. If Landlord's interest in the Premises is acquired by any ground lessor or Mortgagee, or if proceedings are brought for the foreclosure of, or in the event of exercise of power of sale under, any Mortgage made by Landlord covering the Premises or any part thereof, or if a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination and upon the request of such successor in interest to Landlord, attorn to and become the Tenant of the successor in interest to Landlord and recognize such successor in interest as the Landlord under this Lease and any amendment of this Lease. Although this Section 16.1 is self-executing, Tenant covenants and agrees to execute and deliver, upon demand by Landlord and in the form requested by Landlord, or any Mortgagee, or ground lessor, any additional documents evidencing the priority or subordination of this Lease and any amendment of this Lease with respect to any such ground leases or underlying leases or the lien of any such Mortgage, and/or evidencing the attornment of Tenant to any successor in interest to Landlord as herein provided. Tenant's failure to timely execute and deliver such additional documents within ten (10) days following written request therefor, which failure continues for five (5) days after a second written request, shall, at Landlord's option, constitute an Event of Default hereunder.

16.2 Estoppel Certificate. Tenant shall, within ten (10) days following written request by Landlord from time to time, execute and deliver to Landlord any documents, including estoppel certificates, in a form required by Landlord (i) certifying that this Lease is unmodified and in full force and effect or, if modified, attaching a copy of such modification and certifying that this Lease, as so modified, is in full force and effect and the date to which the Rent and other charges are paid in advance, if any, (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of the Landlord or stating the nature of any uncured defaults, (iii) evidencing the status of this Lease as may be required by a Mortgagee or a purchaser of the Premises, (iv) certifying the current Monthly Rent amount and the amount and form of Security Deposit on deposit with Landlord, and (v) certifying to such other information as Landlord, Landlord's Agents, Mortgagees and/or prospective purchasers or their Mortgagees may reasonably request, including, but not limited to, any requested information regarding Hazardous Materials. Tenant's failure to deliver an estoppel certificate within ten (10) days after delivery of Landlord's written request therefor, which failure continues for five (5) days after a second written request, shall, at Landlord's option, constitute an Event of

Default hereunder, and shall be conclusive against Tenant (1) that this Lease is in full force and effect and has not been modified except as represented by Landlord; (2) that there are no uncured defaults in Landlord's performance and that Tenant has no right of offset, counterclaim, or deduction against Rent; (3) not more than one (1) month's Rent has been paid in advance; and (4) as to the truth and accuracy of any other matters set forth in the form of estoppel certificate submitted to Tenant.

16.3 Financial Information. Tenant shall deliver to Landlord, prior to the execution of this Lease, and within ten (10) days following written request therefor by Landlord from time to time during the Term, Tenant's current financial statements, and Tenant's financial statements for the two (2) years prior to the current fiscal financial statement's year, certified to be true, accurate and complete by the chief financial officer of Tenant, including a balance sheet and profit and loss statement for the most recent prior year (collectively, the "**Statements**"), which Statements shall accurately and completely reflect the financial condition of Tenant and shall be provided on a non-consolidated basis. Landlord agrees that it will keep any non-publicly available Statements confidential, except that Landlord shall have the right to deliver the same to any proposed purchaser of the Premises, the Property or any portion thereof, and to the Mortgagees of Landlord or such purchaser. Tenant acknowledges that Landlord is relying on the Statements in its determination to enter into this Lease, and Tenant represents to Landlord, which representation shall be deemed made on the date of this Lease and again on the Commencement Date, that no material change in the financial condition of Tenant, as reflected in the Statements, has occurred since the date Tenant delivered the Statements to Landlord. If any material change in Tenant's financial condition, as reflected in the Statements, occurs prior to the date of this Lease or prior to the Commencement Date, as the case may be, or if Tenant fails to inform Landlord of any such material change, Landlord shall have the right, in addition to any other rights and remedies of Landlord, to terminate this Lease by Notice to Tenant given within thirty (30) days after Landlord learns of such material change.

Notwithstanding the foregoing, for so long as Tenant is an entity subject to reporting requirements of the Securities Exchange Commission ("**SEC**") similar to those applicable to publicly-traded companies, and provided that the foregoing financial information of Tenant is readily available to the public (e.g., via the SEC's website at www.sec.gov), then Tenant shall not be required to deliver the foregoing Statements to Landlord.

ARTICLE XVII

SIGNS AND GRAPHICS

17.1 General. Subject to compliance with Applicable Laws, Tenant shall be entitled to the following Building-standard signage ("**Permitted Signage**"): (i) a listing of Tenant's name in the Building's main lobby directory, and (ii) suite identification signage on or adjacent to the entrance to the Premises. Tenant shall have no right to maintain any other signs or graphics in any other location in, on or about the Premises or the Building and shall not display or erect any other signs, displays or other advertising materials that are visible from the exterior of the Building or outside of the Premises. Permitted Signage shall be installed, maintained by Landlord (and removed by Landlord upon the expiration or sooner termination of this Lease), and shall be subject to any Restrictions and conform to the sign criteria established by Landlord from time to time for such signage.

Tenant grants to Landlord a non-exclusive and royalty-free license and limited right to use Tenant's Trade Name(s), trademark(s), logo(s) and design(s), whether registered or unregistered (the "**Licensed Marks**") in marketing materials or other promotional materials relating to the Building or Property in all media, including, without limitation, the use, reproduction and distribution of photographs and video of the outside of the Premises or Building and Tenant's signage and the use of Licensed Marks in any tenant list.

17.2 Monument Signage. In addition, Tenant, at Tenant's sole cost and expense, shall have the non-exclusive right to place its name ("**Tenant's Monument Signage**") on the monument sign for the Building (the "**Monument Sign**"). The location, design, size and color Tenant's Monument Signage on the Monument Sign, and the manner in which it is attached to the Monument Sign, shall be subject to the reasonable approval of Landlord and to compliance with all Applicable Laws and Restrictions. Upon the expiration or earlier termination of the Lease or Tenant's right to possession of the Premises, or Tenant's right to the Monument Sign, Landlord, at Tenant's sole cost and expense, payable as Additional Rent within thirty (30) days after demand thereof, shall have the right to remove Tenant's Monument Signage from the Monument Sign and restore the Monument Sign to the condition it was in prior to the installation of Tenant's Monument Signage thereon, ordinary wear and tear and damage by Casualty (which is governed by Article XII) excepted. The rights provided for in this paragraph with respect to the Monument Sign shall be personal to the Original Tenant and non-transferable unless otherwise agreed to by Landlord in writing in accordance with Article XIV.

17.3 Exterior Building Signage. Subject to the terms of this Section 17.3, as Alterations in accordance with Article VIII above, Tenant shall have the right, at Tenant's sole cost and expense, to install Building signage on the exterior of the Building, identifying the name and/or logo of the Original Tenant (i.e., "8x8, Inc.") (the "**Exterior Sign**"). All aspects of the Exterior Sign, including, without limitation, the location, graphics, materials, color, design, lettering, size, quality and specifications of the Exterior Sign shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. The Exterior Sign shall also comply with and be subject to all Restrictions and Applicable Laws, including, but not limited to, all requirements of the City of San Jose ("**City**") (or other applicable governmental authorities); provided, however, that in no event shall the approval by the City (or other applicable governmental authorities) of the Exterior Sign be deemed a condition precedent to the effectiveness of this Lease, and if such approval is not obtained, Landlord's and Tenant's other obligations under this Lease shall not be affected thereby. Landlord shall, at no cost to Landlord, reasonably cooperate with Tenant in (i) obtaining applicable permits from the City in connection with the installation of the Exterior Sign and (ii) coordinating Tenant's installation of the Exterior Sign. Following the initial construction and installation of the Exterior Sign, Tenant shall be entitled to modify the name and/or logo for such signage, at Tenant's sole cost and expense, to the new name and/or logo adopted by Original Tenant, provided that the new name and/or logo shall not be an Objectionable Name or Logo (defined below). "**Objectionable Name or Logo**" shall mean any name or logo which relates to an entity which is of a character or reputation, or is associated with a political orientation or faction, which is inconsistent with the quality of the Building as a first-class office building, or which would otherwise reasonably offend a landlord of comparable buildings. Tenant shall, at its sole cost and expense, maintain the Exterior Sign in good condition and repair. The signage rights granted to Tenant under this Section 17.3 are personal to the Original Tenant and may only be exercised by the Original Tenant (and not any assignee, or any sublessee or other transferee of the Original Tenant's interest in this Lease). Notwithstanding anything to the contrary contained in this Section 17.2, in no event shall Tenant have any right to the Exterior Sign if the Original Tenant is not leasing and occupying the entire Premises.

ARTICLE XVIII

QUIET ENJOYMENT

Landlord covenants that Tenant, upon performing the terms, conditions and covenants of this Lease, shall have quiet and peaceful possession of the Premises as against any person claiming the same by, through or under Landlord.

ARTICLE XIX

SURRENDER; HOLDING OVER

19.1 Surrender of the Premises. Upon the expiration or sooner termination of this Lease, Tenant shall surrender the Premises to Landlord in its condition existing as of the Commencement Date, normal wear and tear and acts of God excepted, with all interior walls in good repair, all carpets shampooed and cleaned, the HVAC equipment, plumbing, electrical and other mechanical installations in good operating order and all floors cleaned and waxed, all to the reasonable satisfaction of Landlord. Tenant shall remove those Alterations (including, without limitation, telecommunications and data cabling and wiring) which Tenant is required to remove pursuant to Section 8.1 above and Section 22.3 below, and all Tenant's Personal Property, and shall repair any damage and perform any restoration work caused by such removal. If Tenant fails to remove such Alterations and Tenant's Personal Property which Tenant is authorized and obligated to remove pursuant to the above, and such failure continues after the expiration or sooner termination of this Lease, Landlord may retain such property and all rights of Tenant with respect to it shall cease, or Landlord may place all or any portion of such property in public storage for Tenant's account, or Landlord may dispose of such property in any other manner permitted by Applicable Law. Tenant shall pay to Landlord, upon demand, the costs of removal of any such Alterations and Tenant's Personal Property and storage and transportation costs of same, and the cost of repairing and restoring the Premises, together with attorneys' fees and interest on said amounts at the Applicable Rate from the date of expenditure by Landlord. If the Premises are not so surrendered at the expiration or sooner termination of this Lease, Tenant hereby agrees to indemnify Landlord and Landlord's Agents against all loss or liability resulting from any delay by Tenant in so surrendering the Premises, including, but not limited to, any claims made by any succeeding tenant, losses to Landlord due to lost opportunities to lease to succeeding tenants, and actual attorneys' fees and costs. In addition, if the Premises are not so surrendered at the expiration or sooner termination of this Lease, such failure shall, at Landlord's election and upon written Notice to Tenant, constitute an Event of Default under this Lease.

19.2 Holding Over. If Tenant remains in possession of all or any part of the Premises after the expiration or sooner termination of this Lease with the prior written consent of Landlord such holding over shall

constitute a month-to-month tenancy only and shall not constitute a renewal or extension for any further term. If Tenant remains in possession of all or any part of the Premises after the expiration or sooner termination of this Lease without the prior written consent of Landlord, such possession shall constitute a tenancy at sufferance and shall be an Event of Default under the Lease upon Landlord's written notice. In either of such events, Monthly Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the Monthly Rent payable during the last month of the Term, and any other sums due hereunder shall be payable in the amounts and at the times specified in this Lease. Any such tenancy shall be subject to every other term, condition and covenant contained in this Lease.

ARTICLE XX

CONSTRUCTION OF TENANT IMPROVEMENTS

The obligations of Landlord and Tenant with respect to the Tenant Improvements are set forth in the Work Letter. It is acknowledged and agreed that all Tenant Improvements under this Lease are and shall be the property of Landlord from and after their installation.

ARTICLE XXI

MISCELLANEOUS AND INTERPRETIVE PROVISIONS

21.1 Broker. Tenant represents and warrants to Landlord that Tenant has not had any dealings with any real estate broker, agent or finder in connection with the negotiation of this Lease or the introduction of the parties to this transaction, except for Broker, and that it knows of no other real estate broker, agent or finder who is or might be entitled to a commission or fee in connection with this Lease. In the event of any additional claims for brokers' or finders' fees with respect to this Lease, Tenant shall indemnify, hold harmless, protect and defend Landlord from and against such claims if they shall be based upon any statement or representation or agreement made by Tenant, and Landlord shall indemnify, hold harmless, protect and defend Tenant from and against such claims if they shall be based upon any statement, representation or agreement made by Landlord.

21.2 Examination of Lease; Effectiveness. Submission of this Lease for examination or signature by Tenant does not create a reservation of or option to lease. This Lease shall become effective and binding only upon full execution and delivery of this Lease by both Landlord and Tenant.

21.3 No Recording. Tenant shall not record this Lease or any memorandum of this Lease without Landlord's prior written consent, but if Landlord so requests, Tenant agrees to execute, have acknowledged and deliver a memorandum of this Lease in recordable form which Landlord thereafter may file for record.

21.4 Quitclaim. Upon any termination of this Lease, Tenant shall, at Landlord's request, execute, have acknowledged and deliver to Landlord an instrument in writing releasing and quitclaiming to Landlord all right, title and interest of Tenant in and to the Premises by reason of this Lease or otherwise.

21.5 Modifications for Mortgagees. If in connection with obtaining financing for the Premises or any portion thereof, Landlord's Mortgagees shall request reasonable modifications to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent thereto, provided such modifications do not materially adversely affect Tenant's rights hereunder. Tenant's failure to so consent within five (5) days after a second written request from Landlord, shall, at Landlord's option, constitute an Event of Default under this Lease.

21.6 Notice. Any Notice required or desired to be given under this Lease shall be in writing and shall be addressed to the address of the party to be served. The notices addresses of Landlord and Tenant are as set forth in Item 1 and Item 3, respectively, of the Basic Lease Provisions. Each such Notice shall be deemed effective and given (i) upon receipt, if personally delivered, (ii) for any Notice given by overnight courier, the next Business Day after deposit with the courier, (iii) upon being telephonically confirmed as transmitted, if sent by telegram, telex or telecopy, (iv) two (2) Business Days after deposit in the United States mail in the County, certified and postage prepaid, properly addressed to the party to be served, or (v) upon receipt if sent in any other way. Any party hereto may from time to time, by Notice to the other in accordance with this Section 21.6, designate a different address than that set forth above for the purposes of Notice, but such modified address must include a street address to which overnight couriers will deliver. If Tenant's address for Notices is an address not located in California, then, notwithstanding anything contained in this Section 21.6 to the contrary, any notice given by Landlord under California Code of Civil Procedure sections 1161 and/or 1162 (including, without limitation, any Notices given by Landlord under Article XV above that are intended to satisfy the notice requirements under said sections 1161 and/or 1162) may, at

Landlord's option, be served by Landlord at the Premises (and any courtesy copy of such Notice sent by Landlord in any other manner shall not affect the legal adequacy of the Notice served by Landlord at the Premises).

21.7 Captions. The captions and headings used in this Lease are for the purpose of convenience only and shall not be construed to limit or extend the meaning of any part of this Lease.

21.8 Executed Copy. Any fully executed copy of this Lease shall be deemed an original for all purposes.

21.9 Time. Time is of the essence for the performance of each term, condition and covenant of this Lease.

21.10 Severability. If any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Lease, but this Lease shall be construed as if such invalid, illegal or unenforceable provision had not been contained herein.

21.11 Survival. All covenants and indemnities set forth herein which contemplate the payment of sums, or the performance by Tenant or Landlord after the Term or following an Event of Default, including specifically, but not limited to, the covenants and indemnities set forth in Section 5.3, Article VI, Article VII, Section 8.1, Section 9.2, Section 11.1, Section 11.10, Article XV, and Article XIX, and all representations and warranties of Tenant, shall survive the expiration or sooner termination of this Lease.

21.12 Choice of Law; Construction. This Lease shall be construed and enforced in accordance with the Applicable Laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant, it being the intent of the parties that this Lease shall be interpreted as if it was prepared by both parties, and any ambiguities shall not be resolved in favor of Tenant because all or a portion of this Lease was prepared by Landlord.

21.13 Gender; Singular, Plural. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership, limited liability company or corporation or joint venture, the singular includes the plural and the plural includes the singular.

21.14 Non-Agency. It is not the intention of Landlord or Tenant to create hereby a relationship of master-servant or principal-agent, and under no circumstance shall Tenant herein be considered the agent of Landlord, it being the sole purpose and intent of the parties hereto to create a relationship of landlord and tenant.

21.15 Successors. The terms, covenants, conditions and agreements contained in this Lease shall, subject to the provisions as to assignment, subletting, and bankruptcy contained herein and any other provisions restricting successors or assigns, apply to and bind the heirs, successors, legal representatives and assigns of the parties hereto.

21.16 Waiver; Remedies Cumulative. The waiver by either party of any term, covenant, agreement or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant, agreement or condition herein contained, nor shall any custom or practice which may develop between the parties in the administration of this Lease be construed to waive or to lessen the right of Landlord to insist upon the performance by Tenant in strict accordance with all of the provisions of this Lease. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any provisions, covenant, agreement or condition of this Lease, other than the failure of Tenant to pay the particular Rent payment so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent payment. Landlord's acceptance of any check, letter or payment shall in no event be deemed an accord and satisfaction, and any such acceptance by Landlord shall be without prejudice to Landlord's right to recover the balance of the Rent or pursue any other remedy available to it. The rights and remedies of either party under this Lease shall be cumulative and in addition to any and all other rights and remedies which either party has or may have.

21.17 Unavoidable Delay. Except for the monetary obligations of Tenant under this Lease, neither party shall be chargeable with, liable for, or responsible to the other for anything or in any amount for any Unavoidable Delay and any Unavoidable Delay shall not be deemed a breach of or default in the performance of this Lease, it being specifically agreed that any time limit provision contained in this Lease (other than the scheduled expiration of the Term) shall be extended for the same period of time lost by Unavoidable Delay.

21.18 Entire Agreement. This Lease is the entire agreement between the parties, and supersedes any prior agreements, representations, negotiations or correspondence between the parties except as expressed herein. Except as otherwise provided herein, no subsequent change or addition to this Lease shall be binding unless in writing and signed by the parties hereto.

21.19 Authority. If Tenant is a corporation, limited liability company or a partnership, each individual executing this Lease on behalf of the corporation, limited liability company or partnership, as the case may be, represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with its corporate bylaws, operating agreement, statement of partnership or certificate of limited partnership, as the case may be, and that this Lease is binding upon said entity in accordance with its terms. If Tenant is a corporation, Tenant shall, if requested by Landlord, within thirty (30) days after execution of this Lease and prior to entering into possession of the Premises, deliver to Landlord a certified copy of a resolution of the Board of Directors of the corporation or certificate of the Secretary of the corporation, authorizing, ratifying or confirming the execution of this Lease. If Tenant is a limited liability company, Tenant shall, if requested by Landlord, within thirty (30) days after the execution of this Lease and prior to entering into possession of the Premises, deliver to Landlord a certified copy of its operating agreement authorizing such execution. If Tenant is a partnership, Tenant shall, if requested by Landlord, within thirty (30) days after the execution of this Lease and prior to entering into possession of the Premises, deliver to Landlord a certified copy of its partnership agreement authorizing such execution. If Tenant is a married individual, Tenant represents and warrants that he or she has full authority to execute this Lease complete power to manage, control, convey, sell or encumber any property which may be jointly held or owned by Tenant and Tenant's spouse as may be necessary to satisfy obligations under the Lease. Within thirty (30) days after this Lease is signed, if requested by Landlord, Tenant shall deliver to Landlord an executed spousal acknowledgement and consent with respect to this Lease in the form provided by Landlord and executed by Tenant's spouse. Tenant's failure to have such consent executed or so deliver such executed consent shall in no way affect the validity of this Lease or the foregoing representation of Tenant.

21.20 Guaranty. As a condition to the execution of this Lease by Landlord, the obligations, covenants and performance of the Tenant as herein provided shall be guaranteed in writing by the Guarantor listed in Item 14 of the Basic Lease Provisions, if any, on a form of guaranty provided by Landlord.

21.21 Exhibits; References. All exhibits, amendments, riders and addenda attached to this Lease are hereby incorporated into and made a part of this Lease. In the event of variation or discrepancy, the duplicate original hereof (including exhibits, amendments, riders and addenda, if any, specified above) held by Landlord shall control. All references in this Lease to Articles, Sections, Exhibits, Riders and clauses are made, respectively, to Articles, Sections, Exhibits, Riders and clauses of this Lease, unless otherwise specified.

21.22 Basic Lease Provisions. The Basic Lease Provisions at the beginning of this Lease are intended to provide general information only. In the event of any inconsistency between the Basic Lease Provisions and the specific provisions of this Lease, the specific provisions of this Lease shall prevail.

21.23 No Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, or a termination by Landlord, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all such subtenancies.

21.24 Joint and Several Obligations. If more than one person or entity is Tenant, the obligations imposed on each such person or entity shall be joint and several.

21.25 No Light or Air Easement. Any diminution or shutting off of light or air by any structure which may be erected on lands adjacent to the Building shall in no way affect this Lease, abate Rent or otherwise impose any liability on Landlord. This Lease does not confer any right with regard to the subsurface below the ground level of the Building.

21.26 Security Measures. Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises, the Property or the Building. Tenant assumes all responsibility for the protection of Tenant, Tenant's Agents and the property of Tenant and of Tenant's Agents from acts of third parties. Nothing herein contained shall prevent Landlord, at Landlord's sole option, from providing security protection for the Property and/or the Building or any part thereof, in which event the cost thereof shall be included within the definition of Project Costs and paid by Tenant in the manner set forth in Section 7.1.

21.27 Transfers by Landlord. Landlord (and any party comprising Landlord) and its successors in interest shall have the right to transfer their respective interests in this Lease, the Building and the Property at any time and to any person or entity. In the event of any such transfer(s), the Landlord originally named herein (and, in the case of any subsequent transfer(s), the applicable transferor(s)) shall be automatically relieved from the date of such transfer, without further act by any person or entity, of all liability under any and all of the covenants and obligations of Landlord contained in or derived from this Lease accruing from and following the date of such transfer, and, upon the request of Landlord, Tenant agrees to attorn to any entity purchasing or otherwise acquiring the Premises.

21.28 Counterparts. This Lease may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed one and the same instrument.

21.29 No Offer. The submission of this Lease shall not be construed as an offer, nor shall either party hereto have any rights under this Lease unless each of Landlord and Tenant executes a copy of this Lease and delivers same to the other party hereto.

21.30 Transportation Management. Tenant shall fully comply with all present or future programs intended to manage parking, transportation or traffic in and around the Project and/or the Building, and in connection therewith, Tenant shall take responsible action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities. Such programs may include, without limitation: (i) restrictions on the number of peak-hour vehicle trips generated by Tenant, (ii) increased vehicle occupancy, (iii) implementation of an in-house ridesharing program and an employee transportation coordinator, (iv) working with employees and any Project, Building or area-wide ridesharing program manager, (v) instituting employer-sponsored incentives (financial or in-kind) to encourage employees to rideshare, and (vi) utilizing flexible work shifts for employees.

ARTICLE XXII

ADDITIONAL PROVISIONS

22.1 Additional Requirements Relating to Alterations and Other Work. The following terms and conditions shall apply to any work or service performed at the Building or on the Premises by Tenant or Tenant's contractors (including, without limitation, Alterations, repairs, maintenance, janitorial and cleaning services), which terms and conditions are in addition to those set forth in the Lease, including, without limitation, the terms and conditions set forth in Article VIII:

- A. Such work or services shall not proceed until Landlord has approved in writing: (i) Tenant's contractor, (ii) the amount and coverage of public liability and property damage insurance, with Landlord, NYL Investors, LLC and the Landlord Parties named as additional insureds, carried by Tenant's contractor, (iii) complete and detailed plans and specifications for such work, and (iv) a schedule for the performance of the work or services.
- B. All work and services shall be done in conformity with a valid permit when required, a copy of which shall be furnished to Landlord before commencement of such work or services. In any case, all work and services shall be performed in accordance with all Applicable Laws. Notwithstanding any failure by Landlord to object to any such work or services, Landlord shall have no responsibility for Tenant's failure to comply with Applicable Laws.
- C. Tenant agrees to indemnify, defend and hold Landlord and Landlord's Agents harmless for any work or services performed, including consequential damages, which is not performed in accordance with Applicable Laws or the provisions of this Lease, including, without limitation, this Section 22.1.
- D. Tenant understands that all contractors and subcontractors retained at the Property by Tenant to perform any work or services shall be signatory to a union collective bargaining agreement.
- E. Tenant shall pay to Landlord, upon demand, a development review fee equal to five percent (5%) of the total cost of any Alterations as compensation to Landlord for review, oversight and related functions performed by Landlord or its agents in connection with such Alterations.

22.2 Restricted Persons. Tenant is and will remain in compliance with the requirements of Executive Order No. 13224, 66 Fed Reg. 49079 (September 25, 2001) (the "**Order**") and other similar requirements contained

in the rules and regulations of the Office of Foreign Asset Control, Department of the Treasury (" **OFAC** ") and in any enabling legislation or other Executive Orders in respect thereof (the Order and such other rules, regulations, legislation, or orders are collectively called the " **Orders** "). Tenant:

- A. is not listed on the Specially Designated Nationals and Blocked Persons List maintained by OFAC pursuant to the Order or on any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders (such lists are collectively referred to as the " **Lists** ");
- B. has not been determined by competent authority to be subject to the prohibitions contained in the Orders;
- C. is not and will not become owned or controlled by, nor act for or on behalf of, any person or entity on the Lists or any other person or entity that has been determined by competent authority to be subject to the prohibitions contained in the Orders;
- D. is not knowingly engaged in, and will not knowingly engage in, any dealings or transactions or be otherwise associated with such persons or entities on the Lists or that has been determined by competent authority to be subject to the prohibitions contained in the Orders; and
- E. agrees to cooperate with Landlord in providing such additional information and documentation on Tenant's legal or beneficial ownership, policies, procedures and sources of funds as Landlord reasonably deems necessary or prudent solely to enable it to comply with Orders or anti-money laundering laws as now in existence or hereafter amended.

Any breach or violation of this Section 22.2 shall, at Landlord's option, constitute an Event of Default by Tenant under this Lease.

22.3 ERISA. Tenant represents and warrants that it is not an employee benefit plan as defined under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (" **ERISA** "), or an entity (e.g. an insurance company separate or general account) subject to ERISA or holding ERISA "plan assets" within the meaning of the Department of Labor Regulations at Section 2510.3-101.

22.4 Telecommunications.

- A. Tenant and its telecommunications companies, including local exchange telecommunications companies and alternative vendor service companies, shall have no right of access to or within the Building or the Property for the installation or operation of telecommunications services or systems, including, but not limited to, voice, video, data, and other telecommunications services provided over wire, fiber optic, microwave, wireless, or any other transmission system, for all or part of Tenant's telecommunications within the Building and from the Building or the Property to any other location without Landlord's prior written consent, which shall not be unreasonably withheld, delayed or conditioned.
- B. If Landlord consents in writing to the installation of any cabling and/or wires, then Tenant shall be responsible for ensuring that any such cabling and/or wiring is properly labeled. Tenant acknowledges and agrees that the following terms and conditions shall apply to the same:
 - I. No later than the tenth (10th) day after the expiration or sooner termination of the Lease, Landlord may elect by written Notice to Tenant (the " **Election Right** ") to:
 - 1. Retain any or all wiring, cables, risers, and similar installations appurtenant thereto installed by Tenant in the risers of the Building (the " **Wiring** ");
 - 2. Remove any or all such Wiring and restore the Premises and risers to their condition existing prior to the installation of the Wiring (the " **Wire Restoration Work** "). Landlord shall perform such Wire Restoration Work at Tenant's sole cost and expense; or
 - 3. Require Tenant to perform the Wire Restoration Work at Tenant's sole cost and expense.

- C. If Landlord elects to retain the Wiring, Tenant covenants that:
- I. Tenant shall convey good title to such Wiring, Tenant shall have good right to surrender such Wiring, and such Wiring shall be free of all liens and encumbrances; and
 - II. All wiring shall be left in good condition, working order, properly labeled at each end and in each telecommunications/electrical closet and junction box, and in safe condition.
- D. Notwithstanding anything to the contrary in Section 4.6, Landlord may retain Tenant's Security Deposit after the expiration or sooner termination of this Lease until the earliest of the following events:
- I. Landlord elects to retain the Wiring;
 - II. Landlord elects to perform the Wire Restoration Work, the Wire Restoration Work is complete, and Tenant has fully reimbursed Landlord for all costs related thereto; or
 - III. Landlord elects to require Tenant to perform the Wire Restoration Work, the Wire Restoration Work is complete, and Tenant has paid for all costs related thereto.
- E. If Tenant fails or refuses to pay all costs of the Wire Restoration Work within thirty (30) days after Tenant's receipt of Landlord's Notice requesting Tenant's reimbursement for or payment of such costs, Landlord may apply all or any portion of Tenant's Security Deposit toward the payment of such unpaid costs relative to the Wire Restoration Work.
- F. The retention or application of the Security Deposit as provided in this Section 22.4 does not constitute a limitation on or waiver of Landlord's right to seek further remedy under this Lease, at law, or in equity.
- G. The provisions of this Section 22.4 shall survive the expiration or sooner termination of this Lease.

[Signature to appear on the following page]

ARTICLE XXIII

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the date of this Lease.

LANDLORD:

MNCVAD-SEAGATE 2665 NORTH FIRST LLC,
a Delaware limited liability company

By: _____
Name: _____
Its: _____

TENANT:

8x8, INC.,
a Delaware corporation

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

TENANT'S ADDRESS FOR NOTICES
PRIOR TO COMMENCEMENT DATE:

Attn: _____

EXHIBIT A

DIAGRAM OF PREMISES

This Exhibit is attached to and made a part of that certain Standard Form Office Lease dated January 20, 2016, by and between MNCVAD-SEAGATE 2665 NORTH FIRST LLC, as "**Landlord**", and 8x8, INC., as "Tenant", for the Premises known as 2665 North First Street, Suite 300, San Jose, California.

[TO BE ATTACHED]

EXHIBIT A

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EXHIBIT B

This Exhibit is attached to and made a part of that certain Standard Form Office Lease dated January 20, 2016, by and between MNCVAD-SEAGATE 2665 NORTH FIRST LLC, as " **Landlord** ", and 8x8, INC., as "Tenant", for the Premises known as 2665 North First Street, Suite 300, San Jose, California.

COMMENCEMENT DATE MEMORANDUM

Date: _____

RE: Standard Form Office Lease dated _____, by and between MNCVAD-SEAGATE 2665 NORTH FIRST LLC, as " **Landlord** ", and 8x8, INC., as " **Tenant** ", for the Premises known as 2665 North First Street, Suite 300, San Jose, California.

Agreement

Capitalized terms used herein without further definition shall have the meanings given them in the Lease. The undersigned hereby agree as follows:

1. The Tenant Improvements have been Substantially Completed in accordance with the terms and conditions of the Lease, subject only to "punch list" items agreed to by Landlord and Tenant pursuant to the terms of the Lease.
2. The Commencement Date, as determined in accordance with the Lease, is hereby stipulated for all purposes to be _____.
3. In accordance with the Lease, Monthly Rent) in the amount of \$_____, subject to adjustment in accordance with the terms of the Lease, commences to accrue on _____ and is due and payable in advance on the first day of each and every month during the Term (as defined in the Lease). Unless and until notified by Landlord to the contrary, Tenant shall make its Rent checks payable to _____ c/o _____.

" Landlord "

MNCVAD-SEAGATE 2665 NORTH FIRST LLC,
a Delaware limited liability company

By: _____
Name: _____
Its: _____

" Tenant "

8x8, INC.,
a Delaware corporation

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

EXHIBIT C

This Exhibit is attached to and made a part of that certain Standard Form Office Lease dated January 20, 2016, by and between MNCVAD-SEAGATE 2665 NORTH FIRST LLC, as " **Landlord** ", and 8x8, INC., as "Tenant", for the Premises known as 2665 North First Street, Suite 300, San Jose, California.

RULES AND REGULATIONS

This Exhibit sets forth the rules and regulations governing Tenant's use of the Common Area and the Premises leased to Tenant pursuant to the terms, covenants and conditions of the Lease to which this Exhibit is attached and therein made part thereof. Unless otherwise defined, capitalized terms used herein shall have the same meanings as set forth in the Lease. In the event of any conflict or inconsistency between this Exhibit and the Lease, the Lease shall control.

1. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises.
2. The walls, walkways, sidewalks, entrance passages, courts and vestibules shall not be obstructed or used for any purpose other than ingress and egress of pedestrian travel to and from the Premises, and shall not be used for loitering or gathering, or to display, store or place any merchandise, equipment or devices, or for any other purpose. Landlord may remove any such obstruction without Notice or obligation to Tenant. The walkways, entrance passageways, courts, vestibules and roof are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and the Property and its tenants, provided that nothing herein contained shall be construed to prevent such access to the Building to persons with whom Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. No tenant or employee or invitee of any tenant shall be permitted upon the roof of the Building.
3. No awnings or other projection shall be attached to the outside walls of the Building. No security bars or gates, curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises without the prior written consent of Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreensed without the express written consent of Landlord.
4. Tenant shall not in any way deface any part of the Premises or the Building. Tenant shall not remove or lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by Landlord in writing. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by Tenant.
5. The toilet rooms, urinals, wash bowls and other plumbing apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant.
6. Landlord shall direct electricians as to the manner and location of any future telephone wiring. No boring or cutting for wires will be allowed without the prior written consent of Landlord. The locations of the telephones, call boxes and other office equipment affixed to the Premises shall be subject to the prior written approval of Landlord.
7. The Premises shall not be used for manufacturing, retail sales, or the storage of merchandise. No exterior storage shall be allowed at any time without the prior written approval of Landlord. The Premises shall not be used for cooking, a beauty parlor, manicuring, any medical use or washing of clothes without the prior written consent of Landlord, or for lodging or sleeping or for any immoral or illegal purposes. No vending machines shall be installed by or on behalf of Tenant within the Premises, the Building or the Property.
8. Tenant shall not make, or permit to be made, any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring buildings or premises or those having business with them, whether by the use of any musical instrument, radio, phonograph, machinery, or otherwise. Tenant shall not use keep or permit to be used, or kept, any foul or obnoxious gas or substance in the Premises or permit or suffer the Premises to be used or occupied in any manner offensive or objectionable to Landlord or other occupants of this or neighboring buildings or premises by reason of any odors, fumes or gases.

EXHIBIT C

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9. Parking of any vehicles is specifically prohibited.
10. Neither Tenant nor any of Tenant's Agents shall at any time bring or keep upon the Premises any toxic, hazardous, inflammable, combustible or explosive fluid, chemical or substance without the prior written consent of Landlord. Smoking or carrying cigars or cigarettes in the Common Area may be regulated from time to time as determined by Landlord, and Tenant and Tenant's Agents shall strictly comply with any such regulations.
11. No animals shall be permitted at any time within the Premises, the Building or the Property.
12. Tenant shall not use the name of the Building, the Property or the Building in connection with or in promoting or advertising the business of Tenant, except as Tenant's address, without the prior written consent of Landlord. Landlord shall have the right to prohibit any advertising by Tenant which, in Landlord's reasonable opinion, tends to impair the reputation of the Property or the Building or its desirability for its intended uses, and, upon written Notice from Landlord, Tenant shall refrain from or discontinue such advertising.
13. Canvassing, soliciting, peddling, parading, picketing, demonstrating or otherwise engaging in any conduct that unreasonably impairs the value or use of the Premises, the Property or the Building are prohibited and Tenant shall cooperate to prevent the same.
14. All equipment of any electrical or mechanical nature shall be placed by Tenant on the Premises, in settings approved by Landlord in writing, in such a way as to best minimize, absorb and prevent any vibration, noise or annoyance. No cooking shall be done or permitted upon the Premises except pursuant to normal use of a microwave oven, toaster oven and coffee maker for the sole benefit of Tenant and Tenant's Agents.
15. No safes, computers or other objects larger or heavier than the freight elevators of the Building are limited to carry shall be brought into or installed in the Premises. Landlord shall have the right to prescribe and approve of the weight and position of safes, computers or other large or heavy objects which shall, if deemed necessary by Landlord, be placed on some type of applicable platform prescribed by Landlord to distribute the weight. The moving of safes, computers or other large or heavy objects shall occur only between those hours as may be designated by, and only upon previous written Notice to, Landlord, and the persons employed to move those objects in or out of the Building must be reasonably acceptable to Landlord. No freight, furniture or bulky matter of any description shall be received into or moved out of the lobby of the Building or carried into the elevators during normal business hours (i.e., Monday through Friday, 7:00 a.m. to 7:00 p.m. (except Holidays)) unless approved in writing by Landlord.
16. No air conditioning unit or other similar apparatus shall be installed or used by Tenant without the prior written consent of Landlord. Tenant shall not install equipment, such as but not limited to electronic tabulating or computer equipment, requiring electrical or air conditioning service in excess of that to be provided by Landlord under the Lease.
17. No aerial antenna or other devices shall be erected on the roof or exterior walls of the Building, or on the grounds, without in each instance the prior written consent of Landlord (which consent may be withheld by Landlord in its sole and absolute discretion). Any aerial antenna or other device so installed by or on behalf of Tenant without such written consent shall be subject to removal by Landlord at any time without prior Notice at the expense of Tenant, and Tenant shall upon Landlord's demand pay a removal fee to Landlord of not less than \$500.00.
18. Tenant shall not place any movable objects, including antennas, outdoor furniture, etc., in the driveways, landscaped area or other areas outside of said Premises, or on the roof of said Premises.
19. Tenant shall maintain the Premises as provided in the Lease, and except with the written consent of Landlord, no person or persons other than those approved by Landlord will be permitted to enter the Building for that purpose. Tenant shall not cause unnecessary labor by reason of Tenant's carelessness and indifference in the preservation of good order and cleanliness. All cardboard boxes must be "broken down", and all styrofoam chips must be bagged or otherwise contained so as not to constitute a nuisance.

EXHIBIT C

20. Tenant shall see that the windows, transoms and doors of the Premises are closed and securely locked before leaving the Building and shall observe strict care not to leave windows open, if applicable, when it rains. Tenant shall exercise extraordinary care and caution that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave the Building, and that all electricity, gas or air shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness Tenant shall make good all injuries sustained by other tenants or occupants of the Building or Landlord.
21. All keys for the Premises shall be provided to Tenant by Landlord and Tenant shall return to Landlord any of such keys so provided upon the termination of the Lease. Tenant shall not change locks or install other locks on doors of the Premises, without the prior written consent of Landlord. In the event of loss of any keys furnished by Landlord for Tenant, Tenant shall pay to Landlord the costs thereof. Upon termination of its tenancy, Tenant shall deliver to Landlord all keys and access cards to the Premises, the Building and Common Area.
22. No person shall enter or remain within the Property or the Building while intoxicated or under the influence of liquor or drugs. Landlord shall have the right to exclude or expel from the Property or the Building any person who, in the absolute discretion of Landlord, is under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Property or Building.
23. Tenant shall give Landlord prompt Notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment or any dangerous or hazardous condition existing on the property.
24. All electrical equipment used by Tenants shall be U.L. approved. Nothing shall be done or permitted in the Premises, and nothing shall be brought into or kept in the Premises which would impair or interfere with any of the Building services or the proper and economic heating, cooling, cleaning or other servicing of the Building or the Premises.
25. Tenant shall furnish and utilize masonite or plastic floor mats so as to minimize carpet damage resulting from the use of rollers on chairs.

Tenant agrees to comply with all such Rules and Regulations. Should Tenant not abide by these Rules and Regulations, Landlord or any "Operator," "Association" or "Declarant" under any Restrictions may serve a three (3) day Notice to correct the deficiencies. If Tenant has not corrected the deficiencies by the end of the Notice period, Tenant will be in default of the Lease, and, in addition to all other rights and remedies of Landlord, Landlord and/or its designee shall have the right, without further Notice, to cure the violation at Tenant's expense.

Landlord reserves the right to amend or supplement the foregoing Rules and Regulations and to adopt and promulgate additional rules and regulations applicable to the Premises, Property and the Common Area, and Tenant shall abide by (and cause Tenant's Agents to abide by) any such amendments, supplements and additional rules and regulations. Notice of such rules and regulations and amendments and supplements thereto, if any, shall be given to the Tenant.

Neither Landlord nor Landlord's Agents or any other person or entity shall be responsible to Tenant or to any other person for the ignorance or violation of these Rules and Regulations by any other tenant or other person. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition precedent, waivable only by Landlord, to Tenant's occupancy of the Premises.

Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all tenants of the Building and/or the Property.

EXHIBIT C

EXHIBIT D
WORK LETTER

This Work Letter (" **Work Letter** ") is attached to and made a part of that certain Standard Form Office Lease dated January 20, 2016, by and between MNCVAD-SEAGATE 2665 NORTH FIRST LLC, as " **Landlord** ", and 8x8, INC., as "Tenant", for the Premises known as 2665 North First Street, Suite 300, San Jose, California.

1. Tenant Improvements. Landlord, at Landlord's sole cost and expense, except as provided in below in this Work Letter, shall perform the following improvements to the Premises (collectively, the " **Tenant Improvements** "): (i) install new carpet in the Premises in a Building standard color selected by Tenant; (ii) paint the Premises in a Building standard color selected by Tenant, including up to two (2) accent colors; (iii) remove the interior walls of the Premises as depicted on Schedule 1 attached hereto and remove all existing phone, IT and data cabling in such interior walls; (iv) install new light fixtures and additional lighting in Suite 300 of the Premises as depicted on Schedule 1 attached hereto; and (v) cause all lights on the second (2nd) floor of the Premises to be in good working order, with all broken, faulty or burnt-out bulbs replaced prior to the Commencement Date; provided, however, that with respect to the work described in clause (iv) above, Landlord shall not be required to incur more than \$6.00 per rentable square foot of Suite 300, it being acknowledged and agreed that Tenant shall be responsible for the cost of such work to the extent in excess of \$6.00 per rentable square foot of Suite 300. If Tenant is required to pay a portion of the cost of the work described in clause (iv) above, then Tenant, within fifteen (15) days after Landlord's written demand, shall deliver the relevant funds to Landlord. The Tenant Improvements shall be performed using Building standard materials and finishes.

2. Revision. If Tenant shall request any revision to the Tenant Improvements (a " **Revision** "), provided that such Revision is approved by Landlord, then Landlord shall notify Tenant in writing of the increased cost in the Tenant Improvements, if any, resulting from such Revision. Tenant, within one (1) business day, shall notify Landlord in writing whether it desires to proceed with such Revision. In the absence of such written authorization, Landlord shall have the option to disregard such Revision. Tenant shall be responsible for any Tenant Delay in completion of the Premises resulting from any Revision. If any Revision results in an increase in the cost of the Tenant Improvements, such increased cost, plus any applicable state sales or use tax thereon, shall be payable by Tenant upon demand. Notwithstanding anything herein to the contrary, any Revision shall be subject to the approval of Landlord.

3. Tenant Delay; Defaults. Tenant shall upon demand reimburse Landlord for any expenses incurred by Landlord as the result of a Tenant Delay. Notwithstanding any provision to the contrary contained in this Lease, if an Event of Default, or a default by Tenant under this Work Letter, has occurred at any time on or before the Substantial Completion of the Tenant Improvements, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, Landlord shall have the right to cause Contractor to cease the construction of the Tenant Improvements (in which case, Tenant shall be responsible for any Tenant Delay in the Substantial Completion of the Tenant Improvements caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of the Lease. Tenant acknowledges that the timing of the completion of the Tenant Improvements is of the utmost importance to Landlord. Accordingly, Tenant hereby agrees to fully and diligently cooperate with all reasonable requests by Landlord in connection with or related to the design and construction of the Tenant Improvements, and in connection therewith, shall respond to Landlord's requests for information and/or approvals, except as specifically set forth herein to the contrary, within two (2) Business Days following request by Landlord .

EXHIBIT D

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**SUBSIDIARIES OF REGISTRANT**

Name	Jurisdiction of Incorporation
Netergy Microelectronics, Inc.	California, USA
Visit, Inc.	California, USA
Contactual, Inc.	Delaware, USA
Zerigo, Inc.	Colorado, USA
Voicenet Solutions Limited	United Kingdom
8x8 UK Investments Limited	United Kingdom
8x8 Research and Innovations SRL	Romania
8x8 Canada, Inc.	Canada
8x8 Australia Pty Ltd.	Australia

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-187421, and Form S-8 Nos. 333-30943, 333-15627, 333-50519, 333-49410, 333-66296, 333-90172, 333-108290, 333-118642, 333-126337, 333-137599, 333-176895, 333-183597, 333-189452, 333-191080, 333-196275, 333-198012, 333-199795, 333-204583, and 333-206029) of our report dated May 31, 2016, relating to the consolidated financial statements of 8x8, Inc., and the effectiveness of internal control over financial reporting of 8x8, Inc., appearing in this Annual Report (Form 10-K) for the year ended March 31, 2016.

/s/ Moss Adams LLP

San Francisco, California

May 31, 2016

CERTIFICATION PURSUANT TO**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vikram Verma, certify that:

1. I have reviewed this annual report on Form 10-K of 8x8, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 31, 2016

/s/ VIKRAM VERMA
Vikram Verma
Chief Executive Officer

CERTIFICATION PURSUANT TO**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, MaryEllen Genovese, certify that:

1. I have reviewed this annual report on Form 10-K of 8x8, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - A. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 31, 2016

/s/ MARY ELLEN GENOVESE
MaryEllen Genovese
Chief Financial Officer and Secretary

CERTIFICATION PURSUANT TO

18 U.S. C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of 8x8, Inc. (the "Company") for the year ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vikram Verma, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ VIKRAM VERMA
Vikram Verma
Chief Executive Officer

May 31, 2016

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, or otherwise required, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

CERTIFICATION PURSUANT TO

18 U.S. C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of 8x8, Inc. (the "Company") for the year ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, MaryEllen Genovese, Chief Financial Officer and Secretary of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARY E LLEN G ENOVESE
MaryEllen Genovese
Chief Financial Officer and Secretary

May 31, 2016

This certification accompanies this Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, or otherwise required, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.
