

EGAIN Corp  
Form 10-K  
September 13, 2016  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-K

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(Mark One)

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

For the Fiscal Year Ended June 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35314

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eGain Corporation

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction  
of incorporation or organization)

77-0466366  
(I.R.S. Employer  
Identification No.)

1252 Borregas Avenue

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 636-4500

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(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	Nasdaq Capital Market

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 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 such 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 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 the 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  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates (based on the closing price on the Nasdaq Capital Market) on December 31, 2015, was approximately \$70.3 million. For purposes of the foregoing calculation only, the registrant has included in the shares owned by affiliates the beneficial ownership of voting and non-voting common equity of officers and directors, and affiliated entities, of the registrant and members of their families. Such inclusion shall not be construed as an admission that any such person is an affiliate for any other purpose.

There were 27,108,428 shares of the Registrant's Common Stock \$0.001 par value, outstanding on September 8, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors), 11, 12, 13 and 14 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2016 Annual Meeting of Stockholders.



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eGAIN CORPORATION

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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of the words such as “anticipates,” “believes,” “continue,” “could,” “would,” “estimates,” “expects,” “intends,” “may,” “might,” “plans,” “potential,” “should,” or expressions or the negative of those terms. The forward-looking statements include, but are not limited to, statements regarding: the effect of changes in macroeconomic factors beyond our control; our hybrid revenue model and its potential impact on our total revenue; our ability to predict subscription renewals or upgrade rates; our lengthy sales cycles and the difficulty in predicting timing of sales or delays; competition in the markets in which we do business and our failure to compete successfully therein; our expectations regarding the composition of our customers and the result of a loss of a significant customer; the adequacy of our capital resources and need for additional financing and the effect of failing to obtain adequate funding; the result of our failure to comply with the covenants under the Wells Fargo Credit Agreement; the development and expansion of our strategic and third party distribution partnerships and relationships with systems integrators; our ability to effectively implement and improve our current products; our ability to innovate and respond to rapid technological change and competitive challenges; legal liability or the effect of negative publicity for the services provided to consumers via our technology platforms; legal and regulatory uncertainties and other risks related to protection of our intellectual property assets; our ability to anticipate our competitors; the operational integrity and maintenance of our systems; the effect of unauthorized access to a customer’s data or our data or our IT systems; the uncertainty of demand for our products; the anticipated customer benefits from our products; the actual mix in new business between subscription and license transactions when compared with management’s projections; the anticipated revenue to us from the Cisco Partnership; the ability to increase revenue as a result of the increased investment in sales and marketing; our ability to hire additional personnel and retain key personnel; our ability to expand and improve our sales performance and marketing activities; our ability to manage our expenditures and estimate future expenses, revenue, and operational requirements; our ability to manage our business plans, strategies and outlooks and any business-related forecasts or projections; the effect of changes to management judgments and estimates; the impact of any modification to our pricing practices in the future; risks from our substantial international operations; our inability to successfully detect weaknesses or errors in our internal controls; our ability to manage future growth; the trading price of our common stock; geographical and currency fluctuations; and our expectations with respect to revenue, cost of revenue, expenses and other financial metrics.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expected. These risks and uncertainties include, but are not limited to, those risks discussed in Item 1A “Risk Factors” in this report. Our actual results could differ materially from those discussed in statements relating to our future plans, product releases, objectives, expectations and intentions, and other assumptions underlying or relating to any of these statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below, under “Risk Factors” and elsewhere in this report, for factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

All references to “eGain”, the “Company”, “our”, “we” or “us” mean eGain Corporation and its subsidiaries, except where it is clear from the context that such terms mean only this parent company and excludes subsidiaries.

eGain and the eGain® are trademarks of eGain Corporation. We also refer to trademarks of other corporations and organizations in this report.





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### PART I

#### ITEM 1. BUSINESS

##### Overview

eGain Corporation is a leading provider of cloud-based customer engagement software solutions. Our solutions help B2C businesses easily operationalize digital customer engagement strategies with reduced customer effort, joined-up service processes, improved compliance and incremental sales - across web, mobile, social, phone and in-person. We also provide advanced analytics capability to large, multi-site contact centers for intra-day resource measurement and management, boosting operational agility and agent productivity. Over three hundred global enterprises rely on eGain to transform fragmented customer interaction and customer service systems into unified Customer Engagement Hubs.

We have operations in the United States, United Kingdom, and India.

##### Industry Background

As products get commoditized in a global economy and a digital world, customer loyalty increasingly depends on customer engagement. For businesses that sell to consumers, or B2C companies, one poor customer experience can be amplified and spread overnight through social networks. Today's digital consumers expect businesses to serve them conveniently and intelligently across traditional and new touch points. They are more demanding, and they spend more than the average customer. Not surprisingly, businesses are looking for efficient, scalable solutions to deliver smart customer experiences that are easy, quick and helpful.

Traditional customer relationship management, or CRM, solutions are not designed for the digital world. Mostly, they view the phone as the primary customer interaction channel. Digital channels like web, mobile and social are seen as secondary and are often not designed in the solution from the start. As a result, customer experience delivered through these platforms tends to be fragmented and inconsistent across channels. For instance, unified customer history across channels typically requires significant backend integration and user interface patchwork. Moreover, these CRM tools do not leverage the power of knowledge, AI and analytics to automate or optimize customer journey and agent capability.

##### The eGain Solution

Our solution is designed to make it easy for B2C businesses to do business with their customers. We provide our clients with the following benefits:

- Build profitable long-term customer relationships. Customers are spending more time conducting business on the web, mobile and social channels. Our solution helps businesses design brand-aligned, omnichannel customer journeys that are easy, quick and helpful. Whether a customer is looking to buy, ask a question, or pay a bill, our solution helps businesses provide customers personalized, guided and consistent responses. As a result, businesses improve their customer satisfaction and NPS scores.
- Reduce operating costs through improved agent productivity and self-service automation. Our solution helps companies provide highly effective customer service while reducing operating costs. Intelligent routing, auto-response, tracking, and reporting features, complemented with agent-facing knowledge tools, measurably enhance the productivity of service agents. AI-based process guidance reduces time to competence for agents, while ensuring compliance with policy and regulation in consumer interactions. Robust customer self-service tools fronted

by chatbots, guided by AI, and scaffolded with context-aware escalation paths reduce cost of service without compromising customer effort.

- Increase revenue through intelligent offers and contextual promotions. Our solution also helps businesses convert more website visitors into buyers, reduce shopping cart abandonment and increase average order value. It enables agents to contextually up-sell and cross-sell products in the course of customer interactions. A visitor to a website using eGain can be proactively offered personalized promotions or real-time assistance, based on configurable business rules informed by visitor behavior and history. Visitors can collaborate with

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a customer service agent live over the web through click-to-call, text and video chat, and cobrowse to inquire about and buy a product. Customers calling into a service center can be offered powerful cross-sell offers by agents using AI-driven reasoning capability of eGain.

### Products and Services

#### eGain Suite

Recognized by industry analysts and trusted by leading companies worldwide, the eGain software suite helps businesses engage, acquire, and serve customers through multiple engagement channels. Modular, best-of-breed applications—built on a one-of-a-kind customer engagement hub platform, eGain OpenCEH™ Platform—combine 360-degree customer context, process guidance driven by artificial intelligence, or AI, and actionable knowledge to enhance every customer interaction. Designed for rapidly implementing next-generation customer engagement strategies, the eGain suite consists of:

- Mobile applications to engage customers through smartphones and tablets.
- Social applications to extend the company’s customer engagement strategies to social channels.
- Web applications to transform B2C websites into interactive shopping destinations.
- Desktop applications to help traditional call centers evolve into AI-and-knowledge-powered omnichannel customer engagement hubs.
- Management applications and analytics to provide the insight and capabilities needed to drive smarter contact center operations.
  - Messaging applications provide a rich set of secure, personalized communication options.
- eGain OpenCEH™, a multichannel customer engagement hub, or CEH, platform that provides centralized business rules and workflows, knowledge, interactions, analytics, administration, and integrations to all applications. The web-services-based architecture of the platform enables rapid innovation and extension of customer engagement capabilities.
- eGain Connectors™ for integrating with leading CRM, content, CTI, and ecommerce systems.

#### Mobile Applications

- eGain Mobile™ makes mobile engagement easy. It extends the reach of an eGain deployment by enabling the business to offer all its eGain-enabled engagement options to mobile users through existing or new phone and tablet apps on the Android and iOS platforms. Capabilities include mobile virtual assistant, offers, chat, click-to-call, cobrowsing, self-service, and notifications.

#### Social Applications

- eGain Social™ is an application for social customer service, knowledge harvesting and single-sourced social publishing, and reputation management. It enables businesses to monitor social networks such as Facebook, Twitter, YouTube, and blogs for opportunities for engaging with customers. Mentions are analyzed for sentiment. The right agent picks up relevant mentions and posts responses privately or back to the social cloud in media-appropriate format.
- eGain Community™ enables the creation and management of online communities or forums, community knowledge harvesting, and single-sourced publishing. Forum posts are searchable from portals, and can be submitted as content for the Knowledge Base. Connectors allow integration with existing forums.

#### Web Applications

- eGain Offers™ helps businesses engage visitors on the company website and Facebook fan pages with proactive, targeted offers. Using browsing behavior and other attributes, the solution anticipates visitor needs



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and proactively serves a personalized offer. It leapfrogs existing proactive chat “point” solutions by providing coupons, promotions, surveys, relevant content and contextual help in the form of FAQ, virtual assistant, chat, click to call, and cobrowse options.

- eGain Virtual Assistant™ enables businesses to offer text and speech chat interactions with one or more virtual assistants (chatbots). Multilingual, as well as emotionally and culturally intelligent, eGain virtual assistants can be deployed on websites and mobile devices and support seamless integration with assisted chat channels. It is one of a number of AI products in our suite.
- eGain Cobrowse™ enables phone and chat reps to show customers around the website, help locate information, and “hand-hold” them during complex, anxiety-ridden tasks such as completing forms or checking out shopping carts. It offers true collaborative browsing without any customer download requirement. Access to web page views and actions is controlled through user roles and business rules.
- eGain Chat™ enables website visitors to conduct text and video chats with agents. It gives representatives a comprehensive set of tools for serving customers in real-time. eGain Chat supports two-way, “follow me” web browsing so that agents and customers can lead each other to specific web pages for faster issue resolution. The system’s powerful, query-specific routing and workflow maximize both agent productivity and interaction quality.
- eGain ClickToCall™ provides website visitors the ability to request a callback while browsing. Callbacks can be scheduled according to the customer’s convenience or be established in real-time.
- eGain SelfService™ is a comprehensive solution supporting what we believe is the broadest set of self-service access options in the industry—dynamic FAQs, topic-based browsing, natural language search, guided help, virtual assistant technology, and case tracking. eGain SelfService offers a unique combination of rich, multi-access self-service capabilities built on a collaborative knowledge management framework within eGain OpenCEH Platform. This framework makes it easy for organizations to create, maintain, and enhance common content in a distributed manner, as well as leverage existing content from across the enterprise. The key modules of this application are:
- eGain Portals™ enables organizations to provide distinctive, productive and brand-aligned self-service experiences. Powered by eGain Multisearch™ knowledge access technology, it brings together the power of a broad set of knowledge access methods, federated search, process intelligence, multilingual capabilities, and flexible look and feel—all behind a single search box—for distinctive, on-target self-service. Customers can also view frequently asked questions, manage their own accounts, review open tickets, and review their communications with the company within a secure, personalized environment.
- eGain Guided Help™ gives customers interactive access to the company’s knowledge base, allowing them to find answers and troubleshoot problems by themselves at their convenience. Powered by AI, it uses patented search and reasoning technology, coupled with natural language and advanced linguistic processing to search, suggest additional questions, and recommend solutions.
- eGain Widgets™ enable contextual access to knowledge and account information through mobile devices and web pages.

### Desktop Applications

- eGain Case Manager™ is a comprehensive and a flexible case logging system. Together with eGain Knowledge™, it provides an integrated application for logging, tracking, and resolving customer issues. It also features follow-on task management for service fulfillment.
- eGain Mail™ is an industry-leading application for processing inbound customer emails and providing mission-critical email customer response, incorporating hundreds of best practices developed over years of serving innovative global enterprises. Secure messaging, lifecycle audits, and real-time archival are some of the features that provide our customers a next-generation email management platform for their enterprises. Designed to process very high volumes of email and webform requests, eGain Mail™ allows companies to

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deliver consistent, high-quality service through flexible process automation, optimized user interface, and powerful reports.

- eGain KnowledgeAgent™ empowers contact center agents with best-practice AI-powered knowledge management and is designed to make every agent as productive and capable as the enterprise's best agent. This application delivers fast, consistent, and accurate answers to agents as they use the rich conversational interface while engaging customers over the phone. eGain Knowledge uses patented search and reasoning technology coupled with natural language and advanced linguistic processing to search, suggest additional questions, and recommend solutions. eGain Multisearch enables simple search-based access to various types of federated content and guided help.

### Management Applications

- eGain Analytics™ helps businesses monitor, measure, and manage their omnichannel engagement operations and infrastructure. Dashboards makes complex management tasks easy by providing a consolidated view of all contact centers that lets managers optimize performance quickly. It offers both insight and the ability to intervene effectively.

### Messaging Applications

- eGain Secure Messaging™ enables secure and authenticated messaging between a business and its customers. It is a secure web-based portal for customers to read confidential messages, including attachments.
- eGain Notify™ is a flexible, easy-to-use application for managing and delivering automatic reminders, alerts, and updates at all stages of the customer journey. It is used to provide proactive customer service by sending alerts to customers through multiple engagement channels across the web, email, SMS, voice, and fax. Designed for high-volume usage, this application can easily scale to deliver millions of messages per day in the eGain Cloud.

### Cloud Operations

We serve our customers and end users from several secure data centers worldwide. Physical security features at these facilities include 24x7 on-site security, three physical barriers and multiple access controls. The systems at these facilities are protected by firewalls and encryption technology. Operational redundancy features include redundant power, on-site backup generators, multiple carrier entrance facilities, and robust environmental controls and monitoring.

We employ a wide range of security features, including two-factor authentication, data encryption, encoded session identifications and passwords. We contract with specialized security vendors to conduct regular security audits of our infrastructure. We also employ outside vendors for 24x7 managed network security and monitoring. Every page we serve is delivered encrypted to the end user via a Secure Socket Layer, or SSL, transaction. We also use encryption in our storage systems and backup technology.

We continuously monitor the performance of our application suite using a variety of automated tools. We designed our infrastructure with built-in redundancy for all key components. Our network includes redundant firewalls, switches and intrusion detection systems, and incorporates failover backup for maximum uptime. We load balance at each tier in the network infrastructure. We also designed our application server clusters so that servers can fail without interrupting the user experience, and our database servers are clustered for failover. We regularly back up and store customer data both on and off-site in secure locations to minimize the risk of data loss at any facility.

### Customers

We serve a worldwide customer base across a wide variety of industry sectors, including healthcare, retail, telecommunications, financial services, insurance, outsourced services, technology, utilities, government, manufacturing and consumer electronics. Our product is sold primarily to large B2C enterprises (over \$500 million in annual revenue). For the fiscal year ended June 30, 2016, international revenue accounted for 50% and domestic

revenue for 50% of total

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revenue, compared to 52% and 48%, respectively, for fiscal year 2015, and 45% and 55%, respectively, for fiscal year 2014.

There were two customers that accounted for 10% and 14%, respectively, of total revenue in fiscal year 2016. One customer accounted for 10% of total revenue in fiscal year 2015. Two customers accounted for 16% and 10%, respectively, of total revenue in fiscal year 2014.

## Competition

We compete with other application software vendors including Genesys Telecommunications, Live Person, Inc., and Moxie Software, Inc. In addition, we face actual or potential competition from larger software companies such as Microsoft Corporation, Oracle Corporation, Salesforce.com, Inc., and Verint KANA. that may attempt to sell customer engagement software to their installed base. We also compete with internally developed applications within large enterprises. Finally, we face, or expect to face, competition from software vendors who may develop toolsets and products that allow customers to build new applications that run on the customers' infrastructure or as hosted services.

We believe the principal competitive factors in our market include the following:

- proven track record of customer success
- speed and ease of implementation
- product functionality
- financial stability and viability of the vendor
- product adoption
- ease of use and rates of user adoption
- low total cost of ownership and demonstrable cost-effective benefits for customers
- performance, security, scalability, flexibility and reliability of the service
- ease of integration with existing applications
- quality of customer support
- availability and quality of implementation, consulting and training services
- vendor reputation and brand awareness

## Sales and Marketing

### Sales Strategy

Our sales strategy is to pursue targeted accounts, mostly B2C enterprises, through a combination of our direct sales force and partners. We target our sales efforts at enterprise companies. Our North American direct sales organization is based at our corporate headquarters in Sunnyvale, California, with field sales presence throughout the United States. Internationally, we have offices in India and the United Kingdom.

The direct sales force is organized into teams that include field sales representatives and sales consultants. Our direct sales force is complemented by lead generation representatives and sales development representatives.

We also complement our direct sales force with reseller and sales alliances. We believe we are able to leverage additional sales, marketing and deployment capabilities through these alliances.



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### Marketing and Partner Strategy

Our marketing strategy is to build our brand around innovative and robust products trusted by leading enterprises. Our marketing organization focuses on public relations, analyst relations, marketing communications and demand generation. We employ a wide range of marketing avenues to deliver our message, including print and Internet advertising, targeted electronic and postal mailing, email newsletters, and a variety of trade shows, seminars, webinars, and interest groups.

Our marketing group also produces sales tools, including product collateral, customer case studies, demonstrations, presentations, and competitive analyses. In addition, the group performs market analyses and customer reviews to identify and develop key partnership opportunities and product capabilities.

We believe that our partners help extend the breadth and depth of our product offerings, drive market penetration, and augment our professional service capabilities. We believe these relationships are important to delivering successful, integrated products and services to our customers, and scaling our business. Our partner portal, EcoNet™, enables us to provide comprehensive sales, support and services information for channel partners, while enabling them to collaborate with one another through an online forum. Partner enablement is a key focus area for our consulting and training teams too.

As of the fiscal year ended June 30, 2016, we had 110 employees engaged in worldwide sales and marketing activities.

### Consulting and Education

Our worldwide professional services organization provides consulting and education services designed to facilitate customer success and build customer loyalty.

- Consulting Services. Our consulting services group offers rapid implementation services, custom solution development, and systems integration services. Consultants work with customers to understand their specific requirements, analyze their business needs, and implement integrated solutions. We provide these services independently or in partnership with system integrators who have developed consulting expertise on our platform.
- Education Services. Our education services group provides a comprehensive set of basic and customized training programs to our customers and partners in addition to online tutorial modules for ongoing refresher courses. Training programs are offered either in-person at the customer site, or at one of our worldwide training centers.

As of fiscal year ended June 30, 2016, we had 102 professionals providing worldwide services for systems installation, solutions development, application management, and education.

### Customer Support

We offer a comprehensive collection of support services designed to rapidly respond to inquiries. Our technical support services are available to customers worldwide under maintenance agreements. The customer success team uses eGain's own software suite to provide world-class service to all our customers through support centers located in California, the United Kingdom, and India.

As of the fiscal year ended June 30, 2016, there were 61 employees engaged in worldwide customer support services and 39 employees engaged in worldwide cloud services and maintenance support.

### Research and Development

The market for our products changes rapidly and is characterized by evolving industry standards, swift changes in customer requirements, and frequent new product introductions and enhancements. We believe that strong product

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development capabilities are essential to our strategy of maintaining technology leadership. This includes enhancing current technology, providing excellent quality, performance, and functionality, as well as developing additional applications, and maintaining the competitiveness of our product and service offerings.

We continuously analyze market and customer requirements and evaluate external technology that we believe will enhance our competitiveness, increase our lifetime customer value or expand our target market. As a result of this process, we acquired Exony Limited, a leader in enterprise contact center analytics software, in August 2014.

As of the fiscal year ended June 30, 2016, we had 143 employees engaged in worldwide product development activities. We spent approximately \$16.1 million on research and development in fiscal year 2016, and \$16.0 million and \$10.0 million, respectively, in fiscal years 2015 and 2014.

## Intellectual Property

We regard our intellectual property as critical to our success. We rely on intellectual property and other laws, in addition to confidentiality procedures and licensing arrangements, to protect the proprietary aspects of our technology and business.

As of June 30, 2016, we had six issued patents in the United States. In addition, we have a number of pending patent applications in the United States, including one provisional filing and several non-provisional filings. Our issued U.S. patents expire at various times between 2029 and 2032.

We continually assess the propriety of seeking intellectual property protection for those aspects of our technology that we believe constitute innovations providing significant competitive advantages. Future applications may or may not receive the issuance of valid patents or registered trademarks.

We routinely require our employees, customers, and potential business partners to enter into confidentiality and nondisclosure agreements before we will disclose any sensitive aspects of our products, technology, or business plans. In addition, we require employees to agree to surrender to us any proprietary information, inventions or other intellectual property they generate or come to possess while employed by us. Despite our efforts to protect our proprietary rights through confidentiality and license agreements, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. These precautions may not prevent misappropriation or infringement of our intellectual property. In addition, some of our license agreements with certain customers and partners require us to place the source code for our products into escrow. These agreements typically provide that some party will have a limited, non-exclusive right to access and use this code as authorized by the license agreement if there is a bankruptcy proceeding instituted by or against us, or if we materially breach a contractual commitment to provide support and maintenance to the party.

## Employees

As of the fiscal year ended June 30, 2016, we had 507 full-time employees, of which 143 were in product development, 202 in services and support, 110 in sales and marketing, and 52 in finance and administration.

None of our employees are covered by collective bargaining agreements. While we believe our relations with our employees are good, our future performance depends largely upon the continued service of our key technical, sales and marketing, and senior management personnel, none of whom are bound by employment agreements requiring service for a defined period of time.

## Available Information

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We were incorporated in Delaware in September 1997, and our website is located at [www.egain.com](http://www.egain.com). We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations, cash flows and financial condition.

Our business is influenced by a range of factors that are beyond our control and that we have no comparative advantage in forecasting. These include:

- general economic and business conditions;
- currency exchange rate fluctuations;
- the overall demand for enterprise software and services;
- customer acceptance of cloud-based solutions;
- governmental budgetary constraints or shifts in government spending priorities; and
- general political developments.

The global economic climate continues to influence our business. This includes items such as, a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These macroeconomic developments negatively affected, and could continue to negatively affect, our business, operating results or financial condition which, in turn, could adversely affect our stock price. A general weakening of, and related declining corporate confidence in, the global economy or the curtailment in government or corporate spending could cause current or potential customers to reduce their technology budgets or be unable to fund software or services purchases, which could cause customers to delay, decrease or cancel purchases of our products and services or cause customers not to pay us or to delay paying us for previously purchased products and services.

Our hybrid revenue model may affect our operating results.

We have a hybrid delivery model meaning that we offer our solutions on a subscription or perpetual license basis to our customers. For perpetual license transactions, the license revenue amount is generally recognized in the quarter delivery and acceptance of our software takes place. For subscription transactions, the revenue is recognized ratably over the term of the contract, which is typically 12 to 36 months. As a result, our total revenue may increase or decrease in future quarters as a result of the timing and mix of license and subscriptions transactions. This variability in our revenue recognition may be exacerbated as more customers select our subscription solution over our perpetual licensed solution, causing us to increase the amount of revenue recognized ratably over the life of the contract and resulting in a decrease in our total revenue in the short-term.

Our revenue and operating results have fluctuated in the past and are likely to fluctuate in the future, and because we recognize revenue from subscriptions over a period of time, downturns in revenue may not be immediately reflected in our operating results.

Because we recognize recurring revenue and maintenance revenue ratably over the terms of the related subscription agreements and maintenance support agreements, most of our revenue each quarter results from recognition of deferred revenue related to agreements entered into during previous quarters. Consequently, declines in new or renewed subscription agreements and maintenance agreements that occur in one quarter will largely be felt in future quarters, both because we may be unable to generate sufficient new revenue to offset the decline and because we may be unable to adjust our operating costs and capital expenditures to align with the changes in revenue. In addition, our

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subscription model makes it more difficult for us to increase our revenue rapidly in any period, because revenue from new customers must be recognized over the applicable subscription term. Furthermore, although our business model is primarily focused on recurring revenue, we anticipate continuing to recognize license revenue, particularly with international customers. License revenue is difficult to forecast and is likely to fluctuate due to many factors that are beyond our control including transition of license customers to recurring revenue models. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as definitive indicators of future performance.

Other factors that may cause our revenue and operating results to fluctuate include:

- timing of customer budget cycles;
- the priority our customers place on our products compared to other business investments;
- size, timing and contract terms of new customer contracts, and unpredictable and often lengthy sales cycles;
- reduced renewals;
- competitive factors, including new product introductions, upgrades and discounted pricing or special payment terms offered by our competitors, as well as strategic actions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- technical difficulties, errors or service interruptions in our solutions that may cause customer dissatisfaction with solutions;
- consolidation among our customers, which may alter their buying patterns, or business failures that may reduce demand for our solutions;
- operating expenses associated with expansion of our sales force or business, and our product development efforts;
  - cost, timing and management efforts related to the introduction of new features to our solutions;
- our ability to obtain, maintain and protect our intellectual property rights and adequately safeguard the information imported to our solutions or otherwise provided to us by our customers; and
- extraordinary expenses such as impairment charges, litigation or other payments related to settlement of dispute.

Any of these developments may adversely affect our revenue, operating results and financial condition. Furthermore, we maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. In such cases, we may be required to defer revenue recognition on sales to affected customers. In the future, we may have to record additional reserves or write-offs, or defer revenue on sales transactions, which could negatively impact our financial results.

If we are unable to increase the profitability of our recurring revenue products and services, if we experience significant customer attrition, or if we are required to defer recognition of revenue, our operating results could be adversely affected.

We have invested, and expect to continue to invest, substantial resources to expand, market, and implement and refine our recurring revenue products and services offerings. Our business model shift to recurring revenues, and our subscription services in particular, has generally generated much lower gross margins than our traditional perpetual license sales. If we are unable to increase the volume of our subscription business to offset the lower margins, we may not be able to achieve sustained profitability.





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In order to sustain or increase our recent operating profitability, we must improve gross margins in our recurring revenue product and services offerings. Factors that could harm our ability to improve our gross margins include:

- increased costs to license and maintain third party software embedded in our software applications or the cost to create or substitute such third party software if it can no longer be licensed on commercially reasonable terms;
- our inability to maintain or increase the prices customers pay for our products and services based on competitive pricing pressures and general economic conditions limiting customer demand;
- increased cost of third party services providers, including data centers for our cloud operations and professional services contractors performing implementation and technical support services to cloud customers;
- customer contractual requirements that delay revenue recognition until customer implementations commence production operations or customer-specific requirements are met;
- significant attrition as customers decide for their own economic or other reasons to not renew their subscription contracts when they are up for renewal could negatively impact the efficiency of our data centers and lead to the costs being spread over fewer customers negatively impacting gross margin; and
  - the inability to implement, or delays in implementing, technology-based efficiencies and efforts to streamline and consolidate processes to reduce operating costs.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.

Even though our subscription contracts are typically structured for auto-renewals, we do allow our customers to elect not to renew their subscriptions for our service after the expiration of their initial subscription period, which is typically 12 to 36 months, and some customers have elected not to renew. In addition, our customers may choose to renew for fewer subscriptions, renew for shorter contract lengths, or renew for lower cost editions of our service. We cannot accurately predict renewal rates given our varied customer base of enterprise and small and medium size business customers and the number of multiyear subscription contracts. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, decreases in customers' spending levels, decreases in the number of users at our customers, pricing changes and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or reduce the number of paying subscriptions at the time of renewal, our revenue will decline and our business will suffer.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our service to our current customers. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior management. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions and that our customers do not react negatively 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.

Our credit agreement contains restrictive and financial covenants that may limit our operational flexibility. Furthermore, if we default on our obligations under the credit agreement, our operations may be interrupted and our business and financial results could be adversely affected.

In November 2014, we entered into a credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), under which Wells Fargo agreed to provide a term loan in the amount of \$10.0 million ("Term") and revolving loan to us in an amount not to exceed \$10.0 million ("Revolver"), Term and Revolver (collectively, the "Loans"). In September 2015, we increased the maximum borrowing amount of the Revolver to \$15.0 million. The Loans contain a number of

restrictive covenants, and its terms may restrict our current and future operations, including:

- affecting our flexibility to plan for, or react to, changes in our business and industry conditions;
- affecting our ability to use our cash flows, or obtain additional financing, for future working capital, capital expenditures, acquisitions or other general corporate purposes;

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- placing us at a competitive disadvantage compared to our less leveraged competitors; and
- increasing our vulnerability to the impact of adverse economic and industry conditions.

In addition, if we fail to comply with the covenants or payment obligations specified in the Loans, we may trigger an event of default, in which case Wells Fargo would have the right to: (i) terminate its commitment to provide additional loans under the Loans, and (ii) declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, Wells Fargo would have the right to proceed against the Loans collateral, which consists of substantially all our assets. If the debt under the Loans were to be accelerated, we may not have sufficient cash or be able to sell sufficient collateral to repay this debt, which would have an immediate material adverse effect on our business, results of operations and financial condition.

Our lengthy sales cycles and the difficulty in predicting timing of sales or delays may impair our operating results.

The long sales cycle for our products may cause license and subscription revenue and operating results to vary significantly from period to period. The sales cycle for our products can be six months or more and varies substantially from customer to customer. Because we sell complex and deeply integrated solutions, it can take many months of customer education to secure sales. Because our potential customers may evaluate our products before, if ever, executing definitive agreements, we may incur substantial expenses and spend significant management and legal effort in connection with the potential customer.

Our multi-product offering and the increasingly complex needs of our customers contribute to a longer and unpredictable sales cycle. Consequently, we often face difficulty predicting the quarter in which expected sales will actually occur. This contributes to the uncertainty and fluctuations in our future operating results. In particular, the corporate decision-making and approval process of our customers and potential customers has become more complicated. This has caused our average sales cycle to further increase and, in some cases, has prevented the closure of sales that we believed were likely to close. In addition, historically our license sales have comprised a relatively small number of high value transactions; consequently, we may miss our revenue forecasts and may incur expenses that are not offset by corresponding revenue from the delay in even one transaction.

We may need additional capital, and raising such additional capital may be difficult or impossible and will likely significantly dilute existing stockholders.

We believe that existing capital resources will enable us to maintain current and planned operations for the next 12 months. However, our working capital requirements in the foreseeable future are subject to numerous risks and will depend on a variety of factors, in particular, whether we maintain or exceed the level of revenue achieved as of June 30, 2016 and that customers continue to pay on a timely basis. We may need to secure additional financing due to unforeseen or unanticipated market conditions. We may try to raise additional funds through public or private financings, strategic relationships, or other arrangements. Such financing may be difficult to obtain on terms acceptable to us, if at all. If we succeed in raising additional funds through the issuance of equity or convertible securities, then the issuance could result in substantial dilution to existing stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these new securities would have rights, preferences, and privileges senior to those of the holders of our common stock. The terms of these securities could impose restrictions on our operations.

Because we depend on a relatively small number of customers for a substantial portion of our revenue, the loss of any of these customers or our failure to attract new significant customers could adversely impact our revenue and harm our business.

We have in the past and expect in the future to derive a substantial portion of our revenue from sales to a relatively small number of customers. The composition of these customers has varied in the past, and we expect that it will continue to vary over time. The loss of any significant customer or a decline in business with any significant customer would materially and adversely affect our financial condition and results of operations.

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As we acquire companies or technologies, we may not realize the expected business benefits, the acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operations.

As part of our business strategy, we periodically make investments in, or acquisitions of, complementary businesses, joint ventures, services and technologies and intellectual property rights, and we expect that we will continue to make such investments and acquisitions in the future. In August 2014, we acquired Exony Ltd. Acquisitions and investments involve numerous risks, including:

- the potential failure to achieve the expected benefits of the combination or acquisition;
- difficulties in and the cost of integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- risks of entering new markets in which we have little or no experience or where competitors may have stronger market positions;
  - potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- potential loss of key employees;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- the inability to maintain relationships with customers and partners of the acquired business;
- the difficulty of transitioning the acquired technology onto our existing platforms and maintaining the security standards consistent with our other services for such technology;
- potential unknown liabilities associated with the acquired businesses;
- unanticipated expenses related to acquired technology and its integration into existing technology;
- negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation, and the loss of acquired deferred revenue and unbilled deferred revenue;
- delays in customer purchases due to uncertainty related to any acquisition;
- the need to implement controls, procedures and policies at the acquired company;
- challenges caused by distance, language and cultural differences;
- in the case of foreign acquisitions, the challenges associated with integrating operations across different cultures and languages and any currency and regulatory risks associated with specific countries; and
- the tax effects of any such acquisitions.

In addition, if we finance acquisitions by issuing equity or convertible or other debt securities or loans, our existing stockholders may be diluted, or we could face constraints related to the terms of repayment obligations related to the incurrence of indebtedness which could affect the market price of our common stock. Further, if we fail to evaluate and execute acquisitions or investments effectively, our business operations and prospects may be seriously harmed.

We must compete successfully in our market segment.

The market for customer engagement software is intensely competitive. Other than product innovation and existing customer relationships, there are no substantial barriers to entry in this market, and established or new entities may enter this market in the future. While software internally developed by enterprises represents indirect competition, we also compete directly with packaged application software vendors, including Avaya, Inc., Genesys Telecommunications, LivePerson, Inc., and Moxie Software, Inc. In addition, we face actual or potential competition from larger software companies such as Microsoft Corporation, Oracle Corporation, Salesforce.com, Inc. and similar companies that may attempt to sell customer engagement software to their installed base.



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We believe competition will continue to be fierce as current competitors increase the sophistication of their offerings and as new participants enter the market. Many of our current and potential competitors have longer operating histories, larger customer bases, broader brand recognition, and significantly greater financial, marketing and other resources. With more established and better-financed competitors, these companies may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies, and make more attractive offers to businesses to induce them to use their products or services.

If we fail to expand and improve our sales performance and marketing activities, we may be unable to grow our business, negatively impacting our operating results and financial condition.

Expansion and growth of our business is dependent on our ability to expand our sales force and on the ability of our sales force to increase sales. If we are not able to effectively develop and maintain awareness of our products in a cost-effective manner, we may not achieve widespread acceptance of our existing and future products. This may result in a failure to expand and attract new customers and enhance relationships with existing customers. This may impede our efforts to improve operations in other areas of the Company and may result in declines in the market price of our common stock.

Due to the complexity of our customer engagement hub platform and related products and services, we must utilize highly trained sales personnel to educate prospective customers regarding the use and benefits of our products and services as well as provide effective customer support. If we have turnover in our sales and marketing teams, we may not be able to successfully compete with those of our competitors.

Our failure to develop and expand strategic and third party distribution channels would impede our revenue growth.

Our success and future growth depends in part upon the skills, experience, performance and continued service of our distribution partners, including software and hardware vendors and resellers. We engage with distribution partners in a number of ways, including assisting us to identify prospective customers, to distribute our products in geographies where we do not have a physical presence and to distribute our products where they are considered complementary to other third party products distributed by the partner. We believe that our future success depends in part upon our ability to develop and expand strategic, long term and profitable partnerships and reseller relationships. If we are unable to do so, or if any existing or future distribution partners fail to successfully market, resell, implement or support our products for their customers, or if distribution partners represent multiple providers and devote greater resources to market, resell, implement and support competing products and services, our future revenue growth could be impeded. Our failure to develop and expand relationships with systems integrators could harm our business.

We sometimes rely on system integrators to recommend our products to their customers and to install and support our products for their customers. We likewise depend on broad market acceptance by these system integrators of our product and service offerings. Our agreements generally do not prohibit competitive offerings and system integrators may develop market or recommend software applications that compete with our products. Moreover, if these firms fail to implement our products successfully for their customers, we may not have the resources to implement our products on the schedule required by their customers. To the extent we devote resources to these relationships and the partnerships do not proceed as anticipated or provide revenue or other results as anticipated, our business may be harmed. Once partnerships are forged, there can be no guarantee that such relationships will be renewed in the future or available on acceptable terms. If we lose strategic third party relationships, fail to renew or develop new relationships, or fail to fully exploit revenue opportunities within such relationships, our results of operations and future growth may suffer.

Our international operations involve various risks.

We derived 50% of our revenue from international sales for the fiscal year 2016 compared to 52% for the fiscal year 2015, and 45% for fiscal year 2014. Including those discussed above, our international sales operations are subject to a number of specific risks, such as:

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- general economic conditions in each country or region in which we do or plan to do business;
- foreign currency fluctuations and imposition of exchange controls;
- expenses associated with complying with differing technology standards and language translation issues;
- difficulty and costs in staffing and managing our international operations;
- difficulties in collecting accounts receivable and longer collection periods;
- health or similar issues, such as a pandemic or epidemic;
- various trade restrictions and tax consequences;
- hostilities in various parts of the world; and
- reduced intellectual property protections in some countries.

As of June 30, 2016, approximately 43% of our workforce was employed in India. Of these employees, 34% are allocated to research and development. Although the movement of certain operations internationally was principally motivated by cost cutting, the continued management of these remote operations requires significant management attention and financial resources that could adversely affect our operating performance. In addition, with the significant increase in the numbers of foreign businesses that have established operations in India, the competition to attract and retain employees there has increased significantly. As a result of the increased competition for skilled workers, we experienced increased compensation costs and expect these costs to increase in the future. Our reliance on our workforce in India makes us particularly susceptible to disruptions in the business environment in that region. In particular, sophisticated telecommunications links, high-speed data communications with other eGain offices and customers, and overall consistency and stability of our business infrastructure are vital to our day-to-day operations, and any impairment of such infrastructure will cause our financial condition and results to suffer. The maintenance of stable political relations between the United States, European Union and India are also of great importance to our operations.

Any of these risks could have a significant impact on our product development, customer support, or professional services. To the extent the benefit of maintaining these operations abroad does not exceed the expense of establishing and maintaining such activities, our operating results and financial condition will suffer.

Difficulties in implementing our products could harm our revenue and margins.

We generally recognize license or subscription revenue from a customer sale when persuasive evidence of an arrangement exists, the product or access to the product has been delivered, the arrangement does not involve significant customization of the software, the license or subscription fee is fixed or determinable and collection of the fee is probable. If an arrangement requires significant customization or implementation services from us, recognition of the associated license or subscription and service revenue could be delayed. The timing of the commencement and completion of these services is subject to factors that may be beyond our control, as this process may require access to the customer's facilities and coordination with the customer's personnel after delivery of the software. In addition, customers could cancel or delay product implementations. Implementation typically involves working with sophisticated software, computing and communications systems. If we experience difficulties with implementation or do not meet project milestones in a timely manner, we could be obligated to devote more customer support, engineering and other resources to a particular project. Some customers may also require us to develop customized features or capabilities. If new or existing customers cancel or have difficulty deploying our products or require significant amounts of our professional services, support, or customized features, revenue recognition could be cancelled or further delayed and our costs could increase, causing increased variability in our operating results.

Our reserves may be insufficient to cover receivables we are unable to collect.



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We assume a certain level of credit risk with our customers in order to do business. Conditions affecting any of our customers could cause them to become unable or unwilling to pay us in a timely manner, or at all, for products or services we have already provided them. In the past, we have experienced collection delays from certain customers, and we cannot predict whether we will continue to experience similar or more severe delays in the future. Although we have established reserves to cover losses due to delays or inability to pay, there can be no assurance that such reserves will be sufficient to cover our losses. If losses due to delays or inability to pay are greater than our reserves, it could harm our business, operating results and financial condition.

We may be subject to legal liability and/or negative publicity for the services provided to consumers via our technology platforms.

Our technology platforms enable representatives of our customers as well as individual service providers to communicate with consumers and other persons seeking information or advice on the Internet. The law relating to the liability of online platform providers such as us for the activities of users of their online platforms is often challenged in the U.S. and internationally. We may be unable to prevent users of our technology platforms from providing negligent, unlawful or inappropriate advice, information or content via our technology platforms, or from behaving in an unlawful manner, and we may be subject to allegations of civil or criminal liability for negligent, fraudulent, unlawful or inappropriate activities carried out by users of our technology platforms.

Claims could be made against online services companies under both U.S. and foreign law such as fraud, defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated by users of our technology platforms. In addition, domestic and foreign legislation has been proposed that could prohibit or impose liability for the transmission over the Internet of certain types of information. Our defense of any of these actions could be costly and involve significant time and attention of our management and other resources.

The Digital Millennium Copyright Act, or DMCA, is intended, among other things, to reduce the liability of online service providers for listing or linking to third party web properties that include materials that infringe copyrights or rights of others. Additionally, portions of The Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third party content. A safe harbor for copyright infringement is also available under the DMCA to certain online service providers that provide specific services, if the providers take certain affirmative steps as set forth in the DMCA. Important questions regarding the safe harbor under the DMCA and the CDA have yet to be litigated, and we cannot guarantee that we will meet the safe harbor requirements of the DMCA or of the CDA. If we are not covered by a safe harbor, for any reason, we could be exposed to claims, which could be costly and time-consuming to defend.

Unplanned system interruptions and capacity constraints and failure to effect efficient transmission of customer communications and data over the Internet could harm our business and reputation.

Our customers have in the past experienced some interruptions with eGain cloud operations. We believe that these interruptions will continue to occur from time to time. These interruptions could be due to hardware and operating system failures. As a result, our business will suffer if we experience frequent or long system interruptions that result in the unavailability or reduced performance of our hosted operations or reduce our ability to provide remote management services. We expect to experience occasional temporary capacity constraints due to sharply increased traffic or other Internet-wide disruptions, which may cause unanticipated system disruptions, slower response times, impaired quality, and degradation in levels of customer service. If this were to continue to happen, our business and reputation could be seriously harmed.

The growth in the use of the Internet has caused interruptions and delays in accessing the Internet and transmitting data over the Internet. Interruptions also occur due to systems burdens brought on by unsolicited bulk email or “Spam,” malicious service attacks and hacking into operating systems, viruses, worms and a “Trojan” horse, the proliferation of which is beyond our control and may seriously impact our and our customers’ businesses.

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Because we provide cloud-based software, interruptions or delays in Internet transmissions will harm our customers' ability to receive and respond to online interactions. Therefore, our market depends on ongoing improvements being made to the entire Internet infrastructure to alleviate overloading and congestion.

Our success largely depends on the efficient and uninterrupted operation of our computer and communications hardware and network systems. A significant amount of our computer and communications systems are located in Sunnyvale, California. Due to our location, our systems and operations are vulnerable to damage or interruption from fire, earthquake, power loss, telecommunications failure and similar events. Customer data that we store in third party data centers may also be vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rate and our ability to attract new customers.

We do maintain a business continuity plan for our customers in the event of an outage. We maintain other co-locations for the purposes of disaster recovery as well as maintaining backups of our customer's information. We provide premium disaster recovery and standard disaster recovery to our customers. If a customer opts not to pay for premium disaster recovery, we will only assure that their data is available within 72 hours. This delay could cause severe disruptions to our customers' customers and may result in customer termination of our solutions. Our premium disaster recovery service provides for an alternative data center and a return to operations within one business day.

We have entered into service agreements with some of our customers that require minimum performance standards, including standards regarding the availability and response time of our remote management services. If we fail to meet these standards, our customers could terminate their relationships with us, and we could be subject to contractual refunds and service credits to, and exposure to claims for losses by, customers. Any unplanned interruption of services may harm our ability to attract and retain customers.

If our security measures are breached and unauthorized access is obtained to a customer's data or our data or our IT systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our IT systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third party access to their customer data located in our cloud environment. Because we do not control the transmissions between customer authorized third parties, or the processing of such data by customer authorized third parties, we cannot ensure the integrity or security of such transmissions or processing. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability.

The terms we agree to in our Service Level Agreements or other contracts may result in increased costs or liabilities, which would in turn affect our results of operations.

Our Service Level Agreements (“SLAs”) provides for service credits for system unavailability, and in some cases, indemnities for loss, damage or costs resulting from use of our system. If we were required to provide any of these in a material way, our results of operations would suffer.

We have been and may in the future be sued by third parties for various claims including alleged infringement of proprietary rights.

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We are involved in various legal matters arising from the normal course of business activities. These may include claims, suits, and other proceedings involving alleged infringement of third-party patents and other intellectual property rights, and commercial, labor and employment, and other matters.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may receive in the future communications from third parties claiming that we or our customers have infringed the intellectual property rights of others. In addition we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. Our technologies and those of our customers may be subject to injunction if they are found to infringe the rights of a third party or we may be required to pay damages, or both. Many of our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, lead to attempts on the part of other parties to pursue similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices or pay monetary damages, or enter into short- or long-term royalty or licensing agreements.

Any adverse determination related to intellectual property claims or other litigation could prevent us from offering our service to others, could be material to our financial condition or cash flows, or both, or could otherwise adversely affect our operating results. In addition, depending on the nature and timing of any such dispute, a resolution of a legal matter could materially affect our future results of operation or cash flows or both.

We rely on trademark, copyright, trade secret laws, contractual restrictions and patent rights to protect our intellectual property and proprietary rights and if these rights are impaired, then our ability to generate revenue will be harmed.

If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have some U.S. patents and pending U.S. patent applications, we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

Our failure or inability to develop non-infringing technology or license the proprietary rights on a timely basis would harm our business.

We may be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the patents and other intellectual property rights of third parties. Our products may infringe issued patents that may relate to our products because patent applications in the United States are not publicly disclosed until the patent is issued, and hence applications may have been filed which relate to our software products. Intellectual property litigation is expensive, time consuming, and could divert management's attention away



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from running our business. This litigation could also require us to develop non-infringing technology or enter into royalty or license agreements. These royalty or license agreements, if required, may not be available on acceptable terms, if at all, in the event of a successful claim of infringement.

Software errors could be costly and time-consuming for us to correct, and could harm our reputation and impair our ability to sell our solutions.

Our solutions are based on complex software that may contain errors, or "bugs," that could be costly to correct, harm our reputation and impair our ability to sell our solutions to new customers. Moreover, customers relying on our solution may be more sensitive to such errors, and potential security vulnerabilities and business interruptions for these applications. If we incur substantial costs to correct any errors of this nature, our operating margins could be adversely affected. Because our customers depend on our solutions for critical business functions, any service interruptions could result in lost or delayed market acceptance and lost sales, higher service-level credits and warranty costs, diversion of development resources and product liability suits.

Our stock price has demonstrated volatility and continued market conditions may cause declines or fluctuations.

The price at which our common stock trades has been and will likely continue to be highly volatile and show wide fluctuations due to factors such as the following:

- concerns related to liquidity of our stock;
- actual or anticipated fluctuations in our operating results, our ability to meet announced or anticipated profitability goals and changes in or failure to meet securities analysts' expectations;
- announcements of technological innovations and/or the introduction of new services by us or our competitors;
- developments with respect to intellectual property rights and litigation, regulatory scrutiny and new legislation;
- conditions and trends in the Internet and other technology industries; and
- general market and economic conditions.

Furthermore, the stock market has recently and in the past experienced significant price and volume fluctuations that have affected the market prices for the common stock of technology companies, regardless of the specific operating performance of the affected company. These broad market fluctuations may cause the market price of our common stock to decline.

Our insiders who are significant stockholders may control the election of our board and may have interests that conflict with those of other stockholders.

Our directors and executive officers, together with their affiliates and members of their immediate families, beneficially owned, in the aggregate, approximately 39% of our outstanding capital stock as of September 8, 2016, of which our Chief Executive Officer, Ashutosh Roy, beneficially owned approximately 32% as of such date. As a result of these concentrated holdings, Mr. Roy individually or together with this group has the ability to exercise significant control over most matters requiring our stockholders' approval, including the election and removal of directors and the approval of significant corporate transactions.

Our offshore product development, support and professional services may prove difficult to manage or may not allow us to realize our cost reduction goals, produce effective new solutions and provide professional services to drive growth.

We use offshore resources to perform new product and services development and provide support and professional consulting efforts, which requires detailed technical and logistical coordination. We must ensure that our



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international resources and personnel are aware of and understand development specifications and customer support, as well as implementation and configuration requirements and that they can meet applicable timelines. If we are unable to maintain acceptable standards of quality in support, product development and professional services, our attempts to reduce costs and drive growth through new products and margin improvements in technical support and professional services may be negatively impacted, which would adversely affect our results of operations. Outsourcing services to offshore providers may expose us to misappropriation of our intellectual property or that of our customers, or make it more difficult to defend intellectual property rights in our technology.

If we are unable to hire and retain key personnel, our business and results of operations would be negatively affected.

Our success will also depend in large part on the skills, experience and performance of our senior management, engineering, sales, marketing and other key personnel. The loss of the services of any of our senior management or other key personnel, including our Chief Executive Officer and co-founder, Ashutosh Roy, could harm our business. Additionally, an increase in attrition in the Indian workforce on which we rely for research and development would have significant negative effects on us and our results of operations. If we cannot hire and retain qualified personnel, our ability to expand our business would be impaired and our results of operations would suffer.

The U.S.-EU Safe Harbor Framework for the transfer of personally identifiable information, or PII, that we have relied upon has been overturned and the current legal framework's uncertainty could expose us to risks of noncompliance and costs associated with compliance.

We have in the past relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established a means for legitimating the transfer of PII by U.S. companies doing business in Europe from the European Economic Area to the U.S. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. – EU Safe Harbor Framework is no longer deemed to be a valid method of compliance with restrictions set forth in the Data Protection Directive (and member states' implementations thereof) regarding the transfer of data outside of the European Economic Area. In light of the ECJ opinion in Case C-362/14, we anticipate engaging in efforts to legitimize data transfers from the European Economic Area. We may be unsuccessful in establishing legitimate means of transferring data from the European Economic Area, we may experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our services due to the potential risk exposure to such customers as a result of the ECJ ruling, and we and our customers are at risk of enforcement actions taken by an EU data protection authority until such point in time that we ensure that all data transfers to us from the European Economic Area are legitimized. We may find it necessary to establish systems to maintain EU-origin data in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. We publicly post our privacy policies and practices concerning our processing, use and disclosure of PII. Our publication of our privacy policy and other statements we publish that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive or misrepresentative of our practices.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.

Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases foreign data privacy laws and regulations, such as the European Union's Data Protection Directive, and the country-specific regulations that implement that directive, also govern the processing of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes,

such as the European Union's e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our solutions or restrict our ability to store and process data or, in some cases, impact our ability to offer our services and solutions in certain locations.

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In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on us. Our customers expect us to meet voluntary certification or other standards established by third parties, such as TRUSTe. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our service effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our subscription solution.

Industry-specific regulation is evolving and unfavorable industry-specific laws, regulations or interpretive positions could harm our business.

Our customers and potential customers do business in a variety of industries, including financial services, the public sector, healthcare and telecommunications. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit customers' use and adoption of our services and reduce overall demand for our services. For example, some financial services regulators have imposed guidelines for use of cloud computing services that mandate specific controls or require financial services enterprises to obtain regulatory approval prior to outsourcing certain functions. If we are unable to comply with these guidelines or controls, or if our customers are unable to obtain regulatory approval to use our service where required, our business may be harmed. In addition, an inability to satisfy the standards of certain voluntary third-party certification bodies that our customers may expect, such as an attestation of compliance with the Payment Card Industry (PCI) Data Security Standards, may have an adverse impact on our business. If in the future we are unable to achieve or maintain these industry-specific certifications or other requirements or standards relevant to our customers, it may harm our business.

In some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business.

We may need to license third-party technologies and may be unable to do so on commercially reasonable terms.

To the extent we need to license third-party technologies, we may be unable to do so on commercially reasonable terms or at all. In addition, we may fail to successfully integrate any licensed technology into our products or services. Third-party licenses may expose us to increased risks, including risks associated with the integration of new technology, the diversion of resources from the development of our own proprietary technology, and our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs. Our inability to obtain and successfully integrate any of these licenses could delay product and service development until equivalent technology can be identified, licensed and integrated. This in turn would harm our business and operating results.

Changes to current accounting policies could have a significant effect on our reported financial results or the way in which we conduct our business.

Generally accepted accounting principles and the related accounting pronouncements, implementation guidelines and interpretations for some of our significant accounting policies are highly complex and require subjective judgments and assumptions. Some of our more significant accounting policies that could be affected by changes in the accounting rules and the related implementation guidelines and interpretations include:

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- recognition of revenue;
- contingencies and litigation; and
- accounting for income taxes.

Changes in these or other rules, or scrutiny of our current accounting practices, or a determination that our judgments or assumptions in the application of these accounting principles were incorrect, could have a significant adverse effect on our reported operating results or the way in which we conduct our business.

We depend on broad market acceptance of our applications and of our business model.

We depend on the widespread acceptance and use of our applications as an effective solution for businesses seeking to manage high volumes of customer interactions across multiple channels, including Web, phone, email, print and in-person. While we believe the potential to be very large, we cannot accurately estimate the size or growth rate of the potential market for such product and service offerings generally, and we do not know whether our products and services in particular will achieve broad market acceptance. The market for customer engagement software is rapidly evolving, and concerns over the security and reliability of online transactions, the privacy of users and quality of service or other issues may inhibit the growth of the Internet and commercial online services. If the market for our applications fails to grow or grows more slowly than we currently anticipate, our business will be seriously harmed.

Furthermore, our business model is premised on business assumptions that are still evolving. Our business model assumes that both customers and companies will increasingly elect to communicate via multiple channels, as well as demand integration of the online channels into the traditional telephone-based call center. Our business model also assumes that many companies recognize the benefits of a hosted delivery model and will seek to have their customer engagement software applications hosted by us. If any of these assumptions is incorrect or if customers and companies do not adopt digital technology in a timely manner, our business will be seriously harmed and our stock price will decline.

We may be unable to respond to the rapid technological change and changing customer preferences in the online sales, marketing, customer service, and/or online consumer services industries and this may harm our business.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions in the online sales, marketing, customer service and/or e-commerce industry or our customers' or Internet users' requirements or preferences, our business, results of operations and financial condition would be materially and adversely affected. Business on the Internet is characterized by rapid technological change. In addition, the market for online sales, marketing, customer service and expert advice solutions is relatively new. Sudden changes in customer and Internet user requirements and preferences, frequent new product and service introductions embodying new technologies, such as broadband communications, and the emergence of new industry standards and practices such as but not limited to security standards could render our services and our proprietary technology and systems obsolete. The rapid evolution of these products and services will require that we continually improve the performance, features and reliability of our services. Our success will depend, in part, on our ability to:

- enhance the features and performance of our services;
- develop and offer new services that are valuable to companies doing business online as well as Internet users; and
- respond to technological advances and emerging industry standards and practices in a cost-effective and timely manner.

If any of our new services, including upgrades to our current services, do not meet our customers' or Internet users' expectations, our business may be harmed. Updating our technology may require significant additional capital expenditures and could materially and adversely affect our business, results of operations and financial condition.





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If new services require us to grow rapidly, this could place a significant strain on our managerial, operational, technical and financial resources. In order to manage our growth, we could be required to implement new or upgraded operating and financial systems, procedures and controls. Our failure to expand our operations in an efficient manner could cause our expenses to grow, our revenue to decline or grow more slowly than expected and could otherwise have a material adverse effect on our business, results of operations and financial condition

We may engage in future acquisitions or investments that could dilute our existing stockholders, cause us to incur significant expenses or harm our business.

We may review acquisition or investment prospects that we believe may complement our current business or enhance our technological capabilities. Integrating any newly acquired businesses or their technologies or products may be expensive and time-consuming, and may not result in benefits to our business. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us, if at all, and, in the case of equity financings, may result in dilution to our existing stockholders. We may not be able to operate acquired businesses profitably. If we are unable to integrate newly acquired entities or technologies effectively, our operating results could suffer. Future acquisitions by us could also result in large and immediate write-offs, incurrence of debt and contingent liabilities, or amortization of expenses related to goodwill and other intangibles, any of which could harm our operating results.

We may not be able to realize the benefits of offering the limited “Try & Buy” free version of our service

We offer a limited version of our subscription service to customers or potential customers free of charge (known as “Try & Buy”) in order to promote usage, brand and product awareness, and adoption, and we invest time and resources for such initial engagements without compensation from the customers. Some customers never enter into a definitive contract for our paid subscription service despite the time and effort we may have expended on such Try & Buy initiatives. To the extent that these customers do not become paying customers, we will not realize the intended benefits of this marketing effort, and our ability to grow our business and revenue may be harmed.

The uncertainty surrounding the implementation and effect of Brexit may cause increased economic volatility, affecting our operations and business

On June 23, 2016, voters in the United Kingdom (U.K.) approved an advisory referendum to withdraw membership from the European Union (E.U.), which proposed exit (referred to as Brexit) could cause disruptions to, and create uncertainty surrounding, our business in the U.K. and E.U., including affecting our relationships with our existing and future customers, suppliers and employees. As a result, Brexit could have an adverse effect on our future business, financial results and operations. The referendum is non-binding but if passed into law, negotiations would commence to determine the future terms of the U.K.’s relationship with the E.U., and there can be no assurance regarding the terms, timing or consummation of any such arrangements. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the U.K. and the other economies in which we operate. There can be no assurance that any or all of these events will not have a material adverse effect on our business operations, results of operations and financial condition.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2.PROPERTIES

We lease all facilities used in our business. The following table summarizes our principal properties:

Location	Principal Use	Approximate Square Footage	Lease Expiration Date
Sunnyvale, California	Corporate Headquarters	42,541	2022
Pune, India	Corporate Offices	33,262	2021
Slough, England	Corporate Headquarters	14,173	2016
Newbury, England	Corporate Offices	14,090	2024

## ITEM 3.LEGAL PROCEEDINGS

In the ordinary course of business, we are involved in various legal proceedings and claims related to alleged infringement of third-party patents and other intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour, and other claims. We have been, and may in the future be, put on notice and/or sued by third parties for alleged infringement of their proprietary rights, including patent infringement.

We evaluate all claims and lawsuits with respect to their potential merits, our potential defenses and counterclaims, settlement or litigation potential and the expected effect on us. Our technologies may be subject to injunction if they are found to infringe the rights of a third party. In addition, our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which could increase the cost to us of an adverse ruling on such a claim.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant.

The following table sets forth information regarding eGain's current executive officers as of September 13, 2016:

Name	Age	Position
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Ashutosh Roy	50	Chief Executive Officer and Chairman
Eric Smit	54	Chief Financial Officer
Promod Narang	58	Senior Vice President of Products and Engineering
Joe Brown	66	Senior Vice President of Worldwide Sales

Ashutosh Roy co-founded eGain and has served as Chief Executive Officer and a director of eGain since September 1997 and President since October 2003. From May 1995 through April 1997, Mr. Roy served as Chairman of WhoWhere? Inc., an Internet-service company co-founded by Mr. Roy. From June 1994 to April 1995, Mr. Roy co-founded Parsec Technologies, a call center company based in New Delhi, India. From August 1988, to August 1992, Mr. Roy worked as a Software Engineer at Digital Equipment Corp. Mr. Roy holds a B.S. in Computer Science from the Indian Institute of Technology, New Delhi, a Master's degree in Computer Science from Johns Hopkins University and an M.B.A. from Stanford University.

Eric Smit has served as Chief Financial Officer since August 2002. From April 2001 to July 2002, Mr. Smit served as Vice President, Operations of eGain. From June 1999 to April 2001, Mr. Smit served as Vice President, Finance and Administration of eGain. From June 1998 to June 1999, Mr. Smit served as Director of Finance of eGain. From December 1996 to May 1998, Mr. Smit served as Director of Finance for WhoWhere? Inc., an Internet services company. From April 1993 to November 1996, Mr. Smit served as Vice President of Operations and Chief Financial Officer of Velocity Incorporated, a software game developer and publishing company. Mr. Smit holds a Bachelor of Commerce in Accounting from Rhodes University, South Africa.

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Promod Narang has served as Sr. Vice President of Engineering of eGain since March 2000. Mr. Narang joined eGain in October 1998, and served as Director of Engineering prior to assuming his current position. Prior to joining eGain, Mr. Narang served as President of VMpro, a system software consulting company from September 1987 to October 1998. Mr. Narang holds a Bachelor of Science in Computer Science from Wayne State University.

Joe Brown was appointed as Senior Vice President of Worldwide Sales on November 1, 2015. Prior to joining eGain, Mr. Brown served as Senior Vice President of World Wide Sales at Avangate, an enterprise software company, from May 2011 to January 2015. From January 2005 to February 2011, Mr. Brown served as Vice President of RightNow Technologies, a company that provides CRM solutions. Mr. Brown holds a Bachelors of Commerce from University of Witwatersrand and a Master of Business Leadership from University of South Africa.

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## PART II

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

## Market Information

The following table sets forth, for the periods indicated, high and low bid prices for eGain's common stock as reported by the NASDAQ Stock Market LLC.

Year Ended June 30, 2016	High	Low
First Quarter	\$ 5.01	\$ 3.13
Second Quarter	\$ 5.00	\$ 3.78
Third Quarter	\$ 4.46	\$ 2.79
Fourth Quarter	\$ 3.99	\$ 2.65
Year Ended June 30, 2015		
First Quarter	\$ 7.14	\$ 5.66
Second Quarter	\$ 5.91	\$ 3.99
Third Quarter	\$ 5.32	\$ 3.02
Fourth Quarter	\$ 5.22	\$ 2.82

## Holders

As of September 1, 2016, there were approximately 218 stockholders of record. This number does not include stockholders whose shares are held in trust by other entities. We estimate that there were approximately 2,900 beneficial stockholders of our common stock as of September 1, 2016.

## Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all available funds for use in the operation of our business and do not intend to pay any cash dividends in the foreseeable future.

## Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of June 30, 2016:

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
1998 Stock Plan	35,209	\$ 0.67	—
2005 Stock Incentive Plan	1,566,535	\$ 4.55	1,153,694
Equity compensation plans not approved by security holders			
2000 Non-Management Stock Option Plan	10,000	\$ 0.66	—
2005 Management Stock Option Plan	871,484	\$ 5.33	756,649
Total	2,483,228	\$ 4.76	1,910,343

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## Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Index and the Nasdaq Composite Total Return Index for each of the last five fiscal years ended June 30, 2016, assuming an initial investment of \$100. Data for the Standard & Poor's 500 Index and the Nasdaq Composite Total Return Index assume no dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

	06/30/12	06/30/13	06/30/14	06/30/15	06/30/16
	\$	\$	\$	\$	\$
eGain Corporation	100.00	176.51	124.22	91.93	51.74
	\$	\$	\$	\$	\$
Nasdaq Composite	100.00	117.60	154.26	176.53	173.56
	\$	\$	\$	\$	\$
S&P Software & Services Select Industry Index	100.00	123.09	153.45	178.38	177.92

## Equity Compensation Plans Not Approved By Security Holders

## 2000 Non-Management Stock Option Plan

In July 2000, our board of directors adopted the 2000 Non-Management Stock Option Plan, which provides for the grant of non-statutory stock options and stock purchase rights to employees of eGain. A total of 200,000 shares of common stock were reserved for issuance under the 2000 Non-Management Stock Option Plan. This plan expired in July 2010 and there are no further options available to grant under the 2000 Plan.

## 2005 Management Stock Option Plan

In May 2005, our board of directors adopted the 2005 Management Stock Option Plan, or the 2005 Management Plan, pursuant to which the Compensation Committee may grant non-qualified stock options to purchase up to 962,400 shares of eGain common stock, at an exercise price of not less than 100% of the fair market value of such common



stock,

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to directors, officers and key employees of the Company and its subsidiaries. In September 2014, our board approved an increase in the number of shares of commons stock reserved for issuance by 1,000,000 and extended the expiration date of the of the 2005 Management Stock Option Plan to September 30, 2024.

In both November 2007 and September 2011, our board of directors approved an increase of 500,000 shares for issuance under the 2005 Management Stock Option Plan. In September 2014, our board of directors approved the amendment to the 2005 Management Stock Option Plan, which approved an increase in the number of shares of common stock reserved for issuance thereunder by 1,000,000 shares from 1,962,400 shares to 2,962,400 shares. Options granted under the 2005 Management Plan are subject to vesting as determined by the Compensation Committee. The options are exercisable for up to ten years from the date of grant.

Issuer Repurchases of Equity Securities

On September 14, 2009, we announced that our board of directors approved a repurchase program under which we may purchase up to 1,000,000 shares of our common stock. The duration of the repurchase program is open-ended. Under the program, we purchase shares of common stock from time to time through the open market and privately negotiated transactions at prices deemed appropriate by management. The repurchase is funded by cash on hand. There were no shares repurchased during fiscal years 2016 and 2015.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with the information under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements, the related notes and the accompanying independent registered public accounting firm’s report, which are included in “Item 8. Financial Statements and Supplementary Data.”

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	Year ended June 30,				
	2016	2015	2014	2013	2012
	(in thousands, except per share information)				
Revenue					
Subscription and support	\$ 42,783	\$ 42,311	\$ 40,477	\$ 32,281	\$ 23,594
License	14,466	18,325	14,800	12,853	11,067
Professional services	12,126	15,277	14,985	13,755	8,703
Total revenue	69,375	75,913	70,262	58,889	43,364
Cost of subscription and support	12,401	12,082	8,518	5,495	5,363
Cost of license	29	61	104	151	(39)
Cost of professional services	11,259	16,998	14,840	12,360	8,112
Total cost of revenue	23,689	29,141	23,462	18,006	13,436
Gross profit	45,686	46,772	46,800	40,883	29,928
Operating Expenses					
Research and development	16,063	16,042	9,963	8,419	6,132
Sales and marketing	27,722	32,703	33,367	24,434	20,086
General and administrative	7,774	9,313	7,529	6,787	5,743
Total operating expenses	51,559	58,058	50,859	39,640	31,961
Income / (loss) from operations	(5,873)	(11,286)	(4,059)	1,243	(2,033)
Interest expense, net	(1,958)	(834)	(181)	(483)	(722)
Other income / (expense), net	728	11	(415)	303	(677)
Income / (loss) before income tax benefit (provision)	(7,103)	(12,109)	(4,655)	1,063	(3,432)
Income tax benefit (provision)	863	(320)	(591)	(379)	(390)
Net income / (loss)	\$ (6,240)	\$ (12,429)	\$ (5,246)	\$ 684	\$ (3,822)
Per share information					
Basic net income / (loss) per common share	\$ (0.23)	\$ (0.47)	\$ (0.21)	\$ 0.03	\$ (0.16)
Diluted net income / (loss) per common share	\$ (0.23)	\$ (0.47)	\$ (0.21)	\$ 0.03	\$ (0.16)
Weighted average shares used in computing basic net income / (loss) per common share	27,056	26,609	25,353	24,780	24,329
Weighted average shares used in computing diluted net income / (loss) per common share	27,056	26,609	25,353	26,089	24,329
Below is a summary of stock - based compensation included in the costs and expenses above:					
Cost of revenue	\$ 249	\$ 476	\$ 280	\$ 121	\$ 77
Research and development	\$ 472	\$ 736	\$ 386	\$ 261	\$ 180
Sales and marketing	\$ 169	\$ 574	\$ 464	\$ 360	\$ 274
General and administrative	\$ 298	\$ 531	\$ 397	\$ 339	\$ 325
	June 30,				
	2016	2015	2014	2013	2012
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments (including restricted cash)	\$ 11,785	\$ 9,309	\$ 8,815	\$ 17,235	\$ 10,946
Working capital	\$ (886)	\$ (2,039)	\$ (1,885)	\$ 2,021	\$ 2,860
Total assets	\$ 48,063	\$ 49,731	\$ 32,647	\$ 43,536	\$ 27,943
Deferred revenue	\$ 15,717	\$ 15,812	\$ 13,713	\$ 19,736	\$ 8,083

Long-term debt (bank borrowings and capital lease obligations)	\$ 20,376	\$ 18,554	\$ 4,208	\$ 2,000	\$ 7,230
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### ITEM 7.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of eGain’s financial condition and results of operations should be read together with the consolidated financial statements and related notes in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. These risks and uncertainties may cause actual results to differ materially from those discussed in the forward-looking statements.

#### Overview

eGain was incorporated in Delaware in September 1997. We are a leading provider of cloud-based and on-site customer engagement solutions. For nearly two decades, our solutions have helped improve customer experience, grow sales, and optimize service processes across the web, social, and phone channels. Hundreds of global enterprises rely on us to transform fragmented sales engagement and customer service operations into unified customer engagement hubs.

In fiscal year 2016, we recorded annual revenue of \$69.4 million and loss from operations of \$5.9 million, compared to annual revenue of \$75.9 million and a loss from operations of \$11.3 million in fiscal year 2015. The year-over-year decrease in total revenue was primarily driven by the 21% decrease in license revenue and 21% decrease in professional services revenue. License revenue was \$14.5 million in fiscal year 2016, compared to \$18.3 million in fiscal year 2015. Subscription and support revenue was \$42.8 million in fiscal year 2016, compared to \$42.3 million in fiscal year 2015. Professional services revenue was \$12.1 million in fiscal year 2016, compared to \$15.3 million in fiscal year 2015. Cash provided by operations was \$1.9 million for fiscal year 2016, compared to cash used in operations of \$10.5 million for fiscal year 2015.

#### Unbilled Deferred Revenue

Unbilled deferred revenue represents business that is contracted but not yet invoiced or collected and off-balance-sheet and, accordingly, is not recorded in deferred revenue. As such, the deferred revenue balance on our consolidated balance sheet does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. As of June 30, 2016, unbilled deferred revenue increased to \$31.1 million, up from approximately \$26.5 million as of June 30, 2015.

#### Key Financial Measures

We monitor the key financial performance measures set forth below as well as cash and cash equivalents and available debt capacity, which are discussed in “Liquidity and Capital Resources,” to help us evaluate trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational effectiveness and efficiencies. These key financial performance measures include certain non-GAAP metrics, including Adjusted EBITDA as defined below. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with generally accepted accounting principles (GAAP).

Adjusted EBITDA, a non-GAAP financial measure, is defined as net income (loss), adjusted for the impact of purchase accounting adjustments to deferred revenue related to acquisitions, depreciation and amortization, stock-based compensation expense, interest expense, net, income tax (benefit) provision, amortization of acquired intangibles, acquisition-related expenses and severance and related charges.

Management believes that it is useful to exclude certain non-cash charges and non-core operational charges from Adjusted EBITDA because (1) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (2) such expenses can vary significantly between periods as a result of the timing of new stock-based awards and acquisitions.

The following table presents our key financial measures, including a reconciliation of Adjusted EBITDA to net income (loss) for each of the periods indicated:

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	Fiscal Year Ended June 30		
	2016	2015	2014
Revenue	\$ 69,375	\$ 75,913	\$ 70,262
Gross profit	45,686	46,772	46,800
Adjusted EBITDA			
Net loss	\$ (6,240)	\$ (12,429)	\$ (5,246)
Add: Purchase accounting adjustments to deferred revenue related to acquisitions	77	372	—
Depreciation and amortization	2,057	2,503	2,108
Stock-based compensation expense	1,188	2,317	1,527
Interest expense, net	1,958	834	181
Income tax (benefit) provision	(863)	320	591
Amortization of acquired intangible assets	2,781	2,510	—
Acquisition-related expenses	—	844	—
Severance and related charges	959	1,294	137
Adjusted EBITDA	\$ 1,917	\$ (1,435)	\$ (702)
Critical Accounting Policies and Estimates			

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts, goodwill, intangibles, deferred tax valuation allowance, accrued liabilities, long-lived assets and stock-based compensation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Business Combinations

Business combinations are accounted for at fair value under the purchase method of accounting. Acquisition costs are expensed as incurred and recorded in general and administrative expenses and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date affect income tax expense. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the consolidated financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.



## Revenue Recognition

We enter into arrangements to deliver multiple products or services (multiple-elements). We apply software revenue recognition rules and multiple-elements arrangement revenue guidance. Significant management judgments and estimates are made and used to determine the revenue recognized in any accounting period. Material differences may result in changes to the amount and timing of our revenue for any period if different conditions were to prevail. We present revenue net of taxes collected from customers and remitted to governmental authorities.

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We derive revenue from three sources:

- i. Subscription and support fees primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term license revenue, and maintenance and support revenue;
- ii. License fees primarily consist of perpetual software license revenue;
- iii. Professional services primarily consist of consulting, implementation services and training.

Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use a signed statement of work as evidence of arrangement for professional services.
  - Delivery or performance has occurred: Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with login credentials.
- Fees are fixed or determinable: We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are generally not considered to be fixed or determinable.
- Collectibility is probable: We assess collectibility based on a number of factors, including the customer's past payment history and its current creditworthiness. Payment terms generally range from 30 to 90 days from invoice date. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment.

We apply the provisions of Accounting Standards Codification, or ASC, 985-605, Software Revenue Recognition, to all transactions involving the licensing of software products. In the event of a multiple element arrangement for a license transaction, we evaluate the transaction as if each element represents a separate unit of accounting taking into account all factors following the accounting standards. We apply ASC 605, Revenue Recognition, for cloud transactions to determine the accounting treatment for multiple elements. We also apply ASC 605-35 for fixed fee arrangements in which we use the percentage of completion method to recognize revenue when reliable estimates are available for the costs and efforts necessary to complete the implementation services. When such estimates are not available, the completed contract method is utilized. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete.

When licenses are sold together with system implementation and consulting services, license fees are recognized upon shipment, provided that (i) payment of the license fees is not dependent upon the performance of the consulting and implementation services, (ii) the services are available from other vendors, (iii) the services qualify for separate accounting as we have sufficient experience in providing such services, have the ability to estimate cost of providing such services, and we have vendor specific objective evidence, or VSOE, of fair value, and (iv) the services are not essential to the functionality of the software.

We enter into arrangements with multiple-deliverables that generally include subscription, maintenance and support, and professional services. We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. We use VSOE, of fair value for each of those units, when available. For revenue recognition with multiple-deliverable elements, in certain limited circumstances when VSOE of fair value does not exist, we apply the selling price hierarchy, which includes VSOE, third-party evidence of selling price, or TPE, and best estimate of selling price, or BEBP. We determine the relative selling price for a deliverable based on its VSOE, if available, or its BEBP, if VSOE is not available. We determined that TPE is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant

third-party pricing information.

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We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where services are sold, price lists, its go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by our management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we may modify its pricing practices in the future, which could result in changes in relative selling prices, including both VSOE and BESP.

### Subscription and Support Revenue

#### Cloud Revenue

Cloud revenue consists of subscription fees from customers accessing our cloud-based service offerings. We recognize cloud revenue ratably over the period of the applicable agreement as services are provided. Cloud agreements typically have an initial term of 12 to 36 months and automatically renew unless either party cancels the agreement. The majority of the cloud services customers purchase a combination of our cloud service and professional services. In some cases, the customer may also acquire a license for our software.

We consider the applicability of ASC 985-605, on a contract-by-contract basis. In cloud-based agreements, where the customer does not have the contractual right to take possession of the software, the revenue is recognized on a monthly basis over the term of the contract. Invoiced amounts are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. We consider a software element to exist when we determine that the customer has the contractual right to take possession of our software at any time during the cloud period without significant penalty and can feasibly run the software on its own hardware or enter into another arrangement with a third party to host the software. Additionally, we have established VSOE for the cloud and maintenance and support elements of perpetual license sales, based on the prices charged when sold separately and substantive renewal terms. Accordingly, when a software element exists in a cloud services arrangement, license revenue for the perpetual software license element is determined using the residual method and is recognized upon delivery. Revenue for the cloud and maintenance and support elements is recognized ratably over the contractual time period. Professional services are recognized as described below under “Professional Services Revenue.” If VSOE of fair value cannot be established for the undelivered elements of an agreement, the entire amount of revenue from the arrangement is recognized ratably over the period that these elements are delivered.

#### Term License Revenue

Term license revenue includes arrangements where our customers receive license rights to use our software along with bundled maintenance and support services for the term of the contract. The majority of our contracts provide customers with the right to use one or more products up to a specific license capacity. Certain of our license agreements stipulate that customers can exceed pre-determined base capacity levels, in which case additional fees are specified in the license agreement. Term license revenue is recognized ratably over the term of the license contract.

#### Maintenance and Support Revenue

Maintenance and support revenue consists of customers purchasing maintenance and support for our on-premise software. We use VSOE of fair value for maintenance and support to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Maintenance and support revenue is recognized ratably over the term of the maintenance contract, which is typically one year. Maintenance and support is renewable by the customer on an annual basis. Maintenance and support rates, including subsequent renewal rates, are typically established based upon a specified percentage of net license fees as set forth in the

arrangement.

#### License Revenue

License revenue consists of perpetual license rights sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software

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products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on VSOE of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue, assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services and in some cases cloud services.

We periodically sell to resellers. License sales to resellers as a percentage of total revenue were approximately 19%, 15% and 11% in fiscal years 2016, 2015 and 2014, respectively. Revenue from sales to resellers is generally recognized upon delivery to the reseller dependent on the facts and circumstances of the transaction. These include items such as our understanding of the reseller's plans to sell the software, existence of return provisions, price protection or other allowances, the reseller's financial status and our past experience with the reseller. Historically sales to resellers have not included any return provisions, price protections or other allowances.

### Professional Services Revenue

Professional services revenue includes system implementation, consulting and training. For license transactions, the majority of our consulting and implementation services qualify for separate accounting. We use VSOE of fair value for the services to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Our consulting and implementation service contracts are bid either on a fixed-fee basis or on a time-and-materials basis. Substantially all of our contracts are on a time-and-materials basis. For time-and-materials contracts, where the services are not essential to the functionality, we recognize revenue as services are performed. If the services are essential to functionality, then both the product license revenue and the service revenue are recognized under the percentage of completion method. For a fixed-fee contract, we recognize revenue based upon the costs and efforts to complete the services in accordance with the percentage of completion method, provided we are able to estimate such cost and efforts.

Under ASC 605-25, in order to account for deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. For cloud services, in determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work.

We determined at or around July 1, 2013 that we had established standalone value for consulting and implementation services. This was primarily due to the change in our business focus, the growing number of partners we trained and certified to perform these deployment services and the consequential sale of subscription services without bundled implementation service. Revenues earned from professional services related to consulting and implementation of a majority of our core subscription services are being accounted for separately from revenues earned from subscription services beginning July 1, 2013 when the standalone value was established for those professional services.

For those contracts that have standalone value, we recognized the services revenue when rendered for time and material contracts, when the milestones are achieved and accepted by the customer for fixed price contracts or by percentage of completion basis if there is no acceptance criteria. For cloud, consulting and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the customer cloud relationship, once cloud has gone live or system ready. We estimate the life of these customer cloud relationship at the time the transactions occurred to be approximately 28 months, based on the then average life of all cloud customer relationships.

Training revenue that meets the criteria to be accounted for separately is recognized when training is provided.

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud, term license, and maintenance and support services and is recognized as the revenue recognition criteria are met. We generally

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invoice customers in annual or quarterly installments. The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable cloud or maintenance and support agreements. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

Deferred revenue that will be recognized during the succeeding twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent. As of June 30, 2016, deferred revenue decreased to \$15.7 million, compared to \$15.8 million as of June 30, 2015.

### Deferred Commissions

Deferred commissions are the direct and incremental costs directly associated with cloud contracts with customers and consist of sales commissions to our direct sales force.

The commissions are deferred and amortized over the terms of the related customer contracts, which are typically 12 to 36 months. The commission payments are paid based on contract terms in the month following the quarter in which the commissions are earned. The deferred commission amounts are recognized as sales and marketing expense in the consolidated statements of operations over the terms of the related customer contracts, in proportion to the recognition of the associated revenue.

### Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation — Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the vesting period. Determining the fair value of the stock-based awards at the grant date requires significant judgment and the use of estimates, particularly surrounding Black-Scholes valuation assumptions such as stock price volatility and expected option lives. We determine the appropriate measure of expected volatility by reviewing historic volatility in the share price of our common stock, as adjusted for certain events that management deems to be non-recurring and non-indicative of future events. We base our estimate of expected life on the historical exercise behavior, cancellations of all past option grants made by us during the time period in which our equity shares have been publicly traded, the contractual term, the vesting period and the expected remaining term of the option. Based on our historical experience of option pre-vesting cancellations, we have assumed an annualized 11.42% forfeiture rate for our options. We record additional expense if the actual forfeiture rate is lower than we estimated, and record a recovery of prior expense if the actual forfeiture is higher than what we estimated.

### Goodwill and Other Intangible Assets

In accordance with ASC 350, Goodwill and Other Intangible Assets, we review goodwill annually for impairment or sooner whenever events or changes in circumstances indicate that they may be impaired. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. In addition, we evaluate purchased intangible assets to determine that all such assets have determinable lives. We operate under a single reporting unit and accordingly, all of our goodwill is associated with the entire company. We performed annual impairment reviews for fiscal years 2016, 2015 and 2014 and found no impairment.

### Accounts Receivable and Allowance for Doubtful Accounts



We extend unsecured credit to customers on a regular basis. Our accounts receivable are derived from revenue earned from customers and are not interest bearing. We also maintain an allowance for doubtful accounts to reserve for potential uncollectible trade receivables. We review our trade receivables by aging category to identify specific customers with known disputes or collectability issues. We exercise judgment when determining the adequacy of these reserves as we evaluate historical bad debt trends, general economic conditions in the U.S. and internationally, and changes in customer financial conditions. If we make different judgments or utilize different estimates, then material differences may result in additional reserves for trade receivables, which would be reflected by charges in general and administrative expenses for

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any period presented. We write-off a receivable after all collection efforts have been exhausted and the amount is deemed uncollectible.

### Leases

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with ASC 840, Leases. When any one of the four test criteria in ASC 840 is met, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with our normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

### Deferred Tax Valuation Allowance

When we prepare our consolidated financial statements, we estimate our income tax liability for each of the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. The net deferred tax assets are reduced by a valuation allowance if, based upon weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We must make significant judgments to determine our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax assets. As of June 30, 2016, we had a valuation allowance of approximately \$80.9 million of which approximately \$80.1 million was attributable to U.S. and state net operating losses and research and development credit carryforwards.

We apply ASC 740, Income Taxes, in determining any uncertain tax positions. The guidance seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Additionally, ASC 740 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under ASC 740, an entity may only recognize or continue to recognize tax positions that meet a “more likely than not” threshold. In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits as a component of “other income (expense), net” in the consolidated statements of operations.

### Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities. We do not have any derivative financial instruments. We believe the reported carrying amounts of these financial instruments approximate fair value, based upon their short-term nature and comparable market information available at the respective balance sheet dates. The carrying value of our bank borrowings and capital lease obligations approximates fair value based on the borrowing rates currently available to us for loans and capital leases with similar terms.



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## Results of Operations

The following table sets forth certain items reflected in our consolidated statements of operations expressed as a percent of total revenue for the periods indicated.

	2016	2015	2014
Revenue:			
Subscription and support	62 %	56 %	58 %
License	21 %	24 %	21 %
Professional services	17 %	20 %	21 %
Total revenue	100 %	100 %	100 %
Cost of subscription and support	18 %	16 %	12 %
Cost of license	— %	— %	— %
Cost of professional services	16 %	23 %	21 %
Total cost of revenue	34 %	39 %	33 %
Gross profit	66 %	61 %	67 %
Operating Expenses:			
Research and development	23 %	21 %	14 %
Sales and marketing	40 %	43 %	48 %
General and administrative	11 %	12 %	11 %
Total operating expenses	74 %	76 %	73 %
Loss from operations	(8) %	(15) %	(6) %

## Revenue

Total revenue, which consists of subscription and support, license and professional services revenue, was \$69.4 million, \$75.9 million, and \$70.3 million, in fiscal years 2016, 2015, and 2014, respectively.

In fiscal year 2016, total revenue decreased 9% or \$6.5 million, from the prior year. Our international sales accounted for approximately 50% of total revenue in fiscal year 2016, a decrease from 52% of total revenue in fiscal year 2015. The impact of the foreign exchange fluctuation between the U.S. dollar, the Euro and British pound in total revenue was \$2.1 million and \$1.3 million in fiscal years 2016 and 2015, respectively. There were two customers that accounted for 14% and 10% of total revenue in fiscal year 2016. There was one customer that accounted for 10% of total revenue in fiscal year 2015. There were two different customers that accounted for 16% and 10% of total revenue in fiscal year 2014.

## Subscription and Support Revenue

Fiscal Year Ended June 30			Year-Over-Year Change	
2016	2015	2014	2015 to 2016	2014 to 2015
(in thousands)				

## Revenue

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Subscription and support revenue	\$ 42,783	\$ 42,311	\$ 40,477	\$ 472	1 %	\$ 1,834	5 %
Percentage of total revenue	62 %	56 %	58 %				

Subscription and support revenue includes cloud and software maintenance and support revenue. Subscription and support revenue was \$42.8 million, \$42.3 million, and \$40.5 million in fiscal years 2016, 2015, and 2014, respectively. This represented an increase of 1% or \$0.5 million, in fiscal year 2016 compared to fiscal year 2015 and an increase of 5% or \$1.8 million, in fiscal year 2015 compared to fiscal year 2014. Subscription and support revenue represented 62%, 56%, and 58% of total revenue for the fiscal years 2016, 2015 and 2014, respectively.

The increase in fiscal year 2016 was primarily an increase in cloud revenue due to the shift from perpetual license business toward a cloud delivery model and the improved renewal rate. The impact from foreign currency fluctuations was a decrease of \$1.2 million in fiscal year 2016.

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The increase in fiscal year 2015 was primarily due to an increase in maintenance and support from our license business and an increase in customer base through acquisition of Exony partially offset by a reduction in cloud revenue primarily due to the decreased annual contract value from one customer renewal. The impact from foreign currency fluctuations was an increase of \$620,000 in fiscal year 2015.

Excluding the impact from any future foreign currency fluctuation, we expect subscription and support revenue to increase in fiscal year 2017 due to the shift from perpetual license business toward a cloud delivery model.

## License Revenue

	Fiscal Year Ended June 30			Year-Over-Year Change				
	2016	2015	2014	2015 to 2016		2014 to 2015		
	(in thousands)							
Revenue								
License	\$ 14,466	\$ 18,325	\$ 14,800	\$ (3,859)	(21)%	\$ 3,525	24%	
Percentage of total revenue	21 %	24 %	21 %					

License revenue was \$14.5 million, \$18.3 million, and \$14.8 million in fiscal years 2016, 2015, and 2014, respectively. This represents a decrease of 21% or \$3.9 million, in fiscal year 2016 from fiscal year 2015, compared to an increase of 24% or \$3.5 million, in fiscal year 2015 from fiscal year 2014. License revenue represented 21%, 24%, and 21% of total revenue for the fiscal years 2016, 2015, and 2014, respectively.

The decrease in license revenue in fiscal year 2016 was primarily attributable to the shift from perpetual license business toward a cloud delivery model. The impact from the foreign currency fluctuations on license revenue was a decrease of \$363,000 in fiscal year 2016.

The increase in license revenue in fiscal year 2015 was primarily attributable to increased demand from new and existing customers. New license and support transactions in fiscal year 2015 included approximately \$23.7 million from numerous transactions with an average deal size of \$176,000. The impact from the foreign currency fluctuations on license revenue was a decrease of \$286,000 in fiscal year 2015.

Given the general unpredictability in the length of current sales cycles, the mix between cloud and license transactions, the uncertainty in the global economy and the volatility of the value of the British pound and Euro in relation to the U.S. dollar, license revenue may increase or decrease in future periods. However, as we continue the shift from our license to cloud model, we anticipate total license revenue to decrease in fiscal year 2017.

## Professional Services Revenue

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	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
Revenue	(in thousands)						
Professional services	\$ 12,126	\$ 15,277	\$ 14,985	\$ (3,151)	(21)%	\$ 292	2%
Percentage of total revenue	17 %	20 %	21 %				

Professional services revenue was \$12.1 million, \$15.3 million, and \$15.0 million in fiscal years 2016, 2015 and 2014, respectively. This represented a decrease of 21%, or \$3.2 million in fiscal year 2016 compared to fiscal year 2015 and an increase of 2%, or \$292,000, in fiscal year 2015 compared to fiscal year 2014.

The decrease in professional services revenue in fiscal year 2016 was primarily attributable to a reduction in time required for an average implementation project as a result of the improvements to our product deployment process. The impact from foreign currency fluctuation was an increase of \$468,000.

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Professional services revenue in fiscal year 2015 was relatively constant compared to fiscal year 2014. The impact from foreign currency fluctuations was a decrease of \$390,000.

Excluding the impact from any future foreign currency fluctuations, we expect professional services revenue to increase or remain relatively constant in fiscal year 2017.

## Cost of Revenue

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	(in thousands)						
Cost of revenue	\$ 23,689	\$ 29,141	\$ 23,462	\$ (5,452)	(19)%	\$ 5,679	24%
Percentage of total revenue	34 %	39 %	33 %				
Gross margin	66 %	61 %	67 %				

Total cost of revenue was \$23.7 million, \$29.1 million, and \$23.5 million in fiscal years 2016, 2015 and 2014, respectively. This represented a decrease of 19%, or \$5.5 million, in fiscal year 2016 compared to fiscal year 2015 and an increase of 24%, or \$5.7 million, in fiscal year 2015 compared to fiscal year 2014.

Total cost of revenue as a percentage of total revenue was 34%, 39%, and 33% for fiscal years 2016, 2015 and 2014, respectively.

The decrease in fiscal year 2016 was primarily due to decreases of (i) \$4.4 million in personnel and personnel-related expenses; (ii) international subsidiaries' expenses of approximately \$970,000 related to the strengthening of the U.S. dollar against the Euro, British pound, and Indian rupee; and (iii) \$376,000 in outside consulting expense partially offset by increases of (i) \$240,000 in cloud related expenses such as hosted network and lease cost paid to remote co-location centers and (ii) \$26,000 in intangible amortization of customer relationships related to acquired maintenance contracts.

The increase in fiscal year 2015 was primarily due to increases of (i) \$5.3 million in personnel and personnel-related expenses from the increased headcount due to Exony acquisition and Company-wide compensation increases, (ii) \$539,000 in cloud related expenses such as hosted network and lease cost paid to remote co-location centers, (iii) \$242,000 in intangible amortization of customer relationships related to acquired maintenance contracts; (iv) \$23,000 in outside consulting expense partially offset by a decrease of (i) international subsidiaries' expenses of approximately \$426,000 related to the strengthening of the U.S. dollar against the Euro, British pound, and Indian rupee and (ii) \$43,000 in license related expenses.

Gross margin was 66%, 61% and 67% for fiscal years 2016, 2015 and 2014, respectively.

In order to better understand the changes within our cost of revenue and resulting gross margins, we have provided the following discussion of the individual components of our cost of revenue.

## Cost of Subscription and Support



	Fiscal Year Ended June 30						Year-Over-Year Change	
	2016		2015		2014		2015 to 2016	2014 to 2015
Cost of subscription and support (in thousands)	\$ 12,401		\$ 12,082		\$ 8,518		\$ 319	3%
Percentage of subscription and support revenue	29	%	29	%	21	%	\$ 3,564	42%
Gross margin	71	%	71	%	79	%		

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Cost of subscription and support revenue includes personnel costs for our cloud services and maintenance and support, and to a lesser extent occupancy costs and related overhead. It also includes depreciation of capital equipment used in our hosted network, cost of support for the third-party software, and lease costs paid to remote co-location centers.

Total cost of subscription and support revenue was \$12.4 million, \$12.1 million, and \$8.5 million in fiscal years 2016, 2015 and 2014, respectively. This represented an increase of 3%, or \$319,000, in fiscal year 2016 compared to fiscal year 2015 and an increase of 42%, or \$3.6 million, in fiscal year 2015 compared to fiscal year 2014. Total cost of subscription and support revenue as a percentage of total subscription and support revenue was 29% (a gross margin of 71%) in fiscal years 2016 and 2015 compared to 21% (a gross margin of 79%) in fiscal year 2014.

The increase in cost of subscription and support revenue in fiscal year 2016 was primarily due to increases of (i) \$276,000 in cloud related expenses; (ii) 221,000 in personnel and personnel-related expenses; (iii) \$162,000 in outside consulting services; and (iv) \$26,000 in intangible amortization of customer relationships related to acquired maintenance contracts partially offset by a decrease of international subsidiaries' expenses of approximately \$364,000 from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee.

The increase in cost of subscription and support revenue in fiscal year 2015 was primarily due to increases of (i) \$2.9 million in personnel and personnel-related expenses from the increased headcount due to Exony acquisition and Company-wide compensation increases, (ii) \$539,000 in cloud related expenses, (iii) \$242,000 in intangible amortization of customer relationships related to acquired maintenance contracts, and (iv) \$23,000 in outside consulting services partially offset by a decrease of international subsidiaries' expenses of approximately \$101,000 from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee.

Excluding the impact from any future foreign currency fluctuations, we anticipate cost of subscription and support revenue to decrease in fiscal year 2017 and the gross margin to increase as we continue to streamline our cloud operations.

## Cost of License

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	(in thousands)						
Cost of license	\$ 29	\$ 61	\$ 104	\$ (32)	(52)%	\$ (43)	(41)%
Percentage of license revenue	- %	- %	1 %				
Gross margin	100%	100%	99 %				

Cost of license primarily includes third-party software royalties and delivery costs for shipments to customers. Total cost of license was \$29,000, \$61,000 and \$104,000 in fiscal years 2016, 2015 and 2014, respectively. This represented a decrease of 52%, or \$32,000 in fiscal year 2016 compared to 2015 and a decrease of 41%, or \$43,000, in fiscal year 2015 compared to 2014. Total cost of license as a percentage of total license revenue was approximately 0% (a gross margin of 100%) in fiscal years 2016 and 2015 compared to 1% (a gross margin of 99%) in fiscal years 2014.

The decrease in cost of license in fiscal years 2016 and 2015 was primarily due to decrease in third party royalties expense.

We anticipate cost of license as a percentage of total license revenue to remain relatively constant in future periods.

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## Cost of Professional Services

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	(in thousands)						
Cost of professional services	\$ 11,259	\$ 16,998	\$ 14,840	\$ (5,739)	(34)%	\$ 2,158	15%
Percentage of professional services	93	%	111	%	99	%	
Gross margin	7	%	(11)	%	1	%	

Cost of professional services includes personnel costs for consulting services, and to a lesser extent occupancy costs and related overhead. Total cost of professional services was \$11.3 million, \$17.0 million and \$14.8 million in fiscal years 2016, 2015, and 2014, respectively. This represented a decrease of 34% or \$5.7 million, in fiscal year 2016 compared to fiscal year 2015 and an increase of 15% or \$2.2 million, in fiscal year 2015 compared to fiscal year 2014. Total cost of professional services as a percentage of total professional services revenue was 93% (gross margin of 7%) in fiscal year 2016 compared to 111% (a negative gross margin of 11%) in fiscal year 2015 and 99% (a gross margin of 1%) in fiscal year 2014.

The decrease in cost of professional services in fiscal year 2016 was primarily due to decreases of (i) \$4.6 million in personnel and personnel-related expense from the decreased headcount; (ii) international subsidiaries' expenses of approximately \$606,000 from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee and (ii) \$538,000 in outside consulting expenses. The decrease in personnel costs and improved gross margin was due to the reduction in time required for an average implementation project as a result of improvements to our product development process.

The increase in cost of professional services in fiscal year 2015 was primarily due to an increase of \$2.5 million in personnel and personnel-related expense from the increased headcount and Company-wide compensation increases partially offset by international subsidiaries' expenses of approximately \$324,000 from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee.

Excluding the impact from any future foreign currency fluctuations, we anticipate cost of professional services to decrease or remain relatively constant and gross margin to increase in future periods.

## Research and Development

Fiscal Year Ended June 30

Year-Over-Year Change

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	2016	2015	2014	2015 to 2016	2014 to 2015
	(in thousands)				
Research and development	\$ 16,063	\$ 16,042	\$ 9,963	\$ 21	0 % \$ 6,079
Percentage of total revenue	23 %	21 %	14 %		61 %

Research and development expenses primarily consist of compensation and benefits for our engineering, product management and quality assurance personnel, and, to a lesser extent, occupancy costs and related overhead. Research and development expense was \$16.1 million, \$16.0 million and \$10.0 million in fiscal years 2016, 2015 and 2014, respectively. This represented an increase of \$21,000 in the fiscal year 2016 compared to fiscal year 2015 and an increase of 61% or \$6.1 million, in fiscal year 2015 compared to fiscal year 2014. Total research and development expenses as a percentage of total revenue was 23%, 21% and 14% for fiscal years 2016, 2015 and 2014, respectively.

Research and development expense in fiscal year 2016 was consistent with fiscal year 2015.

The increase in research and development expense in fiscal year 2015 was primarily due to increases of (i) \$4.0 million in personnel and personnel-related expenses from the increased headcount due to Exony acquisition and Company-wide compensation increases, (ii) \$1.6 million in intangible amortization of acquired developed software technology, and (iii) \$525,000 in outside consulting services partially offset by a decrease of international subsidiaries' expenses of approximately \$61,000 from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian.

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Excluding any fluctuation of foreign exchange rates in the Euro, British pound, and Indian rupee against the U.S. dollar, we anticipate research and development expense to remain relatively constant as a percentage of total revenue in fiscal year 2017 based upon our current product development plans.

## Sales and Marketing

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	(in thousands)						
Sales	\$ 24,628	\$ 28,970	\$ 28,607	\$ (4,342)	(15)%	\$ 363	1 %
Marketing	\$ 3,094	\$ 3,733	\$ 4,760	\$ (639)	(17)%	\$ (1,027)	(22)%
Total sales and marketing	\$ 27,722	\$ 32,703	\$ 33,367	\$ (4,981)	(15)%	\$ (664)	(2) %
Percentage of total revenue	40 %	43 %	48 %				

Sales and marketing expenses primarily consist of compensation and benefits for our sales, marketing and business development personnel, lead generation activities, advertising, trade show and other promotional costs and, to a lesser extent, occupancy costs and related overhead. Sales and marketing expense was \$27.7 million, \$32.7 million and \$33.4 million in fiscal years 2016, 2015 and 2014 respectively. This represented a decrease of 15%, or \$5.0 million in fiscal year 2016 compared to fiscal year 2015 and a decrease of 2%, or \$664,000 in fiscal year 2015 compared to fiscal year 2014. Total sales and marketing expenses as a percentage of total revenue was 40%, 43% and 48% in fiscal years 2016, 2015 and 2014, respectively.

Total sales expense was \$24.6 million for fiscal 2016, a decrease of 15% or \$4.3 million, from \$29.0 million for fiscal year 2015. The decrease in fiscal year 2016 was primarily due to decreases of (i) \$3.0 million in personnel and personnel-related expense related to the decreased headcount and (ii) international subsidiaries' expenses of approximately \$1.5 million primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee partially offset by increases of (i) \$129,000 in outside consulting and (ii) \$67,000 in intangible amortization of customer relationships related to acquired software contracts.

Total marketing expense was \$3.1 million for fiscal 2016, a decrease of 17% or \$639,000, from \$3.7 million for fiscal year 2015. The decrease in fiscal year 2016 was primarily due to decreases of (i) \$360,000 in marketing program expenses, (ii) international subsidiaries' expenses of approximately \$184,000 primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; (iii) \$64,000 in outside consulting and (iv) \$32,000 in personnel and personnel-related expense.

Total sales expense was \$29.0 million for fiscal 2015, an increase of 1% or \$363,000, from \$28.6 million for fiscal year 2014. The increase in fiscal year 2015 was primarily due to increases of (i) \$919,000 in personnel and personnel-related expense related to the increased headcount and compensation increase in our worldwide sales force, (ii) \$623,000 in intangible amortization of customer relationships related to acquired software contracts; and

(iii) \$148,000 in third party partner fees partially offset by decreases of (i) international subsidiaries' expenses of approximately \$1.1 million primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and (iv) \$234,000 in outside consulting services.

Total marketing expense was \$3.7 million for fiscal 2015, a decrease of 22% or \$1.0 million, from \$4.8 million for fiscal year 2014. The decrease in fiscal year 2015 was primarily due to decreases of (i) \$360,000 in marketing program expenses, (ii) \$507,000 in personnel and personnel-related expenses, (iii) \$80,000 in outside consulting expenses, and (iv) international subsidiaries' expenses of approximately \$79,000 primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee.

Excluding any fluctuation of foreign exchange rates in the Euro, British pound, and Indian rupee against the U.S. dollar, we anticipate sales and marketing expense to decrease as a percentage of total revenue in fiscal year 2017.

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## General and Administrative

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	(in thousands)						
General and administrative	\$ 7,774	\$ 9,313	\$ 7,529	\$ (1,539)	(17)%	\$ 1,784	24%
Percentage of total revenue	11 %	12 %	11 %				

General and administrative expenses primarily consist of compensation and benefits for our finance, human resources, administrative and legal services personnel, fees for outside professional services, provision for doubtful accounts and, to a lesser extent, occupancy costs and related overhead. General and administrative expense was \$7.8 million, \$9.3 million and \$7.5 million in the fiscal years 2016, 2015 and 2014, respectively. This represented a decrease of 17% or \$1.5 million in fiscal year 2016 compared to fiscal 2015 and an increase of 24% or \$1.8 million in fiscal year 2015 compared to fiscal year 2014. Total general and administrative expenses as a percentage of total revenue was 11%, 12% and 11% in fiscal years 2016, 2015 and 2014, respectively.

The decrease in fiscal year 2016 was primarily due to decreases of (i) \$888,000 in personnel and personnel-related expense from the decreased headcount; (ii) \$798,000 in one-time acquisition transaction costs; (iii) international subsidiaries' expenses of approximately \$215,000 primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; and (iv) \$33,000 from outside consulting services, including accounting and audit services partially offset by increases of (i) \$336,000 in legal expenses as a result of a June 30, 2015 accrual reversal and (ii) \$52,000 in bad debt expense.

The increase in fiscal year 2015 was primarily due to increases of (i) \$1.8 million in personnel and personnel-related expense from the increased headcount and Company-wide compensation increases, (ii) \$844,000 in one-time acquisition transaction costs, (iii) \$202,000 from outside consulting services, including accounting and audit services, and (iv) \$68,000 in intangible amortization of trade name partially offset by decreases of (i) \$1.0 million in legal fees; (ii) international subsidiaries' expenses of approximately \$109,000 primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee, and (iii) \$60,000 in bad debt expense.

We anticipate general and administrative expenses to decrease as a percentage of total revenue in fiscal year 2017 based upon current revenue expectations excluding the fluctuation of foreign exchange rates in the Euro, British pound, and Indian rupee against the U.S. dollar.

## Amortization of Stock-Based Compensation



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	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016		2014 to 2015	
	(in thousands)						
Cost of revenue	\$ 249	\$ 476	\$ 280	\$ (227)	(48)%	\$ 196	70%
Research and development	472	736	386	(264)	(36)%	350	91%
Sales and marketing	169	574	464	(405)	(71)%	110	24%
General and administrative	298	531	397	(233)	(44)%	134	34%
Total stock-based compensation	\$ 1,188	\$ 2,317	\$ 1,527	\$ (1,129)	(49)%	\$ 790	52%
Percentage of total revenue	2 %	3 %	2 %				

Stock-based compensation expenses include the amortization of the fair value of share-based payments made to employees, members of our board of directors and consultants, primarily in the form of stock options. The fair value of stock options granted is recognized as an expense, as the underlying stock options vest. The decrease of our stock-based compensation expense in fiscal 2016 was primarily due to the decrease in Company-wide headcount as well as decrease in option grant activity. The increase of our stock-based compensation expense in fiscal 2015 was primarily due to the increased Company-wide headcount and increase in option grant activity, particularly to key employees of the Company and its subsidiaries granted in the first quarter of the fiscal year.

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We value our share-based payments under ASC 718, and record compensation expense for all share-based payments made to employees based on the fair value at the date of the grant.

We expect our stock-based compensation expense to remain relatively constant in fiscal year 2017 based on our anticipated hiring and also, if the stock price increases.

## Loss from Operations

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2016	2015	2014	2015 to 2016	2014 to 2015		
	(in thousands)						
Operating loss	\$ (5,873)	\$ (11,286)	\$ (4,059)	\$ 5,413	(48)%	\$ (7,227)	178%
Operating margin	(8)	% (15)	% (6)	%			

Loss from operations was \$5.9 million in fiscal year 2016 compared to loss from operations of \$11.3 million in fiscal year 2015 and loss from operations of \$4.1 million in fiscal year 2014. We recorded a negative operating margin of 8%, 15% and 6% in fiscal years 2016, 2015 and 2014, respectively.

The decrease in operating loss in fiscal year 2016 was due to a decrease in total costs of revenue and operating expenses of \$12.0 million and decrease in revenue of \$6.5 million. The decrease in revenue was primarily due to a decrease in new license transactions and professional services revenue. The impact of any fluctuation of foreign currencies against the U.S. dollar on revenue was a decrease of \$2.1 million. The decrease in total costs and operating expenses was primarily due to decreases of (i) \$7.8 million in in personnel-related costs; (ii) \$3.3 million in international expenses from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; (iii) \$798,000 in one-time acquisition transaction costs; (iv) \$551,000 in outside consulting services which includes accounting, audit and investor relations fees and (v) \$360,000 in marketing program expenses partially offset by increases of (i) \$321,000 in legal expenses as a result of a June 30, 2015 accrual reversal; (ii) \$270,000 in intangible amortization from acquisition; (iii) \$245,000 cloud related expenses and (iv) \$45,000 in bad debt expense.

The increase in operating loss in fiscal year 2015 was due to an increase in total costs of revenue and operating expenses of \$12.9 million and increase in revenue of \$5.7 million. The increase in revenue was primarily due to an increase in new license transactions and maintenance and support renewals. The impact of any fluctuation of foreign currencies against the U.S. dollar on revenue was a decrease of \$1.3 million. The increase in total costs and operating expenses was primarily due to increases of (i) \$11.7 million in personnel-related costs including an increase of \$133,000 in sales commission, (ii) \$2.5 million in intangible amortization from acquisition, (iii) \$844,000 in one-time acquisition transaction costs, (iv) \$443,000 in cloud related expenses, (v) \$411,000 in outside consulting services, and (vi) \$148,000 in third party partner fees partially offset by decreases of (i) \$1.8 million in international expenses from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee, (ii) \$1.0 million in legal fees, (iii) \$360,000 in marketing programs expenses, and (iv) \$43,000 in license related expenses.

Interest Expense, Net

Net interest expense was \$2.0 million, \$834,000 and \$181,000 in fiscal years 2016, 2015 and 2014, respectively. This represents an increase of 135% or \$1.1 million in fiscal year 2016, compared to fiscal year 2015 and an increase of 361% or \$653,000 in fiscal year 2015, compared to fiscal year 2014. Interest income was not significant in any year.

The increase in interest expense in fiscal year 2016 and 2015 was primarily due interest incurred on bank borrowing and capital leasing agreements.

Other Income (Expense), Net

Other income was \$728,000 in fiscal year 2016, compared to other income of \$11,000 in fiscal year 2015 and other expense of \$415,000 in fiscal year 2014. Other expense and income in fiscal year 2015 was primarily due to (i) \$359,000 reclassification of the accumulated translation expense recorded when liquidating our Inference, SiteBridge and Australia

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subsidiaries, and (ii) \$190,000 in foreign exchange loss and gain on international trade receivables due to the weakening of the British pound and Euro against the dollar in which certain sales were denominated. Other expense and income in fiscal years 2016 and 2014 primarily included the foreign exchange loss and gain on international trade receivables.

### Income Tax Benefit (Provision)

Income tax benefit was \$863,000 in fiscal year 2016 and income tax provision of \$320,000 and \$591,000 in fiscal years 2015 and 2014, respectively. The tax benefit primarily relates to the release of valuation allowance against deferred tax assets in the United Kingdom and reversal of the intangible amortization generated and benefited by Exony Limited (“Exony”) which was acquired in fiscal year 2015, partially offset by the income tax provision for foreign subsidiaries.

### New Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data of this Annual Report.

### Liquidity and Capital Resources

#### Overview

As of June 30, 2016 and 2015, our cash and cash equivalents was \$11.8 million and \$9.3 million, respectively. Our working capital was a negative \$886,000 as of June 30, 2016, compared to a negative working capital of \$2.0 million as of June 30, 2015. As of June 30, 2016, our deferred revenue was \$15.7 million, compared to \$15.8 million as of June 30, 2015. Unbilled deferred revenue, representing business that is contracted but not yet invoiced or collected and off balance sheet, was \$31.1 million as of June 30, 2016, up from \$26.5 million as of June 30, 2015.

As of June 30, 2016 and 2015, our restricted cash was \$5,000 and \$676,000, respectively. The decrease was primarily attributed to cash earmarked for the payment of Exony’s management incentive bonus which was paid in August 2015, the first anniversary of the Exony acquisition close date.

On November 21, 2014, we entered into a new \$20 million credit facility with Wells Fargo Bank to be used for working capital and support our strategic growth plans. The new facility, which includes a \$10 million, five-year term loan and a \$10 million revolver, replaces our prior credit facility with Comerica Bank. For the term loan, we must make quarterly installments of principal at varying amounts, plus all accrued interest, at specified dates through the maturity date of November 21, 2019, at which time remaining amounts shall be immediately due and payable.

On September 1, 2015, we amended the credit facility with Wells Fargo to increase the revolver from \$10 million to \$15 million and increased the quarterly installments of principal at varying amounts, plus all accrued interest, at specified dates through the maturity date which remained unchanged at November 21, 2019.

Based upon our fiscal year 2017 plan, we believe that existing capital resources will enable us to maintain current and planned operations for at least the next 12 months. From time to time, however, we may consider opportunities for raising additional capital and/or exchanging all or a portion of our existing debt for equity. We can make no assurances that such opportunities will be available to us on economic terms we consider favorable, if at all.

If adequate funds are not available on acceptable terms, our ability to achieve or sustain positive cash flows, maintain current operations, fund any potential expansion, take advantage of unanticipated opportunities, develop or enhance products or services, or otherwise respond to competitive pressures would be significantly limited. Our expectations as to our future cash flows and our future cash balances are subject to a number of assumptions, including assumptions regarding anticipated increases in our revenue, the mix of new cloud and license business, our ability to retain existing customers and customer purchasing and payment patterns, many of which are beyond our control.

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## Cash Flows

Net cash provided by operating activities was \$1.9 million in fiscal year 2016 compared to net cash used in operating activities of \$10.5 million in fiscal year 2015 and net cash used in operating activities of \$4.7 million in fiscal year 2014. The decrease in cash used was primarily due to a net loss of \$6.2 million for the fiscal year 2016 compared to a net loss of \$12.4 million in the comparable year-ago period after adjusting for depreciation, amortization of deferred commissions, deferred financing costs, and intangible assets, stock-based compensation, and changes in working capital accounts. Decreases in accrued compensation related to the settlement of Exony working capital and management incentive commitments, deferred revenue and accounts receivable decreased due to the timing of prepayments received for cloud customer renewals and improved cash collections led to the improvement in cash used in operations, as well. The increase in accrued liabilities was primarily due to the increase in customer advances.

Net cash used in operating activities was \$10.5 million in fiscal year 2015 compared to net cash used in operating activities of \$4.7 million in fiscal year 2014. In fiscal year 2015, net cash used by operating activities increased \$5.8 million over fiscal year 2014 primarily due to lower net income after adjusting for depreciation and amortization, amortization of deferred commissions, stock-based compensation, and changes in working capital accounts specifically, the addition of acquired intangible amortization of \$2.5 million and increases in deferred revenue due to the addition of acquired customer balances from our Exony acquisition, accounts receivable due to timing of prepayments received for cloud customer renewals, accrued liabilities due to the addition of working capital and other consideration accrued as part of the Exony acquisition and accrued compensation due to acquired liabilities from our Exony acquisition.

Net cash used in operating activities was \$4.7 million in fiscal year 2014 compared to net cash provided by operating activities of \$10.0 million in fiscal year 2013. In fiscal year 2014, net cash used by operating activities increased \$14.7 million over fiscal year 2013 primarily due to lower net income after adjusting for depreciation and amortization, amortization of deferred commissions, stock-based compensation, and changes in working capital accounts specifically, decreases in deferred revenue and accounts receivables due to timing of prepayments received for cloud customer renewals and prepaid and other current assets due to receipt of pending insurance recovery from our insurance carrier.

Net cash provided by investing activities was \$74,000 compared to net cash used in investing activities of \$3.4 million in fiscal year 2015 and net cash used in investing activities of \$1.8 million in fiscal year 2014. Net cash provided by investing activities primarily related to a decrease of \$621,000 in restricted cash partially offset by \$547,000 of equipment and software purchases. Net cash used in investing activities in fiscal year 2015 primarily related to (i) \$1.9 million of cash paid for the acquisition of Exony, net of cash acquired and an increase in restricted cash of \$779,000 related to escrow funds reserved for the payment of Exony management incentive bonuses and (ii) \$741,000 of equipment and software purchases. Net cash used in investing activities in fiscal year 2014 primarily related to purchases of equipment and software of \$1.8 million to support the increase in investment for cloud infrastructure and equipment for new employees.

Net cash provided by financing activities was \$1.7 million in fiscal year 2016 compared to net cash provided by financing activities of \$13.6 million in fiscal year 2015 and net cash used in financing activities of \$1.1 million in fiscal year 2014. Net cash provided by financing activities in in fiscal year 2016 primarily related to (i) \$11.8 million in bank borrowings from our bank facility to fund operations and (ii) \$172,000 from the exercise of stock options partially offset by (i) \$9.5 million repayment of existing bank borrowings; (ii) \$498,000 payments on capital lease obligations and (iii) \$270,000 payments for debt issue costs. Net cash provided by financing activities in fiscal year 2015 primarily related to (i) \$26.5 million in borrowings from our bank facilities used to finance the majority of the acquisition of Exony on August 6, 2014 and to support our strategic growth plans and (ii) \$339,000 from the exercise of stock options partially offset by (i) the repayment of \$12.2 million of existing bank borrowings, (ii) \$550,000

payments made for debt issue costs, and (iii) \$434,000 principal payments on capital lease obligations. Net cash used in financing activities in fiscal year 2014 primarily included the repayment of \$2.9 million of related party notes, payments of \$2.7 million on existing bank borrowings, and payments of \$144,000 on capital lease obligations partially offset by proceeds from new bank borrowings of \$3.0 million, proceeds from exercise of stock options of \$578,000 and a \$1.0 million decrease in restricted cash.

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## Commitments

The following table summarizes our contractual obligations as of June 30, 2016 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Payments Due by Period				
	Total	1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
Operating leases	\$ 8,767	\$ 1,688	\$ 3,331	\$ 2,816	\$ 932
Capital leases	521	358	163	—	—
Bank borrowings	21,577	1,000	2,000	18,577	—
Cloud services	312	312	—	—	—
Contractual commitments	1,540	976	564	—	—
Total	\$ 32,717	\$ 4,334	\$ 6,058	\$ 21,393	\$ 932

## Off-Balance Sheet Arrangements

As of June 30, 2016, we had no significant off-balance-sheet arrangements, as defined in Item 303(a)(4) of Regulation S-K.

## Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statement of operations data for the eight quarters ended June 30, 2016. This data has been derived from unaudited consolidated financial statements that, in the opinion of management, include all adjustments consisting only of normal recurring adjustments, necessary for a fair presentation of such information when read in conjunction with the Consolidated Financial Statements and Notes thereto.

The unaudited quarterly information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K. We believe that period-to-period comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014
(in thousands, except per share information)							

Consolidated  
Statements of  
Operations  
Data:  
Revenue:



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Subscription and support	\$ 10,828	\$ 10,330	\$ 10,783	\$ 10,842	\$ 10,070	\$ 10,840	\$ 10,956	\$ 10,445
License	3,807	3,169	5,064	2,426	2,784	5,230	3,583	6,728
Professional services	2,987	2,792	3,139	3,208	4,220	3,162	4,364	3,531
Total revenue	17,622	16,291	18,986	16,476	17,074	19,232	18,903	20,704
Cost of subscription and support	3,065	3,141	3,116	3,079	2,918	3,021	3,264	2,879
Cost of license	5	8	9	7	3	4	26	28
Cost of professional services	2,450	2,572	2,851	3,386	3,442	4,525	4,951	4,080
Total cost of revenue	5,520	5,721	5,976	6,472	6,363	7,550	8,241	6,987
Gross profit	12,102	10,570	13,010	10,004	10,711	11,682	10,662	13,717
Operating Expenses:								
Research and development	3,939	4,208	4,016	3,900	3,999	4,142	4,160	3,741
Sales and marketing	6,311	7,126	7,617	6,668	6,716	7,883	9,599	8,505
General and administrative	1,743	1,892	1,893	2,246	1,986	1,812	2,573	2,942
Total operating expenses	11,993	13,226	13,526	12,814	12,701	13,837	16,332	15,188
Income (loss) from operations	109	(2,656)	(516)	(2,810)	(1,990)	(2,155)	(5,670)	(1,471)
Interest expense, net	(437)	(512)	(676)	(333)	(256)	(310)	(145)	(123)
Other income (expense), net	217	345	(74)	240	(157)	15	163	(10)
Loss before income tax benefit (provision)	(111)	(2,823)	(1,266)	(2,903)	(2,403)	(2,450)	(5,652)	(1,604)
Income tax benefit (provision)	1,488	(178)	(113)	(334)	(530)	51	191	(32)
Net Income (loss)	\$ 1,377	\$ (3,001)	\$ (1,379)	\$ (3,237)	\$ (2,933)	\$ (2,399)	\$ (5,461)	\$ (1,636)
Per share information:								
Basic net income (loss) per common share	\$ 0.05	\$ (0.11)	\$ (0.05)	\$ (0.12)	\$ (0.11)	\$ (0.09)	\$ (0.20)	\$ (0.06)
Weighted average shares	27,096	27,070	27,036	27,022	26,890	26,709	26,657	26,187

used in  
computing  
basic net  
income (loss)  
per common  
share

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Diluted net income (loss) per common share	\$ 0.05	\$ (0.11)	\$ (0.05)	\$ (0.12)	\$ (0.11)	\$ (0.09)	\$ (0.20)	\$ (0.06)
Weighted average shares used in computing diluted net income (loss) per common share	27,607	27,070	27,036	27,022	26,890	26,709	26,657	26,187

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Foreign Currency Exchange Risk

We develop products in the United States and India and sell these products in the United States and internationally. Generally, international sales are made in local currency. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Identifiable assets denominated in foreign currency as of June 30, 2016 totaled approximately \$11.0 million a 10% increase in the value of the dollar relative to other currencies would decrease the value of these assets by \$1.10 million. We do not currently use derivative instruments to hedge against foreign exchange risk. As such we are exposed to market risk from fluctuations in foreign currency exchange rates, principally from the exchange rate between the U.S. dollar and the Euro and the British pound and the Indian rupee. An unfavorable change in the foreign currency exchange rates may cause an adverse effect on our financial position or results of operations.

## Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to interest earned on our cash and cash equivalents. The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. Our investment policy provides for investments in short term, low risk, investment grade debt instruments. These investments are subject to interest rate risk and will decrease in value if market interest rates increase.

Our cash and cash equivalents, totaling \$11.8 million at June 30, 2016, did not include any auction preferred stock, auction rate securities or mortgage backed investments. We currently do not hedge interest rate exposure, and we do not have any foreign currency or other derivative financial instruments. To date, we have not experienced a loss of principal on any of our investments. Although we currently expect that our ability to access or liquidate these investments as needed to support our business activities will continue, we cannot ensure that this will not change. We believe that, if market interest rates were to change immediately and uniformly by 10% from levels at June 30, 2016, the impact on the fair value of these securities or our cash flows or income would not be material.

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ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

eGain Corporation

Consolidated Financial Statements

As of June 30, 2016 and 2015 and for the years ended June 30, 2016, 2015, and 2014

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eGain Corporation

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REPORT ON INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

eGain Corporation

Sunnyvale, California

We have audited the accompanying consolidated balance sheets of eGain Corporation and its subsidiaries (the “Company”) as of June 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders’ equity (deficit), and cash flows for each of the three years in the period ended June 30, 2016. Our audits also included the financial statement schedule listed in the index to this Annual Report on Form 10-K at Part IV Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of eGain Corporation and its subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 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 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control — Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated September 13, 2016 expressed an unqualified opinion thereon.

/s/ Burr Pilger Mayer, Inc.

San Francisco, California

September 13, 2016

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## eGAIN CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	June 30, 2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,780	\$ 8,633
Restricted cash	5	676
Accounts receivable, less allowance for doubtful accounts of \$756 and \$768 at June 30, 2016 and 2015, respectively	11,876	13,118
Deferred commissions	787	633
Prepaid expenses	1,480	906
Other current assets	426	719
Total current assets	26,354	24,685
Property and equipment, net	1,688	3,136
Deferred commissions, net of current portion	325	297
Intangible assets, net	4,839	7,620
Goodwill	13,186	13,186
Other assets	1,671	807
Total assets	\$ 48,063	\$ 49,731
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 2,099	\$ 1,779
Accrued compensation	5,642	6,910
Accrued liabilities	5,670	2,664
Deferred revenue	12,672	14,395
Capital lease obligation	329	471
Bank borrowings	828	505
Total current liabilities	27,240	26,724
Deferred revenue, net of current portion	3,045	1,417
Capital lease obligation, net of current portion	153	295
Bank borrowings, net of current portion	20,223	18,259
Other long term liabilities	1,679	1,937
Total liabilities	52,340	48,632
Commitments and contingencies (Notes 7 and 8)		
Stockholders' equity (deficit):		
Common stock, \$0.001 par value - authorized: 50,000 shares; outstanding: 27,108 and 27,022 shares at June 30, 2016 and 2015, respectively	27	27
Additional paid-in capital	342,689	341,329

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Notes receivable from stockholders	(81)	(78)
Accumulated other comprehensive loss	(1,663)	(1,170)
Accumulated deficit	(345,249)	(339,009)
Total stockholders' equity (deficit)	(4,277)	1,099
Total liabilities and stockholders' equity (deficit)	\$ 48,063	\$ 49,731

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

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## eGAIN CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information)

	Years Ended June 30,		
	2016	2015	2014
Revenue:			
Subscription and support	\$ 42,783	\$ 42,311	\$ 40,477
License	14,466	18,325	14,800
Professional services	12,126	15,277	14,985
Total revenue	69,375	75,913	70,262
Cost of subscription and support	12,401	12,082	8,518
Cost of license	29	61	104
Cost of professional services	11,259	16,998	14,840
Total cost of revenue	23,689	29,141	23,462
Gross profit	45,686	46,772	46,800
Operating expenses:			
Research and development	16,063	16,042	9,963
Sales and marketing	27,722	32,703	33,367
General and administrative	7,774	9,313	7,529
Total operating expenses	51,559	58,058	50,859
Loss from operations	(5,873)	(11,286)	(4,059)
Interest expense, net	(1,958)	(834)	(181)
Other income (expense), net	728	11	(415)
Loss before income tax benefit (provision)	(7,103)	(12,109)	(4,655)
Income tax benefit (provision)	863	(320)	(591)
Net loss	\$ (6,240)	\$ (12,429)	\$ (5,246)
Per share information:			
Basic and diluted net loss per common share	\$ (0.23)	\$ (0.47)	\$ (0.21)
Weighted average shares used in computing basic and diluted net loss per common share	27,056	26,609	25,353
Below is a summary of stock-based compensation included in the costs and expenses above:			
Cost of revenue	\$ 249	\$ 476	\$ 280
Research and development	\$ 472	\$ 736	\$ 386
Sales and marketing	\$ 169	\$ 574	\$ 464
General and administrative	\$ 298	\$ 531	\$ 397

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



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## eGAIN CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Years Ended June 30,		
	2016	2015	2014
Net loss	\$ (6,240)	\$ (12,429)	\$ (5,246)
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustments	(493)	159	198
Cumulative translation adjustments from liquidation of inactive subsidiaries	—	(359)	—
Other comprehensive loss, net of taxes:	(493)	(200)	198
Total comprehensive loss	\$ (6,733)	\$ (12,629)	\$ (5,048)

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

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## eGAIN CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands)

	Common Stock		Additional Paid-in Capital	Notes Receivable From Stockholders	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount					
BALANCES AT JUNE 30, 2013	25,106	25	328,552	(87)	(1,168)	(321,334)	5,988
Repayment on stockholder notes	—	—	—	6	—	—	6
Interest on stockholder notes	—	—	—	(2)	—	—	(2)
Exercise of stock options	365	—	578	—	—	—	578
Stock-based compensation	—	—	1,527	—	—	—	1,527
Net income	—	—	—	—	—	(5,246)	(5,246)
Foreign currency translation adjustments	—	—	—	—	198	—	198
BALANCES AT JUNE 30, 2014	25,471	25	330,657	(83)	(970)	(326,580)	3,049
Repayment on stockholder notes	—	—	—	8	—	—	8
Interest on stockholder notes	—	—	—	(3)	—	—	(3)
Exercise of stock options	341	1	338	—	—	—	339
Stock-based compensation	—	—	2,317	—	—	—	2,317
Share issuance related to business combination	1,210	1	8,017	—	—	—	8,018
Net loss	—	—	—	—	—	(12,429)	(12,429)
Foreign currency translation adjustments	—	—	—	—	159	—	159
Cumulative translation	—	—	—	—	(359)	—	(359)

adjustment from liquidation of inactive subsidiaries							
BALANCES AT JUNE 30, 2015	27,022	27	341,329	(78)	(1,170)	(339,009)	1,099
Interest on stockholder notes	—	—	—	(3)	—	—	(3)
Exercise of stock options	86	—	172	—	—	—	172
Stock-based compensation	—	—	1,188	—	—	—	1,188
Net loss	—	—	—	—	—	(6,240)	(6,240)
Foreign currency translation adjustments	—	—	—	—	(493)	—	(493)
BALANCES AT JUNE 30, 2016	27,108	\$ 27	\$ 342,689	\$ (81)	\$ (1,663)	\$ (345,249)	\$ (4,277)

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

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## eGAIN CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended June 30,		
	2016	2015	2014
Cash flows from operating activities:			
Net loss	\$ (6,240)	\$ (12,429)	\$ (5,246)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,057	2,503	2,108
Deferred income taxes	(1,406)	(268)	(36)
Loss on disposal of property and equipment	47	—	—
Amortization of deferred financing costs	231	79	—
Amortization of acquired intangibles	2,781	2,510	—
Stock-based compensation	1,188	2,317	1,527
Provision for doubtful accounts	264	194	258
Amortization of deferred commissions	728	1,006	1,926
Accrued interest on related party notes payable	—	—	19
Changes in operating assets and liabilities			
Accounts receivable, net	(272)	(116)	1,542
Deferred commissions	(1,049)	(794)	(568)
Prepaid expenses	(586)	(515)	(48)
Other current assets	248	448	1,217
Other non-current assets	48	44	(51)
Accounts payable	429	(1,093)	(514)
Accrued compensation	(864)	(1,454)	922
Accrued liabilities	3,208	(1,113)	(798)
Deferred revenue	825	(1,566)	(6,558)
Other long term liabilities	230	(256)	(357)
Net cash provided by (used in) operating activities	1,867	(10,503)	(4,659)
Cash flows from investing activities:			
Acquisitions, net of cash acquired	—	(1,905)	—
Purchases of property and equipment	(547)	(741)	(1,772)
Decrease (increase) in restricted cash	621	(779)	(1)
Net cash provided by (used in) investing activities	74	(3,425)	(1,773)
Cash flows from financing activities:			
Payments on related party notes payable	—	—	(2,916)
Payments on bank borrowings	(9,510)	(12,200)	(2,667)
Decrease in restricted cash	—	—	1,000
Payments on capital lease obligation	(498)	(434)	(144)
Proceeds from bank borrowings	11,837	26,450	3,000
Payments made for debt issue costs	(270)	(550)	—
Proceeds from exercise of stock options	172	339	578

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Repayments on related party notes receivable	—	8	6
Net cash provided by (used in) financing activities	1,731	13,613	(1,143)
Effect of exchange rate differences on cash and cash equivalents	(525)	163	154
Net increase (decrease) in cash and cash equivalents	3,147	(152)	(7,421)
Cash and cash equivalents at beginning of year	8,633	8,785	16,206
Cash and cash equivalents at end of year	\$ 11,780	\$ 8,633	\$ 8,785
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 1,748	\$ 362	\$ 216
Cash paid for income taxes	\$ 282	\$ 412	\$ 480

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Non-cash items:

Purchases of equipment through trade accounts payable	\$ 11	\$ 40	\$ 22
Property and equipment acquired under a capital lease	\$ 250	\$ 208	\$ 1,148
Issuance of common stock in connection with business acquisition	\$ —	\$ 8,018	\$ —

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



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eGAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

eGain Corporation (“eGain”, the “Company”, “our”, “we” or “us”) is a leading provider of cloud-based and on-site customer engagement software solutions. For almost two decades, our solutions have helped improve customer experience, grow sales, and optimize service processes across the web, social, and phone channels. Hundreds of global enterprises rely on us to transform fragmented sales engagement and customer service operations into unified customer engagement hubs. We have operations in the United States, United Kingdom, Germany, France, South Africa, and India.

Principles of Consolidation

The consolidated financial statements include the accounts of eGain and our wholly-owned subsidiaries, eGain Communications Ltd., Exony Limited (“Exony”), eGain Communications Pvt. Ltd., eGain Communications (SA), eGain France S.A.R.L and eGain Deutschland GmbH. All significant intercompany balances and transactions have been eliminated.

In fiscal year 2016, we closed our Italy (eGain Communications SrL), Netherlands (eGain Communications B.V. and Ireland (eGain Communications Ltd.) offices.

In fiscal year 2015, we liquidated our Inference, SiteBridge and Australia (eGain Communications Pty Ltd) subsidiaries and recorded a reclassification adjustment from accumulated other comprehensive loss on the consolidated balance sheets to other expense on the consolidated statements of operations.

Reclassification

Certain reclassifications have been made to the consolidated statement of cash flows for the fiscal years ended June 30, 2015 and 2014 to conform to the presentation of the fiscal year ended June 30, 2016.

Business Combinations

Business combinations are accounted for at fair value under the purchase method of accounting. Acquisition costs are expensed as incurred and recorded in general and administrative expenses and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date affect income tax expense. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business, and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management’s estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the condensed consolidated financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The estimates are based upon information available as of the date of the financial statements. Actual results could differ from those estimates.

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We evaluate our significant estimates, including those related to revenue recognition, provision for doubtful accounts, valuation of stock-based compensation, valuation of long-lived assets, valuation of deferred tax assets, and litigation, among others. 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 values of assets and liabilities that are not readily apparent from other sources. We refer to accounting estimates of this type as “critical accounting estimates.”

### Foreign Currency

The functional currency of each of our international subsidiaries is the local currency of the country in which it operates. Assets and liabilities of our foreign subsidiaries are translated at month-end exchange rates, and revenue and expenses are translated at the average monthly exchange rates. The resulting cumulative translation adjustments are recorded as a component of accumulated other comprehensive loss. Foreign currency transaction gains and losses are included in “other income (expense), net” in the consolidated statements of operations, and resulted in a gain of \$697,000, a loss of \$400,000, and a loss of \$405,000 in fiscal years 2016, 2015 and 2014, respectively.

### Cash and Cash Equivalents, Restricted Cash and Investments

We consider all highly liquid investments with an original purchase to maturity date of three months or less to be cash equivalents. Time deposits held for investments that are not debt securities are included in short-term investments in the consolidated balance sheets. Investments in time deposits with original maturities of more than three months but remaining maturities of less than one year are considered short-term investments. Investments held with the intent to reinvest or hold for longer than a year, or with remaining maturities of one year or more, are considered long-term investments. As of June 30, 2016 and 2015 we did not have any short-term or long-term investments.

Cash earmarked for a specific purpose and therefore not available for immediate and general use by the Company is considered restricted cash. Expected usage of restricted cash within one year is classified as a current asset; expected usage more than a year is considered a non-current asset. As of June 30, 2016, our restricted cash was nominal and as of June 30, 2015, restricted cash consisted primarily of cash earmarked for the payment of Exony’s management incentive bonus which was paid in August 2015, the first anniversary of the Exony acquisition close date.

### Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities. We do not have any derivative financial instruments. We believe the reported carrying amounts of these financial instruments approximate fair value, based upon their short-term nature and comparable market information available at the respective balance sheet dates. The carrying value of our bank borrowings and capital lease obligations approximates fair value based on the borrowing rates currently available to us for loans and capital leases with similar terms.

### Concentration of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents and investments are deposited with high credit quality institutions. We are exposed to credit risk in the event of default by these institutions to the extent of the amount recorded on the balance sheet. We invest excess cash primarily in money market funds, which are highly liquid securities that bear minimal risk. In addition, we have investment policies and procedures that are reviewed periodically to minimize credit risk. Our cash, cash equivalents and restricted cash were \$11.8 million as of June 30, 2016 which exceeded the FDIC (Federal Deposit Insurance Corporation) limit.

Our customer base extends across many different industries and geographic regions. Revenue is allocated to individual countries and geographic region by customer, based on where the product is shipped to and location of services performed. There were two customers that accounted for 10% and 14%, respectively, of total revenue in fiscal years 2016. One customer accounted for 10% of total revenue in fiscal year 2015. Two customers accounted for 16% and 10% of total revenue in fiscal year 2014.

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We perform ongoing credit evaluations of our customers with outstanding receivables and generally do not require collateral. In addition, we established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. There were two customers that accounted for approximately 23% and 14% of accounts receivable at June 30, 2016. Two customers accounted for approximately 16% and 12%, respectively, of accounts receivable at June 30, 2015. Two customers accounted for approximately 28% and 14% of accounts receivable at June 30, 2014.

### Accounts Receivable and Allowance for Doubtful Accounts

We extend unsecured credit to our customers on a regular basis. Our accounts receivable are derived from revenue earned from customers and are not interest bearing. We also maintain an allowance for doubtful accounts to reserve for potential uncollectible trade receivables. We review our trade receivables by aging category to identify specific customers with known disputes or collectibility issues. We exercise judgment when determining the adequacy of these reserves as we evaluate historical bad debt trends, general economic conditions in the U.S. and internationally, and changes in customer financial conditions. If we made different judgments or utilized different estimates, material differences may result in additional reserves for trade receivables, which would be reflected by charges in general and administrative expenses for any period presented. We write off a receivable after all collection efforts have been exhausted and the amount is deemed uncollectible.

### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life of the respective assets, which typically is between three to five years. Leasehold improvements and leased equipment are depreciated on straight-line basis over the shorter of the lease term or useful life of the asset, which is typically three to five years.

### Goodwill and Other Intangible Assets

We review goodwill annually for impairment or sooner whenever events or changes in circumstances indicate that it may be impaired. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. In addition, we evaluate purchased intangible assets to determine that all such assets have determinable lives. We operate under a single reporting unit and accordingly, all of our goodwill is associated with the entire company. We performed annual impairment reviews in June for fiscal years 2016, 2015 and 2014 and found no impairment.

### Impairment of Long-Lived Assets

We review long-lived assets for impairment, including property and equipment, whenever events or changes in business circumstances indicate that the carrying amounts of the assets may not be fully recoverable. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is assessed using discounted cash flows. During fiscal years 2016, 2015, and 2014, we did not have any such losses.

### Revenue Recognition

We enter into arrangements to deliver multiple products or services (multiple-elements). We apply software revenue recognition rules and multiple-elements arrangement revenue guidance. Significant management judgments and estimates are made and used to determine the revenue recognized in any accounting period. Material differences may result in changes to the amount and timing of our revenue for any period if different conditions were to prevail. We

present revenue, net of taxes collected from customers and remitted to governmental authorities.

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We derive revenue from three sources:

- i. Subscription and support fees primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term license revenue, and maintenance and support revenue;
- ii. License fees primarily consist of perpetual software license revenue;
- iii. Professional services primarily consist of consulting, implementation services and training.

Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use signed statement of work as evidence of arrangement for professional services.
- Delivery or performance has occurred: Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with login credentials.
- Fees are fixed or determinable: We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are generally not considered to be fixed or determinable.
- Collectibility is probable: We assess collectibility based on a number of factors, including the customer's past payment history and its current creditworthiness. Payment terms generally range from 30 to 90 days from invoice date. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment.

We apply the provisions of Accounting Standards Codification, or ASC, 985-605, Software Revenue Recognition, to all transactions involving the licensing of software products. In the event of a multiple element arrangement for a license transaction, we evaluate the transaction as if each element represents a separate unit of accounting taking into account all factors following the accounting standards. We apply ASC 605, Revenue Recognition, for cloud transactions to determine the accounting treatment for multiple elements. We also apply ASC 605-35 for fixed fee arrangements in which we use the percentage of completion method to recognize revenue when reliable estimates are available for the costs and efforts necessary to complete the implementation services. When such estimates are not available, the completed contract method is utilized. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete.

When licenses are sold together with system implementation and consulting services, license fees are recognized upon shipment, provided that (i) payment of the license fees is not dependent upon the performance of the consulting and implementation services, (ii) the services are available from other vendors, (iii) the services qualify for separate accounting as we have sufficient experience in providing such services, have the ability to estimate cost of providing such services, and we have vendor-specific objective evidence, or VSOE, of fair value, and (iv) the services are not essential to the functionality of the software.

We enter into arrangements with multiple-deliverables that generally include subscription, maintenance and support, and professional services. We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. We use VSOE, of fair value for each of those units, when available. For revenue recognition with multiple-deliverable elements, in certain limited circumstances when VSOE of fair value does not exist, we apply the selling price hierarchy, which includes VSOE, third-party evidence of selling price, or TPE, and best estimate of selling price, or BEBP. We determine the relative selling price for a deliverable based on VSOE, if available, or BEBP, if VSOE is not available. We have determined that TPE is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant

third-party pricing information.

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We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, customer demographic, the geographic area where services are sold, price lists, its go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by our management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in relative selling prices, including both VSOE and BESP.

### Subscription and Support Revenue

#### Cloud Revenue

Cloud revenue consists of subscription fees from customers accessing our cloud-based service offerings. We recognize cloud services revenue ratably over the period of the applicable agreement as services are provided. Cloud agreements typically have an initial term of 12 to 36 months and automatically renew unless either party cancels the agreement. The majority of the cloud services customers purchase a combination of our cloud service and professional services. In some cases, the customer may also acquire a license for our software.

We consider the applicability of ASC 985-605, on a contract-by-contract basis. In cloud based agreements, where the customer does not have the contractual right to take possession of the software, the revenue is recognized on a monthly basis over the term of the contract. Invoiced amounts are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. We consider a software element to exist when we determine that the customer has the contractual right to take possession of our software at any time during the cloud period without significant penalty and can feasibly run the software on its own hardware or enter into another arrangement with a third party to host the software. Additionally, we have established VSOE for the cloud and maintenance and support elements of perpetual license sales, based on the prices charged when sold separately and substantive renewal terms. Accordingly, when a software element exists in a cloud services arrangement, license revenue for the perpetual software license element is determined using the residual method and is recognized upon delivery. Revenue for the cloud and maintenance and support elements is recognized ratably over the contractual time period. Professional services are recognized as described below under “Professional Services Revenue.” If VSOE of fair value cannot be established for the undelivered elements of an agreement, the entire amount of revenue from the arrangement is recognized ratably over the period that these elements are delivered.

#### Term License Revenue

Term license revenue includes arrangements where our customers receive license rights to use our software along with bundled maintenance and support services for the term of the contract. The majority of our contracts provide customers with the right to use one or more products up to a specific license capacity. Certain of our license agreements stipulate that customers can exceed pre-determined base capacity levels, in which case additional fees are specified in the license agreement. Term license revenue is recognized ratably over the term of the license contract.

#### Maintenance and Support Revenue

Maintenance and support revenue consists of customers purchasing maintenance and support for our on-premise software. We use VSOE of fair value for maintenance and support to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Maintenance and support revenue is recognized ratably over the term of the maintenance contract, which is typically one year. Maintenance and support is renewable by the customer on an annual basis. Maintenance and support rates, including subsequent renewal rates, are typically established based upon a specified percentage of net license fees as set forth in the

arrangement.

#### License Revenue

License revenue consists of perpetual license rights sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software

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products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on VSOE of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue, assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services and in some cases, cloud services.

License sales to resellers as a percentage of total revenue were approximately 19%, 15%, and 11% in fiscal years 2016, 2015 and 2014, respectively. Revenue from sales to resellers is generally recognized upon delivery to the reseller but depends on the facts and circumstances of the transaction, such as our understanding of the reseller's plans to sell the software, if there are any return provisions, price protection or other allowances, the reseller's financial status and our experience with the particular reseller. Historically sales to resellers have not included any return provisions, price protections or other allowances.

### Professional Services Revenue

Professional Services Revenue includes system implementation, consulting and training. For license transactions, the majority of our consulting and implementation services qualify for separate accounting. We use VSOE of fair value for the services to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Our consulting and implementation service contracts are bid either on a fixed-fee basis or on a time-and-materials basis. Substantially all of our contracts are on a time-and-materials basis. For time-and-materials contracts, where the services are not essential to the functionality, we recognize revenue as services are performed. If the services are essential to functionality, then both the product license revenue and the service revenue are recognized under the percentage of completion method. For a fixed-fee contract, we recognize revenue based upon the costs and efforts to complete the services in accordance with the percentage of completion method, provided we are able to estimate such cost and efforts.

Under ASC 605-25, in order to account for deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. For cloud services, in determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work.

We determined at or around July 1, 2013 that we had established standalone value for consulting and implementation services. This was primarily due to the change in our business focus, the growing number of partners we trained and certified to perform these deployment services and the consequential sale of subscription services without bundled implementation service. Revenues earned from professional services related to consulting and implementation of a majority of our core subscription services are being accounted for separately from revenues earned from subscription services beginning July 1, 2013 when the standalone value was established for those professional services.

For those contracts that have standalone value, we recognized the services revenue when rendered for time and material contracts, when the milestones are achieved and accepted by the customer for fixed price contracts or by percentage of completion basis if there is no acceptance criteria. For cloud, consulting and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the customer cloud relationship, once cloud has gone live or system ready. We estimate the life of these customer cloud relationship at the time the transactions occurred to be approximately 28 months, based on the then average life of all cloud customer relationships.

Training revenue that meets the criteria to be accounted for separately is recognized when training is provided.

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud, term license, and maintenance and support services and is recognized as the revenue recognition criteria are met. We generally

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invoice customers in annual or quarterly installments. The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable cloud or maintenance and support agreements. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

Deferred revenue that will be recognized during the succeeding twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

### Deferred Commissions

Deferred commissions are the direct and incremental costs directly associated with cloud and term license contracts with customers and consist of sales commissions to our direct sales force.

The commissions are deferred and amortized over the terms of the related customer contracts, which are typically 12 to 36 months. The commission payments are paid based on contract terms in the month following the quarter in which the commissions are earned. The deferred commission amounts are recognized as “sales and marketing” expense in the consolidated statements of operations over the terms of the related customer contracts, in proportion to the recognition of the associated revenue.

### Deferred Financing Costs

Costs relating to obtaining the credit agreement with Wells Fargo Bank are capitalized and amortized over the term of the related debt using the effective interest method. Deferred financing costs and accumulated amortization as of June 30, 2016 and 2015 were \$820,000 and \$294,000, respectively, and \$550,000 and \$79,000, respectively, and are included net of bank borrowings in the accompanying consolidated balance sheets. Amortization of deferred financing costs recorded as interest expense was \$231,000, \$79,000 and zero for the fiscal years ended June 30, 2016, 2015 and 2014, respectively. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations as interest expense.

### Leases

Lease agreements are evaluated to determine whether they are capital or operating leases in accordance with ASC 840, Accounting for Leases. When any one of the four test criteria in ASC 840 is met, the lease then qualifies as a capital lease.

Capital leases are capitalized at the lower of the net present value of the total amount payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on a straight-line basis, over a period consistent with our normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

### Software Development Costs

We account for software development costs in accordance with ASC 985, Software, for costs of the software to be sold, leased or marketed, whereby costs for the development of new software products and substantial enhancements to existing software products are included in research and development expense as incurred until technological

feasibility has been established, at which time any additional costs are capitalized. Technological feasibility is established upon completion of a working model. To date, software development costs incurred in the period between achieving technological feasibility and general availability of software have not been material and have been charged to operations as incurred.

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### Advertising Costs

We expense advertising costs as incurred. Total advertising expenses for the fiscal years ended June 30, 2016, 2015 and 2014 were \$121,000, \$68,000, and \$120,000 respectively.

### Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation—Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of the stock-based awards at the grant date requires significant judgment and the use of estimates, particularly surrounding Black-Scholes valuation assumptions such as stock price volatility and expected option term.

### Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with ASC 740, Income Taxes. Under this method, deferred tax liabilities and assets are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. For the legacy eGain business in the United States, based upon the weight of available evidence, which includes our historical operating performance and the reported cumulative net losses in all prior years, we have provided a full valuation allowance against our net deferred tax assets. For the legacy eGain business in the United Kingdom, the Company has determined based on the positive evidence it would be able to utilize the deferred tax assets and therefore released the valuation allowance against the deferred tax assets in the United Kingdom. The remaining eGain foreign operations as well as Exony's business have historically been profitable and we believe it is more likely than not that those assets will be realized. Our tax provision primarily relates to foreign activities as well as state income taxes. Our income tax rate differs from the statutory tax rates primarily due to the utilization of net operating loss carry-forwards which had previously been valued against as well as our foreign operations.

We account for uncertain tax positions according to the provisions of ASC 740. ASC 740 contains a two-step approach for recognizing and measuring uncertain tax positions. Tax positions are evaluated for recognition by determining if the weight of available evidence indicates that it is probable that the position will be sustained on audit, including resolution of related appeals or litigation. Tax benefits are then measured as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

### Comprehensive Income (Loss)

We report comprehensive income (loss) and its components in accordance with ASC 220, Comprehensive Income. Under the accounting standards, comprehensive income (loss) includes all changes in equity during a period except those resulting from investments by or distributions to owners. Total comprehensive income (loss) for each of the three years in the period ended June 30, 2016 is shown in the accompanying statements of comprehensive income (loss). Accumulated other comprehensive loss presented in the accompanying consolidated balance sheets at June 30, 2016 and 2015 consist of accumulated foreign currency translation adjustments.

### Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed using the weighted-average number of shares of common stock outstanding. In periods where net income is reported, the weighted average number of shares is increased by

warrants and options in the money to calculate diluted net income per common share.

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The following table represents the calculation of basic and diluted net income (loss) per common share (in thousands, except per share data):

	Years Ended June 30,		
	2016	2015	2014
Net loss applicable to common stockholders	\$ (6,240)	\$ (12,429)	\$ (5,246)
Basic net loss per common share	\$ (0.23)	\$ (0.47)	\$ (0.21)
Weighted average common shares used in computing basic net loss per common share	27,056	26,609	25,353
Effect of dilutive options and warrants outstanding	—	—	—
Weighted average common shares used in computing diluted net loss per common share	27,056	26,609	25,353
Diluted net loss per common share	\$ (0.23)	\$ (0.47)	\$ (0.21)

Weighted average shares of stock options to purchase 2,661,609, 2,718,069, and 2,218,445 shares of common stock as of June 30, 2016, 2015, and 2014, respectively, were not included in the computation of diluted net income (loss) per common share due to their anti-dilutive effect. Such securities could have a dilutive effect in future periods.

## Segment Information

We operate in one segment, the development, license, implementation and support of our customer service infrastructure software solutions. Operating segments are identified as components of an enterprise for which discrete financial information is available and regularly reviewed by our chief operating decision-maker in order to make decisions about resources to be allocated to the segment and assess its performance. Our chief operating decision-makers under ASC 280, Segment Reporting, are our executive management team. Our chief operating decision-makers review financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance.

Information relating to our geographic areas for the fiscal years ended June 30, 2016, 2015 and 2014 is as follows (in thousands):

	Total Revenue	Operating Income (Loss)	Long-Lived Assets
Year ended June 30, 2016:			
North America	\$ 34,922	\$ (6,078)	\$ 925

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EMEA	32,157	3,162	627
Asia Pacific	2,296	(2,957)	136
	\$ 69,375	\$ (5,873)	\$ 1,688
Year ended June 30, 2015:			
North America	\$ 36,551	\$ (7,382)	\$ 1,615
EMEA	37,666	204	1,142
Asia Pacific	1,696	(4,108)	379
	\$ 75,913	\$ (11,286)	