EGAIN Corp
Form 10-Q
February 11, 2019
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2018

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 No. 001-35314

---

eGAIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	77-0466366
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1252 Borregas Avenue, Sunnyvale, CA	94089
(Address of principal executive offices)	(Zip Code)

(408) 636-4500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 08, 2019
Common Stock $0.001 par value	27,902,325

Table of Contents

eGAIN CORPORATION

Quarterly Report on Form 10-Q

For the Quarterly Period Ended December 31, 2018

TABLE OF CONTENTS

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	2
	Condensed Consolidated Balance Sheets as of December 31, 2018 and June 30, 2018	2
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2018 and 2017	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended December 31, 2018 and 2017	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2018 and 2017	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	37
Item 4.	Controls and Procedures	38
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 6.	Exhibits	54
	Signatures	55

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

eGAIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except par value data)

	December 31, 2018	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,222	$ 11,498
Restricted cash	6	6
Accounts receivable, less allowance for doubtful accounts of $252 and $256 as of December 31, 2018 and June 30, 2018, respectively	16,178	7,389
Costs capitalized to obtain revenue contracts, net	682	986
Prepaid expenses	1,688	2,374
Other current assets	409	285
Total current assets	30,185	22,538
Property and equipment, net	468	559
Costs capitalized to obtain revenue contracts, net of current portion	1,904	891
Intangible assets, net	429	733
Goodwill	13,186	13,186
Other assets	2,039	1,715
Total assets	$ 48,211	$ 39,622
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 2,384	$ 3,905
Accrued compensation	4,463	5,706
Accrued liabilities	1,746	2,285
Deferred revenue	28,836	18,364
Capital lease obligations	7	42
Bank borrowings, net of deferred financing costs	4,996	259
Total current liabilities	42,432	30,561
Deferred revenue, net of current portion	6,136	7,833
Bank borrowings, net of current portion and deferred financing costs	—	8,941
Other long-term liabilities	980	1,000
Total liabilities	49,548	48,335
Commitments and contingencies (Note 6)		
Stockholders' deficit:		

Common stock, $0.001 par value - authorized: 50,000 shares; outstanding: 27,883 shares as of December 31, 2018 and 27,667 shares as of June 30, 2018	28	28
Additional paid-in capital	347,182	346,222
Notes receivable from stockholders	(87)	(85)
Accumulated other comprehensive loss	(1,620)	(1,618)
Accumulated deficit	(346,840)	(353,260)
Total stockholders' deficit	(1,337)	(8,713)
Total liabilities and stockholders' deficit	$ 48,211	$ 39,622

See accompanying notes to condensed consolidated financial statements

2

eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue:				
Subscription	$ 15,823	$ 12,629	$ 29,550	$ 24,459
Professional services	1,881	2,769	3,855	5,514
Total revenue	17,704	15,398	33,405	29,973
Cost of revenue:				
Cost of subscription	3,692	3,188	7,087	6,226
Cost of professional services	1,850	2,401	3,690	4,789
Total cost of revenue	5,542	5,589	10,777	11,015
Gross profit	12,162	9,809	22,628	18,958
Operating expenses:				
Research and development	3,596	3,708	7,155	7,139
Sales and marketing	4,391	4,729	8,385	8,895
General and administrative	2,046	1,768	4,206	3,574
Total operating expenses	10,033	10,205	19,746	19,608
Income (loss) from operations	2,129	(396)	2,882	(650)
Interest expense, net	(139)	(239)	(329)	(583)
Other income (expense), net	(6)	(30)	11	(161)
Income (loss) before income tax benefit (expense)	1,984	(665)	2,564	(1,394)
Income tax benefit (expense)	16	(123)	40	38
Net income (loss)	$ 2,000	$ (788)	$ 2,604	$ (1,356)
Per share information:				
Earnings (loss) per share:				
Basic	$ 0.07	$ (0.03)	$ 0.09	$ (0.05)
Diluted	$ 0.07	$ (0.03)	$ 0.09	$ (0.05)
Weighted-average shares used in computation:				
Basic	27,875	27,241	27,781	27,213
Diluted	29,420	27,241	29,687	27,213

See accompanying notes to condensed consolidated financial statements

eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income (loss)	$ 2,000	$ (788)	$ 2,604	$ (1,356)
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	44	(7)	(2)	(59)
Comprehensive income (loss)	$ 2,044	$ (795)	$ 2,602	$ (1,415)

See accompanying notes to condensed consolidated financial statements

eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$ 2,604	$ (1,356)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of intangible assets	304	1,007
Amortization of costs capitalized to obtain revenue contracts	302	459
Amortization of deferred financing costs	158	108
Depreciation and amortization	214	347
Provision (recovery) for doubtful accounts	182	(20)
Deferred income taxes	(342)	(2)
Stock-based compensation	698	1,055
Loss on disposal of property and equipment	66	2
Changes in operating assets and liabilities:		
Accounts receivable	(8,918)	902
Costs capitalized to obtain revenue contracts	(513)	(455)
Prepaid expenses	679	683
Other current assets	(131)	(173)
Other non-current assets	13	60
Accounts payable	(1,514)	(331)
Accrued compensation	(1,179)	25
Accrued liabilities	(549)	627
Deferred revenue	12,112	5,601
Other long-term liabilities	(3)	(63)
Net cash provided by operating activities	4,183	8,476
Cash flows from investing activities:		
Purchases of property and equipment	(199)	(91)
Net cash used in investing activities	(199)	(91)
Cash flows from financing activities:		
Payments on bank borrowings	(11,753)	(11,219)
Proceeds from bank borrowings	7,390	2,726
Payments on capital lease obligations	(35)	(63)
Proceeds from exercise of stock options	263	138
Net cash used in financing activities	(4,135)	(8,418)
Effect of change in exchange rates on cash and cash equivalents	(125)	175
Net (decrease) increase in cash, cash equivalents and restricted cash	(276)	142
Cash, cash equivalents and restricted cash at beginning of period	11,504	10,627
Cash, cash equivalents and restricted cash at end of period	$ 11,228	$ 10,769

Supplemental cash flow disclosures:		
Cash paid for interest	$ 178	$ 498
Cash paid for taxes, net of tax refunds	$ 129	$ 94

See accompanying notes to condensed consolidated financial statements

5

---

eGAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 customer engagement software with operations in the United States, United Kingdom and India. We help B2C brands operationalize digital customer engagement strategy. Our suite includes rich applications for digital interaction, knowledge management, and AI-based process guidance. We also provide advanced, integrated analytics for contact centers and digital properties to holistically measure, manage, and optimize resources. We believe the benefits of our products include reduced customer effort, customer satisfaction, connected service processes, converted upsell opportunities, and improved compliance—across mobile, social, web, and phone. Hundreds of global enterprises rely on eGain to transform fragmented customer service systems into unified Customer Engagement Hubs.

Fiscal Year

Our fiscal year ends on June 30. References to fiscal year 2019 refer to fiscal year ending June 30, 2019.

Basis of Presentation

The accompanying condensed consolidated balance sheets as of December 31, 2018 and June 30, 2018 and the condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the three and six months ended December 31, 2018 and 2017, respectively, were unaudited.

We prepared the condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and included the accounts of our wholly-owned subsidiaries. All significant

intercompany balances and transactions have been eliminated. Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), have been condensed or omitted pursuant to such rules and regulations although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented.

These condensed consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and accompanying notes for the fiscal year ended June 30, 2018, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2018 was derived from audited consolidated financial statements as of that date but does not include all the information and footnotes required by GAAP for complete financial statements. The results of our operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending June 30, 2019.

We adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), as of July 1, 2018. In addition, we adjusted the presentation of our condensed consolidated statements of operations in connection with our business model. Through June 30, 2018, our revenue was classified as recurring, legacy license and professional services revenue. In connection with our adoption of Topic 606 as of July 1, 2018, we classify our revenue as subscription and professional services revenue. Our legacy license revenue, which has been declining related to our focus on cloud offerings, is included with subscription revenue. Fiscal periods prior to adoption were adjusted to conform to current period presentation.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions in the condensed consolidated financial statements and accompanying notes. Actual results could differ significantly from estimates. We make estimates that we believe to be reasonable based on historical experience and other assumptions. Significant estimates and assumptions made by management include the following:

- Standalone selling price (SSP) of performance obligations for contracts with multiple performance obligations;
- Estimate of variable consideration for performance obligations in connection with the adoption of Topic 606;
- Period of benefit associated with capitalized costs to obtain revenue contracts;
- Valuation, measurement and recognition of current and deferred income taxes;
- Fair value of stock-based awards; and
- Useful lives of intangible assets.

Recent Accounting Pronouncements

Pronouncements Not Yet Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40). This update requires a customer in a cloud computing service arrangement to follow the internal-use software guidance to determine which implementation costs to recognize and defer as an asset. This update is effective for fiscal years beginning after December 15, 2019 (our fiscal 2020). We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation —Stock Compensation (Topic 718) —Improvements to Nonemployee Share-Based Payment Accounting. This update expands the scope of Topic 718, Compensation—Stock Compensation, to include share-based awards granted to non-employees in exchange for goods or services. The accounting for employees and non-employees will be substantially aligned. This update is effective for fiscal years beginning after December 15, 2018 (our fiscal 2020) and interim periods within those fiscal years. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update provides the option to reclassify tax effects to retained earnings relating to items in accumulated other comprehensive income that the FASB refers to as having been stranded in accumulated other comprehensive income as a result of the U.S. Tax

Act. This update is effective for fiscal years beginning after December 15, 2018 (our fiscal 2020), and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires that we recognize lease assets and liabilities on the balance sheet. This standard is effective for annual periods beginning after December 15, 2018 (our fiscal 2020), and interim periods within those annual periods. Early adoption is permitted provided ASC 606, Revenue Recognition, has been adopted. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides an alternative transition method by allowing companies to initially apply the new leases guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

Pronouncements Recently Adopted

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a shared-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. We adopted this guidance in connection with the adoption of ASC 606 as of our first quarter of fiscal year 2019 with no impact on our financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which provides specific guidance on how to classify restricted cash. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. We adopted this guidance as of our first quarter of fiscal year 2019 with no impact on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which provides that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. We adopted this guidance as of our first quarter of fiscal year 2019 with no significant impact to our financial results.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 (our fiscal 2019), and interim periods within those fiscal years. We adopted this guidance as of our first quarter of fiscal year 2019 with no significant impact to our financial results.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements under Revenue Recognition (Topic 605). The standard requires increased disclosures including the nature, amount, timing, and any uncertainty of revenues and cash flows related to customer contracts. Topic 606 includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with

Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. We refer to Topic 606 and Subtopic 340-40 as Topic 606, collectively, for purposes of disclosure and discussion in this filing.

We adopted Topic 606 using the modified retrospective method with a cumulative decrease of $3.8 million to our opening balance of our accumulated deficit as of July 1, 2018 in our first quarter of fiscal year 2019.

Under Topic 606, or ASC 606, revenue is recognized when a customer under a contract obtains control of promised goods and services at an amount that reflects consideration that is expected to be received in exchange for those goods and services. The new revenue recognition standard requires that we apply a five-step approach for recognizing revenue which includes (i) identifying the contract with a customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the contract on a relative SSP; and (v) recognizing revenue when, or as, we satisfy each performance obligation in the contract typically through delivery or when control is transferred to the customer.

The adoption of Topic 606 did not significantly impact the revenue recognition of our cloud delivery arrangements, our maintenance and support arrangements, and our time and materials-based professional services. Additionally, our estimate of SSP remains consistent with our estimate of best estimated selling price (BESP) under Topic 605. When we determine the transaction price in an arrangement, we include estimates of variable consideration such as usage-based surcharges and potential refunds or credits for service level credits, volume rebates, and tenure discounts.

Revenue recognition under Topic 606 impacted our on-premise offerings that do not incorporate substantial cloud functionality. Under Topic 605, licenses that were sold with undelivered elements but without vendor-specific objective evidence (VSOE) were recognized ratably over the term of the undelivered elements. Under Topic 606, the requirement to establish VSOE for undelivered elements was eliminated. Therefore, we recognize a portion of the sales price upon delivery of the software. To the extent that amounts recognized as revenue have not been billed, the corresponding amounts are recorded as unbilled receivables and are classified in accounts receivable.

Under Topic 606, the transaction price is allocated to various performance obligations based on their stand-alone selling prices. Revenue allocated to each performance obligation is recognized as work is performed. Our consulting and implementation service contracts are bid either on a time-and-materials basis or on a fixed-fee basis. Fixed fees are generally paid upon acceptance at pre-determined points in the contract. Under Topic 605, we had recognized revenue when we met acceptance clauses.

With respect to professional services revenue, when professional service arrangements include acceptance clauses, we factor this in the estimated transaction price if they are probable of being achieved. Additionally, we recognize the transaction price allocated to professional services over time as the services are provided as compared to the time that the milestone was achieve under prior guidance.

We used the following transitional practical expedients and exemptions in the adoption of Topic 606:

- The option to recognize revenue upon invoicing amounts that correspond directly with the value to the customer of performance completed to date which primarily includes professional service arrangements entered on a time and materials basis;
- At adoption, the election to reflect the aggregate effect of all modifications occurring before adoption when (i) identifying the satisfied and unsatisfied performance obligations; (ii) determining the transaction price; and (iii) allocating the transaction price of the arrangement to the satisfied and unsatisfied performance obligations;
- The optional exemption to not disclose the remaining transaction price for short-term contracts less than one year and contracts where the right to invoice method is used. Contracts that fall under these exemptions relate to short-term professional services and would be expected to be completed, on average, within the next three to six months;
- At adoption, the election to use the practical expedient to disregard the effect of the time value of money in a significant financing component when its payment terms are less than one year. These contract advances are liquidated when revenue is recognized; and
- The option to expense the cost of obtaining a contract when the amortization period is less than one year.

Costs Capitalized to Obtain Revenue Contracts

Under Topic 606, we capitalize incremental costs to obtain non-cancelable subscription and maintenance and support revenue contracts with amortization periods that may extend longer than the non-cancelable subscription and maintenance and support revenue contract terms.

We capitalize incremental costs of obtaining a non-cancelable subscription and maintenance and support revenue contract with amortization periods of one year or more. The capitalized amounts consist primarily of sales commissions paid to our direct sales force. Capitalized amounts also include (i) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired; (ii) commissions paid to employees upon renewals of subscription and support; and (iii) the associated payroll taxes and fringe benefit costs associated with the payments to our employees.

Costs capitalized related to new revenue contracts are generally deferred and amortized on a straight-line basis over a period of benefit that we estimate to be five years. We determine the period of benefit by taking into consideration the historical and expected durations of our customer contracts and the expected useful lives of our technology among other factors. Amortization of costs capitalized related to new revenue contracts is included as a component of sales and marketing expense in our operating results. Under Topic 605, we capitalized only commissions earned on initial software and support sales which were amortized ratably over the initial contract period averaging two years.

Deferred Revenue

Deferred revenue primarily consists of payments received or invoiced in advance of revenue recognition from cloud delivery arrangements, term licenses and embedded OEM royalties and associated support. Deferred revenue is recognized as revenue once revenue recognition criteria is met. We generally invoice our customers in annual installments. The deferred revenue balance does not represent the total transaction price of our non-cancelable cloud delivery and support arrangements.

Prior to adopting Topic 606, we netted down our accounts receivable and deferred revenue for amounts that were invoiced but not collected. We no longer net down our accounts receivable and deferred revenue with the adoption of Topic 606 related to contractual amounts in our arrangements. Deferred revenue that is expected to be recognized within one year and beyond one year is classified as current and noncurrent deferred revenue, respectively.

Financial Impact from Initial Adoption

The following table shows cumulative adjustments included in our condensed consolidated opening balance sheet as of July 1, 2018 related to the adoption of Topic 606 (in thousands):

	Balance as of June 30, 2018 ($)	Impact as of July 1, 2018 ($)	Balance as of July 1, 2018 ($)
Balance sheet captions:			
Accounts receivable, net	7,389	14,824	22,213
Costs capitalized to obtain revenue contracts, net	986	(395)	591
Costs capitalized to obtain revenue contracts, net of current portion	891	933	1,824
Accrued liabilities	2,285	60	2,345
Deferred revenue	18,364	11,700	30,064
Deferred revenue, net of current portion	7,833	(422)	7,411
Accumulated deficit	(353,260)	3,816	(349,444)

Financial Impact after Initial Adoption

The following table shows cumulative adjustments included in our condensed consolidated balance sheet as of December 31, 2018 related to the adoption of Topic 606 (in thousands):

	December 31, 2018		
	Reported under Topic 606 ($)	Topic 606 Impact ($)	Excluding Topic 606 Impact ($)
Balance sheet captions:			
Accounts receivable, net	16,178	(9,036)	7,142
Costs capitalized to obtain revenue contracts, net	682	315	997
Costs capitalized to obtain revenue contracts, net of current portion	1,904	(1,137)	767
Deferred revenue	28,836	(61)	28,775
Deferred revenue, net of current portion	6,136	(4,628)	1,508
Accumulated deficit	(346,840)	3,816	(343,024)

The following table presents the financial impact between guidance under Topic 605 and newly adopted guidance under Topic 606 during the three months ended December 31, 2018 (in thousands):

	Three Months Ended December 31, 2018		
	Reported under Topic 606 ($)	Topic 606 Impact ($)	Excluding Topic 606 Impact ($)
Income statement captions:			
Subscription revenue	15,823	(422)	15,401
Professional services revenue	1,881	(603)	1,278
Total revenue	17,704	(1,025)	16,679
Gross profit	12,162	(1,025)	11,137
Total operating expenses	10,033	171	10,204
Net income (loss)	2,000	(1,196)	804

The following table presents the financial impact between guidance under Topic 605 and newly adopted guidance under Topic 606 during the six months ended December 31, 2018 (in thousands):

	Six Months Ended December 31, 2018		
	Reported under Topic 606 ($)	Topic 606 Impact ($)	Excluding Topic 606 Impact ($)
Income statement captions:			
Subscription revenue	29,550	(29)	29,521
Professional services revenue	3,855	(806)	3,049
Total revenue	33,405	(835)	32,570
Gross profit	22,628	(835)	21,793
Total operating expenses	19,746	292	20,038
Net income (loss)	2,604	(1,127)	1,477

Revenue Recognition

Revenue Recognition Policy

Our revenue is comprised of two categories including subscription and professional services. Subscription includes SaaS revenue and legacy support revenue. SaaS includes revenue from cloud delivery arrangements, term licenses and embedded OEM royalties and associated support. Legacy support is revenue associated with support contracts on perpetual license arrangements that we no longer sell. Professional services includes consulting, implementation and training.

Significant Judgment Applied in the Determination of Revenue Recognition

We enter into contractual arrangements with customers that may include promises to transfer multiple services, such as subscription, support and professional services. With respect to our business, a performance obligation is a promise to transfer a service to a customer that is distinct. Significant judgment is required to determine whether services are distinct

performance obligations that should be accounted for separately or combined as one unit of accounting. Additionally, significant judgment is required to determine the timing of revenue recognition.

We allocate the transaction price to each performance obligation on a relative standalone selling price. The SSP is the price that we would sell a promised service separately to one of our customers. Judgment is required to determine the SSP for each distinct performance obligation.

We determine the SSP by considering our pricing objectives in relation to market demand. Consideration is placed based on our history of discounting prices, size and volume of transactions involved, customer demographics and geographic locations, price lists, contract prices and our market strategy.

Determination of Revenue Recognition

Under Topic 606, we recognize revenue upon the transfer of control of promised services to our customers in the amount that is commensurate with the consideration that we expect to receive in exchange for those services. If consideration includes a variable amount in the arrangement, such as service level credits or contingent fees, then we include an estimate of the amount that we expect to receive for the total transaction price.

The amount of revenue that we recognize is based on (i) identifying the contract with a customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the contract on a relative SSP basis; and (v) recognizing revenue when, or as, we satisfy each performance obligation in the contract typically through delivery or when control is transferred to the customer.

Subscription Revenue

The following customer arrangements are recognized ratably over the contract term as the performance obligations are delivered:

- Cloud delivery arrangements;
- Maintenance and support arrangements; and
- Term license subscriptions which incorporate on-premise software licenses and substantial cloud functionality that are not distinct in the context of our arrangements as such are considered highly interrelated and represent a single combined performance obligation.

For contracts involving distinct software licenses, the license performance obligation is satisfied at a point in time when control is transferred to the customer.

We typically invoice our customers in advance upon execution of the contract or subsequent renewals with payment terms between 30 and 45 days. Invoiced amounts are recorded in accounts receivable, deferred revenue or revenue, depending if control transferred to our customers based on each arrangement.

The Company has a royalty revenue agreement with a customer related to the Company's embedded intellectual property. Under the terms of the agreement, the customer is to remit a percentage of sales to the Company. These embedded OEM royalties are included as subscription revenue. Under Topic 606 revenue guidance, since these arrangements are for sales-based licenses of intellectual property, for which the guidance in paragraph ASC 606-10-55-65 applies, the Company recognizes revenue only as the subsequent sale occurs. However, the Company notes that such sales are reported by the customer with a quarter in arrears, such revenue is recognized at the time it is reported and paid by the customer given that

any estimated variable consideration would have to be fully constrained due to the unpredictability of such estimate and the unavoidable risk that it may lead to significant revenue reversals.

Professional Services Revenue

Professional services revenue includes system implementation, consulting and training. The transaction price is allocated to various performance obligations based on their stand-alone selling prices. Revenue allocated to each performance obligation is recognized as work is performed. Our consulting and implementation service contracts are bid either on a time-and-materials basis or on a fixed-fee basis. Fixed fees are generally paid upon milestone billing or acceptance at pre-determined points in the contract. Amounts that have been invoiced are recorded in accounts receivable and in unearned revenue or revenue, depending on whether transfer of control to customers has occurred.

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

Segment Information

We operate in one segment: the development, license, implementation and support of our customer interaction software solutions. Operating segments are identified as components of an enterprise for which discrete financial information is available and regularly reviewed by the Company’s chief operating decision-makers in order to make decisions about resources to be allocated to the segment and assess its performance. Our chief operating decision-makers, under Accounting Standards Codification (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. The Company operates in one operating segment and all required financial segment information can be found in the condensed consolidated financial statements.

Our sales are derived from North America and EMEA. However, we incur operating expenses in the North America, EMEA and APAC regions. Revenue by geography is generally determined on the region of our contracting entity rather than the region of our customer. Information relating to our geographic areas for the three and six months ended December 31, 2018 and 2017 is as follows (unaudited, in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue:				
North America	$ 10,065	$ 8,683	$ 18,540	$ 16,122
EMEA	7,639	6,715	14,865	13,851
Total revenue	$ 17,704	$ 15,398	$ 33,405	$ 29,973

Income (loss) from operations:				
North America	$ 964	$ (1,401)	$ 949	$ (1,218)
EMEA	2,405	2,355	4,361	3,062
Asia Pacific	(1,240)	(1,350)	(2,428)	(2,494)
Income (loss) from operations	$ 2,129	$ (396)	$ 2,882	$ (650)

In addition, long-lived assets corresponding to our geographic areas are as follows (unaudited, in thousands):

	December 31, 2018	June 30, 2018
Long-lived Assets:		
North America	$ 195	$ 210
EMEA	130	245
Asia Pacific	143	104
Long-lived Assets	$ 468	$ 559

Concentration of Credit Risk and Significant Customers

Our financial instruments that are exposed to concentrations of credit risk include cash and cash equivalents and accounts receivable. We maintain an allowance for doubtful accounts which is based on historical losses and the number of days past due for collection. Receivables are written off against the allowance when we have exhausted collection efforts without success. For the three and six months ended December 31, 2018, one customer accounted for 17% and 16% of revenue, respectively. For the three and six months ended December 31, 2017, one customer accounted for 15% of revenue.

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 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 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 collection efforts have been exhausted and the amount is deemed uncollectible.

Deferred Financing Costs

Costs relating to obtaining the credit agreement with Wells Fargo Bank, National Association (Wells Fargo) are capitalized and amortized over the term of the related debt using the effective interest method. As of December 31, 2018 and June 30, 2018, deferred financing costs were each $981,000, and accumulated amortization was $898,000 and $740,000, respectively. Deferred financing costs are included net of bank borrowings in the accompanying condensed consolidated balance sheets. Amortization of deferred financing costs recorded as interest expense was $158,000 and $108,000 for the six months ended December 31, 2018 and 2017, 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.

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. Stock-based compensation expense consists of expenses for stock options and employee stock purchase plan, or ESPP.

The ESPP provides that eligible employees may purchase the Company's common stock through payroll deductions at a price equal to 85% of the lower of the fair market value at the entry date of the applicable offering period or at the end of each applicable purchasing period. The offering period, meaning a period with respect to which the right to purchase shares of Stock may be granted under the Plan, will not exceed twenty-seven months and consist of a series of six-month purchase periods. Eligible employees may join the ESPP at the beginning of any six-month purchase period. Under the terms of the ESPP, employees can choose to have between 1% and 15% of their base earnings withheld to purchase the Company's common stock.

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.

Below is a summary of stock-based compensation included in the costs and expenses (unaudited, in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Stock-Based Compensation Expense:				
Cost of revenue	$ 70	$ 146	$ 144	$ 209
Research and development	108	275	224	385
Sales and marketing	54	129	100	192
General and administrative	104	186	230	269
Total stock-based compensation expense	$ 336	$ 736	$ 698	$ 1,055

Total stock-based compensation includes expense related to non-employee awards of $27,000 and $48,000 during the three and six months ended December 31, 2018, respectively. Total stock-based compensation includes expense related to non-employee awards of $12,000 and $26,000 during the three and six months ended December 31, 2017, respectively.

Total stock-based compensation includes expense related to the ESPP of $33,000 during the three and six months ended December 31, 2018. There was no expense related to the ESPP during the three or six months ended December 31, 2017.

We utilized the Black-Scholes valuation model for estimating the fair value of the stock-based compensation of options granted. All shares of our common stock issued pursuant to our stock option plans are only issued out of an authorized reserve of shares of common stock which were previously registered with the SEC on a Registration Statement on Form S-8.

On September 19, 2017, our board of directors approved a repricing to $2.50 per share of certain outstanding options under our 2005 Stock Incentive Plan held by employees who are not executive officers or directors of the Company. The repricing applied to options held by such employees with an exercise price greater than $2.50 per share which was the closing stock price as reported on Nasdaq on September 19, 2017.

In accordance with ASC 718, as applicable to the repricing on September 19, 2017, a modification to the price of an option should be treated as an exchange of the original option for a new option. The calculation of the incremental value associated with the new option is based on the excess of the fair value of the modified option based on current assumptions over the fair value of the original option measured immediately before its price is modified based on current assumptions. As of December 31, 2017, we finalized our accounting estimates related to the repricing. Total

incremental stock-based compensation expense was $445,000. We recognized $0 and $373,000 in incremental stock-based compensation during the three months ended December 31, 2018 and 2017, respectively. We recognized $3,000 and $414,000 in incremental stock-based compensation expense during the six months ended December 31, 2018 and 2017, respectively. Unrecognized incremental stock-based compensation expense was $8,000 and $31,000 as of December 31, 2018 and 2017, respectively.

During the three months ended December 31, 2018 and 2017, we granted options to purchase 122,400 and 357,400 shares of common stock with a weighted-average fair value of $3.94 and $1.16 per share, respectively.

During the six months ended December 31, 2018 and 2017, we granted options to purchase 213,250 and 1,472,541 shares of common stock with a weighted-average fair value of $5.29 and $1.26 per share, respectively.

In connection with the repricing and finalizing our estimates as of December 31, 2017, we repriced options to purchase 804,172 shares of common stock which were previously granted between May 2011 and September 2016, with a weighted-average fair value of $1.19 per share.

We used the following assumptions:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
Expected volatility	68	%	59	%	66	%	57	%
Average risk-free interest rate	2.88	%	2.07	%	2.85	%	1.88	%
Expected life (in years)	4.39		4.36		4.34		4.51	
Dividend yield	—		—		—		—	

The dividend yield of zero is based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends. We determined 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 deemed to be non-recurring and non-indicative of future events. The risk-free interest rate is derived from the average U.S. Treasury Strips rate with maturities approximating the expected lives of the awards during the period, which approximate the rate in effect at the time of the grant.

The fair value of the ESPP stock-based expense for the three and six months ended December 31, 2018 were estimated using the following weighted-average assumptions:

	Three and Six Months Ended December 31, 2018		
Expected term (in years)		0.47	
Volatility		90	%
Expected dividend		—	
Risk-free interest rate		2.54	%
Estimated forfeiture rate		—	
Wieghted average grant date fair value	$	2.82	

During the three and six months ended December 31, 2018, ESPP purchase rights of 94,805 were granted and compensation expense related to those purchase rights but not yet recognized was approximately $235,000. During the three and six months ended December 31, 2018, no ESPP shares were issued. As of December 31, 2018, there were 400,000 ESPP shares available for issuance under the Plan.

We base our estimate of expected life of a stock option on the historical exercise behavior and cancellations of all past option grants made by the Company during the time period which its equity shares have been publicly traded, the contractual term of the option, the vesting period and the expected remaining term of the outstanding options.

In accordance with ASU 2016-09, Compensation—Stock Compensation: Improvements to Employee Share-Based Accounting, we elected to continue to estimate forfeitures in the calculation of stock-based compensation expense.

Total compensation cost, net of forfeitures, of all options granted but not yet vested as of December 31, 2018 was $1.7 million, which is expected to be recognized over the weighted-average period of 1.47 years. There were 14,967 and 34,899 options exercised during the three months ended December 31, 2018 and 2017, respectively. There were 216,253 and 138,049 options exercised during the six months ended December 31, 2018 and 2017, respectively.

Leases

The Company categorizes leases at their inception as either 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.

2. REVENUE RECOGNITION

Disaggregation of Revenue

The following table presents our subscription and professional services revenue during the three and six months ended December 31, 2018 and 2017, respectively:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue:				
SaaS	$ 11,875	$ 7,747	$ 21,599	$ 14,691
Legacy support	3,948	4,882	7,951	9,768
Total subscription	15,823	12,629	29,550	24,459
Professional services	1,881	2,769	3,855	5,514
Total revenue	$ 17,704	$ 15,398	$ 33,405	$ 29,973

The following table presents our revenue by geography. Revenue by geography is generally determined on the region of our contracting entity rather than the region of our customer. The relative proportion of our total revenues between each geographic region as presented in the table below was materially consistent across each of our operating segments' revenues for the periods presented.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue:				
North America	$ 10,065	$ 8,683	$ 18,540	$ 16,122
EMEA	7,639	6,715	14,865	13,851

Total Revenue	$ 17,704	$ 15,398	$ 33,405	$ 29,973

Contract Balances

Contract assets consist of unbilled receivables for which we have the right to consideration for completed performance obligations that have not been invoiced. Contract liabilities consist of deferred revenue for which we have an obligation to transfer services to customers and have received consideration in advance or the amount is due from customers. Once the obligations are fulfilled, then deferred revenue is recognized to revenue in the respective period.

The following table presents the changes in contract liabilities (in thousands):

	Balance as of July 1, 2018 ($)	Additions ($)	Deductions ($)	Balance as of December 31, 2018 ($)
Contract liabilities:				
Deferred revenue	30,064	30,326	(31,554)	28,836
Deferred revenue, net of current portion	7,411		(1,275)	6,136

With respect to deferred revenue balances as of June 30, 2018, $9.6 million and $20.1 million was recognized to revenue during the three and six months ended December 31, 2018, respectively.

Remaining Performance Obligations

Remaining performance obligations represent contracted revenues that had not yet been recognized, and include deferred revenues, invoices that have been issued to customers but were uncollected and have not been recognized as revenues, and amounts that will be invoiced and recognized as revenues in future periods. The transaction price allocated to the remaining performance obligation is influenced by a variety of factors, including seasonality, timing of renewals, average contract terms and foreign currency rates. As of December 31, 2018, our remaining performance obligations were $66.4 million of which we expect to recognize $41.4 million and $25.0 million as revenue within one year and beyond one year, respectively.

Costs Capitalized to Obtain Revenue Contracts

We capitalize incremental costs of obtaining a non-cancelable subscription and support revenue contracts. The capitalized amounts consist primarily of sales commissions paid to our direct sales force. Capitalized amounts also include (i) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired, (ii) commissions paid to employees upon renewals of subscription and support, and (iii) the associated payroll taxes and fringe benefit costs associated with the payments to our employees.

Costs capitalized related to new revenue contracts are generally deferred and amortized on a straight-line basis over a period of benefit that we estimate to be five years. We determine the period of benefit by taking into consideration the historical and expected durations of our customer contracts, the expected useful lives of our technologies, and other factors. Commissions for renewal contracts relating to our cloud-based arrangements are generally deferred and then amortized on a straight-line basis over the related contractual renewal period, which is generally five years. Amortization of deferred sales commissions is included as a component of sales and marketing expenses in our condensed consolidated statements of operations.

During the three and six months ended December 31, 2018, we capitalized $324,000 and $513,000 of costs to obtain revenue contracts, respectively, and amortized $156,000 and $302,000 to sales and marketing expense, respectively. Capitalized costs to obtain revenue contracts, net were $2.6 million and $2.4 million as of December 31, 2018 and July 1, 2018, respectively.

3. 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.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income (loss)	$ 2,000	$ (788)	$ 2,604	$ (1,356)
Per share information:				
Earnings (loss) per share:				
Basic	$ 0.07	$ (0.03)	$ 0.09	$ (0.05)
Diluted	$ 0.07	$ (0.03)	$ 0.09	$ (0.05)
Weighted-average shares used in computation:				
Basic	27,875	27,241	27,781	27,213
Effect of dilutive options	1,545	—	1,906	—
Diluted	29,420	27,241	29,687	27,213

Weighted-average shares of stock options to purchase 232,634 and 3,505,992 shares of common stock for the three months ended December 31, 2018 and 2017, respectively, and weighted-average shares of stock options to purchase 184,228 and 2,926,900 shares of common stock for the six months ended December 31, 2018 and 2017, 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.

4. BANK BORROWINGS

On November 21, 2014, we entered into a Credit Agreement (as further amended, restated, supplemented or otherwise modified from time to time, the Credit Agreement) with Wells Fargo. The Credit Agreement provides for the extension of revolving loans in an aggregate principal amount not to exceed $10.0 million, and a term loan (Term Loan) in an aggregate principal amount not to exceed $10.0 million, but in each case limited by an amount not to exceed 60% of our trailing twelve month revenue from subscription and support fees attributable to software, as calculated under the Credit Agreement. The obligations under the Credit Agreement mature on November 21, 2019.

Borrowings under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus 4.75%. Borrowings under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00% per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo as its “prime rate,” plus (ii) 3.75%.

We will pay certain recurring fees with respect to the Credit Agreement, including servicing fees to the administrative agent. Prior to the first anniversary of the closing date of the Credit Agreement, voluntary repayments of the Term Loan, voluntary permanent reductions of the commitment related to the Revolving Loans and certain mandatory prepayments are subject a prepayment premium of 1.0% of the amount prepaid or reduced.

Subject to certain exceptions, the loans extended under the Credit Agreement are subject to customary mandatory prepayment provisions with respect to the following: net proceeds from certain asset sales; net proceeds from certain issuances or incurrences of debt (other than debt permitted to be incurred under the terms of the Credit Agreement); net proceeds of certain judgments, settlements and other claims or causes of action of us; and a portion with step-downs based upon the achievement of a financial covenant linked to the Leverage Ratio (as such term is defined in the Credit Agreement) of our annual excess cash flow and our subsidiaries, and with such required prepayment amount to be reduced dollar-for-dollar by any voluntary prepayments of the Term Loan.

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting our ability and our subsidiaries to: incur additional indebtedness; incur liens; engage in mergers or other fundamental changes; consummate acquisitions; sell certain property or assets; change the nature of their business; prepay or amend certain indebtedness; pay dividends, other distributions or repurchase our equity interests or our subsidiaries; make investments; or engage in certain transactions with affiliates. Subject to the conditions of the Credit

Agreement, the Company is required to comply with the following covenants; (i) a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of 1.50 to 1.00 and (ii) a Leverage Ratio of less than 2.50 to 1.00.

The Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; monetary judgment defaults; bankruptcy, insolvency and dissolution events; cross-default to other material indebtedness; material inaccuracy of a representation or warranty when made; failure to perfect a lien; actual or asserted invalidity or impairment of any definitive loan documentation or repudiation of guaranties; or a change of control.

As a condition to entering into the Credit Agreement, we pledged substantially all assets such as accounts receivable and property and equipment as collateral for the benefit of Wells Fargo.

On September 2, 2015, the Company entered into Amendment Number One to the Credit Agreement (Amendment No. 1), which amends the Credit Agreement. Pursuant to Amendment No. 1, we increased the total maximum Revolving Loan commitments thereunder from $10.0 million to $15.0 million and increased the quarterly installment payments of the Term Loan under the Credit Agreement to $187,500 for the quarters ended September 30, 2015 through December 31, 2015 and $250,000 for each subsequent quarter. As of March 31, 2018, the quarterly installment payment decreased from $250,000 to $114,407 for the quarter ended March 31, 2018 and for each quarter ending thereafter as a result of a $4.0 million prepayment that we made during the quarter. Borrowings under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus 7.0%. Borrowings under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to the rate of interest announced, from time to time, by Wells Fargo as its “prime rate,” plus 6.0%. In connection with Amendment No. 1, certain fees were also modified such that prior to the first anniversary of Amendment No. 1, voluntary repayments of the Term Loan, voluntary permanent reductions of the commitment related to the Revolving Loans and certain mandatory prepayments will be subject a prepayment premium of 1.0% of the amount prepaid or reduced.

On January 27, 2017, the Company entered into Amendment Number Two to the Credit Agreement (Amendment No. 2), which amends the Credit Agreement. Pursuant to Amendment No. 2, the Applicable Margin (as defined in the Credit Agreement) at which LIBOR loans advanced under the Credit Agreement bear interest may be either the applicable LIBOR rate plus 5.5% per annum or 7.0% per annum, depending on the Company’s TTM Recurring Revenue Calculation (as defined in the Credit Agreement). The TTM Recurring Revenue Calculation is based on the Company’s consolidated trailing twelve months of revenue relating to subscription revenue attributable to the Company’s software. Loans may also bear interest under the Credit Agreement at the applicable Base Rate (as defined in the Credit Agreement) and the corresponding Applicable Margin for Base Rate loans is 1.0% per annum less than for LIBOR loans. Under Amendment No. 2, a 1.0% fee will also be payable until the first anniversary of Amendment No. 2 on the amount of any voluntary prepayment of the Term Loan advanced under the Credit Agreement or the amount of any voluntary reduction of Revolving Loan commitments provided under the Credit Agreement.

Amendment No. 2 modified the two financial covenants the Company is required to comply with as of the Financial Covenant Replacement Date, which is the first day of the fiscal quarter following the date on which the Company has achieved (i) a Fixed Charge Coverage Ratio equal to or greater than 1.50 to 1.00 and (ii) a Leverage Ratio of less than 2.50 to 1.00 for the immediately preceding two consecutive fiscal quarters. As of December 31, 2018, we were in compliance with the Fixed Charge Coverage Ratio and Leverage Ratio financial covenants.

In addition, the amount of Liquidity (as defined in the Credit Agreement) which the Company is required to maintain on and prior to the Financial Covenant Replacement Date was reduced from $10.0 million to $4.0 million. Liquidity is calculated based on available credit under the Revolving Loan commitments and balances in certain bank accounts used for operations. The amount of Liquidity was $19.0 million as of December 31, 2018.

As of December 31, 2018, the Company was in compliance with these financial covenant terms.

As of December 31, 2018, balances on the Term Loan, Revolving Loans and debt maturities were (unaudited, in thousands):

	December 31, 2018	June 30, 2018
Bank Borrowings:		
Term Loan	$ 917	$ 3,146
Revolving Loan	4,162	6,295
Subtotal of bank borrowings	5,079	9,441
Less amounts representing deferred financing costs, net	(83)	(241)
Total bank borrowings	4,996	9,200
Less current debt maturities	(4,996)	(259)
Bank borrowings, net of current portion and deferred financing costs	$ —	$ 8,941

5. INCOME TAXES

Income taxes are accounted for using the asset and liability method in accordance with ASC 740, Income Tax (ASC 740). 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 in fiscal year 2016. The remaining eGain foreign operations including Exony Ltd.'s business historically have been profitable, and we believe it is more likely than not that those assets will be realized. Our tax provision primarily relates to foreign operations and realized benefits of amortized book intangible assets, foreign withholding tax and adjustments to foreign taxes as well as state income taxes. Our projected annual effective income tax rate has differed from statutory tax rates primarily due to adjustments to permanent differences, the utilization of net operating loss carryforwards which previously had been valued against as well as different tax rates in our foreign operations. Our year-to-date income tax rate has differed from the projected annual effective income tax rate due to discrete items attributable to year-to-date results.

The Company accounts 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. The Company considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may not

accurately anticipate actual outcomes. No material changes have occurred in the Company's tax positions taken as of December 31, 2018 and during the six months ended December 31, 2018.

We adopted ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Accounting, in the first quarter of our fiscal 2018. No cumulative effect adjustment was recorded to our accumulated deficit as the U.S. deferred tax assets from previously unrecognized excess tax benefits were fully offset by a full valuation allowance, and we did not elect to change our policy of estimating expected forfeitures.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Act revised the taxation of U.S. and multinational corporations, which, among other things, significantly reduced the statutory corporate U.S. federal income tax rate from 35% to 21%, imposed limitations on the ability of corporations to deduct interest expense, and made changes to the way a U.S. multinational corporation's foreign operations are taxed. As part of the transition to the new territorial tax system, the Tax Act imposed a one-time repatriation tax on the mandatory deemed repatriation of cumulative earnings of foreign subsidiaries. In addition, the reduction of the U.S. corporate tax rate will cause us to adjust our U.S. deferred tax assets and liabilities to the lower federal base rate of

21%. The Tax Act includes a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries and a base erosion anti-abuse tax (BEAT) measure that taxes certain payments between a U.S. corporation and its foreign subsidiaries. The GILTI and BEAT provisions of the Tax Act is effective for us as of July 1, 2018 (our fiscal year 2019). We estimate no GILTI income or GILTI deduction for fiscal year 2019, as of December 31, 2018.

Because ASC 740-10-25-47 requires the effect of a change in tax laws or rates to be recognized as of the date of enactment, we remeasured our deferred tax assets and liabilities, and offsetting valuation allowance in the current period. There was no impact to tax expense as the remeasurement of net deferred tax assets was completely offset by a corresponding change in valuation allowance. The reduction to deferred tax assets and the offsetting valuation allowance was $26.6 million. We did not incur a tax liability from the deemed repatriation of accumulated foreign earnings due to a net overall accumulated deficit in foreign earnings and profits.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740 for the year ended December 31, 2017. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. We have considered SAB 118, and we believe the accounting for the change of the U.S. statutory tax rate to our deferred tax balances under ASC 740 is complete and is appropriately reflected in our consolidated financial statements as of December 31, 2018.

6. COMMITMENTS AND CONTINGENCIES

Leases

We lease our facilities under non-cancelable operating leases that expire on various dates through fiscal year 2022. On May 14, 2014, we entered into the First Amendment to the office lease for our Sunnyvale facility to extend the term of the lease through March 2022 and lease additional space in the current premises. The term of the additional space commenced on August 5, 2015 and is scheduled to expire on March 31, 2022. As part of the lease extension, the landlord provided us with a tenant improvement allowance during 2015 through 2016 of $411,000. Our lease agreements provide us with the option to renew. We recognize rent expense, which includes fixed escalation amounts in addition to minimum lease payment, on a straight-line basis over each lease term. The difference between the amount paid for rent and the amount recognized under the straight-line basis is recorded as a deferred rent liability. The deferred rent liability was $457,000 and $448,000 as of December 31, 2018 and 2017, respectively, and is recorded other long-term liabilities on the balance sheet. We lease certain equipment and software under operating and capital leases with various expiration dates.

Warranty

We generally warrant that the program portion of our software will perform substantially in accordance with certain specifications for a period up to one year from the date of delivery. Our liability for a breach of this warranty is either a return of the license fee or providing a fix, patch, work-around or replacement of the software.

We also provide standard warranties against and indemnification for the potential infringement of third party intellectual property rights to our customers relating to the use of our products, as well as indemnification agreements with certain officers and employees under which we may be required to indemnify such persons for liabilities arising out of their duties to us. The terms of such obligations vary. Generally, the maximum obligation is the amount permitted by law.

Historically, costs related to these warranties have not been significant. However, we cannot guarantee that a warranty reserve will not become necessary in the future.

Indemnification

We have agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person’s service as a director or officer, including any action by us,

arising out of that person's services as our director or officer or that person's services provided to any other company or enterprise at our request.

Transfer pricing

We have received transfer-pricing assessments from tax authorities with regard to transfer pricing issues for certain fiscal years, which we have appealed with the appropriate authority. We review the status of each significant matter and assess its potential financial exposure. We believe that such assessments are without merit and would not have a significant impact on our consolidated financial statements.

Litigation

In the ordinary course of business, we are involved in various legal proceedings and claims related to alleged infringement of intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour, and other claims that are not expected to have a material impact on our business or our consolidated financial statements. 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.

7. FAIR VALUE MEASUREMENT

ASC 820, Fair Value Measurement (ASC 820), defines fair value, establishes a framework for measuring fair value of assets and liabilities, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. ASC 820 applies whenever other statements require or permit assets or liabilities to be measured at fair value.

ASC 820 includes a fair value hierarchy, of which the first two are considered observable and the last unobservable, that is intended to increase the consistency and comparability in fair value measurements and related disclosures. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1 – instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2 – instrument valuations are obtained from readily-available pricing sources for comparable instruments.

Level 3 – instrument valuations are obtained without observable market value and require a high level of judgment to determine the fair value.

As of December 31, 2018 and June 30, 2018, we did not have any material Level 1, 2, or 3 assets or liabilities.

8. INTANGIBLE ASSETS

Intangible assets will be amortized over the estimated lives, as follows (in thousands, except expected life):

Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Balance December 31, 2018	Life	Income Statement Category
Customer relationships - maintenance contracts	$ 1,610	$ (1,181)	$ 429	6	Cost of sales
Developed technology	6,990	(6,990)	—	4	Research and development expense
	$ 8,600	$ (8,171)	$ 429		

Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Balance June 30, 2018	Life	Income Statement Category
Customer relationships - maintenance contracts	$ 1,610	$ (1,047)	$ 563	6	Cost of sales
Developed technology	6,990	(6,820)	170	4	Research and development expense
	$ 8,600	$ (7,867)	$ 733		

Amortization expense related to the above intangible assets for the three months ended December 31, 2018 and 2017 was $67,000 and $503,000, respectively. Amortization expense related to the above intangible assets for the six months ended December 31, 2018 and 2017 was $304,000 and $1.0 million, respectively.

Estimated future amortization expense remaining as of December 31, 2018 for intangible assets acquired is as follows:

Year Ending June 30,	
2019	$ 135
2020	268
2021	26
Total future amortization expense	$ 429

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read together with the condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q, and with our audited financial statements and the related notes included in our Annual Report on Form 10-K for the year ended June 30, 2018.

This Quarterly Report on Form 10-Q 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: our SaaS only business model and that our belief that it affords recurring revenue visibility, more predictability and 50% faster time to value to SaaS clients; our belief that SaaS revenue better reflects business momentum; the effect of changes in macroeconomic factors beyond our control; 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 competitive advantages; our expectations regarding the composition of our customers and the result of a loss of a significant customer; our beliefs regarding our prospects for our business; the adequacy of our capital resources and our ability to raise additional financing; the effect of our failure to comply with our obligations under our Credit Agreement; the development and expansion of our strategic and third party distribution partnerships and relationships with systems integrators; legal liability or the effect of negative publicity for the services provided to consumers through our technology platforms; our ability to compete; 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 and cybersecurity attacks; the uncertainty of demand for our products; our beliefs regarding the attributes and anticipated customer benefits of our products; our ability to increase the profitability of our subscription services; 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; the effect of changes to management judgments and estimates; the impact of any modification to our pricing practices in the future; our beliefs regarding our international operations; our ability to timely adapt and comply with changing European regulatory and political environments; uncertainty relating to the implementation and effect of Brexit; the effect of recent changes in U.S. tax legislation; our inability to successfully detect weaknesses or errors in our internal controls; our ability to take adequate precautions against claims or lawsuits made by third parties, including alleged infringement of proprietary rights; the potential impact of foreign currency exchange rate fluctuations; the impact of accounting pronouncements and our critical accounting policies, judgments, estimates, models and assumptions on our financial results; 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 "Risk Factors" Item 1A of Part II of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, as well as our ability to manage our business plans, strategies and outlooks and any business-related forecasts or projections; our ability to effectively implement and improve our current products; our ability to innovate and respond to rapid technological change and competitive challenges; successful transition to a SaaS only business model; customer acceptance of our existing and future products; the impact of new legislation or

regulations, or of judicial decisions, on our business; legal and regulatory uncertainties and other risks related to protection of our intellectual property assets; our ability to compete against third parties; the success of our partnerships; our ability to obtain capital when needed; the economic environment; our history of operating losses; our ability to manage future growth; the market price of our common stock; and foreign currency exchange rate fluctuations. These forward looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to update any forward looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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 the 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 Quarterly Report on Form 10-Q.

Overview

eGain is an innovative software-as-a service (SaaS) provider of customer engagement solutions in a digital world, with operations in the US, UK and India. Business-to-Consumer (B2C) brands quickly operationalize customer engagement strategy on our feature rich, comprehensive, and open platform to optimize experience for Agents, Businesses, and Customers. Connected artificial intelligence (AI), knowledge and analytics capabilities automate self-service across touch points and augment a digital-first, omnichannel agent desktop to reduce service cost, increase upsell, and improve business agility. Hundreds of customers around the world, primarily in financial services, telco, retail, government, healthcare and utilities, rely on eGain to provide a unified customer engagement hub.

In fiscal year 2017, we completed our transition from a hybrid model where we sold both SaaS and perpetual license solutions to a SaaS only business model (SaaS Transition). Today we only sell SaaS to new clients and are actively migrating our remaining perpetual license clients to SaaS.

We believe that our go-forward SaaS business model affords us recurring revenue visibility and more predictability. Our SaaS clients adopt our product innovation much faster than in the perpetual license model and enjoy better service levels. Finally, we believe SaaS clients enjoy up to 50% faster time to value from their eGain investment.

We adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), as of July 1, 2018. In addition, we adjusted the presentation of our condensed consolidated statements of operations in connection with our business model. Through June 30, 2018, our revenue was classified as recurring, legacy license and professional services revenue. In connection with our adoption of Topic 606 as of July 1, 2018, we classify our revenue as subscription and professional services revenue. Our legacy license revenue, which has been declining related to our focus on cloud offerings, is included with subscription revenue.

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 non-GAAP operating income (loss) 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 in the United States of America (GAAP).

We believe SaaS revenue better reflects our business momentum and to analyze progress, we disaggregate our subscription revenue growth between:

- SaaS, which is defined as revenue from cloud delivery arrangements, term licenses and embedded OEM royalties and associated support; and
- Legacy support, which is defined as revenue from maintenance and support arrangements with perpetual license arrangements that we no longer sell.

As we continue to migrate our legacy perpetual license clients to SaaS, we expect our Legacy support to continue to decline.

Total deferred revenue, collectively, includes both GAAP deferred revenue and non-GAAP unbilled deferred revenue that remains off balance sheet which represents contractual commitments that have not been recognized as revenue.

Non-GAAP operating income (loss) is defined as operating income (loss), adjusted for the impact of stock-based compensation expense and amortization of acquired intangible assets.

Management believes that it is useful to exclude certain non-cash charges and non-core operational charges from non-GAAP operating income (loss) because (i) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations; and (ii) 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 GAAP income (loss) from operations to non-GAAP income (loss) from operations for each of the following periods:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Income (loss) from operations	$ 2,129	$ (396)	$ 2,882	$ (650)
Add:				
Stock-based compensation	336	736	698	1,055
Amortization of acquired intangibles	67	503	304	1,007
Non-GAAP income from operations	$ 2,532	$ 843	$ 3,884	$ 1,412

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 GAAP. 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, intangible assets, 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.

Our significant accounting policies are disclosed in our Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for fiscal year ended June 30, 2018. Additionally, we highlighted those policies that have a higher degree of judgment and complexity as discussed in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for fiscal year ended June 30, 2018. We have not had any material changes to our critical accounting policies and estimates during the six months ended December 31, 2018 as compared to those disclosed on our 10-K for fiscal year ended June 30, 2018 except for the adoption of ASC Topics 606 and Subtopic 340-40 as discussed in this Quarterly Report on Form 10-Q. We believe these policies are critical to the discussion of our financial condition and results of operations.

Sources of Revenues

Our revenue is comprised of two categories, subscription and professional services. Subscription includes SaaS revenue and legacy support revenue. SaaS includes revenue from cloud delivery arrangements, term licenses and embedded OEM royalties and associated support. Legacy support is revenue associated with support contracts on perpetual license arrangements that we no longer sell. Professional services includes consulting, implementation and training.

Subscription Revenue

For our cloud delivery arrangements, our maintenance and support arrangements and our term license subscriptions that incorporate substantial cloud functionality, the combined performance obligation is recognized ratably over the contract term as the obligation is delivered. For contracts involving distinct software licenses, the license performance obligation is satisfied at a point in time when control is transferred to the customer.

We typically invoice our customers in advance upon execution of the contract or subsequent renewals. Invoiced amounts are recorded in accounts receivable, deferred revenue or revenue, depending if control transferred to our customers based on each arrangement.

The Company has a royalty revenue agreement with a customer related to the Company's embedded intellectual property. Under the terms of the agreement, the customer is to remit a percentage of sales to the Company. These embedded OEM royalties are included as subscription revenue. Under Topic 606 revenue guidance, since these arrangements are for sales-based licenses of intellectual property, for which the guidance in paragraph ASC 606-10-55-65 applies, the Company recognizes revenue only as the subsequent sale occurs. However, the Company notes that such sales are reported by the customer with a quarter in arrears, such revenue is recognized at the time it is reported and paid by the customer given that any estimated variable consideration would have to be fully constrained due to the unpredictability of such estimate and the unavoidable risk that it may lead to significant revenue reversals.

Professional Services Revenue

Professional services revenue includes system implementation, consulting and training. The transaction price is allocated to various performance obligations based on their stand-alone selling prices. Revenue allocated to each performance obligation is recognized as work is performed. Our consulting and implementation service contracts are bid either on a time-and-materials basis or on a fixed-fee basis. Fixed fees are generally paid on milestone billing at pre-determined points in the contract. Amounts that have been invoiced are recorded in accounts receivable and in unearned revenue or revenue, depending on whether transfer of control to customers has occurred.

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

Financial Impact of Topic 606

We adopted Topic 606, as of July 1, 2018. In addition, we adjusted the presentation of our condensed consolidated statements of operations in connection with our cloud delivery model.

The following table presents the financial impact between guidance under Topic 605 and newly adopted guidance under Topic 606 during the three months ended December 31, 2018 (in thousands):

December 31, 2018	December 31, 2017

	Reported under Topic 606 ($)	Reported under Topic 605 ($)	Reported under Topic 605 ($)
Income statement captions:			
Subscription revenue	15,823	15,401	12,629
Professional services revenue	1,881	1,278	2,769
Total revenue	17,704	16,679	15,398
Gross profit	12,162	11,137	9,809
Total operating expenses	10,033	10,204	10,205
Net income (loss)	2,000	804	(788)

The following table presents the financial impact between guidance under Topic 605 and newly adopted guidance under Topic 606 during the six months ended December 31, 2018 (in thousands):

	December 31, 2018		December 31, 2017
	Reported under Topic 606 ($)	Reported under Topic 605 ($)	Reported under Topic 605 ($)
Income statement captions:			
Subscription revenue	29,550	29,521	24,459
Professional services revenue	3,855	3,049	5,514
Total revenue	33,405	32,570	29,973
Gross profit	22,628	21,793	18,958
Total operating expenses	19,746	20,038	19,608
Net income (loss)	2,604	1,477	(1,356)

Deferred Revenue and Unbilled Deferred Revenue

Deferred revenue primarily consists of payments received or invoiced in advance of revenue recognition from cloud delivery arrangements, term license, and embedded OEM royalties and support services. Deferred revenue is recognized as revenue once revenue recognition criteria are met. We generally invoice customers in annual 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.

The adoption of Topic 606 required a change as to how we report deferred revenue. Under Topic 605, amounts invoiced but not collected were netted down from our accounts receivable and deferred revenue. We no longer net down our accounts receivable and deferred revenue with the adoption of Topic 606.

The adoption of Topic 606 also required a change to the definition of unbilled deferred revenue and revisions to disclosures on our performance obligations. Unbilled deferred revenue represents business that is contracted but not yet invoiced. Unbilled deferred revenue remains off the balance sheet and is not recorded to deferred revenue.

Deferred revenue does not represent the total contract value of annual or multi-year, non-cancelable arrangements.

We refer to the sum of deferred revenue and unbilled deferred revenue as total deferred revenue which represents a metric we use in monitoring our financial results.

We expect total deferred revenue to change quarterly for several reasons including the timing of new contracts and renewals, duration and size of our subscription and support arrangements, variable billing cycles and foreign exchange rate fluctuation. We typically issue renewal invoices in advance of the renewal service period. Depending on timing, the initial invoice and subsequent renewal invoices may occur in different quarters. This may result in an increase or decrease to our accounts receivable and deferred revenue.

Costs Capitalized to Obtain Revenue Contracts

Under Topic 606, we capitalize incremental costs to obtain non-cancelable subscription and maintenance and support revenue contracts with amortization periods that may extend longer than the non-cancelable subscription and maintenance and support revenue contract terms.

We capitalize incremental costs of obtaining a non-cancelable subscription and maintenance and support revenue contract with amortization periods of one year or more. The capitalized amounts consist primarily of sales commissions paid to our direct sales force. Capitalized amounts also include (i) amounts paid to employees other than the direct sales force who

---

earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired; (ii) commissions paid to employees upon renewals of subscription and support; and (iii) the associated payroll taxes and fringe benefit costs associated with the payments to our employees.

Costs capitalized related to new revenue contracts are generally deferred and amortized on a straight-line basis over a period of benefit that we estimate to be five years. We determine the period of benefit by taking into consideration the historical and expected durations of our customer contracts and the expected useful lives of our technology among other factors. Amortization of costs capitalized related to new revenue contracts is included as a component of sales and marketing expense in our operating results. Under Topic 605, we capitalized only commissions earned on initial software and support sales which were amortized ratably over the initial contract period averaging two years.

Results of Operations

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
Revenue:								
Subscription	89	%	82	%	88	%	82	%
Professional services	11	%	18	%	12	%	18	%
Total revenue	100	%	100	%	100	%	100	%
Cost of revenue:								
Cost of subscription	21	%	21	%	21	%	21	%
Cost of professional services	10	%	15	%	11	%	16	%
Total cost of revenue	31	%	36	%	32	%	37	%
Gross profit	69	%	64	%	68	%	63	%
Operating expenses:								
Research and development	20	%	24	%	21	%	23	%
Sales and marketing	25	%	31	%	25	%	30	%
General and administrative	12	%	12	%	13	%	12	%
Total operating expenses	57	%	67	%	59	%	65	%
Income (loss) from operations	12	%	(3)	%	9	%	(2)	%

Revenue

	Three Months Ended December 31,					Six Months Ended December 31,				
(in thousands)	2018	2017	Change			2018	2017	Change		
Subscription	$ 15,823	$ 12,629	$ 3,194	25	%	$ 29,550	$ 24,459	$ 5,091	21	%
Professional services	1,881	2,769	(888)	(32)	%	3,855	5,514	(1,659)	(30)	%
Total revenue	$ 17,704	$ 15,398	$ 2,306	15	%	$ 33,405	$ 29,973	$ 3,432	11	%

Total revenue, which is comprised of subscription and professional services revenue, increased by 15% to $17.7 million for the three months ended December 31, 2018 from $15.4 million in the comparable period in 2017. Total revenue increased by 11% to $33.4 million for the six months ended December 31, 2018 from $30.0 million in the comparable period in 2017.

Our revenue was impacted by foreign exchange rate fluctuation between the U.S. Dollar, Euro, and British Pound. We recalculate our current period results using the comparable prior period exchange rates to exclude the impact of foreign exchange rate fluctuation. Foreign exchange rate fluctuation resulted in a decrease of $273,000 and an increase of $435,000 in total revenue during the three months ended December 31, 2018 and 2017, respectively. Foreign exchange rate

fluctuation resulted in a decrease of $342,000 and an increase of $468,000 in total revenue during the six months ended December 31, 2018 and 2017, respectively.

Additionally, our revenue was impacted by the adoption of Topic 606 during the six months ended December 31, 2018. We adopted the new revenue guidance as of July 1, 2018 with no comparable adjustments to the prior period.

Subscription Revenue

SaaS Revenue

(in thousands)	Three Months Ended December 31, 2018	2017	Change		Six Months Ended December 31, 2018	2017	Change	
SaaS revenue	$ 11,875	$ 7,747	$ 4,128	53 %	$ 21,599	$ 14,691	$ 6,908	47 %
Percentage of total revenue	67 %	50 %			65 %	49 %		

SaaS revenue includes revenue from cloud delivery arrangements, term licenses and embedded OEM royalties and associated support. SaaS revenue was $11.9 million and $7.7 million during the three months ended December 31, 2018 and 2017, respectively, which represented an increase of 53% or $4.1 million. SaaS revenue represented 67% and 50% of total revenue for the three months ended December 31, 2018 and 2017, respectively.

SaaS revenue was $21.6 million and $14.7 million during the six months ended December 31, 2018 and 2017, respectively, which represented an increase of 47% or $6.9 million. SaaS revenue represented 65% and 49% of total revenue for the six months ended December 31, 2018 and 2017, respectively.

Excluding decreases of $132,000 and $156,000 due to foreign exchange rate fluctuation, SaaS revenues increased by $4.3 million and $7.1 million during the three and six months ended December 31, 2018 as compared to the comparable periods in 2017. In connection with our SaaS transition, we continued to sell SaaS to new clients and are actively migrating our remaining perpetual license clients to SaaS. We expect our SaaS revenue to increase during fiscal year 2019.

Legacy Support Revenue

(in thousands)	Three Months Ended December 31, 2018	2017	Change		Six Months Ended December 31, 2018	2017	Change	
Legacy support revenue	$ 3,948	$ 4,882	$ (934)	(19) %	$ 7,951	$ 9,768	$ (1,817)	(19) %
Percentage of total revenue	22 %	32 %			24 %	33 %		

Legacy support revenue is revenue associated with perpetual license arrangements that we no longer sell. Legacy support revenue was $3.9 million and $4.9 million during the three months ended December 31, 2018 and 2017, respectively, which represented a decrease of 19% or $934,000. Legacy support revenue represented 22% and 32% of total revenue for the three months ended December 31, 2018 and 2017, respectively.

Legacy support revenue was $8.0 million and $9.8 million during the six months ended December 31, 2018 and 2017, respectively, which represented a decrease of 19% or $1.8 million. Legacy support revenue represented 24% and 33% of total revenue for the six months ended December 31, 2018 and 2017, respectively.

Excluding decreases of $104,000 and $135,000 due to foreign exchange rate fluctuation, legacy support revenues decreased by $830,000 and $1.7 million during the three and six months ended December 31, 2018 as compared to the comparable periods in 2017. In connection with our SaaS transition, we continue to migrate our legacy perpetual license clients to SaaS. We expect our support fees for legacy perpetual license clients to decline during fiscal year 2019.

Professional Services Revenue

(in thousands)	Three Months Ended December 31, 2018	2017	Change		Six Months Ended December 31, 2018	2017	Change	
Professional services revenue	$ 1,881	$ 2,769	$ (888)	(32) %	$ 3,855	$ 5,514	$ (1,659)	(30) %
Percentage of total revenue	11 %	18 %			12 %	18 %		

Professional services revenue includes consulting, implementation and training. Professional services revenue was $1.9 million and $2.8 million during the three months ended December 31, 2018 and 2017, respectively, which represented a decrease of 32% or $888,000. Professional services revenue represented 11% and 18% of total revenue for the three months ended December 31, 2018 and 2017, respectively.

Professional services revenue was $3.9 million and $5.5 million during the six months ended December 31, 2018 and 2017, respectively, which represented a decrease of 30% or $1.7 million. Professional services revenue represented 12% and 18% of total revenue for the six months ended December 31, 2018 and 2017, respectively.

Excluding decreases of $37,000 and $51,000 due to foreign exchange rate fluctuation, professional services revenues decreased by $851,000 and $1.6 million during the three and six months ended December 31, 2018 as compared to the comparable periods in 2017. In connection with our SaaS Transition, our cloud customers required less professional services. We expect our professional services to decline during fiscal year 2019.

Revenue by Geography

(in thousands)	Three Months Ended December 31, 2018	2017	Change		Six Months Ended December 31, 2018	2017	Change	
Domestic	$ 10,065	$ 8,683	$ 1,382	16 %	$ 18,540	$ 16,122	$ 2,418	15 %
International	7,639	6,715	924	14 %	14,865	13,851	1,014	7 %
Total revenue	$ 17,704	$ 15,398	$ 2,306	15 %	$ 33,405	$ 29,973	$ 3,432	11 %

Revenue from domestic sales increased by 16% from $8.7 million during the three months ended December 31, 2017 to $10.1 million during the three months ended December 31, 2018 due to an increase of (i) $2.1 million in SaaS revenue and (ii) $62,000 in legacy support revenue; partially offset by a decrease of (i) $782,000 in professional services revenue.

Revenue from domestic sales increased by 15% from $16.1 million during the six months ended December 31, 2017 to $18.5 million during the six months ended December 31, 2018 due to an increase of (i) $3.3 million in SaaS revenue and (ii) $184,000 in legacy support revenue; partially offset by a decrease of (i) $1.1 million in professional services revenue.

Revenue from international sales increased by 14% from $6.7 million for the three months ended December 31, 2017 to $7.6 million during the three months ended December 31, 2018, due to an increase of (i) $2.0 million in SaaS revenue; partially offset by decreases of (i) $996,000 in legacy support revenue and (ii) $106,000 in professional services revenue.

Revenue from international sales increased by 7% from $13.9 million for the six months ended December 31, 2017 to $14.9 million during the six months ended December 31, 2018, due to an increase of (i) $3.6 million in SaaS revenue partially offset by decreases of (i) $2.0 million in legacy support revenue and (ii) of $579,000 in professional services revenue.

Cost of Revenue

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2018	2017	Change		2018	2017	Change	
Subscription	$ 3,692	$ 3,188	$ 504	16 %	$ 7,087	$ 6,226	$ 861	14 %
Professional services	1,850	2,401	(551)	(23) %	3,690	4,789	(1,099)	(23) %
Total cost of revenue	$ 5,542	$ 5,589	$ (47)	(1) %	$ 10,777	$ 11,015	$ (238)	(2) %
Percentage of total revenue	31 %	36 %			32 %	37 %		
Gross margin	69 %	64 %			68 %	63 %		

Cost of revenue includes personnel costs and consulting services for our cloud services and support as well as occupancy costs and overhead.

Total cost of revenue decreased by 1% to $5.5 million during the three months ended December 31, 2018 from $5.6 million in the comparable period in 2017. Excluding a decrease of $125,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, cost of revenue increased by $78,000 primarily due to increases of (i) $292,000 in cloud-related expenses; and (ii) $20,000 in outside consulting services; partially offset by a decrease of $234,000 in personnel and personnel-related expenses.

Total cost of revenue decreased by 2% to $10.8 million during the six months ended December 31, 2018 from $11.0 million in the comparable period in 2017. Excluding a decrease of $181,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, cost of revenue decreased by $57,000 primarily due to a decrease of (i) $783,000 in personnel and personnel-related expenses; partially offset by increases of (i) $650,000 in cloud-related expenses; and (ii) $76,000 in outside consulting services.

Excluding decreases of $67,000 and $91,000 due to foreign exchange rate fluctuation, cost of subscription revenues increased by $571,000 and $952,000 during the three and six months ended December 31, 2018 from the comparable periods in 2017.

Excluding any future foreign exchange rate fluctuation, we expect our cost of subscription revenue to increase in absolute dollar terms but expect subscription revenue gross margins to improve.

Excluding decreases of $57,000 and $90,000 due to foreign exchange rate fluctuation, cost of professional services revenues decreased by $494,000 and $1.0 million during the three and six months ended December 31, 2018 from the comparable periods in 2017.

In connection with our SaaS transition, our cloud customers required less professional services.

Excluding any future foreign exchange rate fluctuation, we expect our cost of professional services to decrease during fiscal year 2019 which would be consistent with the expected decline in professional services revenue.

Operating Expenses

Research and Development

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2018	2017	Change		2018	2017	Change	
Research and development	$ 3,596	$ 3,708	$ (112)	(3) %	$ 7,155	$ 7,139	$ 16	0 %
Percentage of total revenue	20 %	24 %			21 %	23 %		

Research and development expense primarily consists of compensation and benefits for our engineering, product management and development, and quality assurance personnel, fees for outside consultants and, to a lesser extent, occupancy costs and related overhead.

Research and development expense decreased 3% to $3.6 million for the three months ended December 31, 2018 from $3.7 million in the comparable period in 2017. Excluding a decrease of $89,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, research and development expense decreased primarily due to a decrease of (i) $437,000 in amortization of intangible assets; partially offset by increases of (i) $334,000 in personnel-related costs, and (ii) $81,000 of outside consulting costs.

Research and development expense increased less than 1% to $7.2 million for the six months ended December 31, 2018 from $7.1 million in the comparable period in 2017. Excluding a decrease of $143,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, research and development expense increased primarily due to increases of (i) $691,000 in personnel and personnel-related expenses; and (ii) $172,000 in outside consulting costs; partially offset be a decrease of (i) $704,000 in amortization of intangible assets.

Excluding any future foreign exchange rate fluctuation, we expect our research and development expense to remain relatively consistent as a percentage of total revenue in fiscal year 2019 based on our product development plans.

Sales and Marketing

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2018	2017	Change		2018	2017	Change	
Sales and marketing	$ 4,391	$ 4,729	$ (338)	(7) %	$ 8,385	$ 8,895	$ (510)	(6) %
Percentage of total revenue	25 %	31 %			25 %	30 %		

Sales and marketing expense 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 decreased by 7% to $4.4 million during the three months ended December 31, 2018 from $4.7 million in the comparable period in 2017. Excluding a decrease of $66,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, sales and marketing expense decreased primarily due to decreases of (i) $197,000 in personnel and personnel-related expenses; (ii) $48,000 in outside consulting services; and (iii) $27,000 in marketing program expenses.

Sales and marketing expense decreased by 6% to $8.4 million during the six months ended December 31, 2018 from $8.9 million in the comparable period in 2017. Excluding a decrease of $120,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, sales and marketing expense decreased primarily due to decreases of (i) $257,000 in personnel and personnel-related expenses; (ii) $89,000 in outside consulting services; and (iii) $44,000 in marketing program expenses.

Excluding any future foreign exchange rate fluctuation, we expect our sales and marketing expense to increase or remain relatively consistent as a percentage of total revenue in fiscal year 2019.

General and Administrative

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2018	2017	Change		2018	2017	Change	
General and administrative	$ 2,046	$ 1,768	$ 278	16 %	$ 4,206	$ 3,574	$ 632	18 %
Percentage of total revenue	12 %	12 %			13 %	12 %		

General and administrative expense primarily consist of compensation and benefits for our finance, human resources, administrative and legal personnel, fees for outside professional services, provision for doubtful accounts and, to a lesser extent, occupancy costs and related overhead.

General and administrative expense increased by 16% to $2.0 million during the three months ended December 31, 2018 from $1.8 million in the comparable period in 2017. Excluding a decrease of $29,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, general and administrative expense increased primarily due to increases of (i) $178,000 in accounting and audit expenses; (ii) $126,000 in bad debt and administrative expenses; and (iii) $52,000 in outside consulting; partially offset by an decreases of (i) $33,000 in personnel and personnel-related expenses; and (ii) $16,000 in legal costs.

General and administrative expense increased by 18% to $4.2 million during the six months ended December 31, 2018 from $3.6 million in the comparable period in 2017. Excluding a decrease of $47,000 due to foreign exchange rate fluctuation between the U.S. Dollar, Euro, British Pound and Indian Rupee, general and administrative expense increased primarily due to increases of (i) $260,000 in personnel and personnel-related expenses; (ii) $178,000 in accounting and audit expenses; (iii) $162,000 in outside consulting services; and (iv) $137,000 in administrative expenses, partially offset by a decrease of $58,000 in legal costs.

Excluding any future foreign exchange rate fluctuation, we expect our general and administrative expense to decrease or remain relatively consistent as a percentage of total revenue in fiscal year 2019.

Income (Loss) from Operations

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2018	2017	Change		2018	2017	Change	
Income (loss) from operations	$ 2,129	$ (396)	$ 2,525	638 %	$ 2,882	$ (650)	$ 3,532	543 %
Operating margin	12 %	(3) %			9 %	(2) %		

Income from operations was $2.1 million with an operating margin of 12% during the three months ended December 31, 2018. Income from operations during the three months ended December 31, 2018 included (i) $336,000 of stock-based compensation; (ii) $67,000 of amortization of intangible assets; and (iii) $156,000 of amortization of costs capitalized to obtain revenue contracts.

Income from operations was $2.9 million with an operating margin of 9% during the six months ended December 31, 2018. Income from operations during the six months ended December 31, 2018 included (i) $698,000 of stock-based compensation; (ii) $304,000 of amortization of intangible assets; and (iii) $302,000 of amortization of costs capitalized to obtain revenue contracts.

Interest Expense, Net

Interest expense consists of interest on bank borrowings and capital leases. Interest expense, net was $139,000 and $239,000 during the three months ended December 31, 2018 and 2017, respectively. Interest expense, net was $329,000 and $583,000 during the six months ended December 31, 2018 and 2017, respectively. Interest expense decreased due to lower interest paid on reduced average bank borrowings. We expect a reduction in our interest expense due to reduced outstanding bank borrowings.

Other Income (Expense), Net

Other expense, net was $6,000 and $30,000 during the three months ended December 31, 2018 and 2017, respectively. Other income, net was $11,000 for the six months ended December 31, 2018 compared to other expense, net of $161,000 for the comparable period in 2017. Other income and expense primarily included foreign exchange rate fluctuations on international trade receivables.

Income Tax Provision

We recorded an income tax benefit of $16,000 and an income tax provision of $123,000 for the three months ended December 31, 2018 and 2017, respectively. We recorded an income tax benefit of $40,000 and $38,000 for the six months ended December 31, 2018 and 2017, respectively. The income tax benefit for the period primarily related to our income

(loss) before income tax benefit, on a year-to-date basis, from foreign subsidiaries, the state minimum tax and the foreign withholding tax.

Liquidity and Capital Resources

Overview

Our cash, cash equivalents and restricted cash were $11.2 million and $11.5 million as of December 31, 2018 and June 30, 2018, respectively. Our working capital was a negative $12.2 million as of December 31, 2018 compared to a negative working capital of $8.0 million as of June 30, 2018. As of December 31, 2018, our deferred revenue was $35.0 million as compared to $26.2 million as of June 30, 2018. Total deferred revenue, a metric that we use which represents the sum of (i) deferred revenue that is reported on our condensed consolidated balance sheet and (ii) unbilled deferred revenue which is off-balance sheet, was $66.4 million as of December 31, 2018, down from $77.6 million as of June 30, 2018.

On November 21, 2014, we entered into a $20.0 million Credit Arrangement (as further amended, restated, supplemented or otherwise modified from time to time, the Credit Arrangement) with Wells Fargo Bank (Wells Fargo) to be used for working capital and to support our strategic growth plans. The Credit Arrangement includes $10.0 million in revolving loans (Revolving Loans) and a $10.0 million, five-year term loan (Term Loan). 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 2, 2015, we amended the Credit Arrangement with Wells Fargo which increased the maximum borrowing amount of the Revolving Loans from $10.0 million to $15.0 million and increased 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. During the quarter ended March 31, 2018 and for each quarter ending thereafter, the quarterly installment payment decreased from $250,000 to $114,407 as a result of a $4.0 million prepayment made during the quarter ended March 31, 2018.

Excluding deferred financing costs, we reduced bank borrowings by $4.4 million to $5.0 million as of December 31, 2018 from $9.4 million as of June 30, 2018. We have available credit of $10.8 million in revolving loan commitments with Wells Fargo as of December 31, 2018.

Based upon our fiscal year 2019 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.

Cash Flows

Net cash provided by operating activities was $4.2 million during the six months ended December 31, 2018 compared to $8.5 million during the comparable period in 2017. Net cash provided by operating activities decreased by $4.3 million primarily due to the timing of prepayments received from customers for new cloud arrangements and the renewal of existing cloud and support arrangements before adjusting for the amortization of acquired intangible assets, costs capitalized to obtain revenue contracts, and deferred financing costs, depreciation and amortization, provision for doubtful accounts, deferred income taxes, stock-based compensation and changes in working capital accounts. Prior to adopting Topic 606, we netted down our accounts receivable and deferred revenue for amounts that were invoiced but not collected.

We no longer net down our accounts receivable and deferred revenue with the adoption of Topic 606 which resulted in an increase of $14.3 million in accounts receivable and deferred revenue from the adoption impact at July 1, 2018.

Net cash provided by operating activities was $8.5 million during the six months ended December 31, 2017 compared to net cash used in operating activities of $1.3 million during the comparable period in 2016. Net cash provided by operating activities increased by $9.8 million primarily due to net loss of $1.4 million compared to a net loss of $3.5 million before adjusting for amortization of intangible assets, costs capitalized to obtain revenue contracts (previously captioned as amortization of deferred commissions), and deferred financing costs, depreciation and amortization, provision for doubtful accounts, stock-based compensation, loss on disposal of fixed assets and changes in operating assets and liabilities and an increase in deferred revenue of $3.9 million.

Net cash used in investing activities was $199,000 during the six months ended December 31, 2018 compared to net cash used in investing activities of $91,000 during the comparable period in 2017. Net cash used in investing activities related to the purchase of equipment and software to support cloud infrastructure and equipment for new employees.

Net cash used in investing activities was $91,000 during the six months ended December 31, 2017 compared to net cash used in investing activities of $223,000 during the comparable period in 2016. Net cash used in investing activities related to the purchase of property and equipment and software to support cloud infrastructure and equipment for new employees.

Net cash used in financing activities was $4.1 million during the six months ended December 31, 2018 compared to net cash used in financing activities of $8.4 million during the comparable period in 2017. Net cash used in financing activities primarily included (i) $11.8 million in payments on bank borrowings; and (ii) $35,000 in payments on capital lease obligations; partially offset by (a) $7.4 million in proceeds from bank borrowings; and (b) $263,000 in proceeds from the exercise of stock options.

Net cash used in financing activities was $8.4 million during the six months ended December 31, 2017 compared to net cash used in financing activities of $451,000 during the comparable period in 2016. Net cash used in financing activities related to (i) $11.2 million in payments on bank borrowings; and (ii) $63,000 in payments on capital lease obligations; partially offset by (a) $2.7 million in proceeds from bank borrowings; and (b) $138,000 in proceeds from the exercise of stock options.

Commitments

There was no other significant change to our contractual obligations since June 30, 2018.

Off-Balance Sheet Arrangements

As of December 31, 2018, we had no significant off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Item 3. 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 December 31, 2018 totaled approximately $13.6 million. A 10% increase in the value of the dollar relative to other currencies would decrease the value of these assets by $1.36 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, on the one hand, and the Euro, British Pound and Indian Rupee, on the other hand. 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.

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 as of December 31, 2018, the impact on the fair value of these securities or our cash flows or income would not be material.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2018, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal controls.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(d) under the Exchange Act) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, we are from time to time involved in various legal proceedings and claims related to alleged infringement of intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour, and other claims.

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 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 revenue when we have satisfied performance obligations in revenue contracts with our customers, 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 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. It is difficult to forecast the expediency of the transition of our license customers to our cloud delivery model. 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 our 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 disputes.

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 subscription revenue, if we experience significant customer attrition, or if we are required to delay 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 cloud offerings. Our subscription services have 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.

Factors that could harm our ability to improve our gross margins, which may affect our operating profitability, 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 negatively impacting the efficiency of our data centers and leading 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 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 (in quantity or products) or renew for shorter contract lengths. 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 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.

Our credit agreement (Credit Agreement) with Wells Fargo Bank, National Association (Wells Fargo), provides a term loan in the amount of $10.0 million and revolving loan commitments to us in an amount not to exceed $15 million. The Credit Agreement contains 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;
- 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 Credit Agreement, 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 Credit Agreement, 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 collateral under the Credit Agreement, which consists of substantially all our assets. If the debt under the Credit Agreement 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. Since 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 a 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.

We may not be able to raise additional capital on acceptable terms, if at all, or without dilution to our stockholders. Failure to raise capital when needed may limit our ability to grow our business and expand our operations.

Our working capital requirements in the foreseeable future are subject to numerous risks and will depend on a variety of factors. We may seek additional funding to finance our operations or should we make acquisitions. We may also 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 raise 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. In addition, the terms of these securities could impose restrictions on our operations. If we are not able to raise additional funds or on terms acceptable to us, if and when needed, our ability to fund our operations, take advantage of opportunities, develop or expand our business could be significantly limited.

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.

If we acquire companies or technologies, we may not realize the expected business benefits, the acquisitions could prove difficult to integrate, disrupt our business 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. For example 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.

The market for customer engagement software is intensely competitive, and our business will be adversely affected if we are unable to successfully compete.

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.

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 are unable to compete successfully, our business will be adversely affected.

If we fail to expand and improve our sales performance and marketing activities, or retain our sales and marketing personnel, we may be unable to grow our business, which could negatively impact 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 our other areas 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 our competitors, and our results of operations and financial condition may be harmed.

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

Our success and future growth depend in part upon the skills, experience, performance and continued service of our distribution partners, including software and hardware vendors and resellers. Our distribution partners engage with us in a number of ways, including assisting us to identify prospective customers, distributing our products and services in geographies where we do not have a physical presence and distributing our products and services where they are

considered complementary to other products of the partner or third-party products distributed by the partner. We believe that our future success depends in part upon our ability to develop, maintain and expand strategic, long-term and profitable partnerships and reseller relationships. If we are unable to do so for any reason, including as a result of any change in the leadership of our distribution partners, 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, maintain and expand relationships with systems integrators could harm our business.

We sometimes rely on systems 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 systems 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.

We conduct a significant portion of our business and operations outside of the United States, which exposes us to additional risks that may not exist in the United States. These risks in turn could cause our operating results and financial condition to suffer.

We derived 43% and 44% of our revenue from international sales during the three months ended December 31, 2018 and 2017, respectively. In addition to those discussed elsewhere in this section, our international sales operations are subject to a number of specific risks, such as:

· 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 December 31, 2018, approximately 50% of our workforce was employed in India. Of our employees in India, 40% 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. In addition, the maintenance of stable political relations between the United States, the 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 and delays in customers 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.

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 through 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 through 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. Certain 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, denial of 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.

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 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 cybersecurity systems or the systems of our vendors, partners and suppliers 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, loss of access, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers (which may involve nation states and individuals sponsored by them), 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.

Employees or contractors have introduced vulnerabilities in, and enabled the exploitation of, our IT environments in the past and may do so in the future. These cybersecurity attacks threaten to misappropriate our proprietary information, cause interruptions of our IT services and commit fraud. 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. Further, if unauthorized access or sabotage remains undetected for an extended period of time, the effects of such breach could be exacerbated.

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.

Cybersecurity attacks could require significant expenditures of our capital and diversion of our resources. If these attacks are successful, they could result in the theft of proprietary, personally identifiable, confidential and sensitive information of ours, our employees, our customers and our business partners, and could materially disrupt business for us, our customers and our business partners. A successful cybersecurity attack involving our data center, network or software products could also negatively impact the market perception of the effectiveness of our products or lead to contractual disputes, litigation or government regulatory action against us, any of which could materially adversely affect our business, reputation and resulting operations.

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 provide 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 that can be time-consuming, incur substantial costs and divert the attention of management, which could adversely affect our operations and cash flow.

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 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 customers, 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 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 from running our business. 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 solutions 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:

- transition to a subscription revenue model;
- 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 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 have the ability to exercise significant control over matters requiring stockholder approval, including the election of our board of directors, 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 36% of our outstanding capital stock as of December 31, 2018, of which our Chief Executive Officer, Ashutosh Roy, beneficially owned approximately 31% 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, such as a merger or sale of our company or its assets.

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 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 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, attrition in the Indian workforce on which we rely for research and development could 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.

Changes in the European regulatory environment regarding privacy and data protection regulations, such as the European Union's General Data Protection Regulation (GDPR), 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.-European Union (EU) and U.S. - Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the EU and Switzerland, which established a means for legitimating the

transfer of personally identifiable information (PII) by U.S. companies doing business in Europe from the European Economic Area (EEA) to the U.S. As a result of the October 6, 2015 EU Court of Justice (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

49

Harbor Framework is no longer deemed to be a valid method of compliance with restrictions set forth in European law regarding the transfer of data outside of the EEA requiring us to rely on alternative mechanisms permitted under European law, such as consent and EU-specified standard contractual clauses. The U.S. - EU Safe Harbor was replaced with the EU-U.S. Privacy Shield (Privacy Shield) in July 2016 and, starting on August 1, 2016, the Privacy Shield was made available to companies for self-certification. We have self-certified with the Privacy Shield. Nevertheless, some of the mechanisms permitting transfer of data from the EU to the U.S. have been subject to challenges, whose outcomes remain uncertain.

Furthermore, on May 25, 2018, the EU's GDPR became enforceable, imposing new obligations directly on us as both a data controller and a data processor, as well as on many of our customers. It is possible that these new laws may be interpreted or applied in a manner that is adverse to us, unforeseen, or otherwise inconsistent with our practices or that we may not adequately adapt our internal policies and/or procedures to evolving regulations, any of which could result in litigation, regulatory investigations and potential legal liability (including potential liability exposure through higher potential penalties for non-compliance), require us to make changes to our services to enable us and/or our customers to meet the new legal requirements, require us to change our practices in a manner adverse to our business or limit access to our products and services in certain countries. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR) and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks.

We may be unsuccessful in establishing legitimate means of transferring data from the EEA, 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 or the implementation of GDPR, 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 EEA are legitimized. We may find it necessary to establish systems to maintain EU-origin data in the EEA, 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 governmental action if they are found to be deceptive or misrepresentative of our practices. Further, the costs of compliance with, and other burdens imposed by, such laws, regulations and policies that are applicable to us may limit the use and adoption of our products and solutions and could have a material adverse impact on our results of operations.

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. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the EU's e-Privacy Directive (which is set to be replaced in the coming months by a new EU e-Privacy Regulation which will have a "direct effect" in each EU Member State), 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.

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 limit our ability to provide services and harm our business.

Our customers and potential customers conduct 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 we are unable to achieve or maintain these industry-specific certifications or other requirements or standards relevant to our customers, it could adversely affect our ability to provide our services to certain customers and 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 or in a timely manner.

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:

- 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. If our expectations regarding the market for our applications are not met, our business could be seriously harmed.

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 through multiple channels, as well as demand integration of the online channels into the traditional telephone-based call center. 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 cause our business to suffer.

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. Changes in customer and Internet user requirements and preferences, frequent new product and service introductions embodying new technologies 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.

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 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.

In March 2017, the United Kingdom (UK) served notice to the European Council under Article 50 of the Treaty of Lisbon to withdraw membership from the EU. Such exit (referred to as Brexit) could cause disruptions to, and create uncertainty surrounding, our business in the UK and EU, 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 long-term nature of the UK's relationship with the EU is unclear and there is considerable uncertainty if the terms of such relationship will be agreed and implemented prior to the UK's scheduled exit from the EU in March 2019. The political and economic instability created by Brexit has caused and may continue to cause significant volatility in global financial markets and uncertainty regarding the regulation of data protection in the UK. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the UK, the EU, and elsewhere. The effects of Brexit will depend on any agreements the UK makes to retain access to EU markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the UK 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 6. Exhibits

Exhibits No.	Description of Exhibits
10.1#	eGain Corporation 2017 Employee Stock Purchase Plan.
31.1	Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.
31.2	Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 of Ashutosh Roy, Chief Executive Officer.
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 of Eric Smit, Chief Financial Officer.
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of December 31, 2018 and June 30, 2018, (ii) Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2018 and 2017, (iii) Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended December 31, 2018 and 2017, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2018 and 2017 and (v) Notes to Condensed Consolidated Financial Statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

#Indicates management contract or compensatory plan or arrangement.

*In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Exchange Act or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: February 11, 2019	eGAIN CORPORATION	
	By	/s/ Eric Smit Eric N. Smit Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)