EGAIN Corp
Form 10-Q
February 09, 2017
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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, 2016

OR

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

For the transition period from to

Commission File No. 001-35314

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

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

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

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

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 5, 2017
Common Stock $0.001 par value	27,105,471

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eGAIN CORPORATION

Quarterly Report on Form 10-Q

For the Quarterly Period Ended December 31, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

eGAIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except par value data)

	December 31, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,727	$ 11,780
Restricted cash	6	5
Accounts receivable, less allowance for doubtful accounts of $650 and $756 as of December 31, 2016 and June 30, 2016, respectively	8,538	11,876
Deferred commissions	704	787
Prepaid expense	699	1,480
Other current assets	437	426
Total current assets	20,111	26,354
Property and equipment, net	1,395	1,688
Deferred commissions, net of current portion	355	325
Intangible assets, net	3,756	4,839
Goodwill	13,186	13,186
Other assets	1,648	1,671
Total assets	$ 40,451	$ 48,063
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 1,713	$ 2,099
Accrued compensation	3,571	5,642
Accrued liabilities	2,379	5,670
Deferred revenue	13,729	12,672
Capital lease obligations	327	329
Bank borrowings, net of deferred financing costs	833	828
Total current liabilities	22,552	27,240
Deferred revenue, net of current portion	3,179	3,045
Capital lease obligations, net of current portion	87	153
Bank borrowings, net of current portion and deferred financing costs	20,033	20,223
Other long term liabilities	1,763	1,679

Total liabilities	47,614	52,340
Commitments and contingencies (Note 5)		
Stockholders' deficit:		
Common stock, $0.001 par value - authorized: 50,000 shares; outstanding: 27,105 shares as of December 31, 2016 and 27,108 shares as of June 30, 2016	27	27
Additional paid-in capital	343,144	342,689
Notes receivable from stockholders	(81)	(81)
Accumulated other comprehensive loss	(1,544)	(1,663)
Accumulated deficit	(348,709)	(345,249)
Total stockholders' deficit	(7,163)	(4,277)
Total liabilities and stockholders' deficit	$ 40,451	$ 48,063

See accompanying notes to condensed consolidated financial statements

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eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenue:				
Subscription and support	$ 10,982	$ 10,783	$ 21,845	$ 21,625
License	1,418	5,064	3,068	7,490
Professional services	2,599	3,139	4,831	6,347
Total revenue	14,999	18,986	29,744	35,462
Cost of subscription and support	2,800	3,116	5,727	6,195
Cost of license	4	9	11	16
Cost of professional services	2,259	2,851	4,389	6,237
Total cost of revenue	5,063	5,976	10,127	12,448
Gross profit	9,936	13,010	19,617	23,014
Operating expenses:				
Research and development	3,231	4,016	6,906	7,916
Sales and marketing	5,541	7,617	10,781	14,285
General and administrative	1,462	1,893	3,493	4,139
Total operating expenses	10,234	13,526	21,180	26,340
Loss from operations	(298)	(516)	(1,563)	(3,326)
Interest expense, net	(459)	(676)	(881)	(1,009)
Other (loss) income, net	(73)	(74)	35	166
Loss before income tax provision	(830)	(1,266)	(2,409)	(4,169)
Income tax provision	(219)	(113)	(1,051)	(447)
Net loss	$ (1,049)	$ (1,379)	$ (3,460)	$ (4,616)
Per share information:				
Basic and diluted net loss per common share	$ (0.04)	$ (0.05)	$ (0.13)	$ (0.17)
Weighted average shares used in computing basic and diluted net loss per common share	27,106	27,036	27,107	27,029

See accompanying notes to condensed consolidated financial statements

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eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(in thousands)

	Three months ended December 31,		Six months ended December 31,	
	2016	2015	2016	2015
Net loss	$ (1,049)	$ (1,379)	$ (3,460)	$ (4,616)
Other comprehensive loss, net of taxes:				
Foreign currency translation adjustments	1	(66)	119	(165)
Comprehensive loss	$ (1,048)	$ (1,445)	$ (3,341)	$ (4,781)

See accompanying notes to condensed consolidated financial statements

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eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (3,460)	$ (4,616)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	674	1,092
Amortization of acquired intangibles	1,083	1,390
Amortization of deferred commissions	455	359
Amortization of deferred financing costs	87	104
Deferred income taxes	(7)	(10)
Stock-based compensation	459	742
Provisions for doubtful accounts	38	169
Changes in operating assets and liabilities:		
Accounts receivable	2,817	1,540
Deferred commissions	(453)	(353)
Prepaid expenses	745	(111)
Other current assets	(35)	108
Other non-current assets	25	145
Accounts payable	(426)	344
Accrued compensation	(1,950)	(1,758)
Accrued liabilities	(3,204)	533
Deferred revenue	1,704	(2,838)
Other long term liabilities	122	(16)
Net cash used in operating activities	(1,326)	(3,176)
Cash flows from investing activities:		
Purchases of property and equipment	(223)	(342)
Decrease in restricted cash	—	639
Net cash (used in) provided by investing activities	(223)	297
Cash flows from financing activities:		
Payments on bank borrowings	(5,500)	(4,443)
Payments on capital lease obligations	(175)	(332)
Proceeds from bank borrowings	5,227	9,000
Payments made for deferred financing costs	—	(270)
Payments on common stock repurchased	(5)	—
Proceeds from exercise of stock options	2	74
Net cash (used in) provided by financing activities	(451)	4,029
Effect of change in exchange rates on cash and cash equivalents	(53)	9

Net (decrease) increase in cash and cash equivalents	(2,053)	1,159
Cash and cash equivalents at beginning of period	11,780	8,633
Cash and cash equivalents at end of period	$ 9,727	$ 9,792
Supplemental cash flow disclosures:		
Cash paid for interest	$ 808	$ 848
Cash paid for taxes	$ 136	$ 145
Non-cash items:		
Purchases of equipment through trade accounts payable	$ 90	$ 98
Property and equipment acquired under a capital lease	$ 117	$ 132

See accompanying notes to condensed consolidated financial statements

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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 and on-site customer engagement software solutions. For almost two decades, our solutions have helped improve customer experience, grow sales, and optimize service processes across the web, social, and phone channels. Hundreds of global enterprises rely on us to transform fragmented sales engagement and customer service operations into unified customer engagement hubs. We have operations in the United States, United Kingdom, Germany, France, South Africa, and India.

Basis of Presentation

We prepared the condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission 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 notes thereto for the fiscal year ended June 30, 2016, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2016 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, 2017.

Reclassification

Certain reclassifications have been made to the condensed consolidated statement of cash flows for the six months ended December 31, 2015 to conform to the presentation of the six months ended December 31, 2016.

Business Combinations

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

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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.

Information relating to our geographic areas for the three and six months ended December 31, 2016 and 2015 is as follows (unaudited, in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Total Revenue:				
North America	$ 7,600	$ 8,904	$ 14,862	$ 18,504
EMEA	7,289	9,517	14,267	15,706
Asia Pacific	110	565	615	1,252
	$ 14,999	$ 18,986	$ 29,744	$ 35,462
Operating Income (Loss):				
North America	$ (1,468)	$ (1,914)	$ (3,807)	$ (3,116)
EMEA	2,247	2,124	4,036	1,292
Asia Pacific*	(1,077)	(726)	(1,792)	(1,502)
	$ (298)	$ (516)	$ (1,563)	$ (3,326)

*Includes costs associated with corporate support.

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

	December 31, 2016	June 30, 2016
Long-Lived Assets:		

North America	$	759	$	925
EMEA		555		627
Asia Pacific		81		136
	$	1,395	$	1,688

Concentration of Credit Risks

For the three months ended December 31, 2016, one customer accounted for 10% of total revenue. For the three months ended December 31, 2015, two customers accounted for 18% and 10% of total revenue.

For the six months ended December 31, 2016, two customers each accounted for 10% of total revenue. For the six months ended December 31, 2015, one customer accounted for 17% of total revenue.

Revenue Recognition

We enter into arrangements to deliver multiple products or services (multiple-elements). We apply software revenue recognition rules and multiple-elements arrangement revenue guidance. Significant management judgments and estimates are made and used to determine the revenue recognized in any accounting period. Material differences may

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result in changes to the amount and timing of our revenue for any period if different conditions were to prevail. We present revenue, net of taxes collected from customers and remitted to governmental authorities.

We derive revenue from three sources:

(i) Subscription and support fees primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term license revenue, and maintenance and support revenue;

(ii) License fees primarily consist of perpetual software license revenue;

(iii) Professional services primarily consist of consulting, implementation services and training.

Revenue is recognized when all of the following criteria are met:

· Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use signed statement of work as evidence of arrangement for professional services.

· Delivery or performance has occurred: Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with login credentials.

· Fees are fixed or determinable: We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are generally not considered to be fixed or determinable.

· Collectibility is probable: We assess collectibility based on a number of factors, including the customer’s past payment history and its current creditworthiness. Payment terms generally range from 30 to 90 days from invoice date. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment.

We apply the provisions of ASC 985-605, Software Revenue Recognition, to all transactions involving the licensing of software products. In the event of a multiple element arrangement for a license transaction, we evaluate the transaction as if each element represents a separate unit of accounting taking into account all factors following the accounting standards. We apply ASC 605, Revenue Recognition, for cloud transactions to determine the accounting

treatment for multiple elements. We also apply ASC 605-35 for fixed fee arrangements in which we use the percentage of completion method to recognize revenue when reliable estimates are available for the costs and efforts necessary to complete the implementation services. When such estimates are not available, the completed contract method is utilized. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete.

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

We enter into arrangements with multiple-deliverables that generally include subscription, support, and professional services. We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. We use VSOE, of fair value for each of those units, when available. For revenue recognition with multiple-deliverable elements, in certain limited circumstances when VSOE of fair value does not exist, we apply the

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selling price hierarchy, which includes VSOE, third-party evidence of selling price ("TPE"), and best estimate of selling price ("BESP"). We determine the relative selling price for a deliverable based on VSOE, if available, or BESP, if VSOE is not available. We have determined that TPE is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant third-party pricing information.

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

Subscription and Support Revenue

Cloud Revenue

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

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

Term License Revenue

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

Maintenance and Support Revenue

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

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License Revenue

License revenue includes perpetual licenses sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on VSOE of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue, assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services and in some cases, cloud services.

We periodically sell to resellers. License sales to resellers as a percentage of total revenue were approximately 9% and 20% for the three months ended December 31, 2016 and 2015, respectively. License sales to resellers as a percentage of total revenue were approximately 10% and 14% for the six months ended December 31, 2016 and 2015, respectively. Revenue from sales to resellers is generally recognized upon delivery to the reseller but depends on the facts and circumstances of the transaction, such as our understanding of the reseller's plans to sell the software, if there are any return provisions, price protection or other allowances, the reseller's financial status and our experience with the particular reseller. Historically sales to resellers have not included any return provisions, price protections or other allowances.

Professional Services Revenue

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

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

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

For those contracts that have standalone value, we recognized the services revenue when rendered for time and material contracts, when the milestones are achieved and accepted by the customer for fixed price contracts or by percentage of completion basis if there is no acceptance criteria.

For cloud, consulting and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the customer cloud relationship, once the cloud has gone live or is

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system ready. We currently estimate the life of the customer cloud relationship to be approximately 28 months, based on the average life of all cloud customer relationships.

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

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud, term license, and maintenance and support services and is recognized as the revenue recognition criteria are met. We generally invoice customers in annual or quarterly installments. The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable cloud or maintenance and support agreements. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

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

Deferred Commissions

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

The commissions are deferred and amortized over the terms of the related customer contracts, which are typically 12 to 36 months. The commission payments are paid based on contract terms in the month following the quarter in which the commissions are earned. The deferred commission amounts are recognized under “Sales and marketing” expense in the condensed consolidated statements of operations over the terms of the related customer contracts, in proportion to the recognition of the associated 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 collectibility issues. We exercise judgment when determining the adequacy of these reserves as we evaluate historical bad debt trends, general economic conditions in the U.S. and internationally, and changes in customer financial conditions. If we made different judgments or utilized different estimates, material differences may result in additional reserves for trade receivables, which would be reflected by charges in general and administrative expenses for any period presented. We write off a receivable after all collection efforts have been exhausted and the amount is deemed uncollectible.

Deferred Financing Costs

Costs relating to obtaining the credit agreement with Wells Fargo Bank are capitalized and amortized over the term of the related debt using the effective interest method. Deferred financing costs and accumulated amortization as of December 31, 2016 were $820,000 and $381,000, respectively, and are included net of bank borrowings in the accompanying condensed consolidated balance sheets. Deferred financing costs and accumulated amortization with Wells Fargo Bank as of June 30, 2016 were $820,000 and $294,000, respectively. Amortization of deferred financing costs recorded as interest expense was $43,000 and $87,000 for the three and six months ended December 31, 2016, respectively, and $94,000 and $104,000 for the three and six months ended December 31, 2015, respectively. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

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Leases

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

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

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

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation—Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of the stock-based awards at the grant date requires significant judgment and the use of estimates, particularly surrounding Black-Scholes valuation model 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,	
	2016	2015	2016	2015
Stock-Based Compensation:				
Cost of revenue	$ 34	$ 66	$ 79	$ 160
Research and development	81	123	169	270
Sales and marketing	58	(62)	116	70
General and administrative	50	102	95	242
Total stock-based compensation expense:	$ 223	$ 229	$ 459	$ 742

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 Securities and Exchange Commission on a Registration Statement on Form S-8.

During the three months ended December 31, 2016 and 2015, we granted options to purchase 46,100 and 110,600 shares of common stock with a weighted-average fair value of $1.17 and $2.08, per share, respectively. During the six months ended December 31, 2016 and 2015, we granted options to purchase 86,100 and 260,750 shares of common stock with a weighted-average fair value of $1.21 and $2.12, per share, respectively, using the following assumptions:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Dividend yield	—	—	—	—
Expected volatility	52 %	58 %	54 %	62 %
Average risk-free interest rate	1.61 %	1.59 %	1.39 %	1.57 %
Expected life (in years)	5.03	5.05	5.98	5.00

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

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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.

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.

Total compensation cost, net of forfeitures, of all options granted but not yet vested as of December 31, 2016 was $579,713, which is expected to be recognized over the weighted-average period of 1.30 years. There were 1,600 options exercised during the three and six months ended December 31, 2016, respectively. There were 26,264 and 27,264 options exercised during the three and six months ended December 31, 2015, respectively.

New Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. Early adoption is permitted. We are currently assessing the future impact of this update on our consolidated financial statements and related disclosures.

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 Early adoption is permitted. We are currently assessing the future impact of this update on our consolidated financial statements and related disclosures.

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. Early adoption is permitted. We are currently assessing the future impact of this update on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 (our fiscal 2018), and interim periods within those annual periods. Early adoption is

permitted. We are currently assessing the future impact of this update on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02 Leases, 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. We are currently assessing the future impact of this update on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update are effective for annual

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reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim periods within that reporting period, with early application permitted for periods beginning after December 31, 2016. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies how to apply the implementation guidance on principal versus agent considerations related to the sale of goods or services to a customer as updated by ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing, which clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas, as updated by ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which makes narrow scope amendments to Topic 606 including implementation issues on collectability, non-cash consideration and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which clarifies certain required disclosure of performance obligations and contract modifications under Topic 606. We are currently evaluating the effects the adoption of this guidance will have on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern, which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments in this update are effective for the annual periods ending after December 15, 2016 (our fiscal 2018). We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

Note 2. Net Loss per Common Share

Basic net 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 outstanding 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 loss per common share (unaudited, in thousands, except per share data):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net loss applicable to common stockholders	$ (1,049)	$ (1,379)	$ (3,460)	$ (4,616)
Basic net loss per common stock	$ (0.04)	$ (0.05)	$ (0.13)	$ (0.17)

Weighted-average common shares used in computing basic net loss per common share	27,106	27,036	27,107	27,029
Effect of dilutive options	—	—	—	—
Weighted-average common shares used in computing diluted net loss per common share	27,106	27,036	27,107	27,029
Diluted net loss per common stock	$ (0.04)	$ (0.05)	$ (0.13)	$ (0.17)

Weighted-average shares of stock options to purchase 2,397,027 and 2,437,979 shares of common stock for the three and six months ended December 31, 2016, respectively, and 2,748,011 and 2,712,869 shares of common stock for the three and six months ended December 31, 2015, respectively, were not included in the computation of diluted net loss per common share due to their anti-dilutive effect. Such securities could have a dilutive effect in future periods.

Note 3. Bank Borrowings

On November 21, 2014, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, as administrative agent and the lenders party thereto. The Credit Agreement provides for the extension of revolving loans

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("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 recurring revenues 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 Bank, National Association 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 term loans.

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. In addition, the Credit Agreement contains financial covenants which initially require us to achieve minimum EBITDA and liquidity levels. However, subject to the conditions of the Credit Agreement, once we have achieved a minimum Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of 1.50 to 1.00 and a Leverage Ratio of less than 2.50 to 1.00, we will be required to comply with a minimum Fixed Charge Coverage Ratio and a specific Leverage Ratio.

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 Bank.

On September 2, 2015, the Company entered into Amendment Number One (the "Amendment") to that certain Credit Agreement, dated as of November 21, 2014 (as further amended, restated, supplemented or otherwise modified from

time to time), among us, the lenders, and Wells Fargo Bank, as administrative agent. Pursuant to the Amendment, we increased the total maximum revolving loan commitments thereunder from $10.0 million to $15.0 million and increased the quarterly amortization 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 in each quarter ending thereafter. Borrowings under the Amendment 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 Bank, National Association as its “prime rate,” plus 6.0%. In connection with the Amendment, certain fees were also modified such that prior to the first anniversary of the Amendment, 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

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prepaid or reduced. The financial covenants concerning minimum EBITDA and liquidity levels contained in the Credit Agreement were modified in the Amendment as follows:

1. We were required to achieve minimum EBITDA of not more negative than $1.68 million for the three (3) month period ended September 30, 2015 and not more negative than $2.228 million for the six (6) month period ended December 31, 2015. Thereafter, minimum EBITDA levels will be based on amounts agreed to by us and the requisite lenders based upon annual projections delivered to the agent, and the failure to reach an agreement on reset minimum EBITDA levels acceptable to the agent in its sole discretion shall constitute an event of default under the Credit Agreement; and
2. We were required to achieve minimum liquidity of at least $10.0 million for the month ended December 31, 2015 and at all times thereafter.

As of December 31, 2016, we are in compliance with these financial covenant terms. On January 27, 2016, the Company and Wells Fargo Bank amended the Credit Agreement to modify minimum EBITDA, minimum liquidity and certain other financial covenants. See Note 9 Subsequent Events.

As of December 31, 2016 and June 30, 2016, balances on the Term Loan and Revolving Loans were (unaudited, in thousands):

	December 31, 2016	June 30, 2016
Bank Borrowings:		
Term Loan	$ 8,375	$ 8,875
Revolving Loan	12,930	12,702
Subtotal of bank borrowings	21,305	21,577
Less amounts representing deferred financing costs	(439)	(526)
Total bank borrowings	20,866	21,051
Less current maturities	(833)	(828)
Bank borrowings, net of current portion and deferred financing costs	$ 20,033	$ 20,223

Note 4. 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 as well as Exony's business have historically been profitable and we believe it is more likely than not that those assets will be realized. Our tax provision primarily relates to foreign operations and realized benefits of amortized book intangibles as well as state income taxes. Our income tax rate differs from the statutory tax rates primarily due to the utilization of net operating loss carry-forwards which had previously been valued against as well as different tax rates in our foreign operations.

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

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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 June 30, 2016 and in the six months ended December 31, 2016.

Note 5. Commitments and Contingencies

Leases

We entered into a sublease agreement that commenced on August 8, 2015 and that expired on August 31, 2016. Rental income from the sublease was approximately $426,000 for the year ended June 30, 2016. The sublease tenant did not renew and in accordance with ASC 420 Exit or Disposal Cost Obligations, we recorded a $305,000 lease exit liability and related rent expense on June 30, 2016 for an expected loss on the sublease for approximately 22,000 square feet of space as we will not receive sublease payments until another sublease tenant is found. The sublease is under our master lease agreement for our Sunnyvale facility. We classified all of the $305,000 lease exit liability in current liabilities in the accompanying consolidated balance sheets as of June 30, 2016. We expect the future minimum lease payments under non-cancellable operating leases to be offset with sub-lease income, once a tenant is secured.

In December 2016, we entered into a two year sublease agreement for the 22,000 square feet of space with a subtenant that commenced on January 1, 2017. As a result, the remaining lease exit liability was reversed as a credit to rent expense.

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. Accordingly, we have no liabilities recorded for these costs as of December 31, 2016 and June 30, 2016. However, we cannot guarantee that a warranty reserve will not become necessary in the future.

Indemnification

We have also 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 believe that such assessments are without merit and would not have a significant impact on our condensed consolidated financial statements.

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Litigation

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

We 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.

Note 6. Fair Value Measurement

ASC 820, Fair Value Measurement and Disclosures ("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, 2016 and June 30, 2016, we did not have any material Level 1, 2, or 3 assets or liabilities.

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

Note 7. Share Repurchase Program

On September 14, 2009, we announced that our board of directors approved a repurchase program under which we may purchase up to 1,000,000 shares of our common stock. The duration of the repurchase program is open-ended. Under the program, we purchase shares of common stock from time to time through the open market and privately negotiated transactions at prices deemed appropriate by management. The repurchase is funded by cash on hand. For the three and six months ended December 31, 2016, we repurchased 4,557 shares of common stock related to a departed employee. There were no shares repurchased for the three and six months ended December 31, 2015.

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Note 8. Intangible assets

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

Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Balance December 31, 2016	Life	Income Statement Category
Developed technology	$ 6,990	$ (4,199)	$ 2,791	4	Research and development expense
Customer relationships - software contracts	1,380	(1,380)	-	2	Sales and marketing expense
Customer relationships - maintenance contracts	1,610	(645)	965	6	Cost of sales
Trade name	150	(150)	-	2	General and administrative expense
	$ 10,130	$ (6,374)	$ 3,756		

Intangible Asset	Gross Carrying Amount	Accumulated Amortization	Net Balance June 30, 2016	Life	Income Statement Category
Developed technology	$ 6,990	$ (3,325)	$ 3,665	4	Research and development expense
Customer relationships - software contracts	1,380	(1,313)	67	2	Sales and marketing expense
Customer relationships - maintenance contracts	1,610	(510)	1,100	6	Cost of sales
Trade name	150	(143)	7	2	General and administrative expense
	$ 10,130	$ (5,291)	$ 4,839		

Amortization expense related to the above intangible assets for the three and six months ended December 31, 2016 was $504,000 and $1.1 million, respectively. Amortization expense related to the above intangible assets for the three and six months ended December 31, 2015 was $695,000 and $1.4 million, respectively.

Estimated future amortization expense remaining at December 31, 2016 for intangible assets acquired is as follows:

Year Ending June 30,	
2017	$ 1,008
2018	2,016
2019	438
2020	268
thereafter	26
Total future amortization expense	$ 3,756

Note 9. Subsequent Events

On January 27, 2017, the Company entered into Amendment Number Two to the Credit Agreement (the "Amendment No. 2"), which amends the Credit Agreement dated as of November 21, 2014, among the Company, Wells Fargo Bank, National Association, as agent, and the lenders party thereto (as amended, the "Credit Agreement"). Pursuant to the Amendment, the Applicable Margin (as defined in the Credit Agreement) at which LIBOR loans advanced under the Credit Agreement bear interest may now be either 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 hosted, subscription and maintenance fee revenues attributable to the Company's software. Loans may also bear interest under the Credit Agreement at the 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 the Amendment No. 2, a 1.0% fee will also be payable until the first anniversary of the Amendment No. 2 on the amount of any voluntary prepayment of the term loan

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advanced under the Credit Agreement or the amount of any voluntary reduction of revolving commitments provided under the Credit Agreement.

The Amendment No. 2 modifies the two financial covenants the Company is required to comply with until the “Financial Covenant Replacement Date” (as defined in the Credit Agreement) has occurred. The Financial Covenant Replacement Date 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 such terms are defined in the Credit Agreement). In addition, the Financial Covenant Replacement Date will not be deemed to occur unless the Company is in compliance with the applicable Leverage Ratio as of the last day of the fiscal quarter preceding the test date.

Under the Amendment No. 2 the minimum EBITDA (as defined in the Credit Agreement and specific to Wells Fargo) levels the Company is required to achieve on and prior to the Financial Covenant Replacement Date were modified to be, as of the end of each fiscal quarter, at the least the amount set forth in the table below for the applicable period opposite such amount:

Applicable Amount	Applicable Period
($900,000)	For the four quarter period ending December 31, 2016
($2,000,000)	For the four quarter period ending March 31, 2017
($4,500,000)	For the four quarter period ending June 30, 2017
($6,100,000)	For the four quarter period ending September 30, 2017
($5,100,000)	For the four quarter period ending December 31, 2017
($3,800,000)	For the four quarter period ending March 31, 2018
($3,000,000)	For the four quarter period ending June 30, 2018
($1,500,000)	For the four quarter period ending September 30, 2018
$0	For the four quarter period ending December 31, 2018
$1,500,000	For the four quarter period ending March 31, 2019
$3,000,000	For the four quarter period ending June 30, 2019
$4,000,000	For the four quarter period ending September 30, 2019

In addition, the amount of Liquidity (as defined in the Credit Agreement) the Company is required to maintain on and prior to the Financial Covenant Replacement Date was reduced from $10 million to $4 million.

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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, 2016.

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

Forward looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expected. These risks and uncertainties include, but are not limited to, those risks discussed in "Risk Factors" Item 1A in this report and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 which is incorporated herein by reference. Our actual results could differ materially from those discussed in statements relating to our future plans, product releases, objectives, expectations and intentions, and other assumptions underlying or relating to any of these statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below, under "Risk Factors" and elsewhere in this report, for factors that may cause actual results to be different than those expressed

in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

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

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

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Overview

eGain is a leading provider of cloud-based customer engagement software solutions. For over a decade, we have helped businesses that sell to consumers, or B2C enterprises, improve customer experience, grow sales, and reduce cost across the web, social, phone and store channels – using our best-in-class knowledge management, digital engagement and contact center analytics capabilities. Hundreds of global enterprises rely on us to transform fragmented sales engagement and customer service operations into unified customer engagement hubs. We have operations in the United States, United Kingdom, Germany, France, South Africa and India.

Unbilled Deferred Revenue

Unbilled deferred revenue represents business that is contracted but not yet invoiced or collected and off–balance-sheet and, accordingly, is not recorded in deferred revenue. As such, the deferred revenue balance on our condensed consolidated balance sheets does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. As of December 31, 2016, unbilled deferred revenue decreased to $29.5 million, from approximately $31.1 million as of June 30, 2016.

Key Financial Measures

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

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

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenue	$ 14,999	$ 18,986	$ 29,744	$ 35,462
Add: Purchase accounting adjustments to deferred revenue related to acquisitions	8	19	24	39
Non-GAAP Revenue	15,007	19,005	29,768	35,501
Gross Profit	9,936	13,010	19,617	23,014
Adjusted EBITDA				
Net loss	$ (1,049)	$ (1,379)	$ (3,460)	$ (4,616)
Add: Purchase accounting adjustments to deferred revenue related to acquisitions	8	19	24	39
Depreciation and amortization	320	543	674	1,092
Stock-based compensation expense	223	229	459	742
Interest expense, net	459	676	881	1,009
Income tax provision	219	113	1,051	447
Amortization of acquired intangible assets	504	695	1,083	1,390
Severance and related charges	—	147	47	171
Adjusted EBITDA	$ 684	$ 1,043	$ 759	$ 274

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations discuss our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires our 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 expense during the reporting period. On an on-going basis, our management evaluates its estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts, deferred tax valuation allowance and accrued liabilities, long-lived assets, stock-based compensation goodwill and intangible assets and contingencies. 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.

There have been no material changes to these estimates for the periods presented in this Quarterly Report on Form 10-Q. For a detailed explanation of the judgments made in these areas, refer to “Management’s Discussion and Analysis

of Financial Condition and Results of Operations" within our Annual Report on Form 10-K for the year ended June 30, 2016, which we filed with the Securities and Exchange Commission, or SEC, on September 13, 2016.

We have reassessed the critical accounting policies as disclosed in our Annual Report on Form 10-K filed with the SEC on September 13, 2016 and determined that there were no significant changes to our critical accounting policies in the three months ended December 31, 2016.

Business Combinations

Business combinations are accounted for at fair value under the purchase method of accounting. Acquisition costs are expensed as incurred and recorded in general and administrative expenses and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date affect income tax expense. The accounting for business combinations requires estimates and judgment as to expectations for future cash flows of the acquired business,

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and the allocation of those cash flows to identifiable intangible assets, in determining the estimated fair value for assets acquired and liabilities assumed. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. If the actual results differ from the estimates and judgments used in these estimates, the amounts recorded in the condensed consolidated financial statements could result in a possible impairment of the intangible assets and goodwill, or require acceleration of the amortization expense of finite-lived intangible assets.

Revenue Recognition

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

(i) Subscription and support fees primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term license revenue, and maintenance and support revenue;

(ii) License fees primarily consist of perpetual software license revenue;

(iii) Professional services primarily consist of consulting, implementation services and training.

Revenue is recognized when all of the following criteria are met:

· Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use signed statement of work as evidence of arrangement for professional services.

· Delivery or performance has occurred: Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with login credentials.

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Fees are fixed or determinable: We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are generally not considered to be fixed or determinable.

· Collectibility is probable: We assess collectibility based on a number of factors, including the customer's past payment history and its current creditworthiness. Payment terms generally range from 30 to 90 days from invoice date. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment.

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

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

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

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

Subscription and Support Revenue

Cloud Revenue

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

We consider the applicability of ASC 985-605, on a contract-by-contract basis. In cloud services agreements, where the customer does not have the contractual right to take possession of the software, the revenue is recognized on a

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

Term License Revenue

Term license revenue includes arrangements where our customers receive license rights to use our software along with bundled maintenance and support services for the term of the contract. The majority of our contracts provide

customers with the right to use one or more products up to a specific license volume. Certain of our license agreements specify that customers can exceed pre-determined base volume levels, in which case additional fees are specified in the license agreement. Term license revenue is recognized ratably over the term of the license contract.

Maintenance and Support Revenue

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

License Revenue

License revenue includes perpetual licenses sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on VSOE of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue, assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services and in some cases, cloud services.

We periodically sell to resellers. License sales to resellers as a percentage of total revenue were approximately 9% and 20% for the three months ended December 31, 2016 and 2015, respectively. License sales to resellers as a percentage of total revenue were approximately10% and 14% for the six months ended December 31, 2016 and 2015, respectively. Revenue from sales to resellers is generally recognized upon delivery to the reseller but depends on the facts and circumstances of the transaction, such as our understanding of the reseller's plans to sell the software, if there are any return provisions, price protection or other allowances, the reseller's financial status and our experience with the particular reseller. Historically sales to resellers have not included any return provisions, price protections or other allowances.

Professional Services Revenue

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

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

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

For those contracts that have standalone value, we recognized the services revenue when rendered for time and material contracts, when the milestones are achieved and accepted by the customer for fixed price contracts or by percentage of completion basis if there is no acceptance criteria.

For cloud, consulting and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the customer cloud relationship, once cloud has gone live or system ready. We currently estimate the life of the customer cloud relationship to be approximately 28 months, based on the average life of all cloud customer relationships.

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

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud, term license, and maintenance and support services and is recognized as the revenue recognition criteria are met. We generally invoice customers in annual or quarterly installments. The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable cloud or maintenance and support agreements. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

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

Deferred Commissions

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

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

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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,			
	2016		2015		2016		2015	
Revenue:								
Subscription and support	73	%	57	%	73	%	61	%
License	10	%	27	%	11	%	21	%
Professional services	17	%	16	%	16	%	18	%
Total revenue	100	%	100	%	100	%	100	%
Cost of subscription and support	19	%	16	%	19	%	17	%
Cost of license	—	%	—	%	—	%	—	%
Cost of professional services	15	%	15	%	15	%	18	%
Total cost of revenue	34	%	31	%	34	%	35	%
Gross profit	66	%	69	%	66	%	65	%
Operating expenses:								
Research and development	22	%	22	%	23	%	22	%
Sales and marketing	37	%	40	%	36	%	40	%
General and administrative	9	%	10	%	12	%	12	%
Total operating expenses	68	%	72	%	71	%	74	%
Loss from operations	(2)	%	(3)	%	(5)	%	(9)	%

Revenue

	Three Months Ended December 31,					Six Months Ended December 31,				
(in thousands)	2016	2015	Change	%		2016	2015	Change	%	
Subscription and support	$ 10,982	$ 10,783	$ 199	2	%	$ 21,845	$ 21,625	$ 220	1	%
License	1,418	5,064	(3,646)	(72)	%	3,068	7,490	(4,422)	(59)	%
Professional services	2,599	3,139	(540)	(17)	%	4,831	6,347	(1,516)	(24)	%

Total revenue	$ 14,999	$ 18,986	$ (3,987)	(21)%	$ 29,744	$ 35,462	$ (5,718)	(16)%

Total revenue decreased 21% to $15.0 million in the quarter ended December 31, 2016 from the comparable year-ago quarter. Total revenue decreased 16% to $29.7 million for the six months ended December 31, 2016 from the comparable year-ago period. The decreases are attributable to the shift from perpetual license business towards a cloud delivery model and lower professional services revenue due to a reduction in time and effort required for an average project.

Subscription and support revenue, which is comprised of cloud, term license and software maintenance and support revenue, increased to 2% to $11.0 million in the quarter ended December 31, 2016 from $10.8 million in the comparable year-ago quarter. Subscription and support revenue increased 1% to $21.8 million in the six months ended December 31, 2016 from $21.6 million in the comparable year-ago period. The increases in subscription and support revenue were primarily due to increases in the cloud business.

License revenue decreased 72% to $1.4 million in the quarter ended December 31, 2016 from $5.1 million in the comparable year-ago quarter. License revenue decreased 59% to $3.1 million in the six month ended December 31, 2016 from $7.5 million in the comparable year-ago quarter. The decreases in license revenue were primarily due to the shift from perpetual license business towards a cloud delivery model.

Professional services revenue decreased 17% to $2.6 million in the quarter ended December 31, 2016 from $3.1 million in the comparable year-ago quarter. Professional services revenue decreased 24% to $4.8 million in the six

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months ended December 31, 2016 from $6.3 million in the comparable year-ago period. The decreases in professional services revenue were primarily due to a reduction in time and effort required for an average project as a result of improvements in our product deployment process.

Revenue by Geographic Area

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2016	2015	Change	%	2016	2015	Change	%
Domestic	$ 7,600	$ 8,904	$ (1,304)	(15)%	$ 14,862	$ 18,504	$ (3,642)	(20)%
International	7,399	10,082	(2,683)	(27)%	14,882	16,958	(2,076)	(12)%
Total revenue	$ 14,999	$ 18,986	$ (3,987)	(21)%	$ 29,744	$ 35,462	$ (5,718)	(16)%

Revenue from domestic sales decreased primarily due to lower license and support revenue associated with the shift towards a cloud delivery model. Revenue from domestic sales decreased 15% to $7.6 million in the three months ended December 31, 2016 from $8.9 million in the comparable year-ago quarter. Revenue from international sales decreased 27% to $7.4 million in the three months ended December 31, 2016 from $10.1 million in the comparable year-ago quarter.

Revenue from domestic sales decreased 20% to $14.9 million in the six months ended December 31, 2016 from $18.5 million in the comparable year-ago period. Revenue from international sales decreased 12% to $14.9 million in the six months ended December 31, 2016 from $17.0 million in the comparable year-ago period.

The impact of the foreign exchange fluctuation between the U.S. Dollar and the Euro and British Pound resulted in a net decrease of $1.5 million and $2.8 million in total revenue in the three and six months ended December 31, 2016, respectively. To measure the impact of foreign exchange rate fluctuation, we recalculate current period results using the comparable prior period exchange rate.

Cost of Revenue

Three Months Ended December 31,	Six Months Ended December 31,

(in thousands)	2016	2015	Change	%	2016	2015	Change	%
Subscription and support	$ 2,800	$ 3,116	$ (316)	(10) %	$ 5,727	$ 6,195	$ (468)	(8) %
License	4	9	(5)	(56) %	11	16	(5)	(31) %
Professional services	2,259	2,851	(592)	(21) %	4,389	6,237	(1,848)	(30) %
Total cost of revenue	$ 5,063	$ 5,976	$ (913)	(15) %	$ 10,127	$ 12,448	$ (2,321)	(19) %
Percentage of total revenue	34 %	31 %			34 %	35 %		
Gross margin	66 %	69 %			66 %	65 %		

Cost of revenue primarily consists of compensation and benefits for our personnel who provide customer service to our customers for consulting, software maintenance and support services and personnel who support our server and network infrastructure, fees for outside consultants and, to a lesser extent, occupancy costs and related overhead. Total cost of revenue decreased 15% to $5.1 million in the quarter ended December 31, 2016 from $6.0 million in the comparable year-ago quarter. The change was primarily due to decreases of (i) $459,000 in personnel and personnel-related expenses, (ii) $436,000 in foreign exchange fluctuation mainly between the U.S. Dollar and British Pound caused by the effects of Brexit, as well as the Euro, and India Rupee; and (iii) $89,000 in outside consulting services; partially offset by an increase of $80,000 in hosting related expenses. Gross margin for the quarter ended December 31, 2016 was 66% compared to 69% in the comparable year-ago quarter.

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Total cost of revenue decreased 19% to $10.1 million in the six months ended December 31, 2016 from $12.4 million in the comparable year-ago period. The change was primarily due to decreases of (i) $1.4 million in personnel and personnel-related expenses resulting from improvements to our product that has simplified the deployment process thereby reducing the effort previously required, and the business decision to shift these services over to our partners; (ii) $814,000 in foreign exchange fluctuation mainly between the U.S. Dollar and British Pound caused by the effects of Brexit, as well as the Euro, and India Rupee; (iii) $341,000 in outside consulting services; partially offset by an increase of $178,000 in cloud related expense such as hosted network and lease costs paid to remote co-location centers. Gross margin for the six months ended December 31, 2016 was 66% compared to 65% in the comparable year-ago period.

Excluding any fluctuations of foreign exchange rates in European and Indian currencies against the U.S. Dollars and changes in severance and related charges, we anticipate cost of subscription and support to remain relatively constant in dollar terms in fiscal year 2017 and the gross margin to remain relatively constant as we continue to invest in our cloud infrastructure. We anticipate cost of license and the cost of professional services to remain relatively constant based upon our current business plan.

Operating Expenses

Research and Development

(in thousands)	Three Months Ended December 31, 2016	2015	Change	%	Six Months Ended December 31, 2016	2015	Change	%
Research and development	$ 3,231	$ 4,016	$ (785)	(20) %	$ 6,906	$ 7,916	$ (1,010)	(13) %
Percentage of total revenue	22 %	22 %			23 %	22 %		

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. Total costs for research and development decreased 20% to $3.2 million in the quarter ended December 31, 2016 from $4.0 million in the comparable year-ago quarter. The change was primarily due to decreases of (i) $564,000 in personnel and personnel-related expenses; (ii) $40,000 in outside consulting services; and (iii) $182,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee. Total research and development revenue as a percentage of total revenue was 22% for the quarters ended December 31, 2016 and 2015, respectively.

Total costs for research and development decreased 13% to $6.9 million in the six months ended December 31, 2016 from $7.9 million in the comparable year-ago period. The change was primarily due to decreases of (i) $603,000 in personnel and personnel-related expenses; (ii) $67,000 in outside consulting services; and (iii) $340,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee. Total research and development revenue as a percentage of total revenue was 23% and 22% for the six months ended December 31, 2016 and 2015, respectively.

Excluding any fluctuations of foreign exchange rates in European and Indian currencies against the U.S. Dollar and changes in severance and related charges, we anticipate research and development expense to be relatively constant in dollar terms in future quarters based upon our current business plan.

Sales and Marketing

(in thousands)	Three Months Ended December 31, 2016	2015	Change	%	Six Months Ended December 31,