EGAIN Corp
Form 10-K
September 26, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2017

or

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

For the transition period from   to

Commission File Number: 001-35314

eGain Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0466366 (I.R.S. Employer Identification No.)

1252 Borregas Avenue

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 636-4500

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (based on the closing price on the Nasdaq Capital Market) on December 31, 2016, was approximately $17.7 million. For purposes of the foregoing calculation only, the registrant has included in the shares owned by affiliates the beneficial ownership of voting and non-voting common equity of officers and directors, and affiliated entities, of the registrant and members of their families. Such inclusion shall not be construed as an admission that any such person is an affiliate for any other purpose.

There were 27,230,571 shares of the Registrant's Common Stock $0.001 par value, outstanding on September 19, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors), 11, 12, 13 and 14 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2017 Annual Meeting of Stockholders.

Table of Contents

eGAIN CORPORATION

TABLE OF CONTENTS

2017 FORM 10-K

1.	Business	4
1A.	Risk Factors	10
1B.	Unresolved Staff Comments	25
2.	Properties	25
3.	Legal Proceedings	25
4.	Mine Safety Disclosures	25
	PART II	
5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
6.	Selected Financial Data	29
7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	30
7A.	Quantitative and Qualitative Disclosures About Market Risk	47
8.	Financial Statements and Supplementary Data	49
9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	83
9A.		83

	Controls and Procedures	
9B.	Other Information	83
	PART III	
10.	Directors, Executive Officers and Corporate Governance	84
11.	Executive Compensation	84
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	84
13.	Certain Relationships and Related Transactions and Director Independence	84
14.	Principal Accounting Fees and Services	84
	PART IV	
15.	Exhibits and Financial Statement Schedules	85
	Signatures	87

Table of Contents

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

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

3

Table of Contents

PART I

ITEM 1.BUSINESS

Overview

eGain Corporation is a leading provider of cloud-based customer engagement software. We help business-to-consumer (B2C) brands operationalize digital customer engagement strategy. Our suite includes rich applications for digital interaction, knowledge management, and artificial intelligence (AI)-based process guidance. We also provide advanced, integrated analytics for contact centers and digital properties to holistically measure, manage, and optimize resources. Benefits include reduced customer effort, customer satisfaction, connected service processes, converted upsell opportunities, and improved compliance—across mobile, social, web, and phone. Hundreds of global enterprises rely on eGain to transform fragmented customer service systems into unified Customer Engagement Hubs.

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

Industry Background

As products become commoditized in a global economy and a digital world, customer loyalty increasingly depends on ease of doing business. Today's digital consumers expect to be served intelligently across all touch points. In response, businesses are seeking efficient, scalable solutions to deliver smart customer experiences that are quick and easy.

Traditional customer relationship management (CRM) solutions are not designed for the digital world. Mostly, they view the phone as the primary customer interaction channel. Digital channels like web, mobile and social are not designed into the solution from the start. As a result, customer journeys tend to be fragmented and inconsistent across channels, especially digital-first engagements. Moreover, traditional CRM tools do not natively leverage the power of AI, knowledge and analytics to automate and optimize customer journeys as well as to enhance agent capability.

The eGain Solution

Our solution make it easy for B2C businesses to engage customers in a digital world across all touch points, delivering the following benefits:

- Build profitable long-term customer relationships. Customers are spending more time conducting business on mobile, social and web. Our solution helps businesses design brand-aligned, omnichannel customer journeys that are easy, quick and helpful. Whether a customer is looking to buy, ask a question, or pay a bill, our solution helps businesses provide customers personalized, guided and consistent responses. As a result, businesses improve their customer satisfaction and NPS scores.
- Reduce operating costs through self-service automation and improved agent productivity. Our solution helps companies provide highly effective customer service while reducing operating costs. Robust customer self-service tools fronted by chatbots, guided by AI, and scaffolded with context-aware escalation paths reduce cost of service without compromising customer effort. Intelligent routing, auto-response, tracking, and reporting features, complemented with agent-facing knowledge tools, measurably enhance the productivity of service agents.
- Increase revenue through intelligent offers and contextual promotions. Our solution also helps businesses convert more website visitors into buyers, reduce shopping cart abandonment and increase average order value. It enables agents to contextually up-sell and cross-sell products in the course of customer interactions. A visitor to a website using eGain is proactively offered personalized promotions or real-time assistance, based on configurable business rules informed by visitor behavior and history. Visitors collaborate with a customer service agent live over the web

through click-to-call, text or video chat, and cobrowse to inquire about and buy a product.

Table of Contents

Products and Services

eGain Suite

Recognized by industry analysts and trusted by leading companies worldwide, the eGain software suite helps businesses engage, acquire, and serve customers through multiple engagement channels. Modular, best-of-breed applications—built on a customer engagement hub platform—combine 360-degree customer context, AI-powered process guidance, and actionable knowledge to enhance every customer interaction. Designed to rapidly implement and optimize digital-first customer engagement strategies, the eGain suite consists of:

- Mobile applications to engage customers through smartphones and tablets.
- Social applications to deliver comprehensive social media based customer service capability and are embedded into desktop applications in the eGain Suite.
- Web applications to transform B2C websites into interactive shopping destinations.
- Desktop applications to help traditional call centers evolve into AI-and-knowledge-powered omnichannel customer engagement hubs.
- Management applications to provide the insight and capabilities needed to drive smarter contact center operations.
- Messaging applications to provide a rich set of secure, personalized customer communication options.

Mobile Applications

- eGain Mobile™ makes mobile engagement easy. It enables businesses to offer all engagement options in the eGain suite to mobile users. Capabilities include mobile virtual assistant, offers, chat, click-to-call, cobrowsing, self-service, and notifications.

Web Applications

- eGain Offers™ helps businesses engage visitors on the company website and Facebook fan pages with proactive, targeted offers. Using browsing behavior and other customer attributes, the solution anticipates visitor needs and proactively serves a personalized offer for sales promotion, customer self-service or agent assistance.
- eGain Virtual Assistant™, a key AI-based application in the eGain portfolio, enables conversational automation to engage customers across digital touch points. It leverages Multilingual and emotionally intelligent, eGain virtual assistants are deployed on websites and mobile devices and support seamless integration with assisted channels.
- eGain Cobrowse™ enables phone and chat reps to show customers around the website, help locate information, and "hand-hold" them through anxiety-ridden tasks such as complex forms committing consumers to significant decisions in health care, finance and government. It offers secure, hypertext markup language (HTML)-based cobrowsing without any customer download requirement. All actions during the cobrowse session are tracked, auditable and controlled through a combination of user roles and fine-grained business rules.
- eGain Super Chat™ enables website visitors to conduct text, short message service (SMS), Facebook Messenger, audio and video chats with agents. It gives agents a comprehensive set of tools to engage customers in real-time. The system's flexible routing and workflow maximize agent productivity and optimize interaction quality.
- eGain ClickToCall™ provides website visitors the ability to request a callback. Callbacks can be scheduled according to the customer's convenience or be established in real-time. Customer browsing context is shared with the agent to seamlessly leverage eGain Cobrowse during the voice call.

Table of Contents

- eGain SelfService™ is a comprehensive customer self-service application with a rich set of capabilities, including AI-based virtual assistant, process guidance, dynamic FAQs, topic-based browsing, natural language search, and case tracking.

Desktop Applications

- eGain Advisor Desktop™ is a reimagined desktop for customer service advisors in a digital world. It is built ground up to be digital-first, knowledge-infused, AI-guided and analytics-powered. Unlike traditional CRM applications built on the phone-first interaction model in early 1990s, the eGain Advisor Desktop seamlessly blends digital self-service engagement with intelligent assisted escalation in a productive, painless, proactive and personalized manner. Interactions across all digital and voice channels can be resolved in one place.
- eGain CallTrack™ is a comprehensive and a flexible call logging system. Together with eGain Knowledge™, it provides an integrated application for logging, tracking, and resolving customer issues. It also features task-based workflows and process management for service fulfillment.
- eGain Mail+Social™ is an industry-leading application for processing inbound customer emails and providing mission-critical email customer response, incorporating hundreds of best practices developed over years of serving innovative global enterprises. The application also enables social media-based customer service, knowledge harvesting, single-source social publishing, and reputation management.
- eGain Knowledge+AI™ empowers contact center agents with best-practice AI-powered knowledge management and is designed to make every agent as productive and capable as the enterprise's best agent. eGain Knowledge uses patented AI technology coupled with natural language processing to establish intent and guide advisors to resolve customer inquiries.

Management Applications

- eGain Operational Analytics™ helps businesses monitor, measure, and manage their omnichannel contact center operation. It offers both insight and the ability to intervene effectively.

Messaging Applications

- eGain Secure Messaging™ enables secure and authenticated messaging for business with their customers. It is a secure web-based portal for customers to read confidential messages, including attachments.
- eGain Notify™ is a flexible, responsive and scalable application to deliver automatic reminders, alerts, and updates at all stages of the customer journey. Typically, businesses use the application to deliver targeted, personalized, triggered alerts—across SMS, email, secure message and voice mail.

Cloud Operations

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

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

We continuously monitor the performance of our application suite using a variety of automated tools. We designed our infrastructure with built-in redundancy for all key components. Our network includes redundant firewalls, switches and intrusion detection systems, and incorporates failover backup for maximum uptime. We load balance at

each tier in

6

Table of Contents

the network infrastructure. We also designed our application server clusters so that servers can fail without interrupting the user experience, and our database servers are clustered for failover. We regularly back up and store customer data both on and off-site in secure locations to minimize the risk of data loss at any facility.

Customers

We serve a worldwide customer base across a wide variety of industry sectors, including healthcare, retail, telecommunications, financial services, insurance, outsourced services, technology, utilities, government, manufacturing and consumer electronics. Our product is sold primarily to large B2C enterprises (over $500 million in annual revenue). For the fiscal year ended June 30, 2017, international revenue accounted for 51% and domestic revenue for 49% of total revenue, compared to 50% and 50%, respectively, for fiscal year 2016, and 52% and 48%, respectively, for fiscal year 2015.

One customer accounted for 13% of total revenue in fiscal year 2017. Two customers accounted for 14% and 10%, respectively, of total revenue in fiscal year 2016. One customer accounted for 10% of total revenue in fiscal year 2015.

Competition

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

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

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

Table of Contents

Sales and Marketing

Sales Strategy

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

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

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

Marketing and Partner Strategy

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

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

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

As of the fiscal year ended June 30, 2017, we had 81 employees engaged in worldwide sales and marketing activities.

Consulting and Education

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

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

As of fiscal year ended June 30, 2017, we had 113 professionals providing worldwide services for systems installation, solutions development, application management, and education.

Table of Contents

Customer Support

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

As of the fiscal year ended June 30, 2017, there were 63 employees engaged in worldwide customer support services and 42 employees engaged in worldwide cloud services and maintenance support.

Research and Development

The market for our products changes rapidly and is characterized by evolving industry standards, swift changes in customer requirements, and frequent new product introductions and enhancements. We believe that strong product development capabilities are essential to our strategy of maintaining technology leadership. This includes enhancing current technology, providing excellent quality, performance, and functionality, as well as developing additional applications, and maintaining the competitiveness of our product and service offerings.

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

As of the fiscal year ended June 30, 2017, we had 130 employees engaged in worldwide product development activities. We spent approximately $13.8 million on research and development in fiscal year 2017, and $16.1 million and $16.0 million, respectively, in fiscal years 2016 and 2015.

Intellectual Property

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

As of June 30, 2017, we had 7 issued patents in the United States. In addition, we have a number of pending patent applications in the United States, including one provisional filing and several non provisional filings. Our issued U.S. patents expire at various times between 2029 and 2032.

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

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

if there is a bankruptcy proceeding instituted by or against us, or if we materially breach a contractual commitment to provide support and maintenance to the party.

Employees

As of the fiscal year ended June 30, 2017, we had 479 full-time employees, of which 130 were in product development, 218 in services and support, 81 in sales and marketing, and 50 in finance and administration.

Table of Contents

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

Available Information

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

ITEM 1A. RISK FACTORS

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

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

·

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

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

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

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

subscription model makes it more difficult for us to increase our revenue rapidly in any period, because revenue from new customers must be recognized over the applicable subscription term. Legacy license revenue is difficult to forecast and is likely to fluctuate due to many factors that are beyond our control including transition of license customers to

10

recurring revenue models. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as definitive indicators of future performance.

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

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

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

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

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

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

- increased costs to license and maintain third party software embedded in our software applications or the cost to create or substitute such third party software if it can no longer be licensed on commercially reasonable terms;

Table of Contents

- our inability to maintain or increase the prices customers pay for our products and services based on competitive pricing pressures and general economic conditions limiting customer demand;
- increased cost of third party services providers, including data centers for our cloud operations and professional services contractors performing implementation and technical support services to cloud customers;
- customer contractual requirements that delay revenue recognition until customer implementations commence production operations or customer-specific requirements are met;
- significant attrition as customers decide for their own economic or other reasons to not renew their subscription contracts when they are up for renewal could negatively impact the efficiency of our data centers and lead to the costs being spread over fewer customers negatively impacting gross margin; and
- the inability to implement, or delays in implementing, technology-based efficiencies and efforts to streamline and consolidate processes to reduce operating costs.

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

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

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

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

In November 2014, we entered into a credit agreement with Wells Fargo Bank, National Association (Wells Fargo), under which Wells Fargo agreed to provide a term loan in the amount of $10.0 million (Term) and revolving loan to us in an amount not to exceed $10.0 million (Revolver), Term and Revolver (collectively, the Loans). In September 2015, we increased the maximum borrowing amount of the Revolver to $15.0 million. The Loans contain a number of restrictive covenants, and its terms may restrict our current and future operations, including:

- affecting our flexibility to plan for, or react to, changes in our business and industry conditions;
- affecting our ability to use our cash flows, or obtain additional financing, for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- placing us at a competitive disadvantage compared to our less leveraged competitors; and
- increasing our vulnerability to the impact of adverse economic and industry conditions.

Table of Contents

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

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

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

Our multi-product offering and the increasingly complex needs of our customers contribute to a longer and unpredictable sales cycle. Consequently, we often face difficulty predicting the quarter in which expected sales will actually occur. This contributes to the uncertainty and fluctuations in our future operating results. In particular, the corporate decision-making and approval process of our customers and potential customers has become more complicated. This has caused our average sales cycle to further increase and, in some cases, has prevented the closure of sales that we believed were likely to close.

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

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

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

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

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

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

- the potential failure to achieve the expected benefits of the combination or acquisition;

Table of Contents

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

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

We must compete successfully in our market segment.

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

We believe competition will continue to be fierce as current competitors increase the sophistication of their offerings and as new participants enter the market. Many of our current and potential competitors have longer operating histories, larger customer bases, broader brand recognition, and significantly greater financial, marketing and other

resources. With more established and better-financed competitors, these companies may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies, and make more attractive offers to businesses to induce them to use their products or services.

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

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

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

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

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

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

Our international operations involve various risks.

We derived 51% of our revenue from international sales for the fiscal year 2017 compared to 50% for the fiscal year 2016, and 52% for fiscal year 2015. Including those discussed above, our international sales operations are subject to a number of specific risks, such as:

- general economic conditions in each country or region in which we do or plan to do business;
- foreign currency fluctuations and imposition of exchange controls;
- expenses associated with complying with differing technology standards and language translation issues;

Table of Contents

- difficulty and costs in staffing and managing our international operations;
- difficulties in collecting accounts receivable and longer collection periods;
- health or similar issues, such as a pandemic or epidemic;
- various trade restrictions and tax consequences;
- hostilities in various parts of the world; and
- reduced intellectual property protections in some countries.

As of June 30, 2017, approximately 47% of our workforce was employed in India. Of these employees, 31% are allocated to research and development. Although the movement of certain operations internationally was principally motivated by cost cutting, the continued management of these remote operations requires significant management attention and financial resources that could adversely affect our operating performance. In addition, with the significant increase in the numbers of foreign businesses that have established operations in India, the competition to attract and retain employees there has increased significantly. As a result of the increased competition for skilled workers, we experienced increased compensation costs and expect these costs to increase in the future. Our reliance on our workforce in India makes us particularly susceptible to disruptions in the business environment in that region. In particular, sophisticated telecommunications links, high-speed data communications with other eGain offices and customers, and overall consistency and stability of our business infrastructure are vital to our day-to-day operations, and any impairment of such infrastructure will cause our financial condition and results to suffer. The maintenance of stable political relations between the United States, European Union and India are also of great importance to our operations.

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

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

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

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

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

could harm our business, operating results and financial condition.

Table of Contents

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

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

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

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

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

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

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

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

Our success largely depends on the efficient and uninterrupted operation of our computer and communications hardware and network systems. A significant amount of our computer and communications systems are located in Sunnyvale, California. Due to our location, our systems and operations are vulnerable to damage or interruption from fire, earthquake, power loss, telecommunications failure and similar events. Customer data that we store in third party data centers may also be vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. Any damage to, or failure of, our systems generally could result in interruptions in our service.

Table of Contents

Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rate and our ability to attract new customers.

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

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

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

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

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

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

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

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

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may receive in the future communications from third parties claiming that we or our customers have infringed the intellectual property rights of others. In addition we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. Our technologies and those of our customers may be subject to injunction if they are found to infringe the rights of a third party or we may be required to

Table of Contents

pay damages, or both. Many of our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

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

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

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

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

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

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

We may be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the patents and other intellectual property rights of third parties. Our products may infringe issued patents that may relate to our products because patent applications in the United States are not publicly disclosed until the patent is issued, and hence applications may have been filed which relate to our software products. Intellectual property litigation is expensive, time consuming, and could divert management's attention away from running our business. This litigation could also require us to develop non-infringing technology or enter into royalty or license agreements. These royalty or license agreements, if required, may not be available on acceptable terms, if at all, in the event of a successful claim of infringement.

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

Our solutions are based on complex software that may contain errors, or "bugs," that could be costly to correct, harm our reputation and impair our ability to sell our solutions to new customers. Moreover, customers relying on our solution may be more sensitive to such errors, and potential security vulnerabilities and business interruptions for these applications. If we incur substantial costs to correct any errors of this nature, our operating margins could be adversely

Table of Contents

affected. Because our customers depend on our solutions for critical business functions, any service interruptions could result in lost or delayed market acceptance and lost sales, higher service-level credits and warranty costs, diversion of development resources and product liability suits.

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

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

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

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

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

Our directors and executive officers, together with their affiliates and members of their immediate families, beneficially owned, in the aggregate, approximately 36% of our outstanding capital stock as of September 19, 2017, of which our Chief Executive Officer, Ashutosh Roy, beneficially owned approximately 31% as of such date. As a result of these concentrated holdings, Mr. Roy individually or together with this group has the ability to exercise significant control over most matters requiring our stockholders' approval, including the election and removal of directors and the approval of significant corporate transactions.

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

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

Table of Contents

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

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

Changes in the European regulatory environment regarding privacy and data protection regulations could expose us to risks of noncompliance and costs associated with compliance.

We have in the past relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established a means for legitimating the transfer of PII by U.S. companies doing business in Europe from the European Economic Area to the U.S. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. – EU Safe Harbor Framework is no longer deemed to be a valid method of compliance with restrictions set forth in the Data Protection Directive (Directive) (and member states' implementations thereof) regarding the transfer of data outside of the European Economic Area requiring us to rely on alternative mechanisms permitted under the Directive, such as consent and EU-specified standard contractual clauses. The U.S. - EU Safe Harbor was replaced with the EU - U.S. Privacy Shield (Privacy Shield) in July 2016 and, starting on August 1, 2016, the Privacy Shield was made available to companies for self-certification. We have self-certified with the Privacy Shield. Nevertheless, some of the mechanisms permitting transfer of data from the EU to the U.S. have been subject to challenges, whose outcomes remain uncertain. On December 15, 2015, the European Parliament and the Council of the European Union reached a political agreement on the future EU data protection legal framework. The General Data Protection Regulation (GDPR), adopted on 27 April 2016, will replace the Directive, and becomes enforceable from 25 May 2018 after a two-year transition period. The GDPR will have significant impacts on how businesses can collect and process the personal data of EU individuals. We may be unsuccessful in establishing legitimate means of transferring data from the European Economic Area, we may experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our services due to the potential risk exposure to such customers as a result of the ECJ ruling or the implementation of GDPR, and we and our customers are at risk of enforcement actions taken by an EU data protection authority until such point in time that we ensure that all data transfers to us from the European Economic Area are legitimized. We may find it necessary to establish systems to maintain EU-origin data in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. We publicly post our privacy policies and practices concerning our processing, use and disclosure of PII. Our publication of our privacy policy and other statements we publish that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive or misrepresentative of our practices. Further, the costs of compliance with, and other burdens imposed by, such laws, regulations and policies that are applicable to us may limit the use and adoption of our products and solutions and could have a material adverse impact on our results of operations.

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

Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes,

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

- recognition of revenue;

- contingencies and litigation; and
- accounting for income taxes.

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

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

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

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

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

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

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

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

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

have a material adverse effect on our business, results of operations and financial condition

---

Table of Contents

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

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

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

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

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

On June 23, 2016, voters in the United Kingdom (U.K.) approved an advisory referendum to withdraw membership from the European Union (E.U.), which proposed exit (referred to as Brexit) could cause disruptions to, and create uncertainty surrounding, our business in the U.K. and E.U., including affecting our relationships with our existing and future customers, suppliers and employees. As a result, Brexit could have an adverse effect on our future business, financial results and operations. The formal process for U.K. leaving the E.U. began in March 2017, when the U.K. served notice to the European Council under Article 50 of the Treaty of Lisbon. The long-term nature of the U.K.'s relationship with the E.U. is unclear and there is considerable uncertainty when any relationship will be agreed and implemented. The political and economic instability created by Brexit has caused and may continue to cause significant volatility in global financial markets and uncertainty regarding the regulation of data protection in the U.K. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the U.K., the E.U., and elsewhere. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the U.K. and the other economies in which we operate. There can be no assurance that any or all of these events will not have a material adverse effect on our business operations, results of operations and financial condition.

Table of Contents

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

We lease all facilities used in our business as of June 30, 2017. The following table summarizes our principal properties:

Location	Principal Use	Approximate Square Footage	Lease Expiration Date
Sunnyvale, California	Corporate Headquarters	42,541	2022
Newbury, England	Corporate Office – EMEA	14,090	2024
Pune, India	Corporate Office – APAC	33,262	2021

ITEM 3.LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant.

The following table sets forth information regarding eGain's current executive officers as of September 26, 2017:

Name	Age	Position
Ashutosh Roy	51	Chief Executive Officer and Chairman
Eric Smit	55	Chief Financial Officer
Promod Narang	59	Senior Vice President of Products and Engineering
Todd Woodstra	55	Senior Vice President of Global Sales

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

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

Table of Contents

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

Todd Woodstra was appointed as Senior Vice President of Global Sales on August 14, 2017. Mr. Woodstra has served as Vice President of Global Channel and Partner Alliances for Nuance Communications, where he managed and executed business in channels and commercial enterprise, self-service, mobile, collaboration, unified communications, natural language speech recognition, voice biometrics, gesture technologies, inbound/outbound notification and voice-to-text transcription. Thereafter, Mr. Woodstra became the Senior Vice President of Enterprise Sales for Interactions LLC, where he led enterprise customer sales focused on virtual assistant solutions.

PART II

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

Market Information

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

Year Ended June 30, 2017	High	Low
First Quarter	$ 3.51	$ 2.12
Second Quarter	$ 3.40	$ 1.93
Third Quarter	$ 2.40	$ 1.35
Fourth Quarter	$ 1.90	$ 1.30
Year Ended June 30, 2016		
First Quarter	$ 5.01	$ 3.13
Second Quarter	$ 5.00	$ 3.78
Third Quarter	$ 4.46	$ 2.79
Fourth Quarter	$ 3.99	$ 2.65

Holders

As of September 19, 2017, there were approximately 198 stockholders of record. This number does not include stockholders whose shares are held in trust by other entities. As of September 19, 2017, we estimate that there were approximately 2,900 beneficial stockholders of our common stock.

Dividends

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

Stock Performance Graph

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

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Index and the Nasdaq Composite Total Return Index for each of the last five fiscal

Table of Contents

years ended June 30, 2017, assuming an initial investment of $100. Data for the Standard & Poor's 500 Index and the Nasdaq Composite Total Return Index assume no dividends.

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

	06-30-13	06-30-14	06-30-15	06-30-16	06-30-17
eGain Corporation	$ 100.00	$ 70.37	$ 52.08	$ 29.31	$ 17.15
Nasdaq Composite	$ 100.00	$ 131.17	$ 150.10	$ 147.58	$ 189.34
S&P Software & Services Select Industry Index	$ 100.00	$ 124.67	$ 144.92	$ 144.55	$ 180.53

Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of June 30, 2017:

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders			
1998 Stock Plan	17,209	$ 0.67	—
2005 Stock Incentive Plan	1,408,799	$ 4.01	1,302,880
Equity compensation plans not approved by security holders			
2000 Non-Management Stock Option Plan	10,000	$ 0.66	—
2005 Management Stock Option Plan	837,652	$ 5.16	795,038
Total	2,273,660	$ 4.39	2,097,918

Table of Contents

Equity Compensation Plans Not Approved By Security Holders

2000 Non-Management Stock Option Plan

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

2005 Management Stock Option Plan

In May 2005, our board of directors adopted the 2005 Management Stock Option Plan, or the 2005 Management Plan, pursuant to which the Compensation Committee may grant non-qualified stock options to purchase up to 962,400 shares of eGain common stock, at an exercise price of not less than 100% of the fair market value of such common stock, to directors, officers and key employees of the Company and its subsidiaries. Options granted under the 2005 Management Plan are subject to vesting as determined by the Compensation Committee. The options are exercisable for up to ten years from the date of grant.

In both November 2007 and September 2011, our board of directors approved an increase of 500,000 shares for issuance under the 2005 Management Stock Option Plan.

In September 2014, our board of directors approved an amendment to the 2005 Management Stock Option Plan that increased the number of shares of common stock reserved for issuance by 1,000,000 shares from 1,962,400 shares to 2,962,400 shares and extended the expiration date of the of the 2005 Management Stock Option Plan to September 30, 2024.

Issuer Repurchases of Equity Securities

On September 14, 2009, we announced that our board of directors approved a repurchase program under which we may purchase up to 1,000,000 shares of our common stock. The duration of the repurchase program is open-ended. Under the program, we purchase shares of common stock from time to time through the open market and privately negotiated transactions at prices deemed appropriate by management. The repurchase is funded by cash on hand. There were no shares repurchased during fiscal years 2017, 2016 and 2015.

Table of Contents

ITEM 6.SELECTED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with the information under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the related notes which are included in "Item 8. Financial Statements and Supplementary Data."

	Year ended June 30,				
	2017	2016	2015	2014	2013
	(in thousands, except per share information)				
Revenue					
Recurring	$ 43,585	$ 42,783	$ 42,311	$ 40,477	$ 32,281
Legacy license	4,557	14,466	18,325	14,800	12,853
Professional services	10,073	12,126	15,277	14,985	13,755
Total revenue	58,215	69,375	75,913	70,262	58,889
Cost of recurring	11,956	12,401	12,082	8,518	5,495
Cost of legacy license	50	29	61	104	151
Cost of professional services	9,193	11,259	16,998	14,840	12,360
Total cost of revenue	21,199	23,689	29,141	23,462	18,006
Gross profit	37,016	45,686	46,772	46,800	40,883
Operating Expenses					
Research and development	13,753	16,063	16,042	9,963	8,419
Sales and marketing	20,436	27,722	32,703	33,367	24,434
General and administrative	6,552	7,774	9,313	7,529	6,787
Total operating expenses	40,741	51,559	58,058	50,859	39,640
Income / (loss) from operations	(3,725)	(5,873)	(11,286)	(4,059)	1,243
Interest expense, net	(1,730)	(1,958)	(834)	(181)	(483)
Other income / (expense), net	(32)	728	11	(415)	303
Income / (loss) before income tax benefit (provision)	(5,487)	(7,103)	(12,109)	(4,655)	1,063
Income tax benefit (provision)	(533)	863	(320)	(591)	(379)
Net income / (loss)	$ (6,020)	$ (6,240)	$ (12,429)	$ (5,246)	$ 684
Per share information					
Basic and diluted net income / (loss) per common share	$ (0.22)	$ (0.23)	$ (0.47)	$ (0.21)	$ 0.03
Weighted average shares used in computing basic net income / (loss) per common share	27,108	27,056	26,609	25,353	24,780
Weighted average shares used in computing diluted net income / (loss) per common share	27,108	27,056	26,609	25,353	26,089
Below is a summary of stock - based compensation included in the costs and expenses above:					
Cost of revenues	$ 131	$ 249	$ 476	$ 280	$ 121
Research and development	$ 281	$ 472	$ 736	$ 386	$ 261
Sales and marketing	$ 80	$ 169	$ 574	$ 464	$ 360
General and administrative	$ 175	$ 298	$ 531	$ 397	$ 339

	June 30, 2017	2016	2015	2014	2013
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments (including restricted cash)	$ 10,633	$ 11,785	$ 9,309	$ 8,815	$ 17,235
Working capital	$ (7,680)	$ (886)	$ (2,039)	$ (1,885)	$ 2,021
Total assets	$ 39,751	$ 48,063	$ 49,731	$ 32,647	$ 43,536
Deferred revenue	$ 23,219	$ 15,717	$ 15,812	$ 13,713	$ 19,736
Long-term debt (bank borrowings and capital lease obligations)	$ 14,844	$ 20,376	$ 18,554	$ 4,208	$ 2,000

Table of Contents

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

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

Overview

eGain Corporation is a leading provider of cloud-based customer engagement software. We help B2C brands operationalize digital customer engagement strategy. Our suite includes rich applications for digital interaction, knowledge management, and AI-based process guidance. We also provide advanced, integrated analytics for contact centers and digital properties to holistically measure, manage, and optimize resources. Benefits include reduced customer effort, customer satisfaction, connected service processes, converted upsell opportunities, and improved compliance—across mobile, social, web, and phone. Hundreds of global enterprises rely on eGain to transform fragmented customer service systems into unified Customer Engagement Hubs.

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

In fiscal year 2017, we recorded annual revenue of $58.2 million and loss from operations of $3.7 million, compared to annual revenue of $69.4 million and a loss from operations of $5.9 million in fiscal year 2016. The year-over-year decrease in total revenue was primarily driven by the 68% decrease in legacy license revenue and 17% decrease in professional services revenue. Recurring revenue was $43.6 million in fiscal year 2017, compared to $42.8 million in fiscal year 2016. Legacy license revenue was $4.6 million in fiscal year 2017, compared to $14.5 million in fiscal year 2016. Professional services revenue was $10.1 million in fiscal year 2017, compared to $12.1 million in fiscal year 2016. Cash provided by operations was $5.4 million for fiscal year 2017, compared to cash used in operations of $1.9 million for fiscal year 2016.

Unbilled Deferred Revenue

Unbilled deferred revenue represents business that is contracted but not yet invoiced or collected and off–balance-sheet and, accordingly, is not recorded in deferred revenue. As such, the deferred revenue balance on our consolidated balance sheet does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. As of June 30, 2017, unbilled deferred revenue increased to $37.0 million, up from $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 non-GAAP operating loss as defined below. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with generally accepted accounting principles (GAAP).

Non-GAAP operating loss, a non-GAAP financial measure, is defined as operating loss, adjusted for the impact of stock-based compensation expense and amortization of acquired intangibles.

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

Table of Contents

The following table presents our key financial measures, including a reconciliation of GAAP loss from operations to non-GAAP loss from operations for each of the following periods:

	Fiscal Year Ended June 30		
	2017	2016	2015
Loss from operations	$ (3,725)	$ (5,873)	$ (11,286)
Add:			
Stock-based compensation	667	1,188	2,317
Amortization of acquired intangibles	2,091	2,781	2,510
Non-GAAP loss from operations	$ (967)	$ (1,904)	$ (6,459)

Critical Accounting Policies and Estimates

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

Business Combinations

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

Revenue Recognition

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

We derive revenue from three sources:

i. Recurring fees (previously referred to as subscription and support) primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term and ratable license revenue, and maintenance and support revenue;
ii. Legacy license fees primarily consist of perpetual software license revenue which we no longer sell to new customers;

Table of Contents

iii.Professional services primarily consist of consulting, implementation services and training.
Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use a signed statement of work as evidence of arrangement for professional services.
- Delivery or performance has occurred: Software is delivered to customers electronically, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with a license file and/or 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.

Revenue from sales to resellers is generally recognized upon delivery to the reseller dependent on the facts and circumstances of the transaction, such as our understanding of the reseller's plans to sell the software, existence of return provisions, price protection or other allowances, the reseller's financial status and our past experience with the reseller. Historically sales to resellers have not included any return provisions, price protection or other allowances.

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

We enter into arrangements with multiple-deliverables that generally include subscription, maintenance and support, and professional services. We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. For revenue recognition with multiple-deliverable elements, 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 determined that TPE is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third-party pricing information.

32

Table of Contents

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

Recurring Revenue

Cloud Revenue

Cloud revenue consists of subscription fees along with bundled maintenance and support revenue from customers accessing our cloud-based service offerings. We recognize cloud revenue ratably over the period of the applicable agreement as services are provided. Cloud agreements typically have an initial term of 12 to 36 months and automatically renew unless either party cancels the agreement. The majority of the cloud services customers purchase a combination of our cloud service and professional services.

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

Term and Ratable License Revenue

Term and ratable 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 or the Company has not established VSOE for the bundled multi-year maintenance and support services. The majority of our contracts provide customers with the right to use one or more products up to a specific license capacity. Certain terms of our license agreements stipulate that customers can exceed pre-determined base capacity levels, in which case additional fees are specified in the license agreement. Term license revenue is recognized ratably over the term of the license contract, and ratable license revenue is recognized over the term of the associated bundled maintenance and support contract.

Version 15.5 and future releases of the perpetual license is a cloud and perpetual license hybrid software which represents a service contract under ASC 605-25. The cloud components are essential to the functionality of version 15.5 and future releases, and we have a contractual obligation to deliver these cloud components. Per ASC 605-25, a delivered item is considered a separate unit of accounting only if (i) the delivered item has standalone value; and (ii) if the service contract has a general right of return, then delivery and performance of the undelivered item is probable and substantially within the vendor’s control. We cannot separate the cloud components because there is no standalone

value of the cloud components. The perpetual license revenue is recognized over the economic life of the software which was determined to be three years.

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

Table of Contents

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.

Legacy License Revenue

Legacy license revenue consists of perpetual license rights sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software products and/or services, we use the residual method for perpetual licenses released as version 15 or prior 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.

Professional Services Revenue

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

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

We have standalone value for consulting and implementation 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.

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 and ratable 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. As of June 30, 2017, deferred revenue increased to $23.2 million compared to $15.7 million as of June 30, 2016.

Table of Contents

Deferred Commissions

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

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

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation — Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the vesting period. Determining the fair value of the stock-based awards at the grant date requires significant judgment and the use of estimates, particularly surrounding Black-Scholes valuation assumptions such as stock price volatility and expected option lives. We determine the appropriate measure of expected volatility by reviewing historic volatility in the share price of our common stock, as adjusted for certain events that management deems to be non-recurring and non-indicative of future events. We base our estimate of expected life on the historical exercise behavior, cancellations of all past option grants made by us during the time period in which our equity shares have been publicly traded, the contractual term, the vesting period and the expected remaining term of the option. Based on our historical experience of option pre-vesting cancellations, we have assumed an annualized 14.93% forfeiture rate for our options. We record additional expense if the actual forfeiture rate is lower than we estimated, and record a recovery of prior expense if the actual forfeiture is higher than what we estimated.

Goodwill and Other Intangible Assets

In accordance with ASC 350, Goodwill and Other Intangible Assets, we review goodwill annually for impairment or sooner whenever events or changes in circumstances indicate that they may be impaired. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. In addition, we evaluate purchased intangible assets to determine that all such assets have determinable lives. We operate under a single reporting unit and accordingly, all of our goodwill is associated with the entire company. We early adopted Accounting Standards Update (ASU) 2017-04, Intangibles—Goodwill and Other, in 2017 and had no impairment due to a negative carrying amount of our reporting unit. We performed an annual impairment review for fiscal year 2016 and found no impairment.

Accounts Receivable and Allowance for Doubtful Accounts

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

have been exhausted and the amount is deemed uncollectible.

Leases

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

Capital leases are capitalized at the lower of the net present value of the total amount payable under the leasing agreement (excluding finance charges) or the fair market value of the leased asset. Capital lease assets are depreciated on

35

Table of Contents

a straight-line basis, over a period consistent with our normal depreciation policy for tangible fixed assets, but not exceeding the lease term. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

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

Deferred Tax Valuation Allowance

When we prepare our consolidated financial statements, we estimate our income tax liability for each of the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. The net deferred tax assets are reduced by a valuation allowance if, based upon weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We must make significant judgments to determine our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax assets. As of June 30, 2017, we had a valuation allowance of approximately $83.7 million of which approximately $80.2 million was attributable to U.S. and state net operating losses and research and development credit carryforwards.

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

Fair Value of Financial Instruments

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

Table of Contents

Results of Operations

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

	2017		2016		2015	
Revenue:						
Recurring	75	%	62	%	56	%
Legacy license	8	%	21	%	24	%
Professional services	17	%	17	%	20	%
Total revenue	100	%	100	%	100	%
Cost of recurring	20	%	18	%	16	%
Cost of legacy license	—	%	—	%	—	%
Cost of professional services	16	%	16	%	23	%
Total cost of revenue	36	%	34	%	39	%
Gross profit	64	%	66	%	61	%
Operating Expenses:						
Research and development	24	%	23	%	21	%
Sales and marketing	35	%	40	%	43	%
General and administrative	11	%	11	%	12	%
Total operating expenses	70	%	74	%	76	%
Loss from operations	(6)	%	(8)	%	(15)	%

Revenue

Total revenue, which consists of recurring, legacy license and professional services revenue, was $58.2 million, $69.4 million, and $75.9 million, in fiscal years 2017, 2016, and 2015, respectively.

In fiscal year 2017, total revenue decreased 16% or $11.2 million, from the prior year. The decrease in legacy license revenue in fiscal year 2017 was primarily attributable to the transition from a perpetual license business toward a cloud delivery model. Our international sales accounted for approximately 51% of total revenue in fiscal year 2017, an increase from 50% of total revenue in fiscal year 2016. The impact of the foreign exchange fluctuation between the U.S. dollar, the Euro and British pound in total revenue was $4.8 million and $2.1 million in fiscal years 2017 and 2016, respectively. One customer accounted for 13% of total revenue in fiscal year 2017. Two customers accounted for 14% and 10% of total revenue in fiscal year 2016. There was one customer that accounted for 10% of total revenue in fiscal year 2015.

Recurring Revenue

	Fiscal Year Ended June 30						Year-Over-Year Change			
	2017		2016		2015		2016 to 2017		2015 to 2016	
	(in thousands)									
Revenue										
Recurring	$ 43,585		$ 42,783		$ 42,311		$ 802	2 %	$ 472	1 %
Percentage of total revenue	75	%	62	%	56	%				

Recurring revenue includes cloud, term and ratable licenses, software maintenance and support revenue. Recurring revenue was $43.6 million, $42.8 million, and $42.3 million in fiscal years 2017, 2016, and 2015, respectively. This represented an increase of 2% or $802,000 in fiscal year 2017 compared to fiscal year 2016 and an increase of 1% or $472,000 in fiscal year 2016 compared to fiscal year 2015. Recurring revenue represented 75%, 62%, and 56% of total revenue for the fiscal years 2017, 2016 and 2015, respectively.

The increase in fiscal year 2017 was primarily due to the strategic decision to move to a ratable or cloud delivery business model from the hybrid model that included legacy perpetual licenses. The impact from foreign currency fluctuations was a decrease of $3.4 million in fiscal year 2017.

Table of Contents

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

Excluding the impact from any future foreign currency fluctuation, we expect recurring revenue to increase in fiscal year 2018 due to the shift from a legacy perpetual license business toward a cloud delivery model.

Legacy license Revenue

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Revenue							
Legacy license	$ 4,557	$ 14,466	$ 18,325	$ (9,909)	(68) %	$ (3,859)	(21) %
Percentage of total revenue	8 %	21 %	24 %				

Legacy license revenue was $4.6 million, $14.5 million, and $18.3 million in fiscal years 2017, 2016, and 2015, respectively. This represents a decrease of 68% or $9.9 million in fiscal year 2017 from fiscal year 2016, compared to a decrease of 21% or $3.9 million in fiscal year 2016 from fiscal year 2015. Legacy license revenue represented 8%, 21%, and 24% of total revenue for the fiscal years 2017, 2016, and 2015, respectively.

The decrease in legacy license revenue in fiscal year 2017 was primarily attributable to the transition from perpetual license business toward a cloud delivery model. The impact from the foreign currency fluctuations on legacy license revenue was a decrease of $418,000 in fiscal year 2017.

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

As we no longer sell legacy licenses to new customers and are actively working to migrate all existing legacy license customers to our cloud delivery model, we anticipate legacy license revenue to decrease in fiscal year 2018.

Professional Services Revenue

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Revenue							
Professional services	$ 10,073	$ 12,126	$ 15,277	$ (2,053)	(17) %	$ (3,151)	(21) %
Percentage of total revenue	17 %	17 %	20 %				

Professional services revenue was $10.1 million, $12.1 million, and $15.3 million in fiscal years 2017, 2016 and 2015, respectively. This represented a decrease of 17%, or $2.1 million in fiscal year 2017 compared to fiscal year 2016 and

a decrease of 21%, or $3.2 million in fiscal year 2016 compared to fiscal year 2015.

The decrease in professional services revenue in fiscal year 2017 was primarily attributable to a continued reduction in time required for an average implementation project as a result of the improvements to our product deployment process. The impact from foreign currency fluctuation was an increase of $987,000.

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

Excluding the impact from any future foreign currency fluctuations, we expect professional services revenue to increase or remain relatively constant in fiscal year 2018.

Table of Contents

Cost of Revenue

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Cost of revenue	$ 21,199	$ 23,689	$ 29,141	$ (2,490)	(11) %	$ (5,452)	(19) %
Percentage of total revenue	36 %	34 %	39 %				
Gross margin	64 %	66 %	61 %				

Total cost of revenue was $21.2 million, $23.7 million, and $29.1 million in fiscal years 2017, 2016 and 2015, respectively. This represented a decrease of 11% or $2.5 million in fiscal year 2017 compared to fiscal year 2016 and a decrease of 19% or $5.5 million in fiscal year 2016 compared to fiscal year 2015.

Total cost of revenue as a percentage of total revenue was 36%, 34%, and 39% for fiscal years 2017, 2016 and 2015, respectively.

The decrease in fiscal year 2017 was primarily due to decreases of (i) international subsidiaries' expenses of approximately $1.4 million related to the strengthening of the U.S. dollar against the Euro, British pound, and Indian rupee; (ii) $1.4 million in personnel and personnel-related expenses primarily in professional services related to the improved efficiency in customer system implementations; and (iii) $438,000 in outside consulting expense partially offset by increases of (i) $676,000 in cloud related expenses due to increased costs incurred to migrate from the use of traditional data centers to web-based services; and (ii) $22,000 in license related expenses.

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

Gross margin was 64%, 66% and 61% for fiscal years 2017, 2016 and 2015, respectively.

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

Cost of Recurring

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Cost of recurring	$ 11,956	$ 12,401	$ 12,082	$ (445)	(4) %	$ 319	3 %
Percentage of recurring revenue	27 %	29 %	29 %				
Gross margin	73 %	71 %	71 %				

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

Total cost of recurring revenue was $12.0 million, $12.4 million, and $12.1 million in fiscal years 2017, 2016 and 2015, respectively. This represented a decrease of 4% or $445,000 in fiscal year 2017 compared to fiscal year 2016 and an increase of 3%, or $319,000 in fiscal year 2016 compared to fiscal year 2015. Total cost of recurring revenue as a percentage of total recurring revenue was 27% (a gross margin of 73%) in fiscal year 2017. Total cost of recurring revenue as a percentage of total recurring revenue was 29% (a gross margin of 71%) in fiscal years 2016 and 2015.

The decrease in cost of recurring revenue in fiscal year 2017 was primarily due to decreases of (i) international subsidiaries' expenses of approximately $689,000 from foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; (ii) $252,000 in personnel and personnel-related expenses; and (iii) $180,000 in outside

Table of Contents

consulting services partially offset by an increase of (i) $676,000 in cloud related expenses due to increased costs incurred to migrate from the use of traditional data centers to web-based services.

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

Excluding the impact from any future foreign currency fluctuations, we anticipate cost of recurring revenue to increase slightly or remain relatively constant and recurring revenue as well as gross margin to increase in fiscal year 2018.

Cost of Legacy License

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Cost of legacy license	$ 50	$ 29	$ 61	$ 21	72 %	$ (32)	(52) %
Percentage of legacy license revenue	1 %	- %	- %				
Gross margin	99 %	100 %	100 %				

Cost of legacy license primarily includes third-party software royalties and delivery costs for shipments to customers. Total cost of legacy license was $50,000, $29,000 and $61,000 in fiscal years 2017, 2016 and 2015, respectively. This represented an increase of 72% or $21,000 in fiscal year 2017 compared to 2016 and a decrease of 52% or $32,000 in fiscal year 2016 compared to 2015. Total cost of legacy license as a percentage of total legacy license revenue was approximately 1% (a gross margin of 99%) in fiscal year 2017. Total cost of legacy license as a percentage of total legacy license revenue was approximately 0% (a gross margin of 100%) in fiscal years 2016 and 2015.

The increase in cost of legacy license in fiscal year 2017 was primarily due to increase in third party royalty expense.

The decrease in cost of legacy license in fiscal year 2016 was primarily due to decrease in third party royalty expense.

We anticipate cost of legacy license to remain relatively constant in future periods but to increase as a percentage of legacy license revenue as we expect legacy license revenue to decline.

Cost of Professional Services

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Cost of professional services	$ 9,193	$ 11,259	$ 16,998	$ (2,066)	(18) %	$ (5,739)	(34) %
Percentage of professional services	91 %	93 %	111 %				
Gross margin	9 %	7 %	(11) %				

Cost of professional services includes personnel costs for consulting services, and to a lesser extent occupancy costs and related overhead. Total cost of professional services was $9.2 million, $11.3 million and $17.0 million in fiscal years 2017, 2016, and 2015, respectively. This represented a decrease of 18% or $2.1 million in fiscal year 2017 compared to fiscal year 2016 and a decrease of 34% or $5.7 million in fiscal year 2016 compared to fiscal year 2015. Total cost of professional services as a percentage of total professional services revenue was 91% (gross margin of 9%) in fiscal year 2017 compared to 93% (gross margin of 7%) in fiscal year 2016 and 111% (a negative gross margin of 11%) in fiscal year 2015.

The decrease in cost of professional services in fiscal year 2017 was primarily due to decreases of (i) $1.8 million in personnel and personnel-related expense from the decreased headcount; and (ii) $258,000 in outside consulting expenses. The decrease in personnel costs and improved gross margin was due to a decrease in personnel costs and the

Table of Contents

reduction in time required for an average implementation project as a result of improvements to our product development process.

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

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

Research and Development

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Research and development	$ 13,753	$ 16,063	$ 16,042	$ (2,310)	(14) %	$ 21	—%
Percentage of total revenue	24 %	23 %	21 %				

Research and development expenses primarily consist of compensation and benefits for our engineering, product management and quality assurance personnel, and, to a lesser extent, occupancy costs and related overhead. Research and development expense was $13.8 million, $16.1 million and $16.0 million in fiscal years 2017, 2016 and 2015, respectively. This represented a decrease of $2.3 million in fiscal year 2017 compared to fiscal year 2016 and an increase of $21,000 in fiscal year 2016 compared to fiscal year 2015. Total research and development expenses as a percentage of total revenue was 24%, 23% and 21% for fiscal years 2017, 2016 and 2015, respectively.

The decrease in research and development expense in fiscal year 2017 was primarily due to decreases of (i) $1.5 million in personnel and personnel-related expenses consisting of $925,000 in personnel expenses and a reduction of $544,000 in overhead expenses; (ii) international subsidiaries' expenses of approximately $653,000 from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and the Indian rupee; and (iii) $148,000 in outside consulting services.

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

Excluding any fluctuation of foreign exchange rates in the Euro, British pound, and Indian rupee against the U.S. dollar, we anticipate research and development expense to remain relatively constant as a percentage of total revenue in fiscal year 2018 based upon our current product development plans.

Sales and Marketing

Fiscal Year Ended June 30			Year-Over-Year Change	
2017	2016	2015	2016 to 2017	2015 to 2016
(in thousands)				

Sales	$	17,141		$	24,628		$	28,970		$	(7,487)	(30)	%	$	(4,342)	(15)	%
Marketing	$	3,295		$	3,094		$	3,733		$	201	6	%	$	(639)	(17)	%
Total sales and marketing	$	20,436		$	27,722		$	32,703		$	(7,286)	(26)	%	$	(4,981)	(15)	%
Percentage of total revenue		35	%		40	%		43	%								

Sales and marketing expenses primarily consist of compensation and benefits for our sales, marketing and business development personnel, lead generation activities, advertising, trade show and other promotional costs and, to a lesser extent, occupancy costs and related overhead. Sales and marketing expense was $20.4 million, $27.7 million and $32.7 million in fiscal years 2017, 2016 and 2015 respectively. This represented a decrease of 26%, or $7.3 million in fiscal year 2017 compared to fiscal year 2016 and a decrease of 15%, or $5.0 million in fiscal year 2016 compared to fiscal year 2015.

Table of Contents

Total sales and marketing expenses as a percentage of total revenue was 35%, 40% and 43% in fiscal years 2017, 2016 and 2015, respectively.

Total sales expense was $17.1 million for fiscal 2017, a decrease of 30% or $7.5 million, from $24.6 million for fiscal year 2016. The decrease in fiscal year 2017 was primarily due to decreases of (i) $5.9 million in personnel and personnel-related expense related to the decreased headcount; (ii) international subsidiaries' expenses of approximately $1.1 million primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; (iii) $623,000 in intangible amortization of customer relationships related to acquired software contracts partially offset by an increase of (i) $125,000 in outside consulting.

Total marketing expense was $3.3 million for fiscal 2017, an increase of 6% or $201,000 from $3.1 million for fiscal year 2016. The increase in fiscal year 2017 was primarily due to increases of (i) $169,000 in outside consulting; (ii) $168,000 in marketing program expenses; (iii) $38,000 in personnel and personnel-related expense partially offset by a decrease of international subsidiaries' expenses of approximately $174,000 primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee.

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

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

Excluding any fluctuation of foreign exchange rates in the Euro, British pound, and Indian rupee against the U.S. dollar, we anticipate sales and marketing expense to decrease or remain relatively constant as a percentage of total revenue in fiscal year 2018.

General and Administrative

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
General and administrative	$ 6,552	$ 7,774	$ 9,313	$ (1,222)	(16) %	$ (1,539)	(17) %
Percentage of total revenue	11 %	11 %	12 %				

General and administrative expenses primarily consist of compensation and benefits for our finance, human resources, administrative and legal services personnel, fees for outside professional services, provision for doubtful accounts, occupancy costs and related overhead. General and administrative expense was $6.6 million, $7.8 million and $9.3 million in the fiscal years 2017, 2016 and 2015, respectively. This represented a decrease of 16% or $1.2 million in fiscal year 2017 compared to fiscal 2016 and a decrease of 17% or $1.5 million in fiscal year 2016 compared to fiscal year 2015. Total general and administrative expenses as a percentage of total revenue was 11%, 11% and 12% in

fiscal years 2017, 2016 and 2015, respectively.

The decrease in fiscal year 2017 was primarily due to decreases of (i) $1.2 million in personnel and personnel-related expense from the decreased headcount; (ii) international subsidiaries' expenses of approximately $345,000 primarily from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; (iii) $68,000 in intangible amortization of acquired developed software technology; and (iv) $71,000 in legal and other costs partially offset by increases of (i) $345,000 from outside consulting services, including accounting and audit services; and (ii) $115,000 in bad debt expense.

Table of Contents

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

We anticipate general and administrative expenses to increase or remain relatively constant as a percentage of total revenue in fiscal year 2018 based upon current revenue expectations excluding the fluctuation of foreign exchange rates in the Euro, British pound, and Indian rupee against the U.S. dollar.

Amortization of Stock-Based Compensation

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Cost of revenue	$ 131	$ 249	$ 476	$ (118)	(47) %	$ (227)	(48) %
Research and development	281	472	736	(191)	(40) %	(264)	(36) %
Sales and marketing	80	169	574	(89)	(53) %	(405)	(71) %
General and administrative	175	298	531	(123)	(41) %	(233)	(44) %
Total stock-based compensation	$ 667	$ 1,188	$ 2,317	$ (521)	(44) %	$ (1,129)	(49) %
Percentage of total revenue	1 %	2 %	3 %				

Stock-based compensation expenses include the amortization of the fair value of share-based payments made to employees, members of our board of directors and consultants, primarily in the form of stock options. The fair value of stock options granted is recognized as an expense as the underlying stock options vest. The decrease in our stock-based compensation expense in fiscal 2017 was primarily due to the decrease in Company-wide headcount as well as a decrease in option grant activity. The decrease in our stock-based compensation expense in fiscal 2016 was primarily due to the decrease in Company-wide headcount as well as decrease in option grant activity.

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

We expect our stock-based compensation expense to increase in fiscal year 2018 based on anticipated hiring and/or stock price increases. Refer also to Subsequent Event (Note 12) regarding the repricing of certain options.

Loss from Operations

	Fiscal Year Ended June 30			Year-Over-Year Change			
	2017	2016	2015	2016 to 2017		2015 to 2016	
	(in thousands)						
Operating loss	$ (3,725)	$ (5,873)	$ (11,286)	$ 2,148	37 %	$ 5,413	48 %
Operating margin	(6) %	(8) %	(15) %				

Loss from operations was $3.7 million in fiscal year 2017 compared to loss from operations of $5.9 million in fiscal year 2016 and loss from operations of $11.3 million in fiscal year 2015. We recorded a negative operating margin of 6%, 8% and 15% in fiscal years 2017, 2016 and 2015, respectively.

The decrease in operating loss in fiscal year 2017 was due to a decrease in total cost of revenue and operating expenses of $13.3 million partially offset by a decrease in revenue of $11.2 million. The decrease in revenue was primarily due to a decrease in new legacy license transactions, as we transition to a cloud delivery model, and professional services revenue. The impact of fluctuations of foreign currencies against the U.S. dollar on revenue was a decrease of $4.8 million. The decrease in total costs and operating expenses was primarily due to decreases of (i) $9.8 million in personnel-related costs; (ii) $3.7 million in international expenses from the foreign exchange fluctuation between the U.S. dollar, the Euro, British pound and Indian rupee; (iii) $691,000 in intangible amortization from prior acquisition; and (iv) $71,000 in legal and other costs partially offset by increases of (i) $639,000 cloud related expenses; (ii) $168,000 in marketing program

Table of Contents

expenses; (iii) $115,000 in bad debt expense; and (iv) $52,000 in outside consulting services which includes accounting, audit and investor relations fees.

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

Interest Expense, Net

Net interest expense was $1.7 million, $2.0 million and $834,000 in fiscal years 2017, 2016 and 2015, respectively. This represents a decrease of 12% or $228,000 in fiscal year 2017, compared to fiscal year 2016 and an increase of 135% or $1.1 million in fiscal year 2016, compared to fiscal year 2015. Interest income was not significant in any year.

The decrease in interest expense in fiscal year 2017 was primarily due to the repayment of bank borrowings resulting in lower average indebtedness.

The increase in interest expense in fiscal years 2016 and 2015 was primarily due to interest incurred on bank borrowings and capital leasing agreements.

Other Income (Expense), Net

Other expense, net, was $32,000 in fiscal year 2017, compared to other income, net, of $728,000 in fiscal year 2016 and other income, net, of $11,000 in fiscal year 2015. Other income and expense in fiscal years 2017 and 2016 primarily included the foreign exchange loss and gain on international trade receivables. Other expense and income in fiscal year 2015 was primarily due to (i) $359,000 reclassification of the accumulated translation expense recorded when liquidating our Inference, SiteBridge and Australia subsidiaries, and (ii) $190,000 in foreign exchange loss and gain on international trade receivables due to the weakening of the British pound and Euro against the dollar in which certain sales were denominated.

Income Tax Benefit (Provision)

Income tax provision was $533,000 in fiscal year 2017, and income tax benefit was $863,000 in fiscal year 2016. Income tax provision was $320,000 in fiscal year 2015. The tax provision in fiscal year 2017 primarily relates to foreign and state provisions. The federal provision was fully provided with a valuation allowance. The tax benefit in fiscal year 2016 primarily relates to the release of valuation allowance against deferred tax assets in the United Kingdom and reversal of the intangible amortization generated and benefited by Exony Limited (Exony) which was acquired in fiscal year 2015, partially offset by the income tax provision for foreign subsidiaries.

New Accounting Pronouncements

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

Table of Contents

Liquidity and Capital Resources

Overview

As of June 30, 2017 and 2016, our cash and cash equivalents were $10.6 million and $11.8 million, respectively. Our working capital was a negative $7.7 million as of June 30, 2017, compared to a negative working capital of $886,000 as of June 30, 2016. As of June 30, 2017, our deferred revenue was $23.2 million, compared to $15.7 million as of June 30, 2016. Unbilled deferred revenue, representing business that is contracted but not yet invoiced or collected and off balance sheet, was $37.0 million as of June 30, 2017, up from $31.1 million as of June 30, 2016.

As of June 30, 2017 and 2016, our restricted cash was $6,000 and $5,000, respectively. The increase was primarily attributed to foreign exchange movement.

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

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

Based upon our fiscal year 2018 plan, we believe that existing capital resources will enable us to maintain current and planned operations for at least the next 12 months. From time to time, however, we may consider opportunities for raising additional capital and/or exchanging all or a portion of our existing debt for equity. We can make no assurances that such opportunities will be available to us on economic terms we consider favorable, if at all.

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

Cash Flows

Net cash provided by operating activities was $5.4 million in fiscal year 2017 compared to net cash provided by operating activities of $1.9 million in fiscal year 2016. In fiscal year 2017, net cash provided by operating activities increased $3.5 million over fiscal year 2016 primarily due to lower net loss after adjusting for amortization of acquired intangibles, depreciation and amortization, amortization of deferred commissions, stock-based compensation, provision for doubtful accounts, amortization of deferred financing costs, and changes in working capital accounts, specifically a decrease in accounts receivables and an increase in deferred revenue due to timing of prepayments received for cloud customer renewals.

Net cash provided by operating activities was $1.9 million in fiscal year 2016 compared to net cash used in operating activities of $10.5 million in fiscal year 2015. The decrease in cash used was primarily due to a net loss of $6.2 million for the fiscal year 2016 compared to a net loss of $12.4 million in the comparable year-ago period after adjusting for depreciation, amortization of deferred commissions, deferred financing costs, and intangible assets,

stock-based compensation, and changes in working capital accounts. Decreases in accrued compensation related to the settlement of Exony working capital and management incentive commitments, deferred revenue and accounts receivable decreased due to the timing of prepayments received for cloud customer renewals and improved cash collections led to the improvement in cash used in operations, as well. The increase in accrued liabilities was primarily due to the increase in customer advances.

Table of Contents

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

Net cash used in investing activities was $492,000 in fiscal year 2017. Net cash used in investing activities primarily related to purchases of equipment and software of $492,000 to support the increase in investment for cloud infrastructure and equipment for new employees.

Net cash provided by investing activities was $74,000 in fiscal year 2016. Net cash provided by investing activities in fiscal year 2016 primarily related to a decrease of $621,000 in restricted cash partially offset by $547,000 of equipment and software purchases.

Net cash used in investing activities was $3.4 million in fiscal year 2015. Net cash used in investing activities primarily related to (i) $1.9 million of cash paid for the acquisition of Exony, net of cash acquired (ii) an increase in restricted cash of $779,000 related to escrow funds reserved for the payment of Exony management incentive bonuses and (iii) $741,000 of equipment and software purchases.

Net cash used in financing activities was $6.0 million in fiscal year 2017. Net cash used in financing activities primarily included payments of $14.0 million on existing bank borrowings, payments of $329,000 on capital lease obligations, and payments of $130,000 made for debt issue costs partially offset by proceeds from bank borrowings of $8.5 million and proceeds from exercise of stock options of $11,000.

Net cash provided by financing activities was $1.7 million in fiscal year 2016. Net cash provided by financing activities primarily related to (i) $11.8 million in bank borrowings from our bank facility to fund operations and (ii) $172,000 from the exercise of stock options partially offset by (i) $9.5 million repayment of existing bank borrowings; (ii) $498,000 payments on capital lease obligations and (iii) $270,000 payments for debt issue costs.

Net cash provided by financing activities was $13.6 million in fiscal year 2015. Net cash provided by financing activities primarily related to (i) $26.5 million in borrowings from our bank facilities used to finance the majority of the acquisition of Exony on August 6, 2014 and to support our strategic growth plans and (ii) $339,000 from the exercise of stock options partially offset by (i) the repayment of $12.2 million of existing bank borrowings, (ii) $550,000 payments made for debt issue costs, and (iii) $434,000 principal payments on capital lease obligations.

Commitments

The following table summarizes our contractual obligations as of June 30, 2017 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Payments Due by Period				
	Total	1 Year	2 - 3 Years	4 - 5 Years	More than 5 Years
Operating leases	$ 4,207	$ 1,172	$ 1,969	$ 1,066	$ —

Capital leases	162	119	43	—	—
Bank borrowings	16,056	1,000	15,056	—	—
Contractual commitments	3,839	981	2,858	—	—
Total	$ 24,264	$ 3,272	$ 19,926	$ 1,066	$ —

Off-Balance Sheet Arrangements

As of June 30, 2017, we had no significant off-balance-sheet arrangements, as defined in Item 303(a)(4) of Regulation S-K.

Table of Contents

Quarterly Results of Operations

The following tables set forth certain unaudited consolidated statement of operations data for the eight quarters ended June 30, 2017. This data has been derived from unaudited consolidated financial statements that, in the opinion of management, include all adjustments consisting only of normal recurring adjustments, necessary for a fair presentation of such information when read in conjunction with the Consolidated Financial Statements and Notes thereto.

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

	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015
	(in thousands, except per share information)							
Consolidated Statements of Operations Data:								
Revenue:								
Recurring	$ 11,603	$ 10,137	$ 10,982	$ 10,863	$ 10,828	$ 10,330	$ 10,783	$ 10,842
Legacy license	333	1,156	1,418	1,650	3,807	3,169	5,064	2,426
Professional services	2,685	2,557	2,599	2,232	2,987	2,792	3,139	3,208
Total revenue	14,621	13,850	14,999	14,745	17,622	16,291	18,986	16,476
Cost of recurring	3,080	3,149	2,800	2,927	3,065	3,141	3,116	3,079
Cost of legacy license	15	24	4	7	5	8	9	7
Cost of professional services	2,318	2,486	2,259	2,130	2,450	2,572	2,851	3,386
Total cost of revenue	5,413	5,659	5,063	5,064	5,520	5,721	5,976	6,472
Gross profit	9,208	8,191	9,936	9,681	12,102	10,570	13,010	10,004
Operating Expenses:								
Research and development	3,487	3,360	3,231	3,675	3,939	4,208	4,016	3,900
Sales and marketing	4,553	5,102	5,541	5,240	6,311	7,126	7,617	6,668
General and administrative	1,499	1,560	1,462	2,031	1,743	1,892	1,893	2,246
Total operating expenses	9,539	10,022	10,234	10,946	11,993	13,226	13,526	12,814
Income (loss) from	(331)	(1,831)	(298)	(1,265)	109	(2,656)	(516)	(2,810)

operations								
Interest expense, net	(379)	(470)	(459)	(422)	(437)	(512)	(676)	(333)
Other income (expense), net	(79)	12	(73)	108	217	345	(74)	240
Loss before income tax benefit (provision)	(789)	(2,289)	(830)	(1,579)	(111)	(2,823)	(1,266)	(2,903)
Income tax benefit (provision)	744	(226)	(219)	(832)	1,488	(178)	(113)	(334)
Net Income (loss)	$ (45)	$ (2,515)	$ (1,049)	$ (2,411)	$ 1,377	$ (3,001)	$ (1,379)	$ (3,237)
Per share information:								
Basic net income (loss) per common share	$ (0.00)	$ (0.09)	$ (0.04)	$ (0.09)	$ 0.05	$ (0.11)	$ (0.05)	$ (0.12)
Weighted average shares used in computing basic net income (loss) per common share	27,114	27,105	27,106	27,108	27,096	27,070	27,036	27,022
Diluted net income (loss) per common share	$ (0.00)	$ (0.09)	$ (0.04)	$ (0.09)	$ 0.05	$ (0.11)	$ (0.05)	$ (0.12)
Weighted average shares used in computing diluted net income (loss) per common share	27,114	27,105	27,106	27,108	27,607	27,070	27,036	27,022

ITEM 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

We develop products in the United States and India and sell these products in the United States and internationally. Generally, international sales are made in local currency. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Identifiable

assets denominated in foreign currency as of June 30, 2017 totaled approximately $8.6 million. A 10% increase in the value of the dollar relative to other currencies would decrease the value of these assets by $860,000. We do not currently use derivative instruments to hedge against foreign exchange risk. As such we are exposed to market risk from fluctuations in foreign currency exchange rates, principally from the exchange rate between the U.S. dollar and the Euro and the British pound and the Indian rupee. An unfavorable change in the foreign currency exchange rates may cause an adverse effect on our financial position or results of operations.

Table of Contents

Interest Rate Risk

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

Our cash and cash equivalents, totaling $10.6 million as of June 30, 2017, did not include any auction preferred stock, auction rate securities or mortgage backed investments. We currently do not hedge interest rate exposure, and we do not have any foreign currency or other derivative financial instruments. To date, we have not experienced a loss of principal on any of our investments. Although we currently expect that our ability to access or liquidate these investments as needed to support our business activities will continue, we cannot ensure that this will not change. We believe that, if market interest rates were to change immediately and uniformly by 10% from levels as of June 30, 2017, the impact on the fair value of these securities or our cash flows or income would not be material.

ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

eGain Corporation

Consolidated Financial Statements

As of June 30, 2017 and 2016 and for the years ended June 30, 2017, 2016, and 2015

Index to Consolidated Financial Statements

	Page Number
Report of BPM LLP, Independent Registered Public Accounting Firm	50
Consolidated Financial Statements:	
Consolidated Balance Sheets as of June 30, 2017 and 2016	51
Consolidated Statements of Operations for the years ended June 30, 2017, 2016 and 2015	52
Consolidated Statements of Comprehensive Loss for the years ended June 30, 2017, 2016 and 2015	53
Consolidated Statements of Stockholders' Equity (Deficit) for the years ended June 30, 2017, 2016 and 2015	54
Consolidated Statements of Cash Flows for the years ended June 30, 2017, 2016 and 2015	55
Notes to Consolidated Financial Statements	56

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

eGain Corporation

Sunnyvale, California

We have audited the accompanying consolidated balance sheets of eGain Corporation and its subsidiaries (the "Company") as of June 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the three years in the period ended June 30, 2017. Our audits also included the financial statement schedule listed in the index to this Annual Report on Form 10-K at Part IV Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of eGain Corporation and its subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BPM LLP

San Jose, California

September 26, 2017

Table of Contents

eGAIN CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	June 30, 2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,627	$ 11,780
Restricted cash	6	5
Accounts receivable, less allowance for doubtful accounts of $357 and $756 as of June 30, 2017 and 2016, respectively	7,201	11,876
Deferred commissions	690	787
Prepaid expenses	1,737	1,480
Other current assets	370	426
Total current assets	20,631	26,354
Property and equipment, net	1,059	1,688
Deferred commissions, net of current portion	694	325
Intangible assets, net	2,748	4,839
Goodwill	13,186	13,186
Other assets	1,433	1,671
Total assets	$ 39,751	$ 48,063
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 2,363	$ 2,099
Accrued compensation	4,339	5,642
Accrued liabilities	2,364	5,670
Deferred revenue	18,332	12,672
Capital lease obligations	108	329
Bank borrowings	805	828
Total current liabilities	28,311	27,240
Deferred revenue, net of current portion	4,887	3,045
Capital lease obligations, net of current portion	42	153
Bank borrowings, net of current portion	14,802	20,223
Other long term liabilities	1,330	1,679
Total liabilities	49,372	52,340
Commitments and contingencies (Notes 7 and 8)		
Stockholders' deficit:		
Common stock, $0.001 par value - authorized: 50,000 shares; outstanding: 27,127 and 27,108 shares as of June 30, 2017 and 2016, respectively	27	27
Additional paid-in capital	343,367	342,689
Notes receivable from stockholders	(83)	(81)
Accumulated other comprehensive loss	(1,663)	(1,663)
Accumulated deficit	(351,269)	(345,249)
Total stockholders' deficit	(9,621)	(4,277)

Total liabilities and stockholders' deficit	$ 39,751	$ 48,063

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

Table of Contents

eGAIN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information)

	Years Ended June 30,		
	2017	2016	2015
Revenue:			
Recurring	$ 43,585	$ 42,783	$ 42,311
Legacy license	4,557	14,466	18,325
Professional services	10,073	12,126	15,277
Total revenue	58,215	69,375	75,913
Cost of recurring	11,956	12,401	12,082
Cost of legacy license	50	29	61
Cost of professional services	9,193	11,259	16,998
Total cost of revenue	21,199	23,689	29,141
Gross profit	37,016	45,686	46,772
Operating expenses:			
Research and development	13,753	16,063	16,042
Sales and marketing	20,436	27,722	32,703
General and administrative	6,552	7,774	9,313
Total operating expenses	40,741	51,559	58,058
Loss from operations	(3,725)	(5,873)	(11,286)
Interest expense, net	(1,730)	(1,958)	(834)
Other income (expense), net	(32)	728	11
Loss before income tax benefit (provision)	(5,487)	(7,103)	(12,109)
Income tax benefit (provision)	(533)	863	(320)
Net loss	$ (6,020)	$ (6,240)	$ (12,429)
Per share information:			
Basic and diluted net loss per common share	$ (0.22)	$ (0.23)	$ (0.47)
Weighted average shares used in computing basic and diluted net loss per common share	27,108	27,056	26,609
Below is a summary of stock-based compensation included in the costs and expenses above:			
Cost of revenue	$ 131	$ 249	$ 476
Research and development	$ 281	$ 472	$ 736
Sales and marketing	$ 80	$ 169	$ 574
General and administrative	$ 175	$ 298	$ 531

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

Table of Contents

eGAIN CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Years Ended June 30,		
	2017	2016	2015
Net loss	$ (6,020)	$ (6,240)	$ (12,429)
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustments	—	(493)	159
Cumulative translation adjustments from liquidation of inactive subsidiaries	—	—	(359)
Other comprehensive loss, net of taxes:	—	(493)	(200)
Total comprehensive loss	$ (6,020)	$ (6,733)	$ (12,629)

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

Table of Contents

eGAIN CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands)

	Common Stock		Additional Paid-in	Notes Receivable From	Accumulated Other Comprehensive	Accumulated	Total Stockholders' Equity
	Shares	Amount	Capital	Stockholders	Loss	Deficit	(Deficit)
BALANCES AS OF JUNE 30, 2014	25,471	25	330,657	(83)	(970)	(326,580)	3,049
Repayment on stockholder notes	—	—	—	8	—	—	8
Interest on stockholder notes	—	—	—	(3)	—	—	(3)
Exercise of stock options	341	1	338	—	—	—	339
Stock-based compensation	—	—	2,317	—	—	—	2,317
Share issuance related to business combination	1,210	1	8,017	—	—	—	8,018
Net loss	—	—	—	—	—	(12,429)	(12,429)
Foreign currency translation adjustments	—	—	—	—	159	—	159
Cumulative translation adjustment from liquidation of inactive subsidiaries	—	—	—	—	(359)	—	(359)
BALANCES AS OF JUNE 30, 2015	27,022	27	341,329	(78)	(1,170)	(339,009)	1,099
Interest on stockholder notes	—	—	—	(3)	—	—	(3)
Exercise of stock options	86	—	172	—	—	—	172
Stock-based compensation	—	—	1,188	—	—	—	1,188
Net loss	—	—	—	—	—	(6,240)	(6,240)
Foreign currency translation adjustments	—	—	—	—	(493)	—	(493)

BALANCES AS OF JUNE 30, 2016	27,108	27	342,689	(81)	(1,663)	(345,249)	(4,277)
Interest on stockholder notes	—	—	—	(2)	—	—	(2)
Exercise of stock options	19	—	11	—	—	—	11
Stock-based compensation	—	—	667	—	—	—	667
Net loss	—	—	—	—	—	(6,020)	(6,020)
BALANCES AS OF JUNE 30, 2017	27,127	$ 27	$ 343,367	$ (83)	$ (1,663)	$ (351,269)	$ (9,621)

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

Table of Contents

eGAIN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended June 30,		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	$ (6,020)	$ (6,240)	$ (12,429)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,108	2,057	2,503
Deferred income taxes	18	(1,406)	(268)
Loss on disposal of property and equipment	—	47	—
Amortization of deferred financing costs	207	231	79
Amortization of acquired intangibles	2,091	2,781	2,510
Stock-based compensation	667	1,188	2,317
Provision for doubtful accounts	303	264	194
Amortization of deferred commissions	884	728	1,006
Changes in operating assets and liabilities:			
Accounts receivable, net	4,209	(272)	(116)
Deferred commissions	(1,168)	(1,049)	(794)
Prepaid expenses	(267)	(586)	(515)
Other current assets	54	248	448
Other non-current assets	(216)	48	44
Accounts payable	262	429	(1,093)
Accrued compensation	(1,285)	(864)	(1,454)
Accrued liabilities	(3,281)	3,208	(1,113)
Deferred revenue	7,711	825	(1,566)
Other long term liabilities	124	230	(256)
Net cash provided by (used in) operating activities	5,401	1,867	(10,503)
Cash flows from investing activities:			
Acquisitions, net of cash acquired	—	—	(1,905)
Purchases of property and equipment	(492)	(547)	(741)
Decrease (increase) in restricted cash	—	621	(779)
Net cash provided by (used in) investing activities	(492)	74	(3,425)
Cash flows from financing activities:			
Payments on bank borrowings	(14,000)	(9,510)	(12,200)
Payments on capital lease obligation	(329)	(498)	(434)
Proceeds from bank borrowings	8,479	11,837	26,450
Payments made for debt issue costs	(130)	(270)	(550)
Proceeds from exercise of stock options	11	172	339
Repayments on related party notes receivable	—	—	8
Net cash provided by (used in) financing activities	(5,969)	1,731	13,613
Effect of exchange rate differences on cash and cash equivalents	(93)	(525)	163
Net increase (decrease) in cash and cash equivalents	(1,153)	3,147	(152)
Cash and cash equivalents at beginning of year	11,780	8,633	8,785

Cash and cash equivalents at end of year	$ 10,627	$ 11,780	$ 8,633
Supplemental cash flow disclosures:			
Cash paid for interest	$ 1,537	$ 1,748	$ 362
Cash paid for income taxes	$ 268	$ 282	$ 412
Non-cash items:			
Purchases of equipment through trade accounts payable	$ 15	$ 11	$ 40
Property and equipment acquired under a capital lease	$ —	$ 250	$ 208
Issuance of common stock in connection with business acquisition	$ —	$ —	$ 8,018

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

eGAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

eGain Corporation (“eGain”, the “Company”, “our”, “we” or “us”) is a leading provider of cloud-based customer engagement software. We help B2C brands operationalize digital customer engagement strategy. Our suite includes rich applications for digital interaction, knowledge management, and AI-based process guidance. We also provide advanced, integrated analytics for contact centers and digital properties to holistically measure, manage, and optimize resources. Benefits include reduced customer effort, customer satisfaction, connected service processes, converted upsell opportunities, and improved compliance—across mobile, social, web, and phone. Hundreds of global enterprises rely on eGain to transform fragmented customer service systems into unified Customer Engagement Hubs.

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

Principles of Consolidation

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

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

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

Reclassification

Certain reclassifications were made to the consolidated financial statements to conform to the current period presentation. As of June 30, 2017, we classify subscription and support revenue as recurring revenue due to the strategic decision to move to a ratable or cloud delivery business model from the hybrid model that included legacy perpetual licenses. These reclassifications did not result in any change in previously reported net losses, total assets or stockholders’ equity (deficit).

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.

Table of Contents

Use of Estimates

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

We evaluate our significant estimates, including those related to revenue recognition, provision for doubtful accounts, valuation of stock-based compensation, valuation of long-lived assets, valuation of deferred tax assets, and litigation, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We refer to accounting estimates of this type as “critical accounting estimates.”

Foreign Currency

The functional currency of each of our international subsidiaries is the local currency of the country in which it operates. Assets and liabilities of our foreign subsidiaries are translated at month-end exchange rates, and revenue and expenses are translated at the average monthly exchange rates. The resulting cumulative translation adjustments are recorded as a component of accumulated other comprehensive loss. Foreign currency transaction gains and losses are included in “other income (expense), net” in the consolidated statements of operations, and resulted in a gain of $14,000, a gain of $697,000, and a loss of $400,000 in fiscal years 2017, 2016 and 2015, respectively.

Cash and Cash Equivalents, Restricted Cash and Investments

We consider all highly liquid investments with an original purchase to maturity date of three months or less to be cash equivalents. Time deposits held for investments that are not debt securities are included in short-term investments in the consolidated balance sheets. Investments in time deposits with original maturities of more than three months but remaining maturities of less than one year are considered short-term investments. Investments held with the intent to reinvest or hold for longer than a year, or with remaining maturities of one year or more, are considered long-term investments. As of June 30, 2017 and 2016 we did not have any short-term or long-term investments.

Cash earmarked for a specific purpose and therefore not available for immediate and general use by the Company is considered restricted cash. Expected usage of restricted cash within one year is classified as a current asset; expected usage more than a year is considered a non-current asset. As of June 30, 2017 and 2016, our restricted cash was nominal.

Fair Value of Financial Instruments

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

Concentration of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents and investments are deposited with high credit quality institutions. We are exposed to credit risk in the event of default by these institutions to the extent of the amount recorded on the balance sheet. We invest excess cash primarily in money market funds, which are highly liquid securities that bear minimal risk. In addition, we have investment policies and procedures that are reviewed periodically to minimize credit risk. Our cash, cash equivalents and restricted cash were $10.6 million as of June 30, 2017 which exceeded the FDIC (Federal Deposit Insurance Corporation) limit.

Table of Contents

Our customer base extends across many different industries and geographic regions. Revenue is allocated to individual countries and geographic region by customer, based on where the product is shipped to and location of services performed. One customer accounted for 13% of total revenue in fiscal year 2017. There were two customers that accounted for 10% and 14%, respectively, of total revenue in fiscal years 2016. One customer accounted for 10% of total revenue in fiscal year 2015.

We perform ongoing credit evaluations of our customers with outstanding receivables and generally do not require collateral. In addition, we established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. Two customers accounted for 20% and 11% of accounts receivable as of June 30, 2017. There were two customers that accounted for 23% and 14% of accounts receivable as of June 30, 2016. Two customers accounted for approximately 16% and 12%, respectively, of accounts receivable as of June 30, 2015.

Accounts Receivable and Allowance for Doubtful Accounts

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

Property and Equipment

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

Goodwill and Other Intangible Assets

We review goodwill annually for impairment or sooner whenever events or changes in circumstances indicate that it may be impaired. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. In addition, we evaluate purchased intangible assets to determine that all such assets have determinable lives. We operate under a single reporting unit and accordingly, all of our goodwill is associated with the entire company. We early adopted Accounting Standards Update (ASU) 2017-04, Intangibles—Goodwill and Other, in fiscal year 2017 and had no impairment due to a negative carrying amount of our reporting unit. We performed an annual impairment review in June 2016 and identified no impairment.

Impairment of Long-Lived Assets

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

During fiscal years 2017, 2016 and 2015, we did not have any such losses.

Revenue Recognition

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

Table of Contents

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. Recurring fees (previously referred to as subscription and support) primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term and ratable license revenue, and maintenance and support revenue;
ii. Legacy license fees primarily consist of perpetual software license revenue which we no longer sell to new customers;
iii. Professional services primarily consist of consulting, implementation services and training.

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

- Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use signed statement of work as evidence of arrangement for professional services.
- Delivery or performance has occurred: Software is delivered to customers electronically, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with a license file and/or 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.

Revenue from sales to resellers is generally recognized upon delivery to the reseller dependent on the facts and circumstances of the transaction, such as our understanding of the reseller’s plans to sell the software, existence of return provisions, price protection or other allowances, the reseller’s financial status and our experience with the reseller. Historically sales to resellers have not included any return provisions, price protections or other allowances.

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

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

59

Table of Contents

We enter into arrangements with multiple-deliverables that generally include subscription, maintenance and support, and professional services. We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. For revenue recognition with multiple-deliverable elements, 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 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.

Recurring Revenue

Cloud Revenue

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

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

Term and Ratable License Revenue

Term and ratable 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 or the Company has not established VSOE for the bundled multi-year maintenance and support services. The majority of our contracts provide

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

Version 15.5 and future releases of the perpetual license is a cloud and perpetual license hybrid software which represents a service contract under ASC 605-25. The cloud components are essential to the functionality of version 15.5 and future releases, and we have a contractual obligation to deliver these cloud components. Per ASC 605-25, a delivered

item is considered a separate unit of accounting only if (i) the delivered item has standalone value; and (ii) if the service contract has a general right of return, then delivery and performance of the undelivered item is probable and substantially within the vendor's control. We cannot separate the cloud components because there is no standalone value of the cloud components. The perpetual license revenue is recognized over the economic life of the software which was determined to be three years.

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.

Legacy License Revenue

Legacy license revenue consists of perpetual license rights sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software products and/or services, we use the residual method for perpetual licenses released as version 15 or prior 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.

Professional Services Revenue

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

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

We have standalone value for consulting and implementation 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.

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 and ratable license, and maintenance and support services and is recognized as the revenue recognition criteria are met. We

Table of Contents

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 and term license contracts with customers and consist of sales commissions to our direct sales force.

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

Deferred Financing Costs

Costs relating to obtaining the credit agreement with Wells Fargo Bank are capitalized and amortized over the term of the related debt using the effective interest method. As of June 30, 2017 and 2016, deferred financing costs were $950,000 and $820,000, respectively, and accumulated amortization was $501,000 and $294,000, respectively. Deferred financing costs are included net of bank borrowings in the accompanying consolidated balance sheets. Amortization of deferred financing costs recorded as interest expense was $207,000, $231,000 and $79,000 for the fiscal years ended June 30, 2017, 2016 and 2015, respectively. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations as interest expense.

Leases

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

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

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

Software Development Costs

We account for software development costs in accordance with ASC 985, Software, for costs of the software to be sold, leased or marketed, whereby costs for the development of new software products and substantial enhancements to existing software products are included in research and development expense as incurred until technological feasibility has been established, at which time any additional costs are capitalized. Technological feasibility is

established upon completion of a working model. To date, software development costs incurred in the period between achieving technological feasibility and general availability of software have not been material and have been charged to operations as incurred.

Table of Contents

Advertising Costs

We expense advertising costs as incurred. Total advertising expenses for the fiscal years ended June 30, 2017, 2016 and 2015 were $52,000, $121,000, and $68,000 respectively.

Stock-Based Compensation

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

Income Taxes

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

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

Comprehensive Loss

We report comprehensive loss and its components in accordance with ASC 220, Comprehensive Income. Under the accounting standards, comprehensive loss includes all changes in equity during a period except those resulting from investments by or distributions to owners. Total comprehensive loss for each of the three years in the period ended June 30, 2017 is shown in the accompanying statements of comprehensive loss. Accumulated other comprehensive loss presented in the accompanying consolidated balance sheets as of June 30, 2017 and 2016 consist of accumulated foreign currency translation adjustments.

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 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 (in thousands, except per share data):

	Years Ended June 30,		
	2017	2016	2015
Net loss applicable to common stockholders	$ (6,020)	$ (6,240)	$ (12,429)
Basic net loss per common share	$ (0.22)	$ (0.23)	$ (0.47)
Weighted average common shares used in computing basic net loss per common share	27,108	27,056	26,609
Effect of dilutive options and warrants outstanding	—	—	—
Weighted average common shares used in computing diluted net loss per common share	27,108	27,056	26,609
Diluted net loss per common share	$ (0.22)	$ (0.23)	$ (0.47)

Weighted average shares of stock options to purchase 2,404,591, 2,661,609, and 2,718,069 shares of common stock as of June 30, 2017, 2016, and 2015, respectively, were not included in the computation of diluted net income (loss) per common share due to their anti-dilutive effect. Such securities could have a dilutive effect in future periods.

Segment Information

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

Information relating to our geographic areas for the fiscal years ended June 30, 2017, 2016 and 2015 is as follows (in thousands):

	Total Revenue	Operating Income (Loss)	Long-Lived Assets
Year ended June 30, 2017:			
North America	$ 28,711	$ (4,515)	$ 463
EMEA	28,106	4,283	497
Asia Pacific	1,398	(3,493)	99
	$ 58,215	$ (3,725)	$ 1,059
Year ended June 30, 2016:			
North America	$ 34,922	$ (6,078)	$ 925
EMEA	32,157	3,162	627
Asia Pacific	2,296	(2,957)	136
	$ 69,375	$ (5,873)	$ 1,688
Year ended June 30, 2015:			
North America	$ 36,551	$ (7,382)	

EMEA	37,666	204
Asia Pacific	1,696	(4,108)
	$ 75,913	$ (11,286)

For the purposes of entity-wide geographic area disclosures, we define long-lived assets as hard assets that cannot be easily removed, such as property and equipment.

Table of Contents

New Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a shared-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. Early adoption is permitted. We are currently assessing the future impact of this update on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from goodwill impairment testing. The Board also eliminated requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019 (our fiscal 2021), including interim reporting periods within those annual reporting periods. Early adoption is permitted. We early adopted this guidance in fiscal year 2017.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which provides specific guidance on how to classify restricted cash. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. 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 reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim periods within that reporting

Table of Contents

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 provides technical corrections and improvements to Topic 606 and other Topics amended by ASU 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. The effective date and transition requirements for the amendments are equivalent to those for Topic 606.

Topic 606 is effective for our fiscal year 2019 beginning on July 1, 2018 using either one of two transition methods including several practical expedients: (i) full retrospective method, in which the new standard would be applied to each prior reporting period presented; or (ii) the modified retrospective method, in which the cumulative effect of initially applying the new standard would be recognized at the date of initial application and providing certain additional disclosures as defined in the guidance. We have not selected a transition method yet. We are still evaluating the overall effect that the standard will have on our consolidated financial statements and accompanying notes to the consolidated financial statements.

2. BALANCE SHEET COMPONENTS

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

	June 30,	
	2017	2016
Computers and equipment	$ 1,382	$ 2,215
Leased equipment	475	1,473
Furniture and fixtures	255	249
Leasehold improvements	412	553
Total	2,524	4,490
Accumulated depreciation and amortization	(1,465)	(2,802)
Property and equipment, net	$ 1,059	$ 1,688

Depreciation and amortization expense was $1.1 million, $2.1 million and $2.5 million for the years ended June 30, 2017, 2016 and 2015, respectively. Accumulated depreciation relating to computers, equipment and software under capital leases totaled $863,000 and $1.0 million as of June 30, 2017 and 2016, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense. Disposals of fixed assets were $14.0 million and $1.2 million and for the years ended June 30, 2017, and 2016, respectively. Fully depreciated equipment of $6.1 million and $17.6 million as of June 30, 2017 and 2016, respectively, is not included in the table above.

Accrued compensation consists of the following (in thousands):

	June 30, 2017	2016
Accrued bonuses	$ 1,326	$ 1,514
Accrued vacation	1,794	1,834
Payroll and other employee related costs	752	891
Accrued commissions	467	1,403
Accrued compensation	$ 4,339	$ 5,642

Table of Contents

Accrued liabilities consists of the following (in thousands):

	June 30, 2017	2016
Accrued other liabilities	$ 980	907
VAT liability	364	602
Sales tax payable	558	193
Customer advances	462	3,968
Accrued liabilities	$ 2,364	$ 5,670

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 (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.

Table of Contents

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 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.

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 be either the applicable LIBOR rate plus 5.5% per annum or 7.0% per annum, depending on the Company's "TTM Recurring Revenue Calculation" (as defined in the Credit Agreement). The TTM Recurring Revenue Calculation is based on the Company's consolidated trailing twelve months of revenue relating to recurring revenue attributable to the Company's software. Loans may also bear interest under the Credit Agreement at the applicable Base Rate (as defined in the Credit Agreement) and the corresponding Applicable Margin for Base Rate loans is 1.0% per annum less than for LIBOR loans. Under 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 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. As of June 30, 2017,

the Fixed Charge Coverage Ratio and Leverage Ratio financial covenants were not met, and the Financial Covenant Replacement Date was not deemed to have occurred.

Table of Contents

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:

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

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.

As of June 30, 2017, we were in compliance with these financial covenant terms.

If the Leverage Ratio is greater than 3.00 to 1:00 as of the end of the fiscal year, then we are contractually obligated to repay an amount equivalent to 50% of the Excess Cash Flow as specified in the Credit Agreement. As of June 30, 2017, our Leverage Ratio was above this threshold, and 50% of Excess Cash Flow was determined to be the amount of $729,000. We obtained a bank waiver and were not required to pay this amount.

As of June 30, 2017, balances on the Term Loan, Revolving Loans and debt maturities during each of the next five years on an aggregate basis were (in thousands):

Year Ending June 30,	Bank Borrowings
2018	$ 1,000
2019	1,000
2020	14,056
2021	—
2022	—
Total bank borrowings	16,056
Less amounts representing deferred financing costs, net	(449)
Total bank borrowings	15,607
Less current debt maturities	(805)

Bank borrowings, net of current portion	$ 14,802

Amortization expense related to deferred financing costs amounted to $207,000 and $231,000 and $79,000 for the years ended June 30, 2017, 2016 and 2015, respectively.

Table of Contents

4. INCOME TAXES

Loss before income tax benefit (provision) consisted of the following (in thousands):

	Year Ended June 30,		
	2017	2016	2015
United States	$ (5,148)	$ (11,823)	$ (24,621)
Foreign	(339)	4,720	12,512
Loss before income tax benefit (provision)	$ (5,487)	$ (7,103)	$ (12,109)

The following table reconciles the federal statutory tax rate to the effective tax rate of the income tax provision:

	Year Ended June 30,		
	2017	2016	2015
Federal statutory income tax rate	34.0 %	34.0 %	34.0 %
Current state taxes	(0.2)	(0.1)	—
Foreign rate differential	(8.9)	(0.8)	(4.9)
Research and development credits	3.1	3.5	1.5
Foreign withholding tax	(4.3)	(5.4)	(2.2)
Other items	(5.7)	(2.4)	1.8
Net change in valuation allowance	(27.7)	(16.7)	(32.8)
Effective tax rate	(9.7) %	12.1 %	(2.6) %

The components of the income tax (benefit) provision are as follows (in thousands):

	Year Ended June 30,		
	2017	2016	2015
Current provision:			
Federal	$ —	$ —	$ 23
Foreign	505	533	560
State	10	10	5
Total current:	515	543	588
Deferred (benefit):			
Foreign	18	(1,406)	(268)
Total deferred:	18	(1,406)	(268)
Income tax (benefit) provision	$ 533	$ (863)	$ 320

As of June 30, 2017, we had federal and state net operating loss carryforwards of approximately $218.3 million and $32.7 million, respectively. The net operating loss carryforwards will expire at various dates beginning in fiscal year ending June 30, 2018 through June 30, 2037, if not utilized. Partial amounts of the net operating losses are generated from the exercise of options and the tax benefit would be credited directly to stockholders' equity (deficit). We also had federal research and development credit carryforwards of approximately $2.8 million as of June 30, 2017 which

will expire at various dates beginning in fiscal year ending June 30, 2019 through June 30, 2037, if not utilized. The California research and development credit carryforwards are approximately $4.3 million as of June 30, 2017 and have an indefinite carryover period. We also have U.K. net operating loss carryforwards, which do not expire, of approximately $1.5 million as of June 30, 2017.

Utilization of the Federal and California net operating losses and credits may be subject to a substantial limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Deferred tax assets and liabilities reflect the net tax effects of net operating loss and credit carryforwards and of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes.

Table of Contents

We early adopted ASU 2015-17, Income Taxes—Balance Sheet Classification of Deferred Taxes, as of June 30, 2016 on a prospective basis. Periods presented in the consolidated financial statements reflect the adoption of the guidance.

Significant components of our deferred tax assets and liabilities for federal, state and foreign income taxes are as follows (in thousands):

	June 30, 2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 74,806	$ 74,751
Research credits	5,658	5,289
Deferred revenue	886	372
Stock-based compensation	1,564	111
Accruals and reserves	1,260	1,199
Other	376	411
Gross deferred tax assets	84,550	82,133
Less valuation allowance	(83,747)	(80,863)
Deferred tax assets, included in other assets	803	1,270
Deferred tax liabilities:		
Foreign, primarily intangible assets	(256)	(705)