EGAIN Corp
Form 10-Q
May 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission File No. 001-35314

eGAIN CORPORATION

(Exact name of registrant as specified in its charter)

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

1252 Borregas Avenue, Sunnyvale, CA

(Address of principal executive offices)

94089

(Zip Code)

(408) 636-4500

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Class	**Outstanding at May 6, 2013**
Common Stock $0.001 par value	25,026,900

eGAIN CORPORATION

Quarterly Report on Form 10-Q

For the Quarterly Period Ended March 31, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

eGAIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value data)

	March 31, 2013 (Unaudited)	June 30, 2012 (As Adjusted)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,758	$ 9,911
Restricted cash	30	35
Accounts receivable, less allowance for doubtful accounts of $525 and $303 at March 31, 2013 and June 30, 2012, respectively	10,271	6,535
Deferred commissions	1,674	955
Prepaid and other current assets	2,299	795
Total current assets	31,032	18,231
Property and equipment, net	2,639	2,295
Deferred commissions, net of current portion	754	643
Goodwill	4,880	4,880
Restricted cash, net of current portion	1,000	1,000
Other assets	785	894
Total assets	$ 41,090	$ 27,943
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,829	$ 1,875
Accrued compensation	3,681	3,385
Accrued liabilities	2,961	1,549
Current portion of deferred revenue	16,450	6,896
Current portion of bank borrowings	2,417	1,666
Related party notes payable	2,841	
Total current liabilities	30,179	15,371
Deferred revenue, net of current portion	4,188	1,187
Bank borrowings, net of current portion	2,667	1,667
Related party notes payable		5,563
Other long term liabilities	293	242
Total liabilities	37,327	24,030
Commitments and contingencies (Note 6)		
Stockholders equity:		
Common stock, $0.001 par value authorized: 50,000 shares; outstanding: 24,992 shares as of March 31, 2013 and 24,485 shares as of June 30, 2012	25	24

Additional paid-in capital	328,085	326,742
Notes receivable from stockholders	(87)	(85)
Accumulated other comprehensive loss	(1,029)	(750)
Accumulated deficit	(323,231)	(322,018)
Total stockholders equity	3,763	3,913
Total liabilities and stockholders equity	$ 41,090	$ 27,943

See accompanying notes to unaudited condensed consolidated financial statements

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eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012 (As Adjusted)	2013	2012 (As Adjusted)
Revenue:				
License	$ 4,098	$ 2,849	$ 8,237	$ 8,767
Recurring revenue	8,346	5,785	23,326	17,292
Professional services	3,016	2,873	9,357	6,669
Total revenue	15,460	11,507	40,920	32,728
Cost of license	34	10	125	(1)
Cost of recurring revenue	1,355	1,339	3,959	3,896
Cost of professional services	3,180	2,116	9,095	5,626
Total cost of revenue	4,569	3,465	13,179	9,521
Gross profit	10,891	8,042	27,741	23,207
Operating expenses:				
Research and development	2,101	1,566	6,193	4,372
Sales and marketing	6,027	5,389	17,522	14,417
General and administrative	1,852	1,445	4,929	4,286
Total operating expenses	9,980	8,400	28,644	23,075
Income/ (loss) from operations	911	(358)	(903)	132
Interest expense, net	(99)	(199)	(376)	(588)
Other income (expense)	256	(44)	306	(306)
Income/ (loss) before income tax	1,068	(601)	(973)	(762)
Income tax provision	(38)	(54)	(240)	(132)
Net income/ (loss)	$ 1,030	$ (655)	$ (1,213)	$ (894)
Per share information:				
Basic	$ 0.04	$ (0.03)	$ (0.05)	$ (0.04)
Diluted	$ 0.04	$ (0.03)	$ (0.05)	$ (0.04)
Weighted average shares used in computing basic net income/ (loss) per common share	24,889	24,376	24,690	24,289
Weighted average shares used in computing diluted net income/ (loss) per common share	26,373	24,376	24,690	24,289

See accompanying notes to unaudited condensed consolidated financial statements

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eGAIN CORPORATION

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

(in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012 (As Adjusted)	2013	2012 (As Adjusted)
Net income/ (loss)	$ 1,030	$ (655)	$ (1,213)	$ (894)
Other comprehensive income/ (loss), net of taxes:				
Foreign currency translation adjustments	(242)	(35)	(279)	(135)
Comprehensive income/ (loss)	$ 788	$ (690)	$ (1,492)	$ (1,029)

See accompanying notes to unaudited condensed consolidated financial statements

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eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012 (As Adjusted)
Cash flows from operating activities:		
Net loss	$ (1,213)	$ (894)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	938	540
Amortization of deferred commissions	1,118	443
Stock-based compensation	810	520
Provisions for doubtful accounts	305	261
Accrued interest on related party notes payable	278	478
Changes in operating assets and liabilities:		
Accounts receivable	(4,142)	2,087
Deferred commissions	(1,948)	(1,049)
Prepaid expenses and other assets	(1,386)	(504)
Accounts payable	(117)	329
Accrued compensation	305	(377)
Accrued liabilities	1,425	(548)
Deferred revenue	12,613	572
Other long term liabilities	39	(16)
Net cash provided by operating activities	9,025	1,842
Cash flows from investing activities:		
Decrease in restricted cash	6	
Purchases of property and equipment	(1,190)	(1,483)
Proceeds from sale of short-term investments		605
Net cash used in investing activities	(1,184)	(878)
Cash flows from financing activities:		
Payment on related party notes payable, including accrued interest	(3,000)	
Payments on bank borrowings	(1,250)	(1,250)
Payments on capital lease obligations		(28)
Proceeds from bank borrowings	3,000	
Increase in restricted cash		(1,000)
Proceeds from exercise of stock options	532	131
Net cash used in financing activities	(718)	(2,147)
Effect of change in exchange rates on cash and cash equivalents	(276)	(82)
Net increase/ (decrease) in cash and cash equivalents	6,847	(1,265)
Cash and cash equivalents at beginning of period	9,911	12,424
Cash and cash equivalents at end of period	$ 16,758	$ 11,159

Supplemental cash flow disclosures:				
Cash paid for interest	$	1,864	$	127
Cash paid for taxes	$	228	$	103
Non-cash items:				
Non-cash investing activities of purchasing equipment in trade accounts payable	$	85	$	

See accompanying notes to unaudited condensed consolidated financial statements

eGAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Organization, Nature of Business and Basis of Presentation

eGain Corporation is one of the premier providers of cloud customer engagement solutions. For over a decade, eGain solutions have helped improve customer experience, grow sales, and optimize service processes across the web, social, and phone channels. Hundreds of global enterprises rely on eGain to transform fragmented sales engagement and customer service operations into unified Customer Interaction Hubs. The company has operations in the United States, United Kingdom, Netherlands, Ireland, Italy, Germany, France, South Africa and India.

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

These financial statements and notes should be read in conjunction with our audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2012, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet at June 30, 2012 was derived from audited financial statements as of that date but does not include all the information and footnotes required by GAAP for complete financial statements. The results of our operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending June 30, 2013. We have evaluated whether there were material subsequent events requiring recognition or disclosure, and there were none.

Voluntary Change in Accounting Policy

Effective July 1, 2012, we made a voluntary change to our accounting policy for sales commissions related to new cloud contracts with our customers, from recording an expense when incurred to deferral and amortization of the sales commission in proportion to the revenue recognized over the term of the contract. We believe this method is preferable because commission charges (that are direct and incremental) are so closely related to the revenue from the contracts that they should be deferred and charged to expense over the same period that the related revenue is recognized. Furthermore, based upon internal research and feedback from external research analysts it is our belief that most industry peers have adopted a similar commission expense policy. This change should improve the comparability of the Company s consolidated financial statements to its industry peers and provide better matching of revenue and expenses.

We have, in accordance with Accounting Standards Codification (ASC) 250, Accounting Changes and Error Corrections, retrospectively applied this new accounting policy to all applicable prior period financial information presented herein as required. The cumulative effect of this change on accumulated deficit was a decrease of $503,000 as of July 1, 2011 and $2.4 million as of March 31, 2013. In addition, the impact of this change to the Company s net income (loss) and comprehensive income (loss) was an increase of $273,000 and a decrease of $1.4 million, or an income of $0.01 and a loss of $0.06 per share on a basic and diluted basis for the three and nine months ended March 31, 2013. The change resulted in an increase to deferred commissions, both, current and non-current portion, on the condensed consolidated balance sheet in the amounts of $1.7 million and $0.8 million, respectively, as of March 31, 2013. The change also resulted in a net increase of $830,000 to deferred commissions reported on the condensed consolidated statement of cash flows for the nine months ended March 31, 2013; however there was no impact on the cash flows from operating activities for the three months ended March 31, 2013.

The following tables present the effect on the condensed consolidated financial statements of the accounting change that was retrospectively adopted on July 1, 2012:

Condensed Consolidated Balance Sheet (in thousands)	June 30, 2012		
	As Previously Reported	Adjustment *(1)*	As Adjusted

Deferred commissions	$	$ 955	$ 955
Total current assets	$ 17,276	$ 955	$ 18,231
Deferred commissions, net of current portion	$	$ 643	$ 643
Total assets	$ 26,345	$ 1,598	$ 27,943
Accumulated deficit	$ (323,616)	$ 1,598	$ (322,018)
Total stockholders equity	$ 2,315	$ 1,598	$ 3,913
Total liabilities and stockholders equity	$ 26,345	$ 1,598	$ 27,943

Condensed Consolidated Statement of Operations
(in thousands)

	Three Months Ended March 31, 2012			Nine Months Ended March 31, 2012		
	As Previously Reported	Adjustment *(1)*	As Adjusted	As Previously Reported	Adjustment *(1)*	As Adjusted
Sales and marketing	$ 5,966	$ (577)	$ 5,389	$ 15,023	$ (606)	$ 14,417
Total operating expenses	$ 8,977	$ (577)	$ 8,400	$ 23,681	$ (606)	$ 23,075
Income / (loss) from operations	$ (935)	$ 577	$ (358)	$ (474)	$ 606	$ 132
Net income / (loss) before income tax	$ (1,178)	$ 577	$ (601)	$ (1,368)	$ 606	$ (762)
Net income / (loss)	$ (1,232)	$ 577	$ (655)	$ (1,500)	$ 606	$ (894)

Condensed Consolidated Statement of Comprehensive Income / (Loss)
(in thousands)

	Three Months Ended March 31, 2012			Nine Months Ended March 31, 2012		
	As Previously Reported	Adjustment *(1)*	As Adjusted	As Previously Reported	Adjustment *(1)*	As Adjusted
Net income / (loss)	$ (1,232)	$ 577	$ (655)	$ (1,500)	$ 606	$ (894)
Comprehensive income / (loss)	$ (1,267)	$ 577	$ (690)	$ (1,635)	$ 606	$ (1,029)

Condensed Consolidated Statement of Cash Flows
(in thousands)

	Nine Months Ended March 31, 2012		
	As Previously Reported	Adjustment *(1)*	As Adjusted
Net income / (loss)	$ (1,500)	$ 606	$ (894)
Amortization of deferred commissions	$	$ 443	$ 443
Deferred commissions	$	$ (1,049)	$ (1,049)

(1) Reflects the retrospective impact to sales commission expense as a result of the voluntary change to our sales commission expense policy which was adopted in the first quarter of fiscal year 2013.

Segment Information

We operate in one segment, the development, implementation and support of our customer engagement software solutions. Our software solutions are implemented in the eGain Cloud or at the customer s location. Operating segments are identified as components of an enterprise for which discrete financial information is available and regularly reviewed by the Company s chief operating decision-makers in order to make decisions about resources to be allocated to the segment and assess its performance. Our chief operating decision-makers, under 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.

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Information relating to our geographic areas for the three and nine months ended March 31, 2013 and 2012 are as follows (unaudited, in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Total Revenue:				
North America	$ 9,372	$ 6,473	$ 24,025	$ 18,320
EMEA	6,014	4,960	16,685	14,236
Asia Pacific	74	74	210	172
	$ 15,460	$ 11,507	$ 40,920	$ 32,728
Operating Income/ (loss):				
North America	$ 1,264	$ 310	$ 1,379	$ 554
EMEA	890	415	1,497	2,490
Asia Pacific*	(1,243)	(1,083)	(3,779)	(2,912)
	$ 911	$ (358)	$ (903)	$ 132

* Includes costs associated with corporate support.

In addition, identifiable tangible assets corresponding to our geographic areas are as follows (unaudited, in thousands):

	March 31, 2013	June 30, 2012
North America	$ 23,042	$ 15,692
EMEA	11,626	6,162
Asia Pacific	1,487	1,209
	$ 36,155	$ 23,063

The following table provides the revenue for the three and nine months ended March 31, 2013 and 2012, respectively, (unaudited, in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenue:				
License	$ 4,098	$ 2,849	$ 8,237	$ 8,767
Cloud services	5,200	2,753	13,429	7,936
Maintenance and support services	3,146	3,032	9,897	9,356
Professional services	3,016	2,873	9,357	6,669
	$ 15,460	$ 11,507	$ 40,920	$ 32,728

For the three months ended March 31, 2013, there was one customer that accounted for 10% and another customer for 20% of total revenue. For the three months ended March 31, 2012, there was one customer that accounted for more than 17% of total revenue. For the nine months ended

March 31, 2013 and 2012, there was one customer that accounted for 18% and 12% of total revenue, respectively.

Revenue Recognition

We derive revenue from three sources: license fees, recurring revenue, and professional services. Recurring revenue includes cloud services and maintenance and support. Maintenance and support consists of technical support and software upgrades and enhancements. Professional services primarily consists of consulting, implementation services and training. 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 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 for fixed fee arrangements in which we use the percentage of completion method to recognize revenue when reliable estimates are available for the costs and efforts necessary to complete the implementation services. When such estimates are not available, the completed contract method is utilized. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete.

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

We use signed software license and services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use signed engagement letters to evidence an arrangement for professional services.

License Revenue

We recognize license revenue when persuasive evidence of an arrangement exists, the product has been delivered, no significant obligations remain, the fee is fixed or determinable, and collection of the resulting receivable is probable. In software arrangements that include rights to multiple software products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on vendor-specific objective evidence 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.

Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. We have standard payment terms included in our contracts. We assess collectability based on a number of factors, including the customer s past payment history and its current creditworthiness. 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. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

We periodically sell to resellers. License sales to resellers as a percentage of total revenue were approximately 15% and 1% for three months ended March 31, 2013 and 2012, respectively. License sales to resellers as a percentage of total revenue was approximately 7% and 1% for the nine months ended March 31, 2013 and 2012, respectively. Revenue from sales to resellers is generally recognized upon delivery to the reseller but depends on the facts and circumstances of the transaction, such as our understanding of the reseller s plans to sell the software, whether there are any return provisions, price protection or other allowances, the reseller s financial status and our past experience with the particular reseller. Historically sales to resellers have not included any return provisions, price protections, or other allowances.

Cloud Services Revenue

Included in recurring revenue is revenue derived from our cloud services. 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 one or two years and automatically renew unless either party cancels the agreement. The majority of the cloud services customers purchase a combination of our cloud services and professional services. In some cases the customer may also acquire a license for our software.

We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. We use vendor specific objective evidence (VSOE) of fair value for each of those units, when available. For revenue recognition with multiple-deliverable elements, in certain limited circumstances when vendor specific objective evidence of fair value does not exist, we apply the selling price hierarchy. We consider the applicability of ASC 985-605, on a contract-by-contract basis. In hosted term-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. For professional services that we determine do not have stand-alone value to the customer, we recognize the services revenue ratably over the longer of the

remaining contractual period or the average estimated life of the customer cloud relationship, once cloud has gone live or system ready. We currently estimate the life of the customer cloud relationship to be approximately 30 months, based on the average life of all cloud customer relationships.

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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 of fair value for the cloud 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 arrangements, license revenue for the perpetual software license element is determined using the residual method and is recognized upon delivery. Revenue for the cloud and support elements is recognized ratably over the contractual time period. Professional services are recognized as described below under Professional Services Revenue. If the 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.

Maintenance and Support Revenue

Included in recurring revenue is revenue derived from maintenance and support services. 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.

Professional Services Revenue

Included in professional services revenue is revenue derived from 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.

For cloud arrangements, consulting and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the customer cloud relationship.

Training revenue that meets the criteria to be accounted for separately is recognized when training is provided or, in the case of cloud, when the customer also has access to the cloud services.

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud 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 support agreements. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

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

Deferred Commissions

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

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

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Accounts Receivable and Allowance for Doubtful Accounts

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

Receivable from Insurance Recovery

In certain circumstances, we record insurance recoveries that will be recognized during the succeeding twelve month period in other current assets. Such amounts represent pending insurance claims and are recorded net of any insurance deductible in accordance with the guidance in ASC 410 and other interpretations for recognition of an asset related to insurance recovery when probable.

Deferred Costs

Deferred costs are included in other assets. Such amounts include fees we pay to third party partners for technology and are deferred and amortized over the related customer contract term. Amortization of deferred third party partner fees is included in sales and marketing expense in the accompanying unaudited condensed consolidated statements of operations.

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. All of our stock-based compensation is accounted for as an equity instrument.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	**2012**	**2013**	**2012**
Cost of professional services and recurring revenue	$ 28	$ 21	$ 87	$ 53
Research and development	57	64	212	105
Sales and marketing	70	76	256	181
General and administrative	70	94	255	181
Total stock-based compensation expense	$ 225	$ 255	$ 810	$ 520

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

Options to purchase 26,550 and 331,700 shares of common stock were granted during the three months ended March 31, 2013 and 2012, respectively, with a weighted average fair value of $4.82 and $3.40, respectively. Options to purchase 183,800 and 659,900 shares of common stock were granted during the nine months ended March 31, 2013 and 2012, respectively, with a weighted-average fair value of $3.25 and $3.25, respectively, using the following assumptions:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Dividend yield				
Expected volatility	85%	85%	88%	85%
Average risk-free interest rate	0.83%	0.90%	0.71%	0.99%
Expected life (in years)	4.50	4.50	4.50	4.48

The dividend yield of zero is based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends. We determined the appropriate measure of expected volatility by reviewing historic volatility in the share price of our common stock, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events. The risk-free interest rate is derived from the average U.S. Treasury Strips rate with maturities approximating the expected lives of the awards during the period, which approximate the rate in effect at the time of the grant.

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

Total compensation cost, net of forfeitures, of all options granted but not yet vested as of March 31, 2013 was $1,095,299, which is expected to be recognized over the weighted average period of 1.26 years. There were 222,717 and 506,786 options exercised for the three and nine months ended March 31, 2013, respectively, and there were 51,654 and 121,593 options exercised for the three and nine months ended March 31, 2012, respectively.

New Accounting Pronouncements

In March 2013, the FASB issued *ASU 2013-05, Foreign Currency Matters,* which applies to the release of the cumulative translation adjustment into net income, when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary that is a nonprofit activity or business within a foreign entity. The amendments in this update are effective for public companies prospectively beginning after December 15, 2013 (our fiscal 2015), and interim and annual periods thereafter. We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued *ASU 2013-02*, *Comprehensive Income,* which contains amendments to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012 (our interim period beginning January 1, 2013). The adoption of this amendment did not have a material impact on our consolidated financial statements.

In October 2012, the FASB issued *ASU 2012-04, Technical Corrections and Improvement,* which contains amendments to make technical corrections, clarifications, and limited-scope improvements to various topics throughout the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012 (our fiscal 2014). We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In December 2011, the FASB issued *ASU 2011-12*, *Comprehensive Income*, which supersedes certain pending paragraphs in *ASU 2011-05, Presentation of Comprehensive Income*, to effectively defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to reassess the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued *ASU 2011-08, Intangibles Goodwill and Other,* to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. For public entities, the amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (our fiscal 2013). The adoption of this amendment did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued *ASU 2011-05, Presentation of Comprehensive Income,* on comprehensive income presentation to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This update should be applied retrospectively. The adoption of this amendment resulted in the addition of the Condensed Consolidated Statements of Comprehensive Income / (Loss) statement to our condensed consolidated financial statements.

In May 2011, the FASB issued *ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,* on fair value measurement, which is intended to create consistency between U.S. GAAP and

International Financial Reporting Standards. The amendments include clarification on the application of certain existing fair value measurement guidance and expanded disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The update should be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011; our fiscal 2013. Early application by public entities is not permitted. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Note 2. Net Income/ (loss) per Common Share

Basic net income/ (loss) per common share is computed using the weighted-average number of shares of common stock outstanding. In periods where net income is reported, the weighted average number of shares outstanding is increased by warrants and options in the money to calculate diluted net income per common share.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Net income/ (loss) applicable to common stockholders	$ 1,030	$ (655)	$ (1,213)	$ (894)
Basic net income/ (loss) per common share	$ 0.04	$ (0.03)	$ (0.05)	$ (0.04)
Weighted-average common shares used in computing basic net income per common share	24,889	24,376	24,690	24,289
Effect of dilutive options	1,484			
Weighted-average common shares used in computing diluted net income/ (loss) per common share	26,373	24,376	24,690	24,289
Diluted net income/ (loss) per common share	$ 0.04	$ (0.03)	$ (0.05)	$ (0.04)

Weighted average shares of stock options to purchase 132,927 and 2,558,048 shares of common stock for the three and nine months ended March 31, 2013, respectively, and 2,684,531 and 2,553,469 shares of common stock for the three and nine months ended March 31, 2012, respectively, were not included in the computation of diluted net income/ (loss) per common share due to their effect being anti-dilutive.

Note 3. Related Party Notes Payable

Related party notes payable consists of the following (in thousands):

Description	Maturity	Interest Rate	March 31, 2013	June 30, 2012
Related party notes payable	07/31/2013	8%	$ 2,841	$ 5,563
Total			$ 2,841	$ 5,563

We have an interest bearing subordinated loan, or the Note from our Chief Executive Officer, Ashutosh Roy, which originated in 2002 and previously had a maturity date of March 31, 2012. On March 31, 2012, we entered into Amendment No.1 to the loan agreement with Mr. Roy. Pursuant to the Amendment and subject to the terms and conditions contained therein, we agreed that (i) the maturity date of the Note would be extended 90 days to June 29, 2012; (ii) as of April 1, 2012 the Face Amount of the Note would be $5.6 million, which includes $109,000 of

interest for the 90 day extension. The face amount of $5.6 million reflects the reduced interest rate on the Note of 8% beginning April 1, 2012; and (iii) the Company may prepay the Note in full or in part at any time prior to the maturity date without interest penalty.

On June 28, 2012, we entered into Amendment No. 2 to the loan agreement with Mr. Roy. Pursuant to Amendment No. 2 and subject to the terms and conditions contained therein, we agreed to extend the maturity date of the Note to July 31, 2013. We may prepay the Note in full or in part at any time prior to the maturity date without interest penalty. On December 31, 2012, we made a $3.0 million partial repayment to Mr. Roy bringing the remaining indebtedness to Mr. Roy to $2.8 million.

The interest expense on related party notes was $56,000 and $278,000 for the three months and nine months ended March 31, 2013, and $162,000 and $478,000 for the three months and nine months ended March 31, 2012.

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Note 4. Bank Borrowings

On June 27, 2011, we entered into a Loan and Security Agreement, or the Comerica Credit Facility, with Comerica Bank, or Comerica, as may be amended from time to time. Our obligations under the Comerica Credit Facility are secured by a lien on our assets. In addition, Mr. Roy has subordinated his security interests to those of Comerica pursuant to a Subordination Agreement dated as of June 27, 2011. The Comerica Credit Facility provides for the advance of up to the lesser of $1.5 million under a revolving line of credit, or the sum of (i) 80% of certain qualified receivables, less (ii) the aggregate face amounts of any letters of credit issued and any outstanding obligations to Comerica. The revolving line of credit matured on June 27, 2012 and bore interest at a rate of prime plus 0.75% per annum. As of March 31, 2013 there was no outstanding balance under the revolving credit line. The Comerica Credit Facility also provided $5.0 million to pay off obligations associated with our related parties, or the Comerica Term Loan, bears interest at a rate of prime plus 1.0% per annum, and is payable in 36 equal monthly payments of principal and interest with a maturity date of June 15, 2014. There are a number of affirmative and negative covenants under the Comerica Credit Facility, with the primary covenants being that we are required to maintain a minimum cash balance of $1.0 million and we must maintain liquidity to debt ratio of at least 1.50 to 1.00. If we fail to comply with our covenants, Comerica can declare any outstanding amounts immediately due and payable and stop extending credit to us. As of March 31, 2013, we were in compliance with the covenants. Additionally, we account for the $1.0 million minimum cash balance as non-current restricted cash as the funds are not available for immediate withdraw or use and the term of the borrowing arrangement is more than 12 months. The Comerica Credit Facility also required Mr. Roy s remaining related party debt to be repaid or converted to equity by the end of December 2011. Pursuant to an Amendment to the Loan and Security Agreement entered into on December 28, 2011, the time period in which Mr. Roy s remaining related party debt to be repaid or converted to equity was extended to June 30, 2012. On June 28, 2012, we entered into another amendment that further extended the maturity date to July 31, 2013. In addition, Mr. Roy entered into an Affirmation of Subordination Agreement with Comerica, under which Mr. Roy acknowledges our execution of the Second Amendment and affirms his obligations under the Subordination Agreement with Comerica dated June 27, 2011.

On December 28, 2012, we entered into a Third Amendment to Loan and Security Agreement with Comerica, which amended the Second Loan and Security Agreement, entered into by the Company and the Bank on June 28, 2012. Subject to and upon the terms and conditions of the Loan Amendment, the Bank agreed to make a term loan to the Company in one disbursement in the amount of $3.0 million, which the Company was obligated to use to pay down indebtedness owed to Mr. Roy. As of March 31, 2013 and June 30, 2012, the amount outstanding under the Comerica Term Loans was $5.1 million and $3.3 million, respectively.

The Third Amendment to Loan and Security Agreement provides, in addition to other terms and conditions contained therein, that (i) the maturity date of the term loan will June 28, 2016; (ii) the Company shall repay the term loan in thirty-six (36) equal monthly installments of principal in the amount of $83,333.33 each, plus all accrued interest, beginning on July 1, 2013, and continuing on the same day of each month thereafter through the maturity date, at which time remaining amounts due shall be immediately due and payable; (iii) the proceeds of the term loan must be used to pay-down the Note; (iv) the interest on the term loan is the prime interest rate plus one percent and (v) there are no prepayment penalties or warrants associated with the term loan.

On December 31, 2012, the Company used the proceeds of the term loan to pay $3.0 million of the indebtedness due to Mr. Roy.

Note 5. Income Taxes

Income taxes are accounted for using the asset and liability method in accordance with ASC 740, *Income Tax*. 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. 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 except the deferred tax assets related to India as we believe it is more likely than not that those assets will be realized. Our provision consists of foreign and 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.

The Company accounts for uncertain tax positions according to the provisions of ASC 740. ASC 740 contains a two-step approach for recognizing and measuring uncertain tax positions. Tax positions are evaluated for recognition by determining if the weight of available evidence indicates that it is probable that the position will be sustained on audit, including resolution of related appeals or litigation. Tax benefits are then measured as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. No material changes have occurred in the Company s tax positions taken as of June 30, 2012 and in the three and nine months ended March 31, 2013.

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Note 6. Commitments and Contingencies

Warranty

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

The Company s enterprise cloud computing services are typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with the Company s online help documentation under normal use and circumstances.

Historically, costs related to these warranties have not been significant. Accordingly, we have no liabilities recorded for these costs as of March 31, 2013 and June 30, 2012. However we cannot guarantee that a warranty reserve will not become necessary in the future.

Indemnification

We have also agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person s service as a director or officer, including any action by us, arising out of that person s services as our director or officer or that person s services provided to any other company or enterprise at our request.

Our agreements generally include certain provisions for indemnifying customers against liabilities if our products or services infringe a third-party s intellectual property rights.

Transfer pricing

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

Litigation

From time to time, we are involved in legal proceedings in the ordinary course of business. We believe that the resolution of these matters will not have a material effect on our consolidated financial position, results of operations or liquidity.

Note 7. Fair Value Measurement

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

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

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

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

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

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The following table summarizes the fair value hierarchy of our financial assets and liabilities measured (unaudited, in thousands):

	As of March 31, 2013		As of June 30, 2012	
	Level 1	**Total Balance**	**Level 1**	**Total Balance**
Assets				
Cash, cash equivalent and restricted cash:				
Money market funds	$ 3,014	$ 3,014	$ 7,010	$ 7,010
Total Assets	$ 3,014	$ 3,014	$ 7,010	$ 7,010

The Company uses quoted prices in active markets for identical assets or liabilities to determine fair value of Level 1 investments.

As of March 31, 2013 and June 30, 2012, we did not have any Level 2 or 3 assets or liabilities.

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and debt. 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.

Note 8. Share Repurchase Program

On September 14, 2009, we announced that our board of directors approved a repurchase program under which we may purchase up to 1,000,000 shares of our common stock. The duration of the repurchase program is open-ended. Under the program, we purchase shares of common stock from time to time through the open market and privately negotiated transactions at prices deemed appropriate by management. The repurchase is funded by cash on hand. For the three and nine months ended March 31, 2013 and 2012 there were no shares repurchased.

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. 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 will and similar 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 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; our ability to improve our current products; our ability to innovate and respond to rapid technological change and competitive challenges; legal liability or the effect of negative publicity for the services provided to consumers via our technology platforms; legal and regulatory uncertainties and other risks related to protection of our intellectual property assets; our ability to anticipate our competitors; the operational integrity and maintenance of our systems; the effect of unauthorized access to a customer s data or our data or our IT systems; the uncertainty of demand for our products; the anticipated customer benefits from our products; the actual mix in new business between cloud and license transactions when compared with management s projections; the ability to continue increasing 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 the voluntary change in our accounting policy on our ability to compare our financial results with our industry peers; the effect of changes to management judgments and estimates; our expectations for and the likelihood of recovering the funds taken from our bank account in the unauthorized wire transactions; the impact of the unauthorized wire transactions; the result of our failure to comply with the covenants under the Comerica Loan; risks from our substantial international operations; our inability to successfully detect weaknesses or errors in our internal controls; our ability to manage future growth; the trading price of our common stock; and geographical and currency fluctuations. 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 and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. 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 represent our estimates and assumptions and speak only as of the date hereof. We

expressly disclaim any obligation or understanding to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based unless required by law.

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.

Overview

eGain Corporation is one of the premier providers of cloud customer engagement solutions. For over a decade, eGain solutions have helped improve customer experience, grow sales, and optimize service processes across the web, social, and phone channels.

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Hundreds of global enterprises rely on eGain to transform fragmented sales engagement and customer service operations into unified Customer Interaction Hubs. The company has operations in the United States, United Kingdom, Netherlands, Ireland, Italy, Germany, France, South Africa and India.

Unbilled Deferred Revenue

Unbilled deferred revenue represents business that is contracted but not yet invoiced or collected and off balance-sheet and, accordingly, is not recorded in deferred revenue. As such, the deferred revenue balance on our consolidated balance sheet does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. As of March 31, 2013, unbilled deferred revenue decreased to $20.1 million, down from approximately $20.7 million as of June 30, 2012.

Critical Accounting Policies and Estimates

This Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. On an on-going basis, our management evaluates its estimates and judgments, including those related to revenue recognition, valuation allowance and 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.

There have been no material changes to these estimates for the periods presented in this Quarterly Report on Form 10-Q. For a detailed explanation of the judgments made in these areas, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations within our Annual Report on Form 10-K for the year ended June 30, 2012, which we filed with the Securities and Exchange Commission on September 25, 2012.

We have reassessed the critical accounting policies as disclosed in our Annual Report on Form 10-K filed with the SEC on September 25, 2012 and determined that there were no significant changes to our critical accounting policies in the three and nine months ended March 31, 2013 except for recently adopted accounting guidance as discussed in Note 1, New Accounting Pronouncements to our unaudited condensed consolidated financial statements and change in accounting policy as noted below.

Voluntary Change in Accounting Policy

Effective July 1, 2012, we made a voluntary change to our accounting policy for sales commissions related to new cloud (hosting) contracts with our customers, from recording an expense when incurred to deferral and amortization of the sales commission in proportion to the revenue recognized over the term of the contract. We believe this method is preferable because commission charges (that are direct and incremental) are so closely related to the revenue from the non-cancelable contracts that they should be deferred and charged to expense over the same period that the related revenue is recognized. Furthermore, based upon internal research and feedback from external research analysts it is our belief that most industry peers have adopted a similar commission expense policy. This change should improve the comparability of the Company s consolidated financial statements to its industry peers and provide better matching of revenues and expenses.

Revenue Recognition

We derive revenue from three sources: license fees, recurring revenue, and professional services. Recurring revenue includes cloud services and maintenance and support. Maintenance and support consists of technical support and software upgrades and enhancements. Professional services primarily consists of consulting implementation services and training. 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.

License revenue is recognized when persuasive evidence of an arrangement exists, the product has been delivered, no significant obligations remain, the fee is fixed or determinable, and collection of the resulting receivable is probable. In software arrangements that include rights to multiple software products or services, we use the residual method under which revenue is allocated to the undelivered elements based on vendor-specific objective evidence 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 hosting services.

Cloud services revenue is recognized ratably over the period of the applicable agreement as services are provided. Cloud agreements typically have an initial term of one or two years 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.

Maintenance and support revenue is recognized ratably over the term of the maintenance contract, which is typically one year. 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 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.

Professional services revenue is revenue derived from system implementation, consulting and training. For license transactions, the majority of our consulting and implementation services qualify for separate accounting. We use vendor-specific objective evidence 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.

We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. We use vendor specific objective evidence, of fair value for each of those units, when available. For revenue recognition with multiple-deliverable elements, in certain limited circumstances when vendor specific objective evidence of fair value does not exist, we apply the selling price hierarchy. We consider the applicability of ASC 985-605, on a contract-by-contract basis. In hosted term-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. For professional services that we determine do not have stand-alone value to the customer, we recognize the services revenue ratably over the longer of the remaining contractual period or the average estimated life of the customer hosting relationship, once hosting has gone live or system ready. We currently estimate the life of the cloud customer relationship to be approximately 30 months, based on the average life of all cloud customer relationships.

For cloud services, consulting, and implementation services that do not qualify for separate accounting, we recognize the services revenue ratably over the estimated life of the cloud customer relationship.

Training revenue that meets the criteria to be accounted for separately is recognized when training is provided or, in the case of cloud services, when the customer also has access to the cloud services.

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud and support services described above. Deferred revenue 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 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 March 31, 2013, deferred revenue increased to $20.6 million, compared to $8.1 million at June 30, 2012.

Deferred Commissions

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

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

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Results of Operations

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenue:				
License	26%	25%	20%	27%
Recurring revenue	54%	50%	57%	53%
Professional services	20%	25%	23%	20%
Total revenue	100%	100%	100%	100%
Cost of license	0%	0%	0%	0%
Cost of recurring revenue	9%	12%	10%	12%
Cost of professional services	21%	18%	22%	17%
Total cost of revenue	30%	30%	32%	29%
Gross margin	70%	70%	68%	71%
Operating expenses:				
Research and development	13%	13%	15%	13%
Sales and marketing	39%	47%	43%	44%
General and administrative	12%	13%	12%	13%
Total operating expenses	64%	73%	70%	71%
Income/ (loss) from operations	6%	(3)%	(2)%	(0)%

Revenue

	Three Months Ended March 31,				Nine Months Ended March 31,			
(in thousands)	**2013**	**2012**	**Change**	**%**	**2013**	**2012**	**Change**	**%**
License	$ 4,098	$ 2,849	$ 1,249	44%	$ 8,237	$ 8,767	$ (530)	(6)%
Recurring revenue	8,346	5,785	2,561	44%	23,326	17,292	6,034	35%
Professional services	3,016	2,873	143	5%	9,357	6,669	2,688	40%
Total revenue	$ 15,460	$ 11,507	$ 3,953	34%	$ 40,920	$ 32,728	$ 8,192	25%

Total revenue increased 34% to $15.5 million in the quarter ended March 31, 2013 from $11.5 million in the comparable year-ago quarter. Total revenue for the nine months ended March 31, 2013 increased 25% to $40.9 million, compared to $32.7 million in the same period last year. License revenue increased 44% to $4.1 million in the quarter ended March 31, 2013 from $2.8 million in the comparable year-ago quarter. License revenue for the nine months ended March 31, 2013 decreased 6% to $8.2 million, compared to $8.8 million in the same period last year. Recurring revenue, which is comprised of cloud and software maintenance and support revenue increased 44% to $8.3 million in the quarter ended March 31, 2013 from $5.8 million in the comparable year-ago quarter. The cloud portion of the recurring revenue increased 89% to $5.2 million in the quarter ended March 31, 2013 from $2.8 million in the comparable year-ago quarter. Recurring revenue for the nine months ended March 31, 2013 increased 35% to $23.3 million, compared to $17.3 million in the same period last year. The cloud portion of the recurring revenue increased 69% to $13.4 million from $7.9 million in the same period last year. The increases in recurring revenue in both periods was due primarily to new customers, upgrades and additional cloud contracts from existing customers as compared to the same periods last year.

Professional services revenue increased 5% to $3.0 million in the quarter ended March 31, 2013 from $2.9 million in the comparable year-ago quarter. Professional services revenue for the nine months ended March 31, 2013 increased 40% to $9.4 million, compared to $6.7 million in the same period last year. The increases in professional services revenue in both periods was driven by an increase in demand for our services as more of our customers deploy more applications and integrate our solutions into their customer engagement hubs.

Revenue in Europe and Asia Pacific increased 21% to $6.1 million in the quarter ended March 31, 2013 from $5.0 million in the comparable year-ago quarter. Revenue in Europe and Asia Pacific for the nine months ended March 31, 2013 increased 17% to $16.9 million from $14.4 million in the same period last year. The increase in revenue outside of North America demonstrates increased acceptance of our product world-wide. The impact of the foreign exchange fluctuation between the U.S. Dollar and the Euro and British Pound resulted in a net decrease of $128,000 in total revenue for the three months ended March 31, 2013 as compared to the comparable year-ago quarter. The impact of the foreign exchange fluctuation between the U.S. Dollar and the Euro and British Pound for the nine months ended March 31, 2013 resulted in a net decrease of $59,000 in total revenue as compared to the same period last year. To measure the impact of foreign exchange rate fluctuation, we recalculate current period results using the comparable prior period exchange rate.

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We are continuing to see increased interest in our customer interaction solutions but there remains a general unpredictability in the length of our current sales cycles, the timing of revenue recognition on more complex license transactions and seasonal buying patterns. Also, because we offer a hybrid delivery model, the mix of new cloud and license transactions in a quarter could also have an impact on our revenue in a particular quarter. Looking ahead, we see a continuing trend toward more cloud transactions. For license transactions, the license revenue amount is generally recognized in the quarter that delivery and acceptance of our software takes place. For cloud transactions, cloud revenue is recognized ratably over the term of the cloud contract, which is typically one to two years. As a result, our total revenue may increase or decrease in future quarters as a result of the timing and mix of license and hosting transactions.

Cost of Revenue

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
(in thousands)	**2013**	**2012**	**Change**	**%**	**2013**	**2012**	**Change**	**%**
Cost of license	$ 34	$ 10	$ 24	240%	$ 125	$ (1)	$ 126	NM
Gross margin	99%	100%	(1)%		98%	100%	(2)%	
Cost of recurring revenue	$ 1,355	$ 1,339	$ 16	1%	$ 3,959	$ 3,896	$ 64	2%
Gross margin	84%	77%	7%		83%	77%	6%	
Cost of professional services	$ 3,180	$ 2,116	$ 1,064	50%	$ 9,095	$ 5,626	$ 3,468	62%
Gross margin	(5)%	26%	(31)%		3%	16%	(13)%	
Total cost of revenue	$ 4,569	$ 3,465	$ 1,104	32%	$ 13,179	$ 9,521	$ 3,658	38%
Total gross margin	70%	70%			68%	71%		3%

NM = not meaningful

Total cost of revenue increased 32% to $4.6 million in the quarter ended March 31, 2013 from $3.5 million in the comparable year-ago quarter. Total cost of revenue represented 30% of total revenue for both quarter ended March 31, 2013 and 2012. The increase was primarily due to increases of (i) $1.0 million in employee-related costs; (ii) $64,000 in outside consulting expense; (iii) $55,000 of cloud related expenses such as hosted network and lease costs paid to remote co-location centers; and (iv) $25,000 in license related expenses for prepaid royalties offset by (v) $25,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee. Gross margin for the quarter ended March 31, 2013 was 70% compared to 70% in the comparable year-ago quarter.

Cost of revenue for the nine months ended March 31, 2013 increased $3.7 million, or 38%, compared to the same period last year. This increase in total cost of revenue was primarily due to an increase of (i) $3.3 million in employee-related costs; (ii) $386,000 in outside consulting expense; (iii) $126,000 in license related expenses for prepaid royalties; (iv) $96,000 of cloud related expenses such as hosted network and lease costs paid to remote co-location centers offset by (v) $224,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee. Gross margin for the nine months ended March 31, 2013 was 68% compared to 71% in the same period last year.

Operating Expenses

Research and Development

	Three Months Ended March 31,				Nine Months Ended March 31,			
(in thousands)	**2013**	**2012**	**Change**	**%**	**2013**	**2012**	**Change**	**%**
Research and development	$ 2,101	$ 1,566	$ 535	34%	$ 6,193	$ 4,372	$ 1,821	42%
Percentage of total revenue	13%	13%			15%	13%		

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

Research and development costs for the quarter ended March 31, 2013 increased $535,000, or 34%, compared to the year-ago quarter. The increase was primarily due to increases of (i) $635,000 in employee-related costs; offset by a decrease of (ii) $90,000 in outside consulting expense; and $13,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee.

Research and development costs for the nine months ended March 31, 2013 increased $1.8 million, or 42%, compared to the same period last year. The increase was primarily due to an increase of (i) $2.0 million in personnel and personnel-related expenses offset by a decrease of (ii) $155,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee.

Sales and Marketing

(in thousands)	Three Months Ended March 31, 2013	2012	Change	%	Nine Months Ended March 31, 2013	2012	Change	%
Sales and marketing	$ 6,027	$ 5,389	$ 638	12%	$ 17,522	$ 14,417	$ 3,105	22%
Percentage of total revenue	39%	47%			43%	44%		

Sales and marketing expense primarily consist of compensation and benefits for our sales, marketing and business development personnel, lead generation activities, advertising, trade show and other promotional costs and, to a lesser extent, occupancy costs and related overhead.

Sales and marketing expense increased 12% to $6.0 million in the quarter ended March 31, 2013 from $5.4 million in the comparable year-ago quarter. The increase was primarily due to increases of (i) $573,000 in employee-related costs; (ii) $348,000 in third party partner fees; (iii) $78,000 lease costs paid to remote co-location centers for internal projects; and (iv) $25,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro and the British Pound offset by a decrease of (v) $177,000 in marketing programs and public relations and (vi) $209,000 in outside consulting expenses. Total sales and marketing expense as a percentage of total revenue was 39% in the quarter ended March 31, 2013 compared to 47% in the comparable year-ago quarter.

Sales and marketing expense for the nine months ended March 31, 2013 increased $3.1 million, or 22%, compared to the same period last year. The increase was primarily due to increases of (i) $2.8 million in employee-related costs due to our expansion in sales team; (ii) $525,000 in third party partner fees; (iii) $225,000 paid to remote co-location centers for internal projects and (iv) $22,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro and the British Pound offset by decreases in (v) $295,000 in outside consulting services and (vi) $204,000 in marketing programs and public relations.

General and Administrative

(in thousands)	Three Months Ended March 31, 2013	2012	Change	%	Nine Months Ended March 31, 2013	2012	Change	%
General and administrative	$ 1,852	$ 1,445	$ 407	28%	$ 4,929	$ 4,286	$ 643	15%
Percentage of total revenue	12%	13%			12%	13%		

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

Total general and administrative expense increased 28% to $1.9 million in the quarter ended March 31, 2013 from $1.4 million in the comparable year-ago quarter. The increase was primarily due to (i) $290,000 in one-time charges related to the secondary offering of shares of our common stock; (ii) $151,000 in legal and outside consulting fees related to investigation and recovery efforts of the unauthorized wire transfers; (iii) $24,000 in legal expense and (iv) $13,000 accounting and other outside consulting related expenses offset by a decreases of (v) $55,000 in employee-related costs and (vi) $11,000 in bad debt expense. Total general and administrative expense as a percentage of total revenue was 12% and 13% for the quarters ended March 31, 2013 and 2012, respectively.

General and administrative expense for the nine months ended March 31, 2013 increased $643,000, or 15%, compared to the same period last year. The increase was primarily due to increases of (i) $290,000 in one-time charges related to the secondary offering of shares of our common stock; (ii) $234,000 accounting and other outside consulting related expenses; (iii) $207,000 in personnel and personnel-related expense related to the increase in headcount and compensation adjustment (iv) $151,000 in legal and outside consulting fees related to investigation and recovery efforts of the unauthorized wire transfers; (v) $37,000 in bad debt expense offset by decreases of (vi) $247,000 in legal expenses; and (vii) $29,000 from the foreign exchange fluctuation between the U.S. Dollar, the Euro, British Pound and India Rupee.

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Income/ (Loss) from Operations

	Three Months Ended March 31,				Nine Months Ended March 31,			
(in thousands)	**2013**	**2012**	**Change**	**%**	**2013**	**2012**	**Change**	**%**
Income (loss) from operations	$ 911	$ (358)	$ 1,269	354%	$ (903)	$ 132	$ (1,035)	(784)%
Operating margin	6%	(3)%			(2)%	0%		

Income from operations in the quarter ended March 31, 2013 was $911,000 which included $225,000 of stock-based compensation expense compared to an operating loss of $358,000 which included $255,000 of stock-based compensation expenses in the comparable year-ago quarter. The increase in total revenue of $4.0 million net of a negative impact of approximately $127,000 from the exchange rate changes between the British Pound and the U.S. Dollar was offset by increases in total cost of revenue of $1.1 million and operating expense of $1.6 million. We recorded a 6% operating margin in the quarter ended March 31, 2013, compared to a 3% negative operating margin in the comparable year-ago quarter.

Loss from operations for the nine months ended March 31, 2013 was $903,000 which included $810,000 of stock-based compensation expense compared to income from operations of $132,000 which included $520,000 of stock-based compensation expense in the same period last year. The increase in total revenue of $8.2 million net of a negative impact of approximately $59,000 from the exchange rate changes between the British Pound and the U.S. Dollar was offset by increases in total cost of revenue of $3.7 million and operating expense of $5.6 million. We recorded a 2% negative operating margin for the nine months ended March 31, 2013 compared to a 0% operating margin during the same period last year.

Interest Expense, Net

Interest expense, net decreased 50% to $99,000 in the quarter ended March 31, 2013 from $199,000 in the comparable year-ago quarter. Interest expense, net decreased 36% to $376,000 in the nine months ended March 31, 2013 from $588,000 in the same period last year. The decrease in interest expense in both periods primarily relates to a lower interest rate on the related party notes payable as a result of Amendment No. 1 signed on March 31, 2012, as well as, a reduction in the interest bearing principal balance on related party notes payable due to the partial repayment of debt that occurred on December 31, 2012.

Other Income (Expense), Net

Other income (expense) primary consists of exchange rate gain/loss on foreign currency transactions. Other income was $256,000 for the quarter ended March 31, 2013 compared to other expense of $44,000 for the comparable year-ago quarter. Other income for the nine months ended March 31, 2013 was $306,000 compared to other expense of $306,000 in the same period last year.

Income Tax Provision

We recorded an income tax expense of $38,000 for the quarter ended March 31, 2013 compared to $54,000 for the comparable year-ago quarter. Income tax expense for the nine months ended March 31, 2013 was $240,000 compared to income tax expense of $132,000 in the same period last year. The income tax expense recorded for the three and nine months ended March 31, 2013 was primarily related to our foreign subsidiaries. Our income tax rate differs from the statutory tax rates primarily due to the utilization of net operating loss carry-forward deferred tax assets which had previously been reserved for with a valuation allowance.

Liquidity and Capital Resources

Overview

As of March 31, 2013 our total cash and cash equivalents and restricted cash was $17.8 million and our working capital was $853,000 compared to cash and cash equivalents and restricted cash of $10.9 million and our working capital of $2.9 million as of June 30, 2012. As of March 31, 2013, our deferred revenue was $20.6 million compared to $8.1 million on June 30, 2012.

Based upon our current operating 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 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 or, if available, that they will be on economic terms we consider favorable.

If adequate funds are not available on acceptable terms, our ability to fund any potential expansion, take advantage of unanticipated opportunities, develop or enhance products or services, or otherwise respond to competitive pressures could 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.

Related Party Notes Payable and Bank Borrowings

On March 31, 2012, we entered into Amendment No.1 to the loan agreement, or the Amendment, with Mr. Roy. Pursuant to the Amendment and subject to the terms and conditions contained therein, we agreed that (i) the maturity date of the note held by Mr. Roy, or the Note, would be extended 90 days to June 29, 2012; (ii) as of April 1, 2012 the Face Amount of the Note would be $5.6 million, which included $109,000 of interest for the 90 day extension. The face amount of $5.6 million reflected the reduced interest rate on the Note of 8% beginning April 1, 2012; and (iii) the Company may prepay the Note in full or in part at any time prior to the maturity date without interest penalty.

On June 28, 2012 (i) we entered into a Second Amendment to the Loan and Security Agreement with Comerica, which extended the date by which we must repay Mr. Roy s remaining related party debt to July 31, 2013, and (ii) Mr. Roy entered into an Affirmation of Subordination Agreement with the Comerica, under which Mr. Roy acknowledges our execution of the Second Amendment and affirms his obligations under the Subordination Agreement with Comerica dated June 27, 2011.

On December 28, 2012, we entered into a Third Amendment to Loan and Security Agreement with Comerica, which (i) made a term loan to the Company in the amount of $3.0 million (ii) which the Company was obligated to use to pay down indebtedness owed to Mr. Roy and (iii) the maturity date of the term loan is June 28, 2016. On December 31, 2012, the Company paid off $3.0 million of its indebtedness to Mr. Roy with the proceeds of the term loan.

As of March 31, 2013 and June 30, 2012, the balance on the term loans was $5.1 million and $3.3 million, respectively, and the Note from Mr. Roy was $2.8 million and $5.6 million, respectively.

Accounting for Unauthorized Wire Transfers

On February 15, 2013, our U.K. subsidiary discovered that three unauthorized wire transfers (the Unauthorized Transactions) in the amount of approximately $3.9 million were made from our bank account on February 14, 2013. The Company promptly obtained a court order freezing the funds, contacted law enforcement and obtained an independent third-party investigation firm to investigate the matter. As of March 31, 2013, approximately $3.3 million of the funds were secured by the financial institutions involved and have either been returned to our account or are being held in suspense accounts at the financial institutions.

With the assistance of an independent third-party investigation firm, we continue to work with our bank and legal authorities in the U.K. to recover the outstanding funds of approximately $575,000. We believe the likelihood of recovering the remaining outstanding funds from insurance is probable based on the review of our insurance policy by our management, our insurance broker and a related-party insurance expert. As such, we reported the pending insurance recovery net of a $25,000 deductible as a receivable from our insurance carrier on our condensed consolidated balance sheet under prepaid and other current assets as of March 31, 2013.

Cash Flows

Net cash provided by operating activities was $9.0 million for the nine months ended March 31, 2013 compared to $1.8 million from the same period last year. Net cash provided by operating activities for the nine months ended March 31, 2013 consisted primarily of a net loss of $1.2 million, plus non-cash expenses related to stock-based compensation of $810,000, depreciation of $938,000, amortization of deferred commissions of $1.1 million, provision for doubtful accounts of $305,000, accrued interest on related party notes of $278,000, and the net change in operating assets and liabilities.

The net change in operating assets and liabilities for the nine months ended March 31, 2013 primarily consisted of increases in deferred revenue of $12.6 million, $4.1 million in accounts receivable, $1.9 million in deferred commissions, $1.4 million in prepaid expenses and other assets, $1.4 million in accrued liabilities, $305,000 in accrued compensation and $39,000 of other long term liabilities. This was partially offset by a decrease of $117,000 in accounts payable. The increase in deferred revenue was primarily attributed to payments received in connection with the increase in our cloud business and the renewal of our maintenance and support contracts. The increase in accounts receivable was primarily due to large license transactions signed at the end of the quarter. The increase in deferred commissions was due to lower sales commission expense related to the voluntary change in our accounting policy for sales commission. The increase in prepaid and other assets was due to a receivable from banks and insurance, related to the recovery of unauthorized wire transfers, at our United Kingdom subsidiary. The increase in accrued liabilities was due to an increase in customer deposits associated with the termination of a cloud contract.

Net cash provided by operating activities was $1.8 million for the nine months ended March 31, 2012. Net cash provided by operating activities for the nine months ended March 31, 2012 consisted primarily of a net loss of $894,000, plus non-cash expenses related to depreciation of $540,000, stock-based compensation of $520,000, accrued interest and amortization of discount on related party notes of $478,000, amortization

of deferred commissions of $443,000, provision for doubtful accounts of $261,000 and the net change in operating assets and liabilities.

The net change in operating assets and liabilities for the nine months ended March 31, 2012 primarily consisted of a decrease in accounts receivable of $2.1 million and increases of $1.0 million in deferred commissions, $329,000 in accounts payable, and $572,000 in deferred revenue. This was partially offset by decreases of $548,000 in accrued liabilities, $377,000 in accrued compensation, $16,000 in other long term liabilities and $504,000 increase in prepaid and other assets. The decrease in accounts receivable was primarily due to the decrease in new license business. The increase in deferred commissions was due to lower sales commission expense related to the voluntary change in our accounting policy for sales commission. The increase in deferred revenue was primarily due to the timing of payments for hosting and support renewal contracts. The decrease in accrued compensation was primarily related to the decrease in accrued commission and the payout of employee accrued bonuses from fiscal year 2011. The decrease in accrued liabilities primarily consisted of the decrease in sales tax and the payment of accounting and professional fees. The increase in prepaid and other assets primarily included the security deposits for additional office space in India and the additional prepaid third party royalties.

Net cash used in investing activities was $1.2 million for the nine months ended March 31, 2013 compared to net cash used in investing activities of 878,000 for the same period last year. Cash used in investing activities for the nine months ended March 31, 2013 primarily included $1.2 million for the purchase of equipment and furniture for our new corporate headquarters, equipment for increased hosted customers and new employees. Cash used in investing activities for the nine months ended March 31, 2012 primarily included $1.5 million for the purchase of equipment and furniture for our new corporate headquarters, equipment for increased hosted customers and new employees, offset by $605,000 in proceeds from sale of short-term investments.

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Net cash used in financing activities was $718,000 for the nine months ended March 31, 2013 compared to net cash used in financing activities of $2.1 million for the same period last year. Net cash used in financing activities for the nine months ended March 31, 2013 primarily included the repayment of $3.0 million on related party notes and $1.3 million on existing bank borrowings offset by proceeds from bank borrowings of $3.0 million and $532,000 on the exercise of stock options. Net cash used in financing activities was $2.1 million for the nine months ended March 31, 2012. Net cash used in financing activities for the nine months ended March 31, 2012 primarily included an increase of $1.0 million in restricted cash, payments of $1.3 million on existing bank borrowings, $28,000 for payment on capital leases, offset by net proceeds of $131,000 on the exercise of stock options.

Commitments

There was no significant change to our contractual obligations since June 30, 2012.

Off-Balance Sheet Arrangements

As of March 31, 2013, we had no off-balance-sheet arrangements, as defined in Item 303(a)(4) of SEC Regulation S-K, other than operating leases and co-location agreements that were included in our commitment schedule as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012. There was no significant change since June 30, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We develop products in the United States and India and sell these products internationally. Generally, 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 at March 31, 2013 totaled approximately $13 million. We do not currently use derivative instruments to hedge against foreign exchange risk. As such we are exposed to market risk from fluctuations in foreign currency exchange rates, principally from the exchange rate between the U.S. Dollar and the Euro, British Pound and the India Rupee. During the three months ended March 31, 2013, there was no significant fluctuation in foreign currency exchange rates between the U.S. Dollar and the Euro and the British Pound and the India Rupee. If the U.S. Dollar strengthens in future periods, we may experience an adverse effect on our financial position or results of operations.

Item 4. Controls and Procedures

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

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2013, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal controls. The Company has taken certain remedial measures in response to the Unauthorized Transactions, including implementing additional wire transfer approvals and procedures. Although we concluded that our internal controls procedures prior to the Unauthorized Transactions were designed to meet the reasonable assurance standard, we believe these remedial measures will provide additional protections against unauthorized use of our assets in the future.

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PART II. OTHER INFORMATION

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.

Changes in certain factors beyond our control could negatively impact our business

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

Our hybrid revenue model may impact our operating results

We have a hybrid delivery model meaning that we offer our solutions on a cloud or license basis to our customers. For license transactions, the license revenue amount is generally recognized in the quarter delivery and acceptance of our software takes place. Whereas, for cloud transactions, cloud revenue is recognized ratably over the term of the cloud contract, which is typically one to two years. As a result, our total revenue may increase or decrease in future quarters as a result of the timing and mix of license and cloud

transactions This could be exacerbated as more customers employ our cloud solution over our licensed solution; causing us to increase the amount of revenue recognized ratably over the life of the contract therefore resulting in a decrease in our total revenue in the short-term.

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

The long sales cycle for our products may cause license 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 evaluate our products before, if ever, executing definitive agreements, we may incur substantial expenses and spend significant management 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 uncertainty and fluctuations in our future operating results. In particular, the corporate decision-making and approval process of our customers and potential customers has become more complicated. This has caused our average sales cycle to further increase and, in some cases, has prevented the closure of sales that we believed were likely to close. In addition, historically our license sales have comprised a relatively small number of high value transactions; consequently, we may miss our revenue forecasts and may incur expenses that are not offset by corresponding revenue from the delay in even one transaction.

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. As a result, 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.

Most of our contracts have terms ranging from one to three years, and have successive automatic renewal terms of one year unless terminated in accordance with prior notice requirements. A majority of these contracts are in renewal periods. A customer may also terminate its contract with us at any time for specified breaches. Further, either party may decide to renegotiate the terms of the contract and may give a termination notice pending renegotiations to avoid having a contract automatically renew under its existing terms.

We must compete successfully in our market segment

The market for customer interaction 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, Kana Software, Inc, 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 interaction 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.

We have experienced growth in recent periods and expect to continue to grow. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges

To achieve our business objectives, we will need to continue to expand our business. This expansion has placed, and is expected to continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We anticipate that expansion will require substantial management effort and additional investment in our infrastructure and headcount. If we are unable to successfully manage our growth, our business, financial condition and results of operations will be adversely affected.

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Part of the challenge that we expect to face in the course of our expansion is the need to increase staffing, primarily to develop new sales strategies and expand into different markets. We have considerable need to recruit, train, and retain qualified staff and any delays or difficulties we encounter in these staffing efforts could impair our ability to execute our business plan.

We intend to continue to expand our distribution channels into international markets and to spend significant financial and managerial resources to do so. If we are successful in our expansion or are unable to provide adequate to service this expansion, our business and operating results will suffer.

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 interaction 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, and these risks could adversely affect our business

We derived 44% of our revenue from international sales for the fiscal year 2012 compared to 53% for the fiscal year 2011, and 47% for fiscal year 2010. For the quarter ended March 31, 2013, we derived 39% of our revenue from international sales compared to 44% for the same period in 2012.

Our international sales operations are subject to a number of specific risks, such as:

- general economic conditions in each country or region in which we do or plan to do business;

foreign currency fluctuations and imposition of exchange controls;

expenses associated with complying with differing technology standards and language translation issues;

difficulty and costs in staffing and managing our international operations;

difficulties in collecting accounts receivable and longer collection periods;

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- 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 March 31, 2013, approximately 48% of our workforce is employed in India. Of these employees, more than 37% are allocated to research and development at March 31, 2013 compared to 39% at March 31, 2012. 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 could 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.

Our revenue and operating expenses are unpredictable and may fluctuate, which may harm our operating results and financial condition

Due to the emerging nature of the multichannel contact center market and other similar factors, our revenue and operating results may fluctuate from quarter to quarter. Our revenue could fall short of expectations if we experience delays or cancellations of even a small number of orders. It is possible that our operating results in some quarters will be below the expectations of financial analysts or investors. In this event, the market price of our common stock is also likely to decline.

A number of factors are likely to cause fluctuations in our operating results, including, but not limited to, the following:

- demand for our software and budget and spending decisions by information technology departments of our customers;
- the mix of cloud and license transactions;
- seasonal trends in technology purchases;
- our ability to attract and retain customers;
- Product offerings and pricing of our competitors; and

litigation relating to our intellectual proprietary rights.

In addition, we base our expense levels in part on expectations regarding future revenue levels. In the short term, expenses, such as employee compensation and rent, are relatively fixed. If revenue for a particular quarter is below expectations, we may be unable to reduce our operating expenses proportionately for that quarter. Accordingly, such a revenue shortfall would have a disproportionate effect on expected operating results for that quarter. For this reason, period-to-period comparisons of our operating results may also not be a good indication of our future performance.

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

We believe that existing capital resources will enable us to maintain current and planned operations for the next 12 months. However, our working capital requirements in the foreseeable future are subject to numerous risks and will depend on a variety of factors, in particular, whether we maintain or exceed the level of revenue achieved in fiscal year 2012 and that customers continue to pay on a timely basis. We may need to secure additional financing due to unforeseen or unanticipated market conditions. We may try to raise additional funds through public or private financings, strategic relationships, or other arrangements. Such financing may be difficult to obtain on terms acceptable to us, if at all. If we succeed in raising additional funds through the issuance of equity or convertible securities, then the issuance could result in substantial dilution to existing stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these new securities would have rights, preferences, and privileges senior to those of the holders of our common stock. The terms of these securities could impose restrictions on our operations.

Difficulties in implementing our products could harm our revenue and margins

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

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

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

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

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

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intellectual property rights of others. In addition we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. Our technologies and those of our customers may be subject to injunction if they are found to infringe the rights of a third party or we may be required to pay damages, or both. Many of our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

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

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

We rely on trademark, copyright, trade secret laws, contractual restrictions and patent rights to protect our intellectual property and proprietary rights and if these rights are impaired 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.

Unknown software defects could disrupt our products and services and problems arising from our vendors products or services could disrupt operations, which could harm our business and reputation

Our product and service offerings depend on complex software, both internally developed and licensed from third parties. Complex software often contains defects or errors in translation or integration, particularly when first introduced or when new versions are released or localized for international markets. We may not discover software defects that affect our new or current services or enhancements until after they are deployed. It is possible that, despite testing by us, defects may occur in the software and we can give no assurance that our products and services will not experience such defects in the future. Furthermore, our customers generally use our products together with products from other companies. As a result, when problems occur in the integration or network, it may be difficult to identify the source of the problem. Even when our products do not cause these problems, these problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from product development efforts and cause significant customer relations problems. These defects or problems could result in damage to our reputation, lost sales, product liability claims, delays in or loss of market acceptance of our products, product returns and unexpected expenses, and diversion of resources to remedy errors.

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

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

- concerns related to liquidity of our stock;

actual or anticipated fluctuations in our operating results, our ability to meet announced or anticipated profitability goals and changes in or failure to meet securities analysts expectations;

announcements of technological innovations and/or the introduction of new services by us or our competitors;

developments with respect to intellectual property rights and litigation, regulatory scrutiny and new legislation;

conditions and trends in the Internet and other technology industries; and

general market and economic conditions.

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

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

Our directors and executive officers, together with their affiliates and members of their immediate families, beneficially owned, in the aggregate, approximately 41% of our outstanding capital stock as of March 31, 2013. As a result, acting together, this group has the ability to exercise significant control over most matters requiring our stockholders approval, including the election and removal of directors and significant corporate transactions.

Our future success will depend in part on our ability to hire and retain key personnel

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. In addition, 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.

We have embarked upon an aggressive hiring plan to support our growth. Our hiring is focused in the areas of sales and development, and increasing our sales and service capabilities necessary as we seek to scale our business. If we cannot hire and retain qualified personnel, our ability to continue to expand our business would be impaired and our revenue, operating results and financial condition could be harmed.

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 cloud operations or reduce our ability to provide remote management services. We expect to experience occasional temporary capacity constraints in the event of 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 Trojan horses, 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.

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 customers. Any unplanned interruption of services may harm our ability to attract and retain customers.

Certain terms in our contracts may expose us to increased risk through indemnity or other provisions

Our Service Level Agreement (SLA) could impose additional risks in the form of added indemnification, service credits for system unavailability, and loss, damage or costs resulting from use of our Cloud Services system. Our typical Cloud Services SLA provides the customer with credits in the event our services are unavailable. As a result, we could incur significant expense if we

experience prolonged periods of unavailability. In addition, many of our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which could prevent us from offering our service to others or otherwise adversely affect our operating results.

Interruptions or delays in service from our third-party data center cloud facilities could impair the delivery of our service and harm our business

We currently serve our customers from third-party data center cloud facilities located in the United States and the United Kingdom. Any damage to, or failure of, our systems generally could result in interruptions in our cloud service. Interruptions in our cloud service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

We do not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

As we continue to add data centers and add capacity in our existing data centers, we may move or transfer our data and our customers data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service, which could have significant negative effects on us and our results of operation.

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.

Our failure to recover funds taken from our bank accounts could adversely affect our financial reporting and reputation

Our inability to recover the funds taken in the Unauthorized Transactions, approximately $500,000 of which remain in suspense accounts and approximately $575,000 of which remain outstanding could adversely affect our financial reporting results. In addition, there may be negative perception of the security of our assets and our services which could cause our stock price to decline.

The regulatory environment for and certain legal uncertainties in the operation of our business and our customer s business could impair our growth or decrease demand for our services or increase our cost of doing business

The imposition of more stringent protections and/or new regulations and the application of existing laws to our business could burden our company and our business partners and customers. Further, the adoption of additional laws and regulations could limit the growth of our business and that of our business partners and customers. Any decreased generalized demand for our services, or the loss/decrease in business by a key partner or customer due to regulation or the expense of compliance with any regulation, could either increase the costs associated with our business or affect revenue, either of which could harm our financial condition or operating results.

We face increased regulatory scrutiny and potential criminal liability for our executives associated with various accounting and corporate governance rules promulgated under the Sarbanes-Oxley Act of 2002. We review and continue to monitor all of our accounting policies and

practices, legal disclosure and corporate governance policies in accordance with the Sarbanes-Oxley Act of 2002, including those related to relationships with our independent accountants, enhanced financial disclosures, internal controls, board and board committee practices, corporate responsibility and loan practices, and intend to fully comply with such laws. Nevertheless, such increased scrutiny and penalties involve risks to both eGain and our executive officers and directors in monitoring and insuring compliance. A failure to properly navigate the legal disclosure environment and implement and enforce appropriate policies and procedures, if needed, could harm our business and prospects.

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As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy. Our customers use our cloud service to store their customer data, which may contain contact and other personal or identifying information regarding their customers and contacts. Laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customer s ability to use and share data and, potentially restrict our ability to store and process data.

The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers 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 with such privacy laws. Furthermore, privacy concerns may cause our customers customers to resist providing the personal data necessary to allow our customers to use our service effectively and may reduce demand for our service. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

Federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. For example, in the United States regulations such as the Gramm-Leach-Bliley Act, which protects and restricts the use of consumer credit and financial information, and the Health Insurance Portability and Accountability Act of 1996, which regulates the use and disclosure of personal health information, impose significant requirements and obligations on businesses that may affect the use and adoption of our service. The European Union has also adopted a data privacy directive that requires member states to impose restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States. Many other jurisdictions have similar stringent privacy laws and regulations. Our customers may demand that we incur significant costs to be compliant with all the relevant laws and regulations, which regulate their particular industry.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us.

If we are unable to successfully detect weaknesses or errors in our internal controls, the trading price of our common stock may decline and adversely impact our ability to attract new and continued investors

As a smaller reporting company, we are not required to include an attestation report of our registered public accounting firm regarding internal control over financial reporting. An adverse opinion on our internal controls over financial reporting would indicate an inability to detect weaknesses or errors in our internal controls. If the Company fails to have effective internal control over financial reporting or is unable to complete any necessary modifications to its internal control reporting, investors could lose confidence in the accuracy and completeness of our financial reports and in the reliability of the Company s internal control over financial reporting, which could cause the price of our common stock to decline.

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 interaction software is relatively new and rapidly evolving, and concerns over the security and reliability of online transactions, the privacy of users and quality of service or other issues may inhibit the growth of the Internet and commercial online services. If the market for our applications fails to grow or grows more slowly than we currently anticipate, our business will be seriously harmed.

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

We may not be able to respond to the rapid technological change in the customer interaction software industry

The customer interaction software industry is characterized by rapid technological change, changes in customer requirements and preferences, and the emergence of new industry standards and practices that could render our existing services, proprietary technology and systems obsolete. We must continually develop or introduce and improve the performance, features and reliability of our products and services, particularly in response to competitive offerings. Our success depends, in part, on our ability to enhance our existing services and to develop new services, functionality and technology that address the increasingly sophisticated and varied needs of prospective customers. If we do not properly identify the feature preferences of prospective customers, or if we fail to deliver product features that meet the standards of these customers, our ability to market our service and compete successfully and to increase revenue could be impaired. The development of proprietary technology and necessary service enhancements entails significant technical and business risks and requires substantial expenditures and lead-time. We may not be able to keep pace with the latest technological developments. We may also be unable to use new technologies effectively or adapt services to customer requirements or emerging industry standards or regulatory or legal requirements. More generally, if we cannot adapt or respond in a cost-effective and timely manner to changing industry standards, market conditions or customer requirements, our business and operating results will suffer.

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.

Failure to comply with covenants in our loan facility may restrict our access to credit which could negatively impact our operations

There are a number of affirmative and negative covenants under the Comerica Credit Facility, with the primary covenants being that we are required to maintain a minimum cash balance of $1.0 million and we must maintain liquidity to debt ratio of at least 1.50 to 1.00. If we fail to comply with our covenants, Comerica can declare any outstanding amounts immediately due and payable and stop extending credit to us. If our access to credit were restricted in this way, our operations would suffer and negatively impact our business.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 14, 2009, we announced that our board of directors has approved a stock 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 can purchase shares of common stock from time to time through the open market and privately negotiated transactions at prices deemed appropriate by our management. Repurchases pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves, which could impact our ability to pursue possible future strategic opportunities and acquisitions and could result in lower overall returns on our cash balances. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program s effectiveness.

There were no repurchased shares of stock in the quarter ended March 31, 2013.

Item 6. Exhibits

Exhibits No.	Description of Exhibits
31.1	Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.
31.2	Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.
32.1(1)	Certification pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 of Ashutosh Roy, Chief Executive Officer.
32.2(1)	Certification pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 of Eric Smit, Chief Financial Officer.
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of March 31, 2013 and June 30, 2012, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income/(Loss) for the three and nine months ended March 31, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2013 and 2012 and (v) Notes to Condensed Consolidated Financial Statements
101.INS(2)	XBRL Instance Document
101.SCH(2)	XBRL Taxonomy Extension Schema Document
101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(2)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(2)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(2)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) The material contained in Exhibit 32.1 and Exhibit 32.2 is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after date hereof and irrespective of any general incorporation language contained in such filing, except to the extent the Company specifically incorporates it.

(2) In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed filed for purpose of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.

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SIGNATURES

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

Dated: May 15, 2013

eGAIN CORPORATION

By /s/ Eric N. Smit
Eric N. Smit
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial and Accounting Officer)

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