

EGAIN COMMUNICATIONS CORP

Form 10-Q

November 12, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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. 0-30260

eGAIN COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

345 E. Middlefield, Mountain View, CA

(Address of principal executive offices)

94043

(Zip Code)

(650) 230-7500

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

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

Class	Outstanding at September 30, 2010
Common Stock \$0.001 par value	22,118,571

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	September 30, 2010	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,818	\$ 5,733
Restricted cash	13	13
Accounts receivable, net	10,000	2,955
Prepaid and other current assets	516	512
Total current assets	15,347	9,213
Property and equipment, net	968	869
Goodwill	4,880	4,880
Other assets	374	354
Total assets	\$ 21,569	\$ 15,316
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,155	\$ 1,146
Accrued compensation	2,731	1,987
Accrued liabilities	1,506	1,946
Deferred revenue	5,769	4,917
Capital lease obligation	113	157
Bank borrowings	83	115
Total current liabilities	11,357	10,268
Deferred revenue, net of current portion	167	186
Capital lease obligation, net of current portion	28	28
Related party notes payable	8,998	8,724
Other long term liabilities	277	273
Total liabilities	20,827	19,479
Commitments and Contingencies (Notes 10 and 12)		
Stockholders' equity / (deficit):		
Common stock	22	22
Additional paid-in capital	323,748	323,700
Notes receivable from stockholders	(80)	(79)
Accumulated other comprehensive loss	(584)	(596)
Accumulated deficit	(322,364)	(327,210)

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Total stockholders' equity / (deficit)	742	(4,163)
Total liabilities and stockholders' equity / (deficit)	\$ 21,569	\$ 15,316

See accompanying notes

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eGAIN COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, unaudited, except per share data)

	Three Months Ended September 30,	
	2010	2009
Revenue:		
License	\$ 7,360	\$ 1,954
Recurring services	4,450	3,984
Professional services	1,276	2,037
Total revenue	13,086	7,975
Cost of license	14	68
Cost of recurring services	1,233	1,152
Cost of professional services	1,227	1,295
Gross profit	10,612	5,460
Operating costs and expenses:		
Research and development	1,414	1,170
Sales and marketing	3,514	2,434
General and administrative	804	786
Total operating costs and expenses	5,732	4,390
Income from operations	4,880	1,070
Interest expense, net	(276)	(277)
Other income / (expense), net	281	(6)
Income before income taxes	4,885	787
Income tax expense	(39)	
Net income	\$ 4,846	\$ 787
Per Share information:		
Basic net income per common share	\$ 0.22	\$ 0.04
Diluted net income per common share	\$ 0.22	\$ 0.04
Weighted average shares used in computing basic net income per common share	22,124	22,213
Weighted average shares used in computing diluted net income per common share	22,392	22,221

See accompanying notes

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eGAIN COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Three Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 4,846	\$ 787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	145	144
Stock-based compensation	54	55
Provisions for doubtful accounts and sales returns	18	7
Amortization of debt issuance costs		21
Accrued interest and amortization of discount on related party notes payable	274	247
Changes in operating assets and liabilities:		
Accounts receivable	(6,812)	(343)
Prepaid and other current assets	4	68
Other assets	(8)	3
Accounts payable	(11)	155
Accrued compensation	683	(341)
Accrued liabilities	(504)	(461)
Deferred revenue	535	111
Other long term liabilities	176	9
Net cash provided by (used in) operating activities	(600)	462
Cash flows from investing activities:		
Purchases of property and equipment	(229)	(151)
Net cash used in investing activities	(229)	(151)
Cash flows from financing activities:		
Payments on borrowings	(31)	(3,031)
Payments on capital lease	(45)	(46)
Payments to repurchase stock	(7)	
Net cash used in financing activities	(83)	(3,077)
Effect of change in exchange rates on cash and cash equivalents	(3)	(67)
Net decrease in cash and cash equivalents	(915)	(2,766)
Cash and cash equivalents at beginning of period	5,733	7,511
Cash and cash equivalents at end of period	\$ 4,818	\$ 4,678
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 3	\$ 11
Cash paid for taxes	\$ 43	\$

See accompanying notes

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eGAIN COMMUNICATIONS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

We are a leading provider of customer service and contact center software, used by global enterprises and fast-growing businesses. Trusted by prominent enterprises and growing mid-sized companies worldwide, eGain's award winning software has been helping organizations achieve and sustain customer service excellence for more than a decade. We have operations in the United States, United Kingdom, Netherlands, Ireland, Italy, 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 (GAAP), have been condensed or omitted pursuant to such rules and regulations although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented. These 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, 2010, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet at June 30, 2010 has been 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, 2011. We have evaluated material subsequent events requiring recognition or disclosure, and there were none.

Note 2. Software Revenue Recognition

Revenue Recognition

We derive revenue from three sources: license fees, recurring services, and professional services. Recurring services include hosting and software maintenance and support. Maintenance and support consists of technical support and software upgrades and enhancements. Professional services primarily consist of consulting and 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 Financial Accounting Standards Board, or FASB, 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 hosting 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.

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, hosting, 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, hosting services.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (Continued)

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 collectibility 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 period