

EGAIN Corp
Form 10-K
September 13, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 001-35314

eGain Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

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

1252 Borregas Avenue

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 636-4500

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(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates (based on the closing price on the Nasdaq Capital Market) on December 31, 2015, was approximately \$70.3 million. For purposes of the foregoing calculation only, the registrant has included in the shares owned by affiliates the beneficial ownership of voting and non-voting common equity of officers and directors, and affiliated entities, of the registrant and members of their families. Such inclusion shall not be construed as an admission that any such person is an affiliate for any other purpose.

There were 27,108,428 shares of the Registrant's Common Stock \$0.001 par value, outstanding on September 8, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors), 11, 12, 13 and 14 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2016 Annual Meeting of Stockholders.

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eGAIN CORPORATION

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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

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

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PART I

ITEM 1. BUSINESS

Overview

eGain Corporation is a leading provider of cloud-based customer engagement software solutions. Our solutions help B2C businesses easily operationalize digital customer engagement strategies with reduced customer effort, joined-up service processes, improved compliance and incremental sales - across web, mobile, social, phone and in-person. We also provide advanced analytics capability to large, multi-site contact centers for intra-day resource measurement and management, boosting operational agility and agent productivity. Over three hundred global enterprises rely on eGain to transform fragmented customer interaction and customer service systems into unified Customer Engagement Hubs.

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

Industry Background

As products get commoditized in a global economy and a digital world, customer loyalty increasingly depends on customer engagement. For businesses that sell to consumers, or B2C companies, one poor customer experience can be amplified and spread overnight through social networks. Today's digital consumers expect businesses to serve them conveniently and intelligently across traditional and new touch points. They are more demanding, and they spend more than the average customer. Not surprisingly, businesses are looking for efficient, scalable solutions to deliver smart customer experiences that are easy, quick and helpful.

Traditional customer relationship management, or CRM, solutions are not designed for the digital world. Mostly, they view the phone as the primary customer interaction channel. Digital channels like web, mobile and social are seen as secondary and are often not designed in the solution from the start. As a result, customer experience delivered through these platforms tends to be fragmented and inconsistent across channels. For instance, unified customer history across channels typically requires significant backend integration and user interface patchwork. Moreover, these CRM tools do not leverage the power of knowledge, AI and analytics to automate or optimize customer journey and agent capability.

The eGain Solution

Our solution is designed to make it easy for B2C businesses to do business with their customers. We provide our clients with the following benefits:

- Build profitable long-term customer relationships. Customers are spending more time conducting business on the web, mobile and social channels. Our solution helps businesses design brand-aligned, omnichannel customer journeys that are easy, quick and helpful. Whether a customer is looking to buy, ask a question, or pay a bill, our solution helps businesses provide customers personalized, guided and consistent responses. As a result, businesses improve their customer satisfaction and NPS scores.
- Reduce operating costs through improved agent productivity and self-service automation. Our solution helps companies provide highly effective customer service while reducing operating costs. Intelligent routing, auto-response, tracking, and reporting features, complemented with agent-facing knowledge tools, measurably enhance the productivity of service agents. AI-based process guidance reduces time to competence for agents, while ensuring compliance with policy and regulation in consumer interactions. Robust customer self-service tools fronted

by chatbots, guided by AI, and scaffolded with context-aware escalation paths reduce cost of service without compromising customer effort.

- Increase revenue through intelligent offers and contextual promotions. Our solution also helps businesses convert more website visitors into buyers, reduce shopping cart abandonment and increase average order value. It enables agents to contextually up-sell and cross-sell products in the course of customer interactions. A visitor to a website using eGain can be proactively offered personalized promotions or real-time assistance, based on configurable business rules informed by visitor behavior and history. Visitors can collaborate with

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a customer service agent live over the web through click-to-call, text and video chat, and cobrowse to inquire about and buy a product. Customers calling into a service center can be offered powerful cross-sell offers by agents using AI-driven reasoning capability of eGain.

Products and Services

eGain Suite

Recognized by industry analysts and trusted by leading companies worldwide, the eGain software suite helps businesses engage, acquire, and serve customers through multiple engagement channels. Modular, best-of-breed applications—built on a one-of-a-kind customer engagement hub platform, eGain OpenCEH™ Platform—combine 360-degree customer context, process guidance driven by artificial intelligence, or AI, and actionable knowledge to enhance every customer interaction. Designed for rapidly implementing next-generation customer engagement strategies, the eGain suite consists of:

- Mobile applications to engage customers through smartphones and tablets.
- Social applications to extend the company's customer engagement strategies to social channels.
- Web applications to transform B2C websites into interactive shopping destinations.
- Desktop applications to help traditional call centers evolve into AI-and-knowledge-powered omnichannel customer engagement hubs.
- Management applications and analytics to provide the insight and capabilities needed to drive smarter contact center operations.
 - Messaging applications provide a rich set of secure, personalized communication options.
- eGain OpenCEH™, a multichannel customer engagement hub, or CEH, platform that provides centralized business rules and workflows, knowledge, interactions, analytics, administration, and integrations to all applications. The web-services-based architecture of the platform enables rapid innovation and extension of customer engagement capabilities.
- eGain Connectors™ for integrating with leading CRM, content, CTI, and ecommerce systems.

Mobile Applications

- eGain Mobile™ makes mobile engagement easy. It extends the reach of an eGain deployment by enabling the business to offer all its eGain-enabled engagement options to mobile users through existing or new phone and tablet apps on the Android and iOS platforms. Capabilities include mobile virtual assistant, offers, chat, click-to-call, cobrowsing, self-service, and notifications.

Social Applications

- eGain Social™ is an application for social customer service, knowledge harvesting and single-sourced social publishing, and reputation management. It enables businesses to monitor social networks such as Facebook, Twitter, YouTube, and blogs for opportunities for engaging with customers. Mentions are analyzed for sentiment. The right agent picks up relevant mentions and posts responses privately or back to the social cloud in media-appropriate format.
- eGain Community™ enables the creation and management of online communities or forums, community knowledge harvesting, and single-sourced publishing. Forum posts are searchable from portals, and can be submitted as content for the Knowledge Base. Connectors allow integration with existing forums.

Web Applications

- eGain Offers™ helps businesses engage visitors on the company website and Facebook fan pages with proactive, targeted offers. Using browsing behavior and other attributes, the solution anticipates visitor needs

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and proactively serves a personalized offer. It leapfrogs existing proactive chat “point” solutions by providing coupons, promotions, surveys, relevant content and contextual help in the form of FAQ, virtual assistant, chat, click to call, and cobrowse options.

- eGain Virtual Assistant™ enables businesses to offer text and speech chat interactions with one or more virtual assistants (chatbots). Multilingual, as well as emotionally and culturally intelligent, eGain virtual assistants can be deployed on websites and mobile devices and support seamless integration with assisted chat channels. It is one of a number of AI products in our suite.
- eGain Cobrowse™ enables phone and chat reps to show customers around the website, help locate information, and “hand-hold” them during complex, anxiety-ridden tasks such as completing forms or checking out shopping carts. It offers true collaborative browsing without any customer download requirement. Access to web page views and actions is controlled through user roles and business rules.
- eGain Chat™ enables website visitors to conduct text and video chats with agents. It gives representatives a comprehensive set of tools for serving customers in real-time. eGain Chat supports two-way, “follow me” web browsing so that agents and customers can lead each other to specific web pages for faster issue resolution. The system’s powerful, query-specific routing and workflow maximize both agent productivity and interaction quality.
- eGain ClickToCall™ provides website visitors the ability to request a callback while browsing. Callbacks can be scheduled according to the customer’s convenience or be established in real-time.
- eGain SelfService™ is a comprehensive solution supporting what we believe is the broadest set of self-service access options in the industry—dynamic FAQs, topic-based browsing, natural language search, guided help, virtual assistant technology, and case tracking. eGain SelfService offers a unique combination of rich, multi-access self-service capabilities built on a collaborative knowledge management framework within eGain OpenCEH Platform. This framework makes it easy for organizations to create, maintain, and enhance common content in a distributed manner, as well as leverage existing content from across the enterprise. The key modules of this application are:
- eGain Portals™ enables organizations to provide distinctive, productive and brand-aligned self-service experiences. Powered by eGain Multisearch™ knowledge access technology, it brings together the power of a broad set of knowledge access methods, federated search, process intelligence, multilingual capabilities, and flexible look and feel—all behind a single search box—for distinctive, on-target self-service. Customers can also view frequently asked questions, manage their own accounts, review open tickets, and review their communications with the company within a secure, personalized environment.
- eGain Guided Help™ gives customers interactive access to the company’s knowledge base, allowing them to find answers and troubleshoot problems by themselves at their convenience. Powered by AI, it uses patented search and reasoning technology, coupled with natural language and advanced linguistic processing to search, suggest additional questions, and recommend solutions.
- eGain Widgets™ enable contextual access to knowledge and account information through mobile devices and web pages.

Desktop Applications

- eGain Case Manager™ is a comprehensive and a flexible case logging system. Together with eGain Knowledge™, it provides an integrated application for logging, tracking, and resolving customer issues. It also features follow-on task management for service fulfillment.
- eGain Mail™ is an industry-leading application for processing inbound customer emails and providing mission-critical email customer response, incorporating hundreds of best practices developed over years of serving innovative global enterprises. Secure messaging, lifecycle audits, and real-time archival are some of the features that provide our customers a next-generation email management platform for their enterprises. Designed to process very high volumes of email and webform requests, eGain Mail™ allows companies to

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deliver consistent, high-quality service through flexible process automation, optimized user interface, and powerful reports.

- eGain KnowledgeAgent™ empowers contact center agents with best-practice AI-powered knowledge management and is designed to make every agent as productive and capable as the enterprise's best agent. This application delivers fast, consistent, and accurate answers to agents as they use the rich conversational interface while engaging customers over the phone. eGain Knowledge uses patented search and reasoning technology coupled with natural language and advanced linguistic processing to search, suggest additional questions, and recommend solutions. eGain Multisearch enables simple search-based access to various types of federated content and guided help.

Management Applications

- eGain Analytics™ helps businesses monitor, measure, and manage their omnichannel engagement operations and infrastructure. Dashboards makes complex management tasks easy by providing a consolidated view of all contact centers that lets managers optimize performance quickly. It offers both insight and the ability to intervene effectively.

Messaging Applications

- eGain Secure Messaging™ enables secure and authenticated messaging between a business and its customers. It is a secure web-based portal for customers to read confidential messages, including attachments.
- eGain Notify™ is a flexible, easy-to-use application for managing and delivering automatic reminders, alerts, and updates at all stages of the customer journey. It is used to provide proactive customer service by sending alerts to customers through multiple engagement channels across the web, email, SMS, voice, and fax. Designed for high-volume usage, this application can easily scale to deliver millions of messages per day in the eGain Cloud.

Cloud Operations

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

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

We continuously monitor the performance of our application suite using a variety of automated tools. We designed our infrastructure with built-in redundancy for all key components. Our network includes redundant firewalls, switches and intrusion detection systems, and incorporates failover backup for maximum uptime. We load balance at each tier in the network infrastructure. We also designed our application server clusters so that servers can fail without interrupting the user experience, and our database servers are clustered for failover. We regularly back up and store customer data both on and off-site in secure locations to minimize the risk of data loss at any facility.

Customers

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

revenue for 50% of total

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revenue, compared to 52% and 48%, respectively, for fiscal year 2015, and 45% and 55%, respectively, for fiscal year 2014.

There were two customers that accounted for 10% and 14%, respectively, of total revenue in fiscal year 2016. One customer accounted for 10% of total revenue in fiscal year 2015. Two customers accounted for 16% and 10%, respectively, of total revenue in fiscal year 2014.

Competition

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

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

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

Sales and Marketing

Sales Strategy

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

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

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

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Marketing and Partner Strategy

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

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

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

As of the fiscal year ended June 30, 2016, we had 110 employees engaged in worldwide sales and marketing activities.

Consulting and Education

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

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

As of fiscal year ended June 30, 2016, we had 102 professionals providing worldwide services for systems installation, solutions development, application management, and education.

Customer Support

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

As of the fiscal year ended June 30, 2016, there were 61 employees engaged in worldwide customer support services and 39 employees engaged in worldwide cloud services and maintenance support.

Research and Development

The market for our products changes rapidly and is characterized by evolving industry standards, swift changes in customer requirements, and frequent new product introductions and enhancements. We believe that strong product

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development capabilities are essential to our strategy of maintaining technology leadership. This includes enhancing current technology, providing excellent quality, performance, and functionality, as well as developing additional applications, and maintaining the competitiveness of our product and service offerings.

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

As of the fiscal year ended June 30, 2016, we had 143 employees engaged in worldwide product development activities. We spent approximately \$16.1 million on research and development in fiscal year 2016, and \$16.0 million and \$10.0 million, respectively, in fiscal years 2015 and 2014.

Intellectual Property

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

As of June 30, 2016, we had six issued patents in the United States. In addition, we have a number of pending patent applications in the United States, including one provisional filing and several non-provisional filings. Our issued U.S. patents expire at various times between 2029 and 2032.

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

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

Employees

As of the fiscal year ended June 30, 2016, we had 507 full-time employees, of which 143 were in product development, 202 in services and support, 110 in sales and marketing, and 52 in finance and administration.

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

Available Information

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

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ITEM 1A. RISK FACTORS

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

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

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

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

Our hybrid revenue model may affect our operating results.

We have a hybrid delivery model meaning that we offer our solutions on a subscription or perpetual license basis to our customers. For perpetual license transactions, the license revenue amount is generally recognized in the quarter delivery and acceptance of our software takes place. For subscription transactions, the revenue is recognized ratably over the term of the contract, which is typically 12 to 36 months. As a result, our total revenue may increase or decrease in future quarters as a result of the timing and mix of license and subscriptions transactions. This variability in our revenue recognition may be exacerbated as more customers select our subscription solution over our perpetual licensed solution, causing us to increase the amount of revenue recognized ratably over the life of the contract and resulting in a decrease in our total revenue in the short-term.

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

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

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subscription model makes it more difficult for us to increase our revenue rapidly in any period, because revenue from new customers must be recognized over the applicable subscription term. Furthermore, although our business model is primarily focused on recurring revenue, we anticipate continuing to recognize license revenue, particularly with international customers. License revenue is difficult to forecast and is likely to fluctuate due to many factors that are beyond our control including transition of license customers to recurring revenue models. Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as definitive indicators of future performance.

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

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

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

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

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

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

- increased costs to license and maintain third party software embedded in our software applications or the cost to create or substitute such third party software if it can no longer be licensed on commercially reasonable terms;
- our inability to maintain or increase the prices customers pay for our products and services based on competitive pricing pressures and general economic conditions limiting customer demand;
- increased cost of third party services providers, including data centers for our cloud operations and professional services contractors performing implementation and technical support services to cloud customers;
- customer contractual requirements that delay revenue recognition until customer implementations commence production operations or customer-specific requirements are met;
- significant attrition as customers decide for their own economic or other reasons to not renew their subscription contracts when they are up for renewal could negatively impact the efficiency of our data centers and lead to the costs being spread over fewer customers negatively impacting gross margin; and
 - the inability to implement, or delays in implementing, technology-based efficiencies and efforts to streamline and consolidate processes to reduce operating costs.

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

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

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

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

In November 2014, we entered into a credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), under which Wells Fargo agreed to provide a term loan in the amount of \$10.0 million ("Term") and revolving loan to us in an amount not to exceed \$10.0 million ("Revolver"), Term and Revolver (collectively, the "Loans"). In September 2015, we increased the maximum borrowing amount of the Revolver to \$15.0 million. The Loans contain a number of

restrictive covenants, and its terms may restrict our current and future operations, including:

- affecting our flexibility to plan for, or react to, changes in our business and industry conditions;
- affecting our ability to use our cash flows, or obtain additional financing, for future working capital, capital expenditures, acquisitions or other general corporate purposes;

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- placing us at a competitive disadvantage compared to our less leveraged competitors; and
- increasing our vulnerability to the impact of adverse economic and industry conditions.

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

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

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

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

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 as of June 30, 2016 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.

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

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

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

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

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

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

We must compete successfully in our market segment.

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

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We believe competition will continue to be fierce as current competitors increase the sophistication of their offerings and as new participants enter the market. Many of our current and potential competitors have longer operating histories, larger customer bases, broader brand recognition, and significantly greater financial, marketing and other resources. With more established and better-financed competitors, these companies may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies, and make more attractive offers to businesses to induce them to use their products or services.

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

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

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

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

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

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

Our international operations involve various risks.

We derived 50% of our revenue from international sales for the fiscal year 2016 compared to 52% for the fiscal year 2015, and 45% for fiscal year 2014. Including those discussed above, our international sales operations are subject to a number of specific risks, such as:

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- general economic conditions in each country or region in which we do or plan to do business;
- foreign currency fluctuations and imposition of exchange controls;
- expenses associated with complying with differing technology standards and language translation issues;
- difficulty and costs in staffing and managing our international operations;
- difficulties in collecting accounts receivable and longer collection periods;
- health or similar issues, such as a pandemic or epidemic;
- various trade restrictions and tax consequences;
- hostilities in various parts of the world; and
- reduced intellectual property protections in some countries.

As of June 30, 2016, approximately 43% of our workforce was employed in India. Of these employees, 34% are allocated to research and development. Although the movement of certain operations internationally was principally motivated by cost cutting, the continued management of these remote operations requires significant management attention and financial resources that could adversely affect our operating performance. In addition, with the significant increase in the numbers of foreign businesses that have established operations in India, the competition to attract and retain employees there has increased significantly. As a result of the increased competition for skilled workers, we experienced increased compensation costs and expect these costs to increase in the future. Our reliance on our workforce in India makes us particularly susceptible to disruptions in the business environment in that region. In particular, sophisticated telecommunications links, high-speed data communications with other eGain offices and customers, and overall consistency and stability of our business infrastructure are vital to our day-to-day operations, and any impairment of such infrastructure will cause our financial condition and results to suffer. The maintenance of stable political relations between the United States, European Union and India are also of great importance to our operations.

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

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

We generally recognize license or subscription revenue from a customer sale when persuasive evidence of an arrangement exists, the product or access to the product has been delivered, the arrangement does not involve significant customization of the software, the license or subscription fee is fixed or determinable and collection of the fee is probable. If an arrangement requires significant customization or implementation services from us, recognition of the associated license or subscription and service revenue could be delayed. The timing of the commencement and completion of these services is subject to factors that may be beyond our control, as this process may require access to the customer's facilities and coordination with the customer's personnel after delivery of the software. In addition, customers could cancel or delay product implementations. Implementation typically involves working with sophisticated software, computing and communications systems. If we experience diffic