

EGAIN COMMUNICATIONS CORP  
Form 10-Q  
February 14, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 10-Q**

---

(Mark One)

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

For the quarterly period ended December 31, 2006

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)

---

Delaware  
(State or other jurisdiction)

of incorporation or organization)

345 E. Middlefield, Mountain View, CA

(Address of principal executive offices)

77-0466366  
(I.R.S. Employer

Identification No.)

Edgar Filing: EGAIN COMMUNICATIONS CORP - Form 10-Q

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 is a large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer .

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 December 31, 2006
Common Stock \$0.001 par value	15,315,816

---

**Table of Contents**

**eGAIN COMMUNICATIONS CORPORATION**

**TABLE OF CONTENTS**

	<b>Page</b>
PART I. <u>FINANCIAL INFORMATION</u>	1
Item 1. <u>Financial Statements (unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets at December 31, 2006 and June 30, 2006</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2006 and 2005</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2006 and 2005</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	26
PART II. <u>OTHER INFORMATION</u>	27
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3. <u>Defaults upon Senior Securities</u>	28
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	28
<u>Signatures</u>	29

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**eGAIN COMMUNICATIONS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands)

	December 31, 2006 (unaudited)	June 30, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,004	\$ 6,916
Restricted cash	12	12
Accounts receivable, net	2,620	2,151
Prepaid and other current assets	731	623
<b>Total current assets</b>	<b>9,367</b>	<b>9,702</b>
Property and equipment, net	1,333	1,169
Goodwill	4,880	4,880
Other assets	364	354
	<b>\$ 15,944</b>	<b>\$ 16,105</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,080	\$ 989
Accrued compensation	1,391	1,254
Accrued liabilities	1,318	1,156
Deferred revenue	5,216	4,259
Current portion of bank borrowings	1,983	1,697
<b>Total current liabilities</b>	<b>10,988</b>	<b>9,355</b>
Related party notes payable	9,225	8,652
Bank borrowing, net of current portion	156	77
Other long term liabilities	200	217
<b>Total liabilities</b>	<b>20,569</b>	<b>18,301</b>
Commitments (Note 9)		
Stockholders' deficit:		
Common stock	15	15
Additional paid-in capital	315,889	315,736
Notes receivable from stockholders	(75)	(74)
Accumulated other comprehensive loss	(433)	(456)

Edgar Filing: EGAIN COMMUNICATIONS CORP - Form 10-Q

Accumulated deficit	(320,021)	(317,417)
Total stockholders' deficit	(4,625)	(2,196)
	\$ 15,944	\$ 16,105

See accompanying notes

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

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended December 31, 2006</b>	<b>2005</b>	<b>Ended December 31, 2006</b>	<b>2005</b>
<b>Revenue:</b>				
License	\$ 850	\$ 2,013	\$ 2,485	\$ 3,390
Support and Services	4,833	3,996	9,201	7,842
Total revenue	5,683	6,009	11,686	11,232
Cost of license	18	133	59	186
Cost of support and services	2,206	1,578	4,147	3,302
Gross profit	3,459	4,298	7,480	7,744
<b>Operating costs and expenses:</b>				
Research and development	833	704	1,858	1,417
Sales and marketing	2,921	2,258	6,208	4,385
General and administrative	484	779	1,424	1,408
Total operating costs and expenses	4,238	3,741	9,490	7,210
Income / (loss) from operations	(779)	557	(2,010)	534
Interest expense, net	(276)	(259)	(546)	(513)
Other income (expense), net	(5)	1	22	6
Income / (loss) before income taxes	(1,060)	299	(2,534)	27
Provision for income taxes	(54)	(54)	(69)	(79)
Net income / (loss)	\$ (1,114)	\$ 245	\$ (2,603)	\$ (52)
<b>Per Share information:</b>				
Basic net income / (loss) per common share	\$ (0.07)	\$ 0.02	\$ (0.17)	\$ 0.00
Diluted net income / (loss) per common share	\$ (0.07)	\$ 0.02	\$ (0.17)	\$ 0.00
Weighted average shares used in computing basic net income /(loss) per common share	15,315	15,302	15,315	15,302
Weighted average shares used in computing diluted net income /(loss) per common share	15,315	15,423	15,315	15,302

**See accompanying notes**

**Table of Contents****eGAIN COMMUNICATIONS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Six Months</b>		
	<b>Ended December 31,</b>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (2,603)		\$ (52)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	294		167
Stock-based compensation	152		151
Provisions for doubtful accounts and sales returns	194		13
Accrued interest and amortization of discount on related party notes	572		517
Changes in operating assets and liabilities:			
Accounts receivable	(558)		(553)
Prepaid and other current assets	(88)		89
Other assets	3		3
Accounts payable	60		(63)
Accrued compensation	96		
Accrued liabilities	84		129
Accrued restructuring			(17)
Deferred revenue	813		290
Other long term liabilities	(16)		(6)
Net cash (used in) provided by operating activities	(997)		668
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(412)		(268)
Net cash used in investing activities	(412)		(268)
<b>Cash flows from financing activities:</b>			
Payments on borrowings	(3,106)		(3,050)
Proceeds from borrowings	3,472		3,130
Net proceeds from issuance of common stock	1		1
Net cash provided by financing activities	367		81
Effect of exchange rate differences on cash	130		(123)
Net increase (decrease) in cash and cash equivalents	(912)		358
Cash and cash equivalents at beginning of period	6,916		4,498
Cash and cash equivalents at end of period	\$ 6,004		\$ 4,856
<b>Supplemental cash flow disclosures:</b>			
Cash paid for interest	\$ 27		\$ 27

Cash paid for income taxes

19

49

**See accompanying notes**



**Table of Contents****eGAIN COMMUNICATIONS CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****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 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, have been condensed or omitted pursuant to such rules and regulations. 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, 2006, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet at June 30, 2006 has been derived from audited financial statements as of that date but does not include all the information and footnotes required by generally accepted accounting principles 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, 2007.

The franchise taxes of \$40,000 recorded in fiscal 2006 as tax expense have been reclassified to general and administrative expense to conform with the fiscal 2007 classifications.

	<b>Three months ended December 31, 2005</b>		<b>Six months ended December 31, 2005</b>	
	<b>Reported in 2007</b>	<b>Reported in 2006</b>	<b>Reported in 2007</b>	<b>Reported in 2006</b>
General and administrative expense	\$ 779	\$ 739	\$	