EGAIN Corp
Form 10-Q
May 06, 2016
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 March 31, 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 No. 001-35314

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eGAIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	77-0466366
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1252 Borregas Avenue, Sunnyvale, CA	94089
(Address of principal executive offices)	(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 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 May 2, 2016
Common Stock $0.001 par value	27,090,861

Table of Contents

eGAIN CORPORATION

Quarterly Report on Form 10-Q

For the Quarterly Period Ended March 31, 2016

TABLE OF CONTENTS

		Page
PART I.	FINANCIAL INFORMATION	2
Item 1.	Financial Statements (Unaudited)	2
	Condensed Consolidated Balance Sheets as of March 31, 2016 and June 30, 2015	2
	Condensed Consolidated Statements of Operations for the Three and Nine Months ended March 31, 2016 and 2015	3
	Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months ended March 31, 2016 and 2015	4
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2016 and 2015	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	33
Item 4.	Controls and Procedures	33
PART II.	OTHER INFORMATION	34
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 6.	Exhibits	49
	Signatures	50

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

eGAIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except par value data)

	March 31, 2016	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,541	$ 8,633
Restricted cash	13	676
Accounts receivable, less allowance for doubtful accounts of $770 and $768 as of March 31, 2016 and June 30, 2015, respectively	6,639	13,118
Deferred commissions	550	633
Prepaid and other current assets	2,010	1,625
Total current assets	16,753	24,685
Property and equipment, net	2,142	3,136
Deferred commissions, net of current portion	319	297
Intangible assets, net	5,534	7,620
Goodwill	13,186	13,186
Other assets	834	807
Total assets	$ 38,768	$ 49,731
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 2,110	$ 1,779
Accrued compensation	4,515	6,910
Accrued liabilities	2,308	2,664
Deferred revenue	9,948	14,395
Capital lease obligations	351	471
Bank borrowings	826	505
Total current liabilities	20,058	26,724
Deferred revenue, net of current portion	4,568	1,417
Capital lease obligations, net of current portion	196	295
Bank borrowings, net of current portion	17,595	18,259
Other long term liabilities	1,914	1,937
Total liabilities	44,331	48,632

Commitments and contingencies (Note 5)		
Stockholders' (deficit) equity:		
Common stock, $0.001 par value - authorized: 50,000 shares; outstanding: 27,091 shares as of March 31, 2016 and 27,022 as of June 30, 2015	27	27
Additional paid-in capital	342,468	341,329
Notes receivable from stockholders	(81)	(78)
Accumulated other comprehensive loss	(1,352)	(1,170)
Accumulated deficit	(346,625)	(339,009)
Total stockholders' (deficit) equity	(5,563)	1,099
Total liabilities and stockholders' (deficit) equity	$ 38,768	$ 49,731

See accompanying notes to condensed consolidated financial statements

Table of Contents

eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Revenue:				
Subscription and support	$ 10,330	$ 10,840	$ 31,955	$ 32,241
License	3,169	5,230	10,659	15,541
Professional services	2,792	3,162	9,139	11,057
Total revenue	16,291	19,232	51,753	58,839
Cost of subscription and support	3,141	3,021	9,335	9,164
Cost of license	8	4	24	58
Cost of professional services	2,572	4,525	8,809	13,556
Total cost of revenue	5,721	7,550	18,168	22,778
Gross profit	10,570	11,682	33,585	36,061
Operating expenses:				
Research and development	4,208	4,142	12,124	12,043
Sales and marketing	7,126	7,883	21,412	25,987
General and administrative	1,892	1,812	6,031	7,327
Total operating expenses	13,226	13,837	39,567	45,357
Loss from operations	(2,656)	(2,155)	(5,982)	(9,296)
Interest expense, net	(512)	(310)	(1,521)	(578)
Other income, net	345	15	512	168
Loss before income tax benefit (provision)	(2,823)	(2,450)	(6,991)	(9,706)
Income tax benefit (provision)	(178)	51	(625)	210
Net loss	$ (3,001)	$ (2,399)	$ (7,616)	$ (9,496)
Per share information:				
Basic and diluted net loss per common share	$ (0.11)	$ (0.09)	$ (0.28)	$ (0.36)
Weighted average shares used in computing basic and diluted net loss per common share	27,070	26,709	27,043	26,516

See accompanying notes to condensed consolidated financial statements

Table of Contents

eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net loss	$ (3,001)	$ (2,399)	$ (7,616)	$ (9,496)
Other comprehensive loss, net of taxes:				
Foreign currency translation adjustments	(16)	43	(182)	(143)
Comprehensive loss	$ (3,017)	$ (2,356)	$ (7,798)	$ (9,639)

See accompanying notes to condensed consolidated financial statements

Table of Contents

eGAIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (7,616)	$ (9,496)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,598	1,898
Amortization of acquired intangibles	2,086	1,815
Amortization of deferred commissions	566	808
Amortization of deferred financing costs	186	41
Stock-based compensation	988	1,830
Provisions for doubtful accounts	343	236
Changes in operating assets and liabilities:		
Accounts receivable	5,461	(928)
Deferred commissions	(590)	(372)
Prepaid expenses and other current assets	(510)	(455)
Accounts payable	356	(896)
Accrued compensation	(2,213)	(581)
Accrued liabilities	(248)	(910)
Deferred revenue	(766)	337
Other long term liabilities	33	(207)
Net cash used in operating activities	(326)	(6,880)
Cash flows from investing activities:		
Acquisition, net of cash acquired	—	(1,905)
Purchases of property and equipment	(440)	(512)
Decrease (increase) in restricted cash	634	(980)
Net cash provided by (used in) investing activities	194	(3,397)
Cash flows from financing activities:		
Payments on bank borrowings	(9,260)	(12,076)
Payments on capital lease obligations	(416)	(359)
Proceeds from bank borrowings	9,000	23,950
Payments made for deferred financing costs	(270)	(550)
Proceeds from exercise of stock options	151	205
Net cash (used in) provided by financing activities	(795)	11,170
Effect of change in exchange rates on cash and cash equivalents	(165)	(488)
Net (decrease) increase in cash and cash equivalents	(1,092)	405
Cash and cash equivalents at beginning of period	8,633	8,785
Cash and cash equivalents at end of period	$ 7,541	$ 9,190

Supplemental cash flow disclosures:		
Cash paid for interest	$ 1,315	$ 298
Cash paid for taxes	$ 207	$ 304
Non-cash items:		
Purchases of equipment through trade accounts payable	$ 39	$ 59
Property and equipment acquired under a capital lease	$ 217	$ 185
Issuance of common stock in connection with business acquisition	$ —	$ 7,719

See accompanying notes to condensed consolidated financial statements

5

Table of Contents

eGAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Business and Significant Accounting Policies

Organization and Nature of Business

eGain Corporation ("eGain", the "Company", "our", "we", or "us") is a leading provider of cloud-based customer engagement software solutions. For over a decade, we have helped businesses that sell to consumers, or B2C enterprises, improve customer experience, grow sales, and reduce cost across the web, social, phone and store channels – using our best-in-class knowledge management, digital engagement and contact center analytics capabilities. Hundreds of global enterprises rely on us to transform fragmented sales engagement and customer service operations into unified customer engagement hubs. We have operations in the United States, United Kingdom, Netherlands, Germany, France, South Africa, and India.

Basis of Presentation

We 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 condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("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 condensed consolidated 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, 2015, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2015 was derived from audited consolidated 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, 2016.

Business Combinations

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

Segment Information

We operate in one segment, the development, license, implementation and support of our customer interaction software solutions. 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-

Table of Contents

makers, under Accounting Standards Codification, or 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. The Company operates in one operating segment and all required financial segment information can be found in the condensed consolidated financial statements.

Information relating to our geographic areas for the three and nine months ended March 31, 2016 and 2015 is as follows (unaudited, in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Total Revenue:				
North America	$ 6,633	$ 9,171	$ 25,136	$ 29,795
EMEA	8,968	9,620	24,674	27,870
Asia Pacific	690	441	1,943	1,174
	$ 16,291	$ 19,232	$ 51,753	$ 58,839
Operating Income (Loss):				
North America	$ (4,049)	$ (1,215)	$ (7,165)	$ (3,691)
EMEA	1,947	32	3,239	(2,271)
Asia Pacific*	(554)	(972)	(2,056)	(3,334)
	$ (2,656)	$ (2,155)	$ (5,982)	$ (9,296)

*Includes costs associated with corporate support.

In addition, long-lived assets corresponding to our geographic areas are as follows (unaudited, in thousands):

	March 31, 2016	June 30, 2015
Long-Lived Assets:		
North America	$ 1,105	$ 1,615
EMEA	845	1,142
Asia Pacific	192	379
	$ 2,142	$ 3,136

For the three months ended March 31, 2016, two customers accounted for 16% and 10% of total revenue. For the three months ended March 31, 2015, there were no customers that accounted for greater than 10% of total revenue.

For the nine months ended March 31, 2016, two customers accounted for 16% and 10% of total revenue. For the nine months ended March 31, 2015, two different customers each accounted for 10% of total revenue.

Revenue Recognition

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

We derive revenue from three sources:

(i) Subscription and support fees primarily consist of cloud revenue from customers accessing our enterprise cloud computing services, term license revenue, and maintenance and support revenue;

(ii) License fees primarily consist of perpetual software license revenue;

Table of Contents

(iii) Professional services primarily consist of consulting, implementation services and training.

Revenue is recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists: Evidence of an arrangement consists of a written contract signed by both the customer and management prior to the end of the period. We use signed software license, services agreements and order forms as evidence of an arrangement for sales of software, cloud, maintenance and support. We use signed statement of work as evidence of arrangement for professional services.

- Delivery or performance has occurred: Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. Delivery is considered to have occurred when we provide the customer access to the software along with login credentials.

- Fees are fixed or determinable: We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. Arrangements where a significant portion of the fee is due beyond 90 days from delivery are generally not considered to be fixed or determinable.

- Collectibility is probable: We assess collectibility based on a number of factors, including the customer's past payment history and its current creditworthiness. Payment terms generally range from 30 to 90 days from invoice date. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment.

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

When 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 ("VSOE"), of fair value, and (iv) the services are not essential to the functionality of the software.

We enter into arrangements with multiple-deliverables that generally include subscription, support, and professional services. We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by ASC 605, using all applicable facts and circumstances, including whether (i) we sell or could readily sell the element unaccompanied by the other elements, (ii) the element has stand-alone value to the customer, and (iii) there is a general right of return. We use VSOE, of fair value for each of those units, when available. For revenue recognition with multiple-deliverable elements, in certain limited circumstances when VSOE of fair value does not exist, we apply the selling price hierarchy, which includes VSOE, third-party evidence of selling price ("TPE"), and best estimate of selling price ("BESP"). We determine the relative selling price for a deliverable based on VSOE, if available, or BESP, if VSOE is not available. We have determined that TPE is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant third-party pricing information.

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

Table of Contents

Subscription and Support Revenue

Cloud Revenue

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

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

Term License Revenue

Term license revenue includes arrangements where our customers receive license rights to use our software along with bundled maintenance and support services for the term of the contract. The majority of our contracts provide customers with the right to use one or more products up to a specific license volume. Certain of our license agreements specify that customers can exceed pre-determined base capacity levels, in which case additional fees are specified in the license agreement. Term license revenue is recognized ratably over the term of the license contract.

Maintenance and Support Revenue

Maintenance and support revenue consists of customers purchasing maintenance and support for our on-premise software. We use VSOE of fair value for maintenance and support to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Maintenance and support revenue is recognized ratably over the term of the maintenance contract, which is typically one year. Maintenance and support is renewable by the customer on an annual basis. Maintenance and support rates, including subsequent renewal rates, are typically established based upon a specified percentage of net license fees as set forth in the arrangement.

License Revenue

License revenue includes perpetual licenses sold to customers to use our software in conjunction with related maintenance and support services. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. In software arrangements that include rights to multiple software products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on VSOE of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue, assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services and in some cases, cloud services.

We periodically sell to resellers. License sales to resellers as a percentage of total revenue were approximately 14% and 10% for the three months ended March 31, 2016 and 2015, respectively. License sales to resellers as a percentage of

total revenue were approximately 14% and 17% for the nine months ended March 31, 2016 and 2015, 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, if there are any return provisions, price protection or other allowances, the reseller's financial status and our experience with the particular reseller. Historically sales to resellers have not included any return provisions, price protections or other allowances.

Professional Services Revenue

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

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

We determined at or around July 1, 2013 that we had established standalone value for consulting and implementation services under cloud contracts. This was primarily due to the change in our business focus, the growing number of partners we trained and certified to perform these deployment services and the consequential sale of subscription services without bundled implementation service. Revenues earned from professional services related to consulting and implementation of a majority of our core subscription services are being accounted for separately from revenues earned from subscription services beginning July 1, 2013 when the standalone value was established for those professional services.

For those contracts that have standalone value, we recognized the services revenue when rendered for time and material contracts, when the milestones are achieved and accepted by the customer for fixed price contracts or by percentage of completion basis if there is no acceptance criteria.

For cloud, 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, once the cloud has gone live or is system ready. We currently estimate the life of the customer cloud relationship to be approximately 28 months, based on the average life of all cloud customer relationships.

Training revenue that meets the criteria to be accounted for separately is recognized when training is provided.

Deferred Revenue

Deferred revenue primarily consists of payments received in advance of revenue recognition from cloud, term license, and maintenance and support services and is recognized as the revenue recognition criteria are met. We generally invoice customers in annual or quarterly installments. The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable cloud or maintenance and support agreements. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

Table of Contents

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 the Company's direct sales force.

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Deferred Financing Costs

Costs relating to obtaining the credit agreement with Wells Fargo Bank are capitalized and amortized over the term of the related debt using the effective interest method. Deferred financing costs and accumulated amortization as of March 31, 2016 were $820,000 and $251,000, respectively, and are included net of bank borrowings in the accompanying condensed consolidated balance sheets. Deferred financing costs and accumulated amortization with Wells Fargo Bank as of June 30, 2015 were $550,000 and $64,000, respectively. Amortization of deferred financing

costs recorded as interest expense was $82,000 and $186,000 for three and nine months ended March 31, 2016, respectively. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

Leases

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

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

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

Table of Contents

Stock-Based Compensation

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

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,	
	2016	2015	2016	2015
Stock-Based Compensation:				
Cost of revenue	$ 44	$ 106	$ 204	$ 409
Research and development	104	184	374	594
Sales and marketing	46	102	116	421
General and administrative	52	130	294	406
Total stock-based compensation expense:	$ 246	$ 522	$ 988	$ 1,830

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.

During the three months ended March 31, 2016 and 2015, we granted options to purchase 29,500 and 13,500 shares of common stock with a weighted-average fair value of $1.79 and $2.64, per share, respectively. During the nine months ended March 31, 2016 and 2015, options to purchase 290,250 and 733,900 shares of common stock were granted with a weighted-average fair value of $2.08 and $3.75 per share, respectively, using the following assumptions:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Dividend yield	—	—	—	—
Expected volatility	56 %	80 %	61 %	80 %
Average risk-free interest rate	1.37 %	1.45 %	1.54 %	1.69 %
Expected life (in years)	5.05	4.50	5.00	4.40

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.

We base our estimate of expected life of a stock option 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, 2016 was $1.3 million, which is expected to be recognized over the weighted-average period of 1.36 years. There were 42,003 and 69,267 options exercised during the three and nine months ended March 31, 2016, respectively. During the three and nine months ended March 31, 2015, there were 90,933 and 129,470 options exercised, respectively.

Table of Contents

New Accounting Pronouncements

In November 2015, the Financial Accounting and Standards Board, or the FASB, issued Accounting Standards Update, or ASU, 2015-17, Income Taxes—Balance Sheet Classification of Deferred Taxes, which requires that all deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (our fiscal 2018). Early adoption is permitted as of the beginning of an interim or annual reporting period. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period-Adjustments, which simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 (our fiscal 2017). We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In January 2015, the FASB, issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items, which eliminates the requirement to consider whether an event or transaction is extraordinary. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 (our fiscal 2017). We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern, which provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. The amendments in this update are effective for the annual periods ending after December 15, 2016 (our fiscal 2018). We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In June 2014, the FASB, issued ASU 2014-12, Compensation-Stock Compensation which applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 (our fiscal 2017). We do not anticipate the adoption of this amendment to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and requires entities to recognize revenue in a way that

depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016 (our fiscal 2018), including interim periods within that reporting period, with early application not permitted. In April 2015, the FASB issued for public comment a proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which would defer the effective date of this new revenue recognition standard by one year. This will change the effective date to annual reporting periods beginning after December 15, 2017 (our fiscal 2019). We are currently evaluating the effects that the adoption of this guidance will have on our consolidated financial statements.

Note 2. Net Loss per Common Share

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

Table of Contents

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net loss applicable to common stockholders	$ (3,001)	$ (2,399)	$ (7,616)	$ (9,496)
Basic net loss per common stock	$ (0.11)	$ (0.09)	$ (0.28)	$ (0.36)
Weighted-average common shares used in computing basic net loss per common share	27,070	26,709	27,043	26,516
Effect of dilutive options	—	—	—	—
Weighted-average common shares used in computing diluted net loss per common share	27,070	26,709	27,043	26,516
Diluted net loss per common stock	$ (0.11)	$ (0.09)	$ (0.28)	$ (0.36)

Weighted-average shares of stock options to purchase 2,668,595 and 2,698,219 shares of common stock for the three and nine months ended March 31, 2016, respectively, and 2,833,206 and 2,722,293 shares of common stock for the three and nine months ended March 31, 2015, respectively, were not included in the computation of diluted net loss per common share due to their anti-dilutive effect. Such securities could have a dilutive effect in future periods.

Note 3. Bank Borrowings

On November 21, 2014, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, as administrative agent and the lenders party thereto ("Lenders"). The Credit Agreement provided for the extension of revolving loans ("Revolving Loans") in an aggregate principal amount not to exceed $10.0 million, and a term loan ("Term Loan") in an aggregate principal amount not to exceed $10.0 million, but in each case limited by an amount not to exceed 60% of our trailing twelve month recurring revenues from subscription and support fees attributable to software, as calculated under the Credit Agreement. The obligations under the Credit Agreement mature on November 21, 2019.

Borrowings under the Credit Agreement bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the applicable LIBOR rate, plus 4.75%. Borrowings under the Credit Agreement that are not LIBOR rate loans bear interest at a per annum rate equal to (i) the greatest of (A) the Federal Funds Rate plus 0.50%, (B) the one month LIBOR rate plus 1.00% per annum, and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association as its "prime rate," plus (ii) 3.75%.

We will pay certain recurring fees with respect to the Credit Agreement, including servicing fees to the administrative agent. Prior to the first anniversary of the closing date of the Credit Agreement voluntary repayments of the Term Loan, voluntary permanent reductions of the commitment related to the Revolving Loans and certain mandatory prepayments are subject a prepayment premium of 1.0% of the amount prepaid or reduced.

Subject to certain exceptions, the loans extended under the Credit Agreement are subject to customary mandatory prepayment provisions with respect to the following: net proceeds from certain asset sales; net proceeds from certain issuances or incurrences of debt (other than debt permitted to be incurred under the terms of the Credit Agreement); net proceeds of certain judgments, settlements and other claims or causes of action of us; and a portion with step-downs based upon the achievement of a financial covenant linked to the Leverage Ratio; as such term is defined in the Credit Agreement of our annual excess cash flow and our subsidiaries, and with such required prepayment amount to be reduced dollar-for-dollar by any voluntary prepayments of term loans.

The Credit Agreement contains customary representations and warranties, subject to limitations and exceptions, and customary covenants restricting our ability and our subsidiaries to: incur additional indebtedness; incur liens; engage in mergers or other fundamental changes; consummate acquisitions; sell certain property or assets; change the nature of their business; prepay or amend certain indebtedness; pay dividends, other distributions or repurchase our equity interests or our subsidiaries; make investments; or engage in certain transactions with affiliates. In addition, the Credit Agreement contains financial covenants which initially require us to achieve minimum EBITDA and liquidity levels. However, subject to the conditions of the Credit Agreement, once we have achieved (but in any event no earlier than June 30, 2016) a minimum Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of 1.50 to 1.00 and a Leverage

Table of Contents

Ratio of less than 2.50 to 1.00, we will be required to comply with a minimum Fixed Charge Coverage Ratio and a specific Leverage Ratio.

The Credit Agreement contains customary events of default, including with respect to: nonpayment of principal, interest, fees or other amounts; failure to perform or observe covenants; monetary judgment defaults; bankruptcy, insolvency and dissolution events; cross-default to other material indebtedness; material inaccuracy of a representation or warranty when made; failure to perfect a lien; actual or asserted invalidity or impairment of any definitive loan documentation or repudiation of guaranties; or a change of control.

On September 2, 2015, the Company entered into Amendment Number One (the "Amendment") to that certain Credit Agreement, dated as of November 21, 2014 (as further amended, restated, supplemented or otherwise modified from time to time), among the Company, the lenders, and Wells Fargo Bank, as administrative agent. Pursuant to the Amendment, the Company increased the total maximum revolving loan commitments thereunder from $10.0 million to $15.0 million and increased the quarterly amortization payments of the term loan under the Credit Agreement to $187,500 for the quarters ending September 30, 2015 through December 31, 2015 and $250,000 in each quarter ending thereafter. In connection with the Amendment, certain fees were also modified such that prior to the first anniversary of the Amendment, voluntary repayments of the Term Loan, voluntary permanent reductions of the commitment related to the Revolving Loans and certain mandatory prepayments will be subject a prepayment premium of 1.0% of the amount prepaid or reduced. The financial covenants concerning minimum EBITDA and liquidity levels contained in the Credit Agreement were modified in the Amendment as follows:

1. the Company is required to achieve minimum EBITDA of not more negative than $1.68 million for the three (3) month period ended September 30, 2015 and not more negative than $2.228 million for the six (6) month period ending December 31, 2015. Thereafter, minimum EBITDA levels will be based on amounts agreed to by the Company and the requisite lenders based upon annual projections delivered to the agent, and the failure to reach an agreement on reset minimum EBITDA levels acceptable to the agent in its sole discretion shall constitute an event of default under the Credit Agreement; and
2. the Company is required to achieve minimum liquidity of at least $5.5 million for the month ended September 30, 2015; $6.5 million for the month ending October 31, 2015, $7.5 million for the month ending November 30, 2015 and $10.0 million for the month ending December 31, 2015 and at all times thereafter.

As of March 31, 2016, we are in compliance with these financial covenant terms. Given the Company and Wells Fargo Bank have not finalized the basis for determining minimum EBITDA for the month ending March 31, 2016, there was no required minimum EBITDA value applicable for the period.

As of March 31, 2016 and June 30, 2015, balances on the Term Loan and Revolving Loans were (unaudited, in thousands):

	March 31, 2016	June 30, 2015
Bank Borrowings:		
Term Loan	$ 9,125	$ 9,750
Revolving Loan	9,865	9,500

Subtotal of bank borrowings	18,990	19,250
Less amounts representing deferred financing costs	(569)	(486)
Total bank borrowings	$	