EGAIN COMMUNICATIONS CORP
Form 10-Q
February 17, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2008

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

345 E. Middlefield, Mountain View, CA

(Address of principal executive offices)

94043

(Zip Code)

(650) 230-7500

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

Class	Outstanding at December 31, 2008
Common Stock $0.001 par value	22,213,223

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

eGAIN COMMUNICATIONS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, unaudited)

	December 31, 2008	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,805	$ 3,790
Restricted cash	13	13
Accounts receivable, net	5,540	2,749
Prepaid and other current assets	461	818
Total current assets	9,819	7,370
Property and equipment, net	928	1,230
Goodwill	4,880	4,880
Other assets	388	434
	$ 16,015	$ 13,914
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 1,009	$ 1,669
Accrued compensation	2,335	1,712
Accrued liabilities	1,412	1,632
Deferred revenue	5,082	4,871
Current portion of capital lease obligation	38	52
Current portion of bank borrowings	121	100
Total current liabilities	9,997	10,036
Deferred revenue, net of current portion	296	293
Capital lease obligation, net of current portion	35	78
Related party notes payable	7,185	13,283
Bank borrowings, net of current portion	3,178	3,192
Other long term liabilities	265	321
Total liabilities	20,956	27,203
Commitments and Contingencies (Notes 10 and 12)		
Stockholders deficit:		
Common stock	22	15
Additional paid-in capital	323,481	316,527
Notes receivable from stockholders	(75)	(74)
Accumulated other comprehensive loss	(553)	(494)
Accumulated deficit	(327,816)	(329,263)
Total stockholders deficit	(4,941)	(13,289)

	$	16,015	$	13,914

See accompanying notes

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eGAIN COMMUNICATIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Revenue:				
License	$ 3,529	$ 2,192	$ 5,128	$ 3,615
Support and services	6,060	5,933	12,600	10,981
Total revenue	9,589	8,125	17,728	14,596
Cost of license	19	20	38	40
Cost of support and services	2,579	2,920	5,420	5,595
Gross profit	6,991	5,185	12,270	8,961
Operating costs and expenses:				
Research and development	1,400	1,255	2,925	2,399
Sales and marketing	2,851	3,000	5,633	6,141
General and administrative	873	963	1,920	2,386
Total operating costs and expenses	5,124	5,218	10,478	10,926
Income / (loss) from operations	1,867	(33)	1,792	(1,965)
Interest expense, net	(335)	(402)	(820)	(806)
Other income (expense), net	341	(7)	365	35
Income / (loss) before income taxes	1,873	(442)	1,337	(2,736)
Benefit / (provision) for income taxes	96	10	110	(96)
Net income / (loss)	$ 1,969	$ (432)	$ 1,447	$ (2,832)
Per Share information:				
Basic net income / (loss) per common share	$ 0.09	$ (0.03)	$ 0.08	$ (0.18)
Diluted net income / (loss) per common share	$ 0.09	$ (0.03)	$ 0.08	$ (0.18)
Weighted average shares used in computing basic net income / (loss) per common share	22,213	15,332	19,035	15,328
Weighted average shares used in computing diluted net income / (loss) per common share	22,213	15,332	19,035	15,328

See accompanying notes

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eGAIN COMMUNICATIONS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended December 31, 2008	2007
Cash flows from operating activities:		
Net income / (loss)	$ 1,447	$ (2,832)
Adjustments to reconcile net income / (loss) to net cash used in operating activities:		
Depreciation	409	387
Loss on disposal of fixed assets	7	
Stock based compensation	172	127
Provisions for doubtful accounts and sales returns	163	34
Accrued interest and amortization of discount on related party notes	700	791
Changes in operating assets and liabilities:		
Accounts receivable	(4,032)	(1,831)
Prepaid and other current assets	263	66
Other assets	(37)	(149)
Accounts payable	(541)	60
Accrued compensation	859	(256)
Accrued liabilities	24	217
Deferred revenue	728	1,546
Other long term liabilities	(36)	(16)
Net cash provided by (used) in operating activities	126	(1,856)
Cash flows from investing activities:		
Purchases of property and equipment	(234)	(322)
Proceeds from sale of fixed assets	14	
Net cash used in investing activities	(220)	(322)
Cash flows from financing activities:		
Payments on borrowings	(55)	(4,278)
Proceeds from borrowings	63	5,129
Net proceeds from issuance of common stock		11
Net cash provided by financing activities	8	862
Effect of change in exchange rates on cash and cash equivalents	101	141
Net decrease in cash and cash equivalents	15	(1,175)
Cash and cash equivalents at beginning of period	3,790	6,195
Cash and cash equivalents at end of period	$ 3,805	$ 5,020
Supplemental cash flow disclosures:		
Cash paid for interest	$ 142	$ 56
Cash paid for taxes	$	$ 96

See accompanying notes

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eGAIN COMMUNICATIONS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2008, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet at June 30, 2008 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, 2009.

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. At December 31, 2008, we had $3.8 million of cash and cash equivalents on hand, a stockholders deficit of $4.9 million and an accumulated deficit of $327.8 million. Although we recorded $2.0 million of net income in the quarter ended December 31, 2008, our operating history shows our inability to consistently generate profits from operations. We anticipate that our current cash and cash equivalents will be sufficient to satisfy our working capital and capital requirements for at least through December 31, 2009. However, if our future operations do not generate sufficient revenues and operating profits to cover expenses, and if we are required to raise additional financing, we cannot assure that additional financing will be available on favorable terms, when needed, if at all. If we are unable to obtain any necessary additional financing, we may be required to further reduce the scope of our planned sales and marketing and product development efforts, which could materially and adversely affect our business, financial condition and operating results.

Note 2. Software Revenue Recognition

Revenue Recognition

We derive revenues from two sources: license fees and support and services. Support and services includes hosting, software maintenance and support and professional services. Maintenance and support consists of technical support and software upgrades and enhancements. Professional services primarily consist of consulting and implementation services and training. Significant management judgments and estimates are made and used to determine the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if different conditions were to prevail.

We apply the provisions of Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, (SOP 97-2) as amended by SOP No. 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, (SOP 98-9) 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 guidelines set forth in SOP 97-2, or for a hosting transaction, Emerging Issues Task Force Issue (EITF) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, (EITF 00-21). For fixed fee arrangements, the services revenues are recognized in accordance with the provisions of SOP No. 81-1, *Accounting for Performance of Construction Type and Certain Production Type Contracts*, (SOP 81-1) when reliable estimates are available for the costs and efforts necessary to complete the implementation services. When such estimates are not available, the completed contract method is utilized.

When licenses are sold together with system implementation and consulting services, license fees are recognized upon shipment, provided that (i) payment of the license fees is not dependent upon the performance of the consulting and implementation services, (ii) the services are available from other vendors, (iii) the services qualify for separate accounting as we have sufficient experience in providing such services, have

the ability to estimate cost of providing such services, and we have vendor specific objective evidence of pricing, and (iv) the services are not essential to the functionality of the software.

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

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License Revenue

We recognize license revenue when persuasive evidence of an arrangement exists, the product has been delivered, no significant obligations remain, the fee is fixed or determinable, and collection of the resulting receivable is probable. In software arrangements that include rights to multiple software products and/or services, we use the residual method under which revenue is allocated to the undelivered elements based on vendor specific objective evidence of the fair value of such undelivered elements. The residual amount of revenue is allocated to the delivered elements and recognized as revenue assuming all other criteria for revenue recognition have been met. Such undelivered elements in these arrangements typically consist of software maintenance and support, implementation and consulting services and in some cases hosting services.

Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction. We have standard payment terms included in our contracts. We assess collectability based on a number of factors, including the customer s past payment history and its current creditworthiness. If we determine that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

We periodically sell to resellers. License sales to resellers as a percentage of total revenue was approximately 21% and 1% for the three months ended December 31, 2008 and 2007, respectively. License sales to resellers as a percentage of total revenue was approximately 20% for the six months ended December 31, 2008 compared to 1% for the six months ended December 31, 2007. 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, the reseller s financial status, our past experience with the particular reseller and whether there are any return provisions, price protection or other allowances. Historically sales to resellers have not included any return provisions, price protections, or other allowances.

Professional Services Revenue

Included in support and services revenues are revenues derived from system implementation, consulting and training. For license transactions, the majority of our consulting and implementation services and accompanying agreements qualify for separate accounting. We use vendor specific objective evidence of fair value for the services and maintenance to account for the arrangement using the residual method, regardless of any separate prices stated within the contract for each element. Our consulting and implementation service contracts are bid either on a fixed-fee basis or on a time-and-materials basis. Substantially all of our contracts are on a time-and-materials basis. For time-and-materials contracts, where the services are not essential to the functionality, we recognize revenue as services are performed. If the services are essential to functionality, then both the product license revenue and the service revenues 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.

In August 2006, we entered into an OEM agreement with Cisco Systems. Under this agreement we supply unified communications technology for use in certain Cisco products. Pursuant to the agreement, there are certain minimum royalty payments due to us from Cisco based upon our successful delivery of certain milestones. The first major milestone was delivered and accepted in December 2006. The second major milestone was delivered and accepted in August 2007. This OEM agreement with Cisco includes multiple elements, including significant product customizations that are subject to Cisco s acceptance. We have determined that this arrangement should be accounted for under the contract accounting method per paragraph 74 of SOP 97-2. In addition, we have determined that no loss will be incurred in the arrangement; however, initially the lowest probable level of profit could not be determined and therefore, no profit had been recognized on this contract prior to the quarter ended September 30, 2008. In the quarter ended September 30, 2008, we changed our accounting estimate and established a minimum margin of 25% that was used in calculating revenue for this agreement. In the quarter ended December 31, 2008, we made a further change to our accounting estimate and increased the minimum margin to 35%. These changes were a result of increased royalties received from Cisco and an update to the estimate of costs remaining to complete the final milestones per the agreement. The change in accounting estimate resulted in a revenue increase of $480,000 and $1.2 million for the three and six months ended December 31, 2008, respectively, and an increase to our net income by $0.02 per share and $0.01 per share for the corresponding periods. Revenue from this arrangement as a percentage of total revenue was approximately 8% and 5% for the three months ended December 31, 2008 and 2007, respectively, and is all related to professional services revenue. Revenue from this arrangement as a percentage of total revenue was approximately 9% and 4% for the six months ended December 31, 2008 and 2007, respectively. We do not expect the impact of this change in accounting estimate to have a material impact on future periods.

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

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

Hosting Services Revenue

Included in support and services revenues are revenues derived from our hosted service offerings. We recognize hosting services revenue ratably over the period of the applicable agreement as services are provided. Hosting agreements typically have an initial term of one or two years and automatically renew unless either party cancels the agreement. The majority of the hosting services customers purchase a combination of our hosting service and professional services. In some cases the customer may also acquire a license for the software.

We evaluate whether each of the elements in these arrangements represents a separate unit of accounting, as defined by EITF 00-21, 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, (iii) there is objective reliable evidence of the fair value of the undelivered item, and (iv) there is a general right of return. We consider the applicability of EITF No. 00-03, *Application of SOP 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity s Hardware,* (EITF 00-03) on a contract-by-contract basis. In hosted term-based agreements, where the customer does not have the contractual right to take possession of the software, the revenue is recognized on a monthly basis over the term of the contract. Invoiced amounts are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For professional services that we determine do not have stand-alone value to the customer, we recognize the services revenue ratably over the longer of the remaining contractual period or the remaining estimated life of the customer hosting relationship, once hosting has gone live. We currently estimate the life of the customer hosting relationship to be approximately 23 months, based on the average life of all hosting customer relationships.

We consider a software element covered by SOP 97-2 to exist when we determine that the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty, and can feasibly run the software on its own hardware or enter into another arrangement with a third party to host the software. When a software element exists in a hosting services arrangement, we recognize the license, professional services and hosting services revenues pursuant to SOP 97-2. We have established vendor specific objective evidence for the hosting and support elements of perpetual license sales, based on the prices charged when sold separately and substantive renewal terms. Accordingly, revenue for the perpetual software license element is determined using the residual method and is recognized upon delivery. Revenue for the hosting and support elements is recognized ratably over the contractual time period. Professional services are recognized as described above under Professional Services Revenue. If evidence of fair value cannot be established for the undelivered elements of an agreement, the entire amount of revenue from the arrangement is recognized ratably over the period that these elements are delivered.

Maintenance and Support Revenue

Included in support and services revenues are revenues derived from maintenance and support. 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.

Note 3. Stock-Based Compensation

Under Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, (SFAS 123R) the stock based compensation expense in our condensed consolidated statement of operations for the three months ended December 31, 2008 and 2007 was $89,000 and $74,000, and for the six months ended December 31, 2008 and 2007 was $172,000 and $127,000, respectively.

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

	Three months ended December 31,		**Six months ended December 31,**	
	2008	**2007**	**2008**	**2007**
Cost of support and services	$ 7	$ 9	$ 15	$ 20
Research and development	11	17	25	28
Sales and marketing	6	20	15	42
General and administrative	65	28	117	37

Total stock-based compensation expense	$ 89	$ 74	$ 172	$ 127

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We utilized the Black-Scholes valuation model for estimating the fair value of the stock based compensation granted after the adoption of SFAS 123R. 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 on Form S-8. Options granted during the three months ended December 31, 2008 and 2007, were 54,000 and 310,450, with a weighted-average fair value of $0.30 and $0.89, respectively. Options granted during the six months ended December 31, 2008 and 2007 were 84,000 and 446,300, with a weighted-average fair value of $0.37 and $0.88, respectively, using the following assumptions:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Dividend yield				
Expected volatility	80%	92%	80%	92%
Average risk-free interest rate	2.41%	3.88%	2.72%	4.09%
Expected life (in years)	6.25	6.25	6.25	6.25

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. 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.

In developing our estimate of expected life, we determined that our historical share option exercise experience does not provide a reasonable basis upon which to estimate expected life. In addition, estimating life based on the expected terms of options granted by other, similar companies with similarly structured awards was considered but data was not readily available to arrive at reliable estimates. We therefore used the technique commonly referred to as the simplified method. In Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*, (SAB 107) the SEC staff described a temporary simplified method to develop the estimate of the expected life of a plain vanilla employee stock option. Under this approach, the expected life would be presumed to be the mid-point between the vesting date and the end of the contractual term. In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110 (SAB 110), an amendment of SAB 107. SAB 110 states that the staff will continue to accept, under certain circumstances, the continued use of the simplified method .

Based on our historical experience of option pre-vesting cancellations, we have assumed an annualized 14% forfeiture rate for our options. Under the true-up provisions of SFAS 123R, we will record additional expense if the actual forfeiture rate is lower than we estimated, and will record a recovery of prior expense if the actual forfeiture is higher than what we estimated.

Total compensation cost of all options granted but not yet vested as of December 31, 2008 was $92,000, which is expected to be recognized over the weighted average period of 2.72 years. Options exercised were 0 and 9,871 for the three months ended December 31, 2008 and 2007, respectively, and for the six months ended December 31, 2008 and 2007 were 0 and 11,139, respectively. There is no tax benefit related to these options exercised.

Note 4. Net Income / (Loss) Per Common Share

Basic net income / (loss) per common share is computed using the weighted-average number of shares of common stock outstanding.

The following table sets forth a reconciliation of shares used in calculating basic and diluted earnings per share (unaudited, in thousands, except per share data):

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Net income/ (loss) applicable to common stockholders	$ 1,969	$ (432)	$ 1,447	$ (2,832)
Weighted-average common shares used in computing basic net income / (loss) per common share	22,213	15,332	19,035	15,328
Weighted-average common shares used in computing diluted net income / (loss) per common share	22,213	15,332	19,035	15,328

Basic net income / (loss) per common share	$ 0.09	$ (0.03)	$ 0.08	$ (0.18)
Diluted net income / (loss) per common share	$ 0.09	$ (0.03)	$ 0.08	$ (0.18)

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Outstanding options and warrants to purchase 4,239,989 and 4,239,714 shares of common stock for the three and six months ended December 31, 2008, respectively, were not included in the computation of diluted net income per common share for the periods presented due to their exercise price exceeding the average market price of the common stock during the periods. Such securities could have a dilutive effect in future periods.

Outstanding options and warrants to purchase 2,775,232 shares of common stock for the three and six months ended December 31, 2007, respectively, were not included in the computation of diluted net (loss) per common share for the periods presented due to their anti-dilutive effect. Such securities could have a dilutive effect in future periods.

Note 5. Comprehensive Income / (Loss)

eGain reports comprehensive income / (loss) and its components in accordance with SFAS No. 130, *Reporting Comprehensive Income,* (SFAS 130). Under SFAS 130, comprehensive income includes all changes in equity during a period except those resulting from investments by or distributions to owners. The comprehensive income was $1.9 million for the quarter ended December 31, 2008 as compared to a comprehensive loss of $379,000 for the same quarter ended December 31, 2007. Comprehensive income was $1.4 million for the six months ended December 31, 2008 as compared to a comprehensive loss of $2.8 million for the six months ended December 31, 2007. Accumulated other comprehensive income / (loss) presented in the accompanying consolidated balance sheets at December 31, 2008 consists solely of accumulated foreign currency translation adjustments.

The table below summarizes the information (unaudited , in thousands):

	Three months ended December 31,		**Six months ended December 31,**	
	2008	**2007**	**2008**	**2007**
Net income / (loss)	$ 1,969	$ (432)	$ 1,447	$ (2,832)
Foreign currency translation adjustments	(100)	53	(55)	48
Comprehensive income / (loss)	$ 1,869	$ (379)	$ 1,392	$ (2,784)

Note 6. Segment Information

We operate in one segment, the development, license, implementation and support of our customer service infrastructure 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-makers, as defined under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, (SFAS 131) 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.

Information relating to our geographic areas is as follows (unaudited, in thousands):

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2008	**2007**	**2008**	**2007**
Total Revenue:				
North America	$ 3,726	$ 3,833	$ 7,867	$ 8,164
Europe	5,812	4,247	9,739	6,327
Asia Pacific	51	45	122	105
	$ 9,589	$ 8,125	$ 17,728	$ 14,596

Operating Income (Loss):

North America	$ (62)	$ (357)	$ 107	$ (430)
Europe	2,644	1,186	3,240	161
Asia Pacific*	(715)	(862)	(1,555)	(1,696)
	$ 1,867	$ (33)	$ 1,792	$ (1,965)

* Includes costs associated with corporate support.

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

	December 31, 2008	December 31, 2007
North America	$ 4,011	$ 6,281
Europe	6,298	3,827
Asia Pacific	826	1,045
	$ 11,135	$ 11,153

The following table provides revenue for the three months ended December 31, 2008 and 2007 and six months ended December 31, 2008 and 2007 (unaudited, in thousands):

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
Revenue :				
License	$ 3,529	$ 2,192	$ 5,128	$ 3,615
Hosting services	1,616	1,398	3,236	2,676
Maint & Support services	2,021	2,329	4,512	4,508
Professional services	2,423	2,206	4,852	3,797
	$ 9,589	$ 8,125	$ 17,728	$ 14,596

For the three months ended December 31, 2008, there were two customers that accounted for 21% and 11% of total revenue respectively and there was one customer that accounted for 12% of total revenue in the comparable year-ago quarter. For the six months ended December 31, 2008 there was one customer that accounted for 11% of total revenue and there was no customer that accounted for more than 10% of total revenue for the same period last year.

Note 7. Related Party Notes Payable

On December 24, 2002, we entered into a note and warrant purchase agreement with Ashutosh Roy, our Chief Executive Officer, as amended, pursuant to which Mr. Roy made loans to us evidenced by subordinated secured promissory notes and received warrants to purchase shares of our common stock in connection with each of such loans. The five year subordinated secured promissory note bears interest at an effective annual rate of 12% due and payable upon the term of such note. We have the option to prepay each note at any time subject to the prepayment penalties set forth in such note. On December 31, 2002, Mr. Roy loaned us $2.0 million under the agreement and received warrants that allow him to purchase up to 236,742 shares of our common stock at an exercise price equal to $2.11 per share. These warrants expired in December 2005. In connection with this loan, we recorded $1.83 million in related party notes payable and $173,000 of discount on the note related to the relative value of the warrants issued in the transaction that will be amortized to interest expense over the five year life of the note. The fair value of these warrants was determined using the Black-Scholes valuation method with the following assumptions: an expected life of three years, an expected stock price volatility of 75%, a risk free interest rate of 2%, and a dividend yield of 0%.

On October, 31, 2003, we entered into an amendment to the 2002 note and warrant purchase agreement with Mr. Roy, pursuant to which he loaned to us an additional $2.0 million and received additional warrants to purchase up to 128,766 shares at $3.88 per share. These warrants expired in October 2008. In connection with this additional loan we recorded $1.8 million in related party notes payable and $195,000 of discount on the notes related to the relative value of the warrants issued in the transaction that will be amortized to interest expense over the five year life of the note. The fair value of these warrants was determined using the Black-Scholes valuation method with the following assumptions: an expected life of three years, an expected stock price volatility of 75%, a risk free interest rate of 2.25%, and a dividend yield of 0%. These notes were amended and restated on September 24, 2008.

On March 31, 2004, we entered into a note and warrant purchase agreement with Mr. Roy, Oak Hill Capital Partners L.P., Oak Hill Capital Management Partners L.P., and FW Investors L.P. (the lenders) pursuant to which the lenders loaned to us $2.5 million evidenced by secured promissory notes and received warrants to purchase shares of our common stock in connection with such loan. The secured promissory notes

have a term of five years and bear interest at an effective annual rate of 12% due and payable upon the maturity of such notes. The warrants allowed the lenders to purchase up to 312,500 shares at an exercise price of $2.00 per share. These warrants expired in March 2007. We recorded $2.3 million in related party notes payable and $223,000 of discount on the notes related to the relative value of the warrants issued in the transaction that will be amortized to interest expense over the five year life of the notes. The fair value of these warrants was determined using the Black-Scholes valuation method with the following assumptions: an expected life of three years, an expected stock price volatility of 75%, a risk free interest rate of 1.93%, and a dividend yield of 0%. These notes were amended and restated on September 24, 2008.

On June 29, 2007, we amended and restated the 2002 and 2003 notes with Mr. Roy and he loaned to us an additional $2.0 million and received additional warrants that allowed him to purchase up to 333,333 shares at $1.20 per share. In connection with this additional loan we recorded $1.8 million in related party notes payable and $187,000 discount on the notes related to the relative value of the warrants issued in the transaction that will be amortized to interest expense over the life of the note. The fair value of these warrants was determined using the Black-Scholes valuation method with the following assumptions: an expected life of three years, an expected stock price volatility of 75%, a risk free interest rate of 4.28%, and a dividend yield of 0%. In addition, the amendment extended the maturity date of the previous notes through March 31, 2009. As of December 31, 2008, warrants to purchase 333,333 shares of common stock were vested and outstanding. These notes were amended and restated on September 24, 2008

On September 24, 2008, we entered into a Conversion Agreement and Amendment to Subordinated Secured Promissory Notes (the Agreement) with the lenders. Immediately prior to the Agreement, the total outstanding indebtedness, including accrued interest, under the prior notes equaled $13.8 million. Pursuant to the Agreement and subject to the terms and conditions contained therein, we and the lenders have (i) converted a portion of the outstanding indebtedness under the prior notes equal to $6.5 million into shares of our common stock at a price per share equal to $0.95, or at a fair value of $3.4 million (the Note Conversion), and (ii) extended the maturity date of the remaining outstanding indebtedness of $7.3 million to March 31, 2012, as well as the period for which interest shall accrue (the Note Extension). In consideration for the Note Extension, the lenders received warrants to purchase an aggregate of 1,525,515 shares of our common stock at a price per share equal to $0.95 and as a result, we recorded $272,000 of discount on the notes. In addition, we recorded the $3.1 million gain on the Note Conversion as a deemed contribution to capital since the lenders are related parties. The principal and interest due on the loans as of December 31, 2008 was $7.2 million, and warrants to purchase 1,858,848 shares of common stock issued were vested and outstanding.

Note 8. Bank Borrowings

On June 27, 2008, we entered into a Loan and Security Agreement (the Bridge Bank Credit Facility) with Bridge Bank, N. A. (Bridge Bank). Our obligations under the Bridge Bank Credit Facility are secured by a lien on our assets including intellectual property. Holders of certain outstanding secured promissory notes have subordinated their security interests to those of the Bridge Bank pursuant to a Subordination Agreement dated as of June 24, 2008. The Bridge Bank Credit Facility provides for the advance of up to the lesser of $3.0 million under a revolving line of credit, or the sum of (i) 80% of certain qualified receivables, (ii) 75% of cash on deposit with Bridge Bank, (iii) the lesser of $1.5 million or 60% of eligible unbilled license and hosting contracts, less (iv) the amount of any outstanding obligations to Bridge Bank. The revolving credit line has a maturity date of June 24, 2010 and bears interest at a rate of prime plus 0.5% per annum, provided that we maintain an average monthly cash balance of $1 million (the Required Balance), or the rate will be increased to a rate of prime plus 1%. As of December 31, 2008 the outstanding balance under the Bridge Bank Credit Facility was $3.0 million, and the interest rate was 4.25%. The Bridge Bank Credit Facility also provides up to $300,000 to pay off existing obligations to another bank (the Bridge Bank Term Loan) and is payable in thirty six equal monthly payments of principal and interest. As of December 31, 2008 the amount outstanding under the Bridge Bank Term Loan Line was $242,000 with an interest rate of 4.75%. In addition, the Bridge Bank Credit Facility allows for an advance of up to $300,000 to be used to finance equipment purchases (the Bridge Bank Equipment Line) which must be repaid in 30 equal monthly payments of principal and interest, commencing on the tenth day of the first month following the date the advance is made, and continuing for each succeeding month. Terms for both the Bridge Bank Term Loan and the Bridge Bank Equipment Line include: (i) interest that accrues from the date of each advance at a rate of prime plus 1% per annum, provided that we maintain the Required Balance, or the rate will be increased to a rate of prime plus 1.5% (ii) once repaid, amounts cannot be reborrowed and (iii) a maturity date of June 24, 2011. As of December 31, 2008 the balance under the Bridge Bank Equipment Line was $58,000, and the interest rate was 4.75%. There are financial covenants under this Bridge Bank Credit Facility that require us to meet certain revenue performance and net loss excluding non-cash charges requirements. If we fail to comply with our covenants under the Bridge Bank Credit Facility, Bridge Bank can declare any outstanding amounts immediately due and payable and cease advancing money or extending credit to us. As of December 31, 2008 we were compliant with these financial covenants.

Note 9. Income Taxes

Income taxes are accounted for using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes,* (SFAS 109). Under this method, deferred tax liabilities and assets are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded to reduce deferred tax assets to an amount where realization is more likely than not.

In June 2006, the FASB issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 on July 1, 2007 and the adoption of FIN 48 did not have a material impact on our financial positions, results of operations or cash flows. Our tax provision consists of foreign and state income taxes.

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Note 10. Commitments

We generally warrant that the program portion of our software will perform substantially in accordance with certain specifications for a period up to 180 days. Our liability for a breach of this warranty is either a return of the license fee or providing a fix, patch, work-around or replacement of the software.

We also provide standard warranties against and indemnification for the potential infringement of third party intellectual property rights to our customers relating to the use of our products, as well as indemnification agreements with certain officers and employees under which we may be required to indemnify such persons for liabilities arising out of their duties to us. The terms of such obligations vary. Generally, the maximum obligation is the amount permitted by law.

Historically, costs related to these warranties have not been significant, however we cannot guarantee that a warranty reserve will not become necessary in the future.

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

Note 11. New Accounting Pronouncements

In April 2008 FASB issued FASB Staff Position (FSP) FAS No. 142-3 *Determination of Useful Life of Intangible Assets (FSP 142-3).* FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of FSP 142-3 on our consolidated financial position and results of operation.

In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which partially defers the effective date of SFAS No. 157. We are currently assessing the impact of SFAS 157-2 on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), *Business Combinations* and SFAS No. 160 (SFAS 160), *Noncontrolling interests in Consolidated Financial Statements*, an amendment of *Accounting Research Bulletin* No. 51. SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. We are currently assessing the impact of SFAS 141R and SFAS 160 on our financial statements.

Note 12. Litigation

Beginning on October 25, 2001, a number of securities class action complaints were filed against us, and certain of our then officers and directors and underwriters connected with our initial public offering of common stock in the U.S. District Court for the Southern District of New York (*consolidated into In re Initial Public Offering Sec. Litig.*). The complaints alleged generally that the prospectus under which such securities were sold contained false and misleading statements with respect to discounts and excess commissions received by the underwriters as well as allegations of laddering whereby underwriters required their customers to purchase additional shares in the aftermarket in exchange for an allocation of IPO shares. The complaints sought an unspecified amount in damages on behalf of persons who purchased the common stock between September 23, 1999 and December 6, 2000. Similar complaints were filed against 55 underwriters and more than 300 other companies and other individuals. The over 1,000 complaints were consolidated into a single action. We reached an agreement with the plaintiffs to resolve the cases as to our liability and that of our officers and directors. The settlement involved no monetary payment or other consideration by us or our officers and directors and no admission of liability. On August 31, 2005, the court issued an order preliminarily approving the settlement and setting a public hearing on its fairness for April 24, 2006 (the postponement from January 2006 to April 2006 was because of difficulties in mailing the required notice to class members). On October 27, 2005, the court issued an order making some minor

changes to the form of notice to be sent to class members. On January 17, 2006, the court issued an order modifying the preliminary settlement approval order to extend the time within which notice must be given to the class, which time had expired on January 15, 2006. The underwriter defendants filed further objections to the settlement on March 20, 2006 and asked that the April 24, 2006 final settlement approval hearing be postponed until after the Second Circuit Court rules on the underwriters appeal from the Court s class certification order (which appeal is briefed and awaiting oral argument). On March 29, 2006, the Court denied the request, stating that it would address the underwriters points at the April 24, 2006 hearing. On April 24, 2006, the Court held a public hearing on the fairness of the proposed settlement. Meanwhile the consolidated case against the underwriters has proceeded. In October 2004, the district court certified a class. On December 5, 2006, however, the Second Circuit reversed, holding that a class could not be certified. *In re Initial Public Offering Sec. Litig.,* 471 F.3d 24 (2d Cir. 2006). The Second Circuit s holding, while directly affecting only the underwriters, raised some doubt as to whether the settlement class contemplated by the proposed issuer settlement will be approved in its present form. A petition for rehearing was filed January 5, 2007. The court of appeals denied a petition for rehearsing on April 6, 2007. On June 25, 2007, the district court entered a stipulated order terminating the proposed issuer settlement. Plaintiffs are proceeding with discovery as to underwriters and issuers, although principally with respect to focus or test cases that do not name the Company as a defendant. Defendants moved to dismiss the focus cases; on March 26, 2008, the court largely denied that motion. The court set a briefing schedule for a new class certification motion with respect to the focus cases; and that motion was then briefed. On October 10, 2008, however, the court signed an order allowing plaintiffs to withdraw that motion without prejudice to its being re-filed later. We have not accrued any liability or expect the outcome of this litigation to have a material impact on our financial condition.

With the exception of this matter, we are not a party to any other material pending legal proceedings, nor is our property the subject of any material pending legal proceeding, except routine legal proceedings arising in the ordinary course of our business and incidental to our business, none of which are expected to have a material adverse impact, as taken individually or in the aggregate, upon our business, financial position or results of operations. However, even if these claims are not meritorious, the ultimate outcome of any litigation is uncertain, and it could divert management s attention and impact other resources.

Note 13. Fair Value Measurement.

On July 1, 2008, we adopted SFAS No. 157, *Fair Value Measurement*, (SFAS 157) which defines fair value, establishes a framework for measuring fair value to measure assets and liabilities, and expands disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings or other comprehensive income when they occur. SFAS 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, for which application has been deferred for one year by the issuance of FASB Staff Position 157-2.

SFAS 157 includes a fair value hierarchy, of which the first two are considered observable and the last unobservable, that is intended to increase the consistency and comparability in fair value measurements and related disclosures. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity s pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

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

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

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

The adoption of this statement with respect to our financial assets and liabilities, did not impact our consolidated results of operations, but required additional disclosure. The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS 157 as of December 31, 2008 (unaudited, in thousands):

	Balance as of December 31, 2008	Quoted Prices Active Markets of Identical Assets (Level 1)

Assets:				
Cash equivalents	$	3,805	$	3,805
Liabilities	$		$	

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As of December 31, 2008 we did not have any Level 2 or 3 assets or liabilities.

On July 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS 159). SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. We did not elect to adopt the fair value option under SFAS 159.

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

This report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements that involve risks and uncertainties. These statements may be identified by the use of the words such as anticipates, believes, continue, could, would, estimates, forecasts, expects, intends, may, might, plans, potential, predicts, should, or will and similar expressions or the negative of those terms. The forward-looking statements include, but are not limited to, risks stemming from: the uncertainty of demand for eGain products including our guidance regarding bookings and revenue; the anticipated customer benefits from eGain products; the actual mix in new business between hosting and license transactions when compared with management s projections; the increased complexity of certain transactions and the timing of revenue recognition on such transactions; the anticipated benefits to eGain from the Cisco OEM agreement; the ability to increase revenues as a result of the increased investment in sales and marketing; increased competition and technological changes in the markets in which eGain competes; and eGain s ability to continue to innovate; and eGain s ability to manage its expenditures; and currency fluctuations. 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 and uncertainties which may cause actual results to differ materially from those expressed or implied by the forward-looking statements, such as, without limitation, factors affecting our quarterly results, the volatility in the market, our ability to successfully forecast our sales cycles, our ability to develop a market for our product and services and generate revenue, our ability to successfully forecast our revenues, our ability to control and forecast costs and expenses, our ability to control and forecast our capital needs and cash flow, our customer relationships, our ability to adequately forecast demand for our products, our ability to compete successfully, the impact of our legal proceedings, and other risks discussed in Risk Factors in this report and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008. These forward-looking statements represent our estimates and assumptions and *speak only as of the date hereof. We expressly disclaim any obligation or understanding to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based*.

Overview

We are a pioneer in, and a leading provider of, customer service and contact center software that enables companies to build customer interaction hubs. These hubs provide an innovative approach to customer service by reducing customer service costs while enhancing customer experience within and across interaction channels by centralizing interaction history, knowledge management, business rules, analytics, and workflow and application management in one platform. 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. The company was incorporated in Delaware in September 1997.

Critical Accounting Policies and Estimates

Our critical accounting policies are those that both (1) are most important to the portrayal of the financial condition and results of operations and (2) require management s most difficult, subjective, or complex judgments, often requiring estimates about matters that are inherently uncertain. Except for income taxes, there have been no material changes from the methodology applied by management for critical accounting estimates previously disclosed in our most recent Annual Report on Form 10-K. The methodology applied to management s estimate for income taxes has changed due to the implementation of a new accounting pronouncement FIN 48.

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Results of Operations

The following table sets forth the results of operations for the periods presented (unaudited), expressed as a percentage of total revenue:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Revenue:				
License	37%	27%	29%	25%
Support and Services	63%	73%	71%	75%
Total revenue	100%	100%	100%	100%
Cost of license	0%	0%	0%	0%
Cost of support and services	27%	36%	31%	38%
Gross profit	73%	64%	69%	62%
Operating costs and expenses:				
Research and development	15%	15%	16%	16%
Sales and marketing	30%	37%	32%	42%
General and administrative	9%	12%	11%	16%
Total operating costs and expenses	54%	64%	59%	75%
Income / (loss) from operations	19%	0%	10%	(13)%

Revenues

Total revenue increased 18% to $9.6 million in the quarter ended December 31, 2008 from $8.1 million in the quarter ended December 31, 2007. During the three months ended December 31, 2008, there were two customers that accounted for 21% and 11% of total revenue respectively and there was one customer that accounted for 12% of total revenue in the comparable year-ago quarter. Total revenue for the six months ended December 31, 2008 increased 21% to $17.7 million, compared to $14.6 million in the same period last year. During the six months ended December 31, 2008, there was one customer that accounted for 11% of total revenue and there was no customer that accounted for more than 10% of total revenue in the same period last year. The impact of the foreign exchange fluctuation between the U.S. dollar and European currencies resulted in decreases of $2.0 million and $ 2.2 million in total revenue for the three and six months ended December 31, 2008, respectively, as compared to the same periods last year.

There is general unpredictability of the length of our current sales cycles, the timing of revenue recognition on more complex license transactions and seasonal buying patterns. This unpredictability has increased in recent months due to the global economic slowdown and the increased volatility of the value of U.K. pound and Euro in relation to the U.S. dollar. Also, because we offer a hybrid delivery model, the mix of new hosting and license business in a quarter could also have an impact on our revenue in a particular quarter. We are continuing to see the mix of license and hosting business fluctuate from quarter to quarter. The value of new hosting transactions, as a percentage of combined new hosting and license business was 15% for the quarter ended December 31, 2008 compared to 18% for the comparable year-ago quarter. The value of new hosting transactions, as a percentage of combined new hosting and license business was 25% for the six months ended December 31, 2008 compared to 40% for the comparable year-ago period. For license transactions, the license revenue amount is generally recognized in the quarter which delivery and acceptance of our software takes place whereas, for hosting transactions, hosting revenue is recognized ratably over the term of the hosting contract, which is typically one to two years. As a result, our total revenue may increase or decrease in future quarters as a result of the timing and mix of license and hosting transactions.

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License

(in thousands)	Three Months Ended December 31, 2008	2007	Change	%	Six Months Ended December 31, 2008	2007	Change	%
Revenue:								
License	$ 3,529	$ 2,192	$ 1,337	61%	$ 5,128	$ 3,615	$ 1,513	42%
Percentage of total revenue	37%	27%			29%	25%		

License revenue increased 61% to $3.5 million in the quarter ended December 31, 2008 from $2.2 million in the quarter ended December 31, 2007. License revenue in the quarter was negatively impacted by $1.3 million due to the strengthening of the U.S. dollar against the European currencies in which certain licenses were denominated. The license revenue for the quarter included three large transactions totaling approximately $3.3 million compared to a total of $1.6 million from two large transactions in the comparable year-ago quarter. License revenue represented 37% and 27% of total revenue for the quarters ended December 31, 2008 and 2007, respectively.

License revenue increased 42% to $5.1 million for the six months ended December 31, 2008 from $3.6 million in the same period last year. License revenue for the six months ended December 31, 2008 was negatively impacted by $1.4 million due to the strengthening of the U.S. dollar against the European currencies in which certain licenses were denominated. License revenue represented 29% and 25% of total revenue for the six months ended December 31, 2008 and 2007, respectively.

Given the general unpredictability of the length of current sales cycles, the mix between hosting and license business, the uncertainty in the global economy and the recent volatility of the value of U.K. pound and Euro in relation to the U.S. dollar, license revenue may increase or decrease in future periods.

Support and Services

(in thousands)	Three Months Ended December 31, 2008	2007	Change	%	Six Months Ended December 31, 2008	2007	Change	%
Revenue:								
Hosting services	$ 1,616	$ 1,398	$ 218	16%	$ 3,236	$ 2,676	$ 560	21%
Maint. and support services	2,021	2,329	(308)	(13)%	4,512	4,508	4	0%
Professional services	2,423	2,206	217	10%	4,852	3,797	1,055	28%
Total support and services	$ 6,060	$ 5,933	$ 127	2%	$ 12,600	$ 10,981	$ 1,619	15%
Percentage of total revenue	63%	73%			71%	75%		

Support and services revenue includes hosting, software maintenance and support and professional services. Software maintenance and support services consist of technical support and software upgrades and enhancements. Professional services primarily consist of consulting and implementation services and training. Support and services revenue increased 2% to $6.1 million in the quarter ended December 31, 2008 from $5.9 million in the quarter ended December 31, 2007. Support and services revenue represented 63% and 73% of total revenue for the quarters ended December 31, 2008 and 2007, respectively.

Support and services revenue for the six months ended December 31, 2008 increased 15% to $12.6 million, compared to $11.0 million in the same period last year. The increase was primarily driven by the increase in professional services. Support and services revenue represented 71% and 75% of total revenue for the six months ended December 31, 2008 and 2007, respectively.

Hosting revenue increased 16% to $1.6 million in the quarter ended December 31, 2008 from $1.4 million in the quarter ended December 31, 2007. Without the $170,000 impact of the U.S. dollar strengthening compared to the European currencies, hosting revenue would have increased by $387,000 or 28% for the quarter ended December 31, 2008. Hosting revenue for the six months ended December 31, 2008 increased 21% to $3.2 million, compared to $2.7 million in the quarter ended December 31, 2007. Without the $203,000 impact of the U.S. dollar strengthening compared to the European currencies, hosting revenue would have increased by $762,000 or 28% for the six months ended December 31, 2008. We entered into three new large hosting contracts in the last four quarters that are generating approximately $318,000 of additional revenue per quarter. Excluding the impact from any further foreign currency fluctuations, we expect hosting revenue to remain relatively constant in future

periods based upon current renewal rates for major existing hosted customers, and the global economic slowdown.

Maintenance and support revenue decreased 13% to $2.0 million in the quarter ended December 31, 2008 from $2.3 million in the quarter ended December 31, 2007. Without the $279,000 impact of the U.S. dollar strengthening compared to the European currencies, maintenance and support revenue would have decreased by $29,000 or 1% for the quarter ended December 31, 2008. Maintenance and support revenue for the six months ended December 31, 2008 was unchanged at $4.5 million when compared to the

same period last year. Without the $359,000 impact of the U.S. dollar strengthening compared to the European currencies, maintenance and support revenue would have increased by $362,000 or 8% for the six months ended December 31, 2008. The increase for the six months without the impact of currency fluctuation was primarily due to the new license sales in the last few quarters. Excluding the impact from any future foreign currency fluctuations, we expect maintenance and support revenue to remain relatively constant in future periods based upon the current renewal rates for existing maintenance and support customers and the projected levels of new license sales.

Professional services revenue increased 10% to $2.4 million in the quarter ended December 31, 2008 from $2.2 million in the quarter ended December 31, 2007. Without the $225,000 impact of the U.S. dollar strengthening compared to the European currencies, professional services revenue would have increased by $442,000 or 20% for the quarter ended December 31, 2008. Professional services revenue for the six months ended December 31, 2008 increased 28% to $4.9 million, from $3.8 million in the same period last year. Without the $256,000 impact of the U.S. dollar strengthening compared to the European currencies, professional services revenue would have increased by $1.3 million or 34% for the six months ended December 31, 2008. The increase for the three months and six months ended December 31, 2008 was primarily due to an increase in revenue from the OEM agreement we entered into with Cisco Systems in fiscal year 2006. The OEM agreement included multiple elements, including significant product customizations that were subject to Cisco s acceptance. We have determined that this arrangement should be accounted for under the contract accounting method per paragraph 74 of SOP 97-2. In addition, we have determined that no loss will be incurred in the arrangement; however, initially the lowest probable level of profit could not be determined and therefore, no profit had been recognized on this contract prior to the quarter ended September 30, 2008. In the quarter ended September 30, 2008, we established a minimum margin of 25% that is used in calculating revenue for this agreement, resulting in a change in accounting estimate. The minimum margin increased from 25% to 35% in the quarter ended December 31, 2008. The change results from increased royalties received from Cisco and an update to the estimate of costs remaining to complete the final milestones per the agreement. The change in accounting estimate resulted in a revenue increase of $480,000 and $1.2 million for the three and six months ended December 31, 2008, respectively and an increase to our net income by $0.02 per share and $0.01 per share for the corresponding periods. Revenue from this arrangement as a percentage of total revenue was approximately 8% and 5% for the three months ended December 31, 2008 and 2007, respectively, and is all related to professional services revenue. Revenue from this arrangement as a percentage of total revenue was approximately 9% and 4% for the six months ended December 31, 2008 and 2007, respectively. Excluding the impact from any future foreign currency fluctuations and the services related to the Cisco OEM agreement we expect professional services revenue to remain relatively constant in future periods.

Cost of Revenues

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	**2008**	**2007**	**Change**	**%**	**2008**	**2007**	**Change**	**%**
Cost of Revenues	$ 2,598	$ 2,940	$ (342)	(12)%	$ 5,458	$ 5,635	$ (177)	(3)%
Percentage of total revenue	27%	36%			31%	39%		

Total cost of revenue decreased 12% to $2.6 million in the quarter ended December 31, 2008 from $2.9 million in the quarter ended December 31, 2007. Total cost of revenue represented 27% and 36% of total revenues in the quarter ended December 31, 2008 and 2007, respectively. The decrease was primarily due to (i) a decrease in international subsidiaries expenses of approximately $314,000 from the strengthening of the U.S. dollar against the European and Indian currencies, (ii) a decrease of $166,000 for the services performed by research and development personnel in connection with the Cisco OEM agreement, (iii) a decrease in outside consulting expense of $58,000 which was partially offset by an increase in personnel and personnel-related expenses of $204,000 from additional headcount. Gross margin for the quarter ended December 31, 2008 was 73% compared to 64% in the comparable year-ago quarter. The increase in gross margin was primarily due to the decrease in our cost of support and services.

Total cost of revenue for the six months ended December 31, 2008 decreased 3% to $5.5 million, compared to $5.6 million in the same period last year. Total cost of revenue represented 31% and 39% of total revenues for the six months ended December 31, 2008 and 2007, respectively. The decrease was primarily due to a decrease in international subsidiaries expenses of approximately $407,000 from the strengthening of the U.S. dollar against the European and Indian currencies and a decrease of $195,000 for the services performed by research and development personnel in connection with the Cisco OEM agreement. The decrease was partially offset by an increase in personnel and personnel-related expenses of $354,000 from additional headcount and increased hosting related costs of approximately $58,000. Gross margin for the six months ended December 31, 2008 was 69% as compared to 61% for the same period last year. The increase in gross margin was primarily due to the increase in our support and services revenue. In order to better understand the changes within our cost of revenues and resulting gross margins, we have provided the following discussion of the individual components of our cost of revenues.

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Cost of License

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	**2008**	**2007**	**Change**	**%**	**2008**	**2007**	**Change**	**%**
Cost of License	$ 19	$ 20	$ (1)	(5)%	$ 38	$ 40	$ (2)	(5)%
Percentage of license revenue	1%	1%			1%	1%		
Gross Margin	99%	99%			99%	99%		

Cost of license is the cost for third-party software imbedded in our products. Total cost of license decreased slightly by $1,000 in the quarter ended December 31, 2008 from the quarter ended December 31, 2007. Total cost of license remained unchanged as a percentage of total license revenues at 1% (a gross margin of 99%) in the quarter ended December 31, 2008 as compared to the quarter ended December 31, 2007.

Total cost of license for the six months ended December 31, 2008 decreased slightly by $2,000 as compared to the same period last year. Total cost of license remained unchanged as a percentage of total license revenues at 1% (a gross margin of 99%) for the six months ended December 31, 2008 as compared to the same period last year. We anticipate cost of license will increase slightly in future periods based upon our anticipated renewal of third-party royalty agreement with certain vendors.

Cost of Support and Services

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	**2008**	**2007**	**Change**	**%**	**2008**	**2007**	**Change**	**%**
Cost of support and services	$ 2,579	$ 2,920	$ (341)	(12)%	$ 5,420	$ 5,595	$ (175)	(3)%
Percentage of support and service revenue	43%	49%			43%	51%		
Gross Margin	57%	51%			57%	49%		

Cost of support and services includes personnel costs for our hosting services, consulting services and customer support. It also includes depreciation of capital equipment used in our hosted network, cost of support for the third-party software and lease costs paid to remote co-location centers. In addition, as the Cisco OEM agreement is being accounted for under the contract accounting method in accordance with paragraph 74 of SOP 97-2, we recorded costs associated with this agreement starting the second quarter in fiscal year 2006 and the cost for the quarter ended December 31, 2008 was approximately $138,000 compared to $358,000 for the comparable year-ago quarter. The services delivered in connection with this agreement were performed by research and development personnel totaling approximately $91,000 with the remainder of $47,000 by services personnel. The costs associated with this agreement for the six months ended December 31, 2008 were approximately $321,000 compared to $491,000 in the same period last year of which $234,000 were for services performed by research and development personnel with the remainder of $81,000 by services personnel.

Total cost of support and services decreased 12% to $2.6 million in the quarter ended December 31, 2008 from $2.9 million in the quarter ended December 31, 2007. The decrease was primarily due to (i) a decrease in international subsidiaries expenses of approximately $314,000 from the strengthening of the U.S. dollar against the European and Indian currencies, (ii) a decrease of $166,000 for the services performed by research and development personnel in connection with the Cisco OEM agreement, (iii) a decrease in outside consulting expense of $58,000 and was partially offset by an increase in personnel and personnel-related expenses of $204,000 from additional headcount.

Total cost of support and services for the six months ended December 31, 2008 decreased 3% to $5.4 million, compared to $5.6 million in the same period last year. The decrease was primarily due to (i) a decrease in international subsidiaries expenses of approximately $407,000 from the strengthening of the U.S. dollar against the European and Indian currencies, (ii) a decrease of $195,000 for the services performed by research and development personnel in connection with the Cisco OEM agreement. The decrease was partially offset by (i) an increase in personnel and personnel-related expenses of $354,000 from additional headcount and (ii) increased hosting related costs of approximately $58,000.

Excluding the impact from any future foreign currency fluctuations and based upon current revenue expectations we anticipate cost of support and services to decrease slightly in absolute dollars in future periods. While we continue to account for the Cisco OEM agreement under the contract accounting method in accordance with paragraph 74 of SOP 97-2, the gross margin is subject to fluctuate based upon the amount of Cisco-related services.

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Research and Development

(in thousands)	Three Months Ended December 31, 2008	2007	Change	%	Six Months Ended December 31, 2008	2007	Change	%
Research and Development	$ 1,400	$ 1,255	$ 145	12%	$ 2,925	$ 2,399	$ 526	22%
Percentage of total revenue	15%	15%			16%	16%		

Research and development expenses primarily consist of compensation and benefits for our engineering, product management and quality assurance personnel, fees for outside consultants and, to a lesser extent, occupancy costs and related overhead. Research and development costs increased 12% to $1.4 million in the quarter ended December 31, 2008 from $1.3 million in the quarter ended December 31, 2007. The increase was primarily due to (i) a net increase of $223,000 in personnel related costs from the increased headcount in North America, which was partially offset by a reduction in the research and development group in India, (ii) a decrease of $166,000 for the services performed by research and development personnel in connection with the Cisco OEM agreement charged to cost of support and services, which was partially offset by (i) a decrease in our international subsidiaries expenses of approximately $126,000 from the strengthening of the U.S. dollar against the European and Indian currencies and (ii) decreased outside consulting services of $103,000. The increase is consistent with our continued commitment to invest in product innovation. Total research and development expenses as a percentage of total revenues remained unchanged at 15% in the quarter ended December 31, 2008 compared the quarter ended December 31, 2007.

Research and development costs for the six months ended December 31, 2008 increased 22% to $2.9 million, from $2.4 million in the same period last year. The increase was primarily due to (i) a net increase of $533,000 in personnel related costs from the increased headcount in North America, which was partially offset by a reduction in the research and development group in India, (ii) a decrease of $195,000 for the services performed by research and development personnel in connection with the Cisco OEM agreement charged to cost of support and services and (iii) increased outside consulting services of $64,000, which was partially offset by a decrease in our international subsidiaries expenses of approximately $167,000 from the strengthening of the U.S. dollar against the European and Indian currencies. Total research and development expenses as a percentage of total revenues for the six months ended December 31, 2008 remained unchanged at 16% as compared to the same period last year.

Excluding any fluctuation of foreign exchange rates in European and Indian currencies against the U.S. dollar, we anticipate research and development expense to remain relatively constant in future quarters based upon our current product development plans.

Sales and Marketing

(in thousands)	Three Months Ended December 31, 2008	2007	Change	%	Six Months Ended December 31, 2008	2007	Change	%
Sales	$ 2,402	$ 2,421	$ (19)	(1)%	$ 4,680	$ 4,994	$ (314)	(6)%
Marketing	$ 449	$ 579	$ (130)	(22)%	$ 953	$ 1,147	$ (194)	(17)%
Total Sales and Marketing	$ 2,851	$ 3,000	$ (149)	(5)%	$ 5,633	$ 6,141	$ (508)	(8)%
Percentage of total revenue	30%	37%			32%	42%		

Sales and marketing expenses primarily consist of compensation and benefits for our sales, marketing and business development personnel, lead generation activities, advertising, trade show and other promotional costs and, to a lesser extent, occupancy costs and related overhead. Sales and marketing expense decreased 5% to $2.9 million in the quarter ended December 31, 2008 from $3.0 million in the quarter ended December 31, 2007. Total sales and marketing expenses as a percentage of total revenues were 30% in the quarter ended December 31, 2008 compared to 37% in the quarter ended December 31, 2007. Sales and marketing expense for the six months ended December 31, 2008 was $5.6 million, compared to $6.1 million for the same period last year. Total sales and marketing expenses as a percentage of total revenues were 32% for the six months ended December 31, 2008 compared to 42% in the same period last year.

Total sales expenses were $2.4 million in the quarter ended December 31, 2008, a decrease of 1% from the quarter ended December 31, 2007. Total sales expenses for the six months ended December 31, 2008 decreased 6% to $4.7 million from $5.0 million in the same period last year. The decrease for the six months ended December 31, 2008 was primarily due to the decrease in our international subsidiaries expenses of approximately $335,000 from the strengthening of the U.S. dollar against the European and Indian currencies which was partially offset by an

increase of $74,000 in outside consulting expenses.

Total marketing expenses decreased 22% to $449,000 in the quarter ended December 31, 2008 from $579,000 in the quarter ended December 31, 2007. Total marketing expenses for the six months ended December 31, 2008 decreased 17% to $953,000 from $1.1 million in the same period last year. The decrease in the quarter was primarily due to the decrease in marketing program expenses.

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General and Administrative

(in thousands)	Three Months Ended December 31, 2008	2007	Change	%	Six Months Ended December 31, 2008	2007	Change	%
General and Administrative	$ 873	$ 963	$ (90)	(9)%	$ 1,920	$ 2,386	$ (466)	(20)%
Percentage of total revenue	9%	12%			11%	16%		

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

Total general and administrative expense decreased by 9% to $873,000 in the quarter ended December 31, 2008 from $963,000 in the quarter ended December 31, 2007. The decrease was primarily due to (i) decreased auditing and consulting expense of $182,000, (ii) a decrease in our international subsidiaries expenses of approximately $68,000 from the strengthening of the U.S. dollar against the European and Indian currencies and (iii) decreased legal expense of $54,000. The decrease was partially offset by a net change in bad debt expense of $200,000. We recorded a bad debt expense of $62,000 for the quarter compared to a reversal of $130,000 bad debt from the collection of doubtful accounts in the comparable year-ago quarter. Total general and administrative expenses as a percentage of total revenues were 9% in the quarter ended December 31, 2008 compared to 12% in the quarter ended December 31, 2007.

Total general and administrative expense for the six months ended December 31, 2008 decreased by 20% to $1.9 million from $2.4 million in the same period last year. The decrease was primarily due to (i) decreased legal expense of $393,000 compared to the comparable year-ago quarter when we recorded a legal expense of $433,000 primarily related to the patent litigation that was settled in September 2007 and (ii) a decrease of $173,000 in auditing fees. The decrease was partially offset by an $88,000 increase in bad debt expense. Total general and administrative expenses as a percentage of total revenues were 11% and 16% for the six months ended December 31, 2008 and 2007, respectively.

We anticipate general and administrative expenses to remain relatively constant or increase slightly in absolute dollars in future periods based upon current revenue expectations excluding the fluctuation of foreign exchange rates in European and Indian currencies against the U.S. dollar.

Stock-Based Compensation

(in thousands)	Three Months Ended December 31, 2008	2007	Change	%	Six Months Ended December 31, 2008	2008	Change	%
Cost of support and services	$ 7	$ 9	$ (2)	(22)%	$ 15	$ 20	$ (5)	(25)%
Research and development	11	17	(6)	(35)%	25	28	(3)	(11)%
Sales and marketing	6	20	(14)	(70)%	15	42	(27)	(64)%
General and administrative	65	28	37	132%	117	37	80	216%
Total Stock-Based Compensation	$ 89	$ 74	$ 15	20%	$ 172	$ 127	$ 45	35%
Percentage of total revenue	1%	1%			1%	1%		

Stock based compensation expenses include the amortization of the fair value of share-based payments made to employees, directors and consultants, primarily in the form of stock options (see Note 3 Stock-Based Compensation). The fair value of stock options granted is recognized as an expense as the underlying stock options vest.

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Income / (Loss) From Operations

	Three Months Ended December 31,				Six Months Ended December 31,			
(in thousands)	2008	2007	Change	%	2008	2007	Change	%
Operating Income / (Loss)	$ 1,867	$ (33)	$ 1,900	5,758%	$ 1,792	$ (1,965)	$ 3,757	191%
Operating Margin	19%	0%			10%	(13)%		

Operating income was $1.9 million in the quarter ended December 31, 2008 compared to an operating loss of $33,000 in the quarter ended December 31, 2007. We recorded a positive 19% operating margin in the quarter ended December 31, 2008 compared to a break-even margin in operations in the quarter ended December 31, 2007. The operating income in the quarter primarily included an increase in revenue by $1.5 million, net of the negative impact of $2.0 million from the fluctuation of foreign currencies against the U.S. dollar and a decrease in total costs and operating expenses of $436,000. The decrease in total costs and operating expenses was a net of (i) a decrease of $922,000 in international expenses due to the strengthening of the U.S. dollar against the European and Indian currencies, (ii) a decrease of $184,000 in outside consulting expenses primarily related to the Cisco OEM agreement and third-party consulting services in Europe, (iii) decreased auditing expenses by $150,000, (iv) reduction of $70,000 in our marketing program, (v) a decrease of $54,000 in legal expenses, (vi) a net increase in personnel-related costs of $806,000 from our investment in research and development and expansion of the consulting team partially offset by a reduction in sales force, and (vii) a net change of $200,000 in bad debt expense.

Operating income for the six months ended December 31, 2008 was $1.8 million, as compared to an operating loss of $2.0 million in the same period last year. For the six months ended December 31, 2008 we recorded a positive 10% operating margin as compared to a negative operating margin of 13% in the same period last year. The operating income for the six months ended December 31, 2008 primarily included an increase in revenue by $3.1 million, net of the negative impact of $2.2 million from the fluctuation of foreign currencies against the U.S. dollar and a decrease in total costs and operating expenses of $625,000. The decrease in total costs and operating expenses was a net of (i) a decrease of $1.1 million in international expenses due to the strengthening of the U.S. dollar against the European and Indian currencies, (ii) a decrease of $393,000 in legal expenses, (iii) decreased auditing expenses by $173,000, (iv) reduction of $147,000 in marketing programs, (v) a net increase in personnel-related costs of $1.0 million from our investment in research and development and expansion of the consulting team partially offset by a reduction in sales force, (vi) increased outside consulting expense of $162,000 primarily related to Cisco OEM agreement and (vii) increase of $88,000 in bad debt expense.

Interest Expense, net

Interest expense decreased 17% to $335,000 in the quarter ended December 31, 2008 from $402,000 in the comparable year-ago quarter. Interest expense increased 2% to $820,000 for the six months ended December 31, 2008 from $806,000 in the same period last year. The decrease was primarily due to the decrease in the related party notes payable balances. We expect interest expense to decrease in future periods based upon the decrease in related party notes payable due to the debt conversion agreement entered into on September 24, 2008 as amended. (see Note 7 Related Party Notes Payable)

Other Income, net

We recorded other income of $341,000 for the quarter ended December 31, 2008 compared to other expense of $7,000 for the comparable year-ago quarter. Other income was $365,000 for the six months ended December 31, 2008 compared to other income of $35,000 for the same period last year. Other income for the quarter was primarily due to a $300,000 exchange rate gain on foreign accounts receivable.

Income Tax Benefit

We recorded an income tax benefit of $96,000 for the quarter ended December 31, 2008 compared to an income tax benefit of $10,000 for the comparable year-ago quarter. The income tax benefit was $110,000 for the six months ended December 31, 2008 as compared to an income tax expense of $96,000 for the same period last year. The income tax benefit for the quarter was primarily related to the reversal of the income tax provision for our Indian subsidiary.

Liquidity and Capital Resources

Overview

As of December 31, 2008 our cash and cash equivalents were $3.8 million with a negative working capital of $178,000 compared to cash and cash equivalents of $3.8 million and a negative working capital of $2.7 million as of June 30, 2008. As of December 31, 2008, our current liabilities included $5.1 million of current deferred revenue compared to $4.9 million on June 30, 2008.

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On September 24, 2008 we entered into a conversion agreement and amendment to subordinated secured promissory notes with Ashutosh Roy, eGain s Chief Executive Officer, Oak Hill Capital Partners, L.P., Oak Hill Capital Management Partners, L.P. and FW Investors V, L.P., as amended. These lenders had previously loaned eGain an aggregate of $8.5 million and received promissory notes with maturity dates of March 31, 2009. Pursuant to the agreement, we converted approximately $6.5 million of the outstanding indebtedness of approximately $13.8 million of principal and interest at September 24, 2008 and extended maturity date of remaining debt to March 31, 2012. In addition, the lenders received warrants to purchase an aggregate of 1,525,515 shares of our common stock in consideration for the note extension. (see Note, 7-Related Party Notes Payable). As of December 31, 2008 the principal and interest due on the loans was $7.2 million and warrants to purchase 1,858,848 shares of common stock were vested and outstanding.

Based upon our current operating plan, we believe that existing capital resources will enable us to maintain current and planned operations for at least the next 12 months. However, if we do not experience the anticipated demand for our products, we will need to reduce costs, issue debt or equity securities or borrow money to meet our cash requirements. From time to time, however, we may consider opportunities for raising additional capital. We can make no assurances that such opportunities will be available to us on economic terms we consider favorable, if at all.

If adequate funds are not available on acceptable terms, our ability to achieve or sustain positive cash flows, maintain current operations, fund any potential expansion, take advantage of unanticipated opportunities, develop or enhance products or services, or otherwise respond to competitive pressures would be significantly limited. Our expectations as to our future cash flows and our future cash balances are subject to a number of assumptions, including assumptions regarding anticipated increases in our revenue, the mix of new hosting and license business, our ability to retain existing customers and customer purchasing and payment patterns, many of which are beyond our control, and may be negatively affected by the global economic slowdown and the ability of our customers to obtain a credit line, or other financial limitations.

On June 27, 2008, we entered into a Loan and Security Agreement (the Bridge Bank Credit Facility) with Bridge Bank, N. A. (Bridge Bank) (See Note 4 Bank Borrowings). The Bridge Bank Credit Facility provides for the advance of up to the lesser of $3.0 million under a revolving line of credit, or the sum of (i) 80% of certain qualified receivables, (ii) 75% of cash on deposit with Bridge Bank, (iii) the lesser of $1.5 million or 60% of eligible unbilled license and hosting contracts, less (iv) the amount of any outstanding obligations to Bridge Bank. In addition, the Bridge Bank Credit Facility allows for borrowings of up to $300,000 to pay off existing obligations to SVB and up to $300,000 to be used to finance equipment purchases. There are financial covenants under the Bridge Bank Credit Facility which require us to meet certain revenue performance and net loss excluding non-cash charges requirements. If we fail to comply with our covenants under the Bridge Bank Credit Facility, Bridge Bank can declare any outstanding amounts immediately due and payable and cease advancing money or extending credit to us. As of December 31, 2008 we were compliant with these financial covenants.

Cash Flows

Net cash provided by operating activities was $126,000 for the six months ended December 31, 2008 compared to net cash used in operating activities of $1.9 million from the same period last year. Net cash provided by operating activities for the six months ended December 31, 2008 consisted primarily of a net income of $1.4 million offset by depreciation of $409,000, accrued interest and amortization of discount on related party notes of $700,000, stock-based compensation of $172,000, provisions for doubtful accounts and sales returns of $163,000, loss on the disposal of fixed assets of $7,000, and the net increase in operating assets and operating liabilities.

The net change in operating assets and liabilities for the six months ended December 31, 2008 primarily consisted of the increase in accounts receivable by $4.0 million primarily due to an increase in our business and a decrease of $541,000 in accounts payable. This was partially offset by the increase in accrued compensation of $859,000, an increase in deferred revenue of $728,000 and a decrease in prepaid and other current assets of $263,000. The increase in accrued compensation was primarily due to the increased commission associated with the increased bookings in the quarter. The increase in deferred revenue was primarily due to the increase in deferred maintenance and support payments received as a large number of our customers have annual maintenance and support renewals that come due in the quarter.

To continue operating a cash-positive business depends on our ability to realize the benefits from the increased investment we made in the last two years, including those made in connection with the Cisco OEM agreement, as well as by increasing the level of our revenues, and continuing to effectively manage working capital including collecting outstanding receivables within our standard payment terms. In addition, our ability to generate future cash flows from operations could be negatively impacted by a decrease in demand for our products, which are subject to rapid technological change or a reduction of capital expenditures by our customers as a result of a downturn in the global economy, among other factors.

Net cash used in investing activities was $220,000 for the six months ended December 31, 2008 compared to net cash used in investing activities of $322,000 for the same period last year. Cash used in investing activities for the quarter was due to the purchases of equipment primarily related to our hosting infrastructure driven by the increase in our hosted business and the replacement of old equipment.

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Net cash provided by financing activities was $8,000 for the six months ended December 31, 2008 compared to net cash provided by financing activities of $862,000 for the same period last year. Net cash provided by financing activities for the six months ended December 31, 2008 was a net of $63,000 proceeds from new bank borrowings and $55,000 payment on existing bank borrowings. Net cash provided by financing activities for the same period last year was a net of $5.1 million proceeds from new bank borrowings and $4.3 million payment on existing bank borrowings.

Commitments

The following table summarizes eGain s contractual obligations, including interest payments accrued for the related party notes payable, as of December 31, 2008 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Year Ended June 30,						
	2009	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Operating leases and capital leases	$ 407	$ 826	$ 817	$ 638	$ 653	$ 599	$ 3,940
Bank borrowings	121	3,178					3,299
Related party notes payable				10,806			10,806
Co-location	95	95					190
Total	$ 623	$ 4,099	$ 817	$ 11,444	$ 653	$ 599	$ 18,235

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We develop products in the United States and India and sell these products internationally. Generally, sales are made in local currency. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Identifiable assets denominated in foreign currency at December 31, 2008 totaled approximately $7.1 million. We do not currently use derivative instruments to hedge against foreign exchange risk. As such we are exposed to market risk from fluctuations in foreign currency exchange rates, principally from the exchange rate between the U.S dollar and the Euro and the British pound and the Indian rupee. During the quarter ended December 31, 2008, the dollar strengthened significantly compared to the Euro, the British pound and the Indian rupee. The impact of the currency rate fluctuation in the current quarter reduced our operating income by $1.3 million. If the dollar continues to strengthen in future periods, we may experience a further adverse effect on our financial position or results of operations.

Item 4. Controls and Procedures

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

Based on their evaluation as of December 31, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were effective to ensure that material information relating to us, including our consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

(b) ***Changes in internal controls.*** There were no changes in our internal controls which occurred during the quarter ended December 31, 2008 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Beginning on October 25, 2001, a number of securities class action complaints were filed against us, and certain of our then officers and directors and underwriters connected with our initial public offering of common stock in the U.S. District Court for the Southern District of New York (*consolidated into In re Initial Public Offering Sec. Litig.*). The complaints alleged generally that the prospectus under which such securities were sold contained false and misleading statements with respect to discounts and excess commissions received by the underwriters as well as allegations of laddering whereby underwriters required their customers to purchase additional shares in the aftermarket in exchange for an allocation of IPO shares. The complaints sought an unspecified amount in damages on behalf of persons who purchased the common stock between September 23, 1999 and December 6, 2000. Similar complaints were filed against 55 underwriters and more than 300 other companies and other individuals. The over 1,000 complaints were consolidated into a single action. We reached an agreement with the plaintiffs to resolve the cases as to our liability and that of our officers and directors. The settlement involved no monetary payment or other consideration by us or our officers and directors and no admission of liability. On August 31, 2005, the court issued an order preliminarily approving the settlement and setting a public hearing on its fairness for April 24, 2006 (the postponement from January 2006 to April 2006 was because of difficulties in mailing the required notice to class members). On October 27, 2005, the court issued an order making some minor changes to the form of notice to be sent to class members. On January 17, 2006, the court issued an order modifying the preliminary settlement approval order to extend the time within which notice must be given to the class, which time had expired on January 15, 2006. The underwriter defendants filed further objections to the settlement on March 20, 2006 and asked that the April 24, 2006 final settlement approval hearing be postponed until after the Second Circuit rules on the underwriters appeal from the Court s class certification order (which appeal is briefed and awaiting oral argument). On March 29, 2006, the Court denied the request, stating that it would address the underwriters points at the April 24, 2006 hearing. On April 24, 2006, the Court held a public hearing on the fairness of the proposed settlement. Meanwhile the consolidated case against the underwriters has proceeded. In October 2004, the district court certified a class. On December 5, 2006, however, the Second Circuit reversed, holding that a class could not be certified. *In re Initial Public Offering Sec. Litig.,* 471 F.3d 24 (2d Cir. 2006). The Second Circuit s holding, while directly affecting only the underwriters, raised some doubt as to whether the settlement class contemplated by the proposed issuer settlement will be approved in its present form. A petition for rehearing was filed January 5, 2007. The court of appeals denied a petition for rehearsing on April 6, 2007. On June 25, 2007, the district court entered a stipulated order terminating the proposed issuer settlement. Plaintiffs are proceeding with discovery as to underwriters and issuers, although principally with respect to focus or test cases that do not name the Company as a defendant. Defendants moved to dismiss the focus cases; on March 26, 2008, the court largely denied that motion. The court set a briefing schedule for a new class certification motion with respect to the focus cases; that motion was then briefed. On October 10, 2008, however, the court signed an order allowing plaintiffs to withdraw that motion without prejudice to its being re-filed later. We have not accrued any liability or expect the outcome of this litigation to have a material impact on our financial condition.

With the exception of this matter, we are not a party to any other material pending legal proceedings, nor is our property the subject of any material pending legal proceeding, except routine legal proceedings arising in the ordinary course of our business and incidental to our business, none of which are expected to have a material adverse impact, as taken individually or in the aggregate, upon our business, financial position or results of operations. However, even if these claims are not meritorious, the ultimate outcome of any litigation is uncertain, and it could divert management s attention and impact other resources.

Item 1A. Risk Factors

Economic, political and market conditions can adversely affect our revenue growth and profitability. 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;
- the overall demand for enterprise software and services; and
- general political developments.

A general weakening of the global economy, or a curtailment in corporate spending, could delay and decrease customer purchases. In addition, the war on terrorism, the war in Iraq and the potential for other hostilities in various parts of the world, as well as natural disasters, continue to contribute to a climate of economic and political uncertainty that could adversely affect our revenue growth and results of operations. These factors generally have the strongest effect on our new business, and to a lesser extent, also affect our renewal rates for software maintenance and support.

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing eGain. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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Item 2. Submission of Matters to a Vote of Security Holders

On November 14, 2008 eGain s annual meeting of stockholders was held and the following matters were voted on:

1. The following individuals were elected to the board of directors to serve until the 2009 annual meeting of stockholders and thereafter until their successors are elected and qualified:

Nominees	Total Vote for each Director	Total Vote Withheld from each Director
Mr. Ashutosh Roy	9,742,433	70,453
Mr. Gunjan Sinha	9,742,573	70,313
Mr. Mark A. Wolfson	9,736,698	76,188
Mr. David G. Brown	9,742,663	70,223
Mr. Phiroz P. Darukhanavala	9,690,088	122,798

2. The vote to ratify the appointment of Burr, Pilger & Mayer, LLP as eGain s independent auditors was as follows:

For	Against	Abstain	Non Votes
9,780,902	28,285	3,699	0

Item 3. Exhibits

Exhibits No.	Description of Exhibits
10.1	Amendment No. 1 to the Conversion Agreement and Amendment to Subordinated Secured Promissory Notes by and among Ashutosh Roy, Oak Hill Capital Partners, L.P., Oak Hill Capital Management Partners, L.P. and FW Investors V, L.P. dated as of December 16, 2008.
31.1	Rule 13a-15(e)/15d-15(e) Certification of Chief Executive Officer.
31.2	Rule 13a-15(e)/15d-15(e) Certification of Chief Financial Officer.
32.1	Certification pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 of Ashutosh Roy, Chief Executive Officer.*
32.2	Certification pursuant to 18.U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 of Eric Smit, Chief Financial Officer.*

* The material contained in this exhibit is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after date hereof and irrespective of any general incorporation language contained in such filing.

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SIGNATURES

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

Dated: February 17, 2009

eGAIN COMMUNICATIONS CORPORATION

By /s/ Eric N. Smit

Eric N. Smit
Chief Financial Officer
(Duly Authorized Officer and

Principal Financial and Accounting Officer)

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