

EGAIN Corp  
Form 10-Q  
February 11, 2019  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

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(Mark One)

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

For the quarterly period ended December 31, 2018

OR

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

For the transition period from            to

Commission File No. 001-35314

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eGAIN CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	77-0466366 (I.R.S. Employer Identification No.)
1252 Borregas Avenue, Sunnyvale, CA (Address of principal executive offices)	94089 (Zip Code)

(408) 636-4500

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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Class	Outstanding at February 08, 2019
Common Stock \$0.001 par value	27,902,325

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eGAIN CORPORATION

Quarterly Report on Form 10-Q

For the Quarterly Period Ended December 31, 2018

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## eGAIN CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except par value data)

	December 31, 2018	June 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,222	\$ 11,498
Restricted cash	6	6
Accounts receivable, less allowance for doubtful accounts of \$252 and \$256 as of December 31, 2018 and June 30, 2018, respectively	16,178	7,389
Costs capitalized to obtain revenue contracts, net	682	986
Prepaid expenses	1,688	2,374
Other current assets	409	285
Total current assets	30,185	22,538
Property and equipment, net	468	559
Costs capitalized to obtain revenue contracts, net of current portion	1,904	891
Intangible assets, net	429	733
Goodwill	13,186	13,186
Other assets	2,039	1,715
Total assets	\$ 48,211	\$ 39,622
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 2,384	\$ 3,905
Accrued compensation	4,463	5,706
Accrued liabilities	1,746	2,285
Deferred revenue	28,836	18,364
Capital lease obligations	7	42
Bank borrowings, net of deferred financing costs	4,996	259
Total current liabilities	42,432	30,561
Deferred revenue, net of current portion	6,136	7,833
Bank borrowings, net of current portion and deferred financing costs	—	8,941
Other long-term liabilities	980	1,000
Total liabilities	49,548	48,335
Commitments and contingencies (Note 6)		
Stockholders' deficit:		

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Common stock, \$0.001 par value - authorized: 50,000 shares; outstanding: 27,883 shares as of December 31, 2018 and 27,667 shares as of June 30, 2018	28	28
Additional paid-in capital	347,182	346,222
Notes receivable from stockholders	(87)	(85)
Accumulated other comprehensive loss	(1,620)	(1,618)
Accumulated deficit	(346,840)	(353,260)
Total stockholders' deficit	(1,337)	(8,713)
Total liabilities and stockholders' deficit	\$ 48,211	\$ 39,622

See accompanying notes to condensed consolidated financial statements

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## eGAIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Revenue:				
Subscription	\$ 15,823	\$ 12,629	\$ 29,550	\$ 24,459
Professional services	1,881	2,769	3,855	5,514
Total revenue	17,704	15,398	33,405	29,973
Cost of revenue:				
Cost of subscription	3,692	3,188	7,087	6,226
Cost of professional services	1,850	2,401	3,690	4,789
Total cost of revenue	5,542	5,589	10,777	11,015
Gross profit	12,162	9,809	22,628	18,958
Operating expenses:				
Research and development	3,596	3,708	7,155	7,139
Sales and marketing	4,391	4,729	8,385	8,895
General and administrative	2,046	1,768	4,206	3,574
Total operating expenses	10,033	10,205	19,746	19,608
Income (loss) from operations	2,129	(396)	2,882	(650)
Interest expense, net	(139)	(239)	(329)	(583)
Other income (expense), net	(6)	(30)	11	(161)
Income (loss) before income tax benefit (expense)	1,984	(665)	2,564	(1,394)
Income tax benefit (expense)	16	(123)	40	38
Net income (loss)	\$ 2,000	\$ (788)	\$ 2,604	\$ (1,356)
Per share information:				
Earnings (loss) per share:				
Basic	\$ 0.07	\$ (0.03)	\$ 0.09	\$ (0.05)
Diluted	\$ 0.07	\$ (0.03)	\$ 0.09	\$ (0.05)
Weighted-average shares used in computation:				
Basic	27,875	27,241	27,781	27,213
Diluted	29,420	27,241	29,687	27,213

See accompanying notes to condensed consolidated financial statements

## eGAIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income (loss)	\$ 2,000	\$ (788)	\$ 2,604	\$ (1,356)
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	44	(7)	(2)	(59)
Comprehensive income (loss)	\$ 2,044	\$ (795)	\$ 2,602	\$ (1,415)

See accompanying notes to condensed consolidated financial statements



## eGAIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 2,604	\$ (1,356)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of intangible assets	304	1,007
Amortization of costs capitalized to obtain revenue contracts	302	459
Amortization of deferred financing costs	158	108
Depreciation and amortization	214	347
Provision (recovery) for doubtful accounts	182	(20)
Deferred income taxes	(342)	(2)
Stock-based compensation	698	1,055
Loss on disposal of property and equipment	66	2
Changes in operating assets and liabilities:		
Accounts receivable	(8,918)	902
Costs capitalized to obtain revenue contracts	(513)	(455)
Prepaid expenses	679	683
Other current assets	(131)	(173)
Other non-current assets	13	60
Accounts payable	(1,514)	(331)
Accrued compensation	(1,179)	25
Accrued liabilities	(549)	627
Deferred revenue	12,112	5,601
Other long-term liabilities	(3)	(63)
Net cash provided by operating activities	4,183	8,476
Cash flows from investing activities:		
Purchases of property and equipment	(199)	(91)
Net cash used in investing activities	(199)	(91)
Cash flows from financing activities:		
Payments on bank borrowings	(11,753)	(11,219)
Proceeds from bank borrowings	7,390	2,726
Payments on capital lease obligations	(35)	(63)
Proceeds from exercise of stock options	263	138
Net cash used in financing activities	(4,135)	(8,418)
Effect of change in exchange rates on cash and cash equivalents	(125)	175
Net (decrease) increase in cash, cash equivalents and restricted cash	(276)	142
Cash, cash equivalents and restricted cash at beginning of period	11,504	10,627
Cash, cash equivalents and restricted cash at end of period	\$ 11,228	\$ 10,769

Supplemental cash flow disclosures:

Cash paid for interest	\$ 178	\$ 498
Cash paid for taxes, net of tax refunds	\$ 129	\$ 94

See accompanying notes to condensed consolidated financial statements

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eGAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

eGain Corporation (“eGain”, the “Company”, “our”, “we” or “us”) is a leading provider of cloud-based customer engagement software with operations in the United States, United Kingdom and India. We help B2C brands operationalize digital customer engagement strategy. Our suite includes rich applications for digital interaction, knowledge management, and AI-based process guidance. We also provide advanced, integrated analytics for contact centers and digital properties to holistically measure, manage, and optimize resources. We believe the benefits of our products include reduced customer effort, customer satisfaction, connected service processes, converted upsell opportunities, and improved compliance—across mobile, social, web, and phone. Hundreds of global enterprises rely on eGain to transform fragmented customer service systems into unified Customer Engagement Hubs.

Fiscal Year

Our fiscal year ends on June 30. References to fiscal year 2019 refer to fiscal year ending June 30, 2019.

Basis of Presentation

The accompanying condensed consolidated balance sheets as of December 31, 2018 and June 30, 2018 and the condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the three and six months ended December 31, 2018 and 2017, respectively, were unaudited.

We prepared the condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) 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 consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), have been condensed or omitted pursuant to such rules and regulations although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented.

These condensed consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and accompanying notes for the fiscal year ended June 30, 2018, included in our Annual Report on Form 10-K. The condensed consolidated balance sheet as of June 30, 2018 was derived from audited consolidated financial statements as of that date but does not include all the information and footnotes required by GAAP for complete financial statements. The results of our operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending June 30, 2019.

We adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), as of July 1, 2018. In addition, we adjusted the presentation of our condensed consolidated statements of operations in connection with our business model. Through June 30, 2018, our revenue was classified as recurring, legacy license and professional services revenue. In connection with our adoption of Topic 606 as of July 1, 2018, we classify our revenue as subscription and professional services revenue. Our legacy license revenue, which has been declining related to our focus on cloud offerings, is included with subscription revenue. Fiscal periods prior to adoption were adjusted to conform to current period presentation.

## Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions in the condensed consolidated financial statements and accompanying notes. Actual results could differ significantly from estimates. We make estimates that we believe to be reasonable based on historical experience and other assumptions. Significant estimates and assumptions made by management include the following:

- Standalone selling price (SSP) of performance obligations for contracts with multiple performance obligations;
- Estimate of variable consideration for performance obligations in connection with the adoption of Topic 606;
- Period of benefit associated with capitalized costs to obtain revenue contracts;
- Valuation, measurement and recognition of current and deferred income taxes;
- Fair value of stock-based awards; and
- Useful lives of intangible assets.

## Recent Accounting Pronouncements

### Pronouncements Not Yet Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40). This update requires a customer in a cloud computing service arrangement to follow the internal-use software guidance to determine which implementation costs to recognize and defer as an asset. This update is effective for fiscal years beginning after December 15, 2019 (our fiscal 2020). We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718)—Improvements to Nonemployee Share-Based Payment Accounting. This update expands the scope of Topic 718, Compensation—Stock Compensation, to include share-based awards granted to non-employees in exchange for goods or services. The accounting for employees and non-employees will be substantially aligned. This update is effective for fiscal years beginning after December 15, 2018 (our fiscal 2020) and interim periods within those fiscal years. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update provides the option to reclassify tax effects to retained earnings relating to items in accumulated other comprehensive income that the FASB refers to as having been stranded in accumulated other comprehensive income as a result of the U.S. Tax

Act. This update is effective for fiscal years beginning after December 15, 2018 (our fiscal 2020), and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires that we recognize lease assets and liabilities on the balance sheet. This standard is effective for annual periods beginning after December 15, 2018 (our fiscal 2020), and interim periods within those annual periods. Early adoption is permitted provided ASC 606, Revenue Recognition, has been adopted. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides an alternative transition method by allowing companies to initially apply the new leases guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

## Pronouncements Recently Adopted

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a shared-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. We adopted this guidance in connection with the adoption of ASC 606 as of our first quarter of fiscal year 2019 with no impact on our financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which provides specific guidance on how to classify restricted cash. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. We adopted this guidance as of our first quarter of fiscal year 2019 with no impact on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which provides that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017 (our fiscal 2019), including interim reporting periods within those annual reporting periods. We adopted this guidance as of our first quarter of fiscal year 2019 with no significant impact to our financial results.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 (our fiscal 2019), and interim periods within those fiscal years. We adopted this guidance as of our first quarter of fiscal year 2019 with no significant impact to our financial results.

## Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements under Revenue Recognition (Topic 605). The standard requires increased disclosures including the nature, amount, timing, and any uncertainty of revenues and cash flows related to customer contracts. Topic 606 includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with

Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. We refer to Topic 606 and Subtopic 340-40 as Topic 606, collectively, for purposes of disclosure and discussion in this filing.

We adopted Topic 606 using the modified retrospective method with a cumulative decrease of \$3.8 million to our opening balance of our accumulated deficit as of July 1, 2018 in our first quarter of fiscal year 2019.

Under Topic 606, or ASC 606, revenue is recognized when a customer under a contract obtains control of promised goods and services at an amount that reflects consideration that is expected to be received in exchange for those goods and services. The new revenue recognition standard requires that we apply a five-step approach for recognizing revenue which includes (i) identifying the contract with a customer; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the contract on a relative SSP; and (v) recognizing revenue when, or as, we satisfy each performance obligation in the contract typically through delivery or when control is transferred to the customer.

The adoption of Topic 606 did not significantly impact the revenue recognition of our cloud delivery arrangements, our maintenance and support arrangements, and our time and materials-based professional services. Additionally, our estimate of SSP remains consistent with our estimate of best estimated selling price (BESP) under Topic 605. When we determine the transaction price in an arrangement, we include estimates of variable consideration such as usage-based surcharges and potential refunds or credits for service level credits, volume rebates, and tenure discounts.



Revenue recognition under Topic 606 impacted our on-premise offerings that do not incorporate substantial cloud functionality. Under Topic 605, licenses that were sold with undelivered elements but without vendor-specific objective evidence (VSOE) were recognized ratably over the term of the undelivered elements. Under Topic 606, the requirement to establish VSOE for undelivered elements was eliminated. Therefore, we recognize a portion of the sales price upon delivery of the software. To the extent that amounts recognized as revenue have not been billed, the corresponding amounts are recorded as unbilled receivables and are classified in accounts receivable.

Under Topic 606, the transaction price is allocated to various performance obligations based on their stand-alone selling prices. Revenue allocated to each performance obligation is recognized as work is performed. Our consulting and implementation service contracts are bid either on a time-and-materials basis or on a fixed-fee basis. Fixed fees are generally paid upon acceptance at pre-determined points in the contract. Under Topic 605, we had recognized revenue when we met acceptance clauses.

With respect to professional services revenue, when professional service arrangements include acceptance clauses, we factor this in the estimated transaction price if they are probable of being achieved. Additionally, we recognize the transaction price allocated to professional services over time as the services are provided as compared to the time that the milestone was achieved under prior guidance.

We used the following transitional practical expedients and exemptions in the adoption of Topic 606:

- The option to recognize revenue upon invoicing amounts that correspond directly with the value to the customer of performance completed to date which primarily includes professional service arrangements entered on a time and materials basis;
- At adoption, the election to reflect the aggregate effect of all modifications occurring before adoption when (i) identifying the satisfied and unsatisfied performance obligations; (ii) determining the transaction price; and (iii) allocating the transaction price of the arrangement to the satisfied and unsatisfied performance obligations;
- The optional exemption to not disclose the remaining transaction price for short-term contracts less than one year and contracts where the right to invoice method is used. Contracts that fall under these exemptions relate to short-term professional services and would be expected to be completed, on average, within the next three to six months;
- At adoption, the election to use the practical expedient to disregard the effect of the time value of money in a significant financing component when its payment terms are less than one year. These contract advances are liquidated when revenue is recognized; and
- The option to expense the cost of obtaining a contract when the amortization period is less than one year.

Costs Capitalized to Obtain Revenue Contracts

Under Topic 606, we capitalize incremental costs to obtain non-cancelable subscription and maintenance and support revenue contracts with amortization periods that may extend longer than the non-cancelable subscription and maintenance and support revenue contract terms.

We capitalize incremental costs of obtaining a non-cancelable subscription and maintenance and support revenue contract with amortization periods of one year or more. The capitalized amounts consist primarily of sales commissions paid to our direct sales force. Capitalized amounts also include (i) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired; (ii) commissions paid to employees upon renewals of subscription and support; and (iii) the associated payroll taxes and fringe benefit costs associated with the payments to our employees.

Costs capitalized related to new revenue contracts are generally deferred and amortized on a straight-line basis over a period of benefit that we estimate to be five years. We determine the period of benefit by taking into consideration the historical and expected durations of our customer contracts and the expected useful lives of our technology among other factors. Amortization of costs capitalized related to new revenue contracts is included as a component of sales and marketing expense in our operating results. Under Topic 605, we capitalized only commissions earned on initial software and support sales which were amortized ratably over the initial contract period averaging two years.

## Deferred Revenue

Deferred revenue primarily consists of payments received or invoiced in advance of revenue recognition from cloud delivery arrangements, term licenses and embedded OEM royalties and associated support. Deferred revenue is recognized as revenue once revenue recognition criteria is met. We generally invoice our customers in annual installments. The deferred revenue balance does not represent the total transaction price of our non-cancelable cloud delivery and support arrangements.

Prior to adopting Topic 606, we netted down our accounts receivable and deferred revenue for amounts that were invoiced but not collected. We no longer net down our accounts receivable and deferred revenue with the adoption of Topic 606 related to contractual amounts in our arrangements. Deferred revenue that is expected to be recognized within one year and beyond one year is classified as current and noncurrent deferred revenue, respectively.

## Financial Impact from Initial Adoption

The following table shows cumulative adjustments included in our condensed consolidated opening balance sheet as of July 1, 2018 related to the adoption of Topic 606 (in thousands):

	Balance as of June 30, 2018 (\$)	Impact as of July 1, 2018 (\$)	Balance as of July 1, 2018 (\$)
Balance sheet captions:			
Accounts receivable, net	7,389	14,824	22,213
Costs capitalized to obtain revenue contracts, net	986	(395)	591
Costs capitalized to obtain revenue contracts, net of current portion	891	933	1,824
Accrued liabilities	2,285	60	2,345
Deferred revenue	18,364	11,700	30,064
Deferred revenue, net of current portion	7,833	(422)	7,411
Accumulated deficit	(353,260)	3,816	(349,444)

## Financial Impact after Initial Adoption

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The following table shows cumulative adjustments included in our condensed consolidated balance sheet as of December 31, 2018 related to the adoption of Topic 606 (in thousands):

	December 31, 2018		
	Reported under Topic 606 (\$)	Topic 606 Impact (\$)	Excluding Topic 606 Impact (\$)
Balance sheet captions:			
Accounts receivable, net	16,178	(9,036)	7,142
Costs capitalized to obtain revenue contracts, net	682	315	997
Costs capitalized to obtain revenue contracts, net of current portion	1,904	(1,137)	767
Deferred revenue	28,836	(61)	28,775
Deferred revenue, net of current portion	6,136	(4,628)	1,508
Accumulated deficit	(346,840)	3,816	(343,024)