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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2016

or

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

For the transition period from to

Commission File Number: 001-35314

eGain Corporation

(Exact name of registrant as specified in its charter)

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

1252 Borregas Avenue

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 636-4500

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

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

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PART I

ITEM 1.BUSINESS

Overview

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

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

Industry Background

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

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

The eGain Solution

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

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

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

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

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

Products and Services

eGain Suite

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

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

Mobile Applications

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

Social Applications

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

Web Applications

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

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

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

Desktop Applications

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

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

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

Management Applications

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

Messaging Applications

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

Cloud Operations

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

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

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

Customers

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

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

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

Competition

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

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

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

Sales and Marketing

Sales Strategy

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

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

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

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Marketing and Partner Strategy

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

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

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

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

Consulting and Education

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

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

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

Customer Support

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

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

Research and Development

The market for our products changes rapidly and is characterized by evolving industry standards, swift changes in customer requirements, and frequent new product introductions and enhancements. We believe that strong product development capabilities are essential to our strategy of maintaining technology leadership. This includes enhancing current technology, providing excellent quality, performance, and functionality, as well as developing additional applications, and maintaining the competitiveness of our product and service offerings.

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

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

Intellectual Property

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

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

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

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

Employees

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

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

Available Information

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

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ITEM 1A. RISK FACTORS

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

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

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

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

Our hybrid revenue model may affect our operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our multi-product offering and the increasingly complex needs of our customers contribute to a longer and unpredictable sales cycle. Consequently, we often face difficulty predicting the quarter in which expected sales will actually occur. This contributes to the uncertainty and fluctuations in our future operating results. In particular, the corporate decision-making and approval process of our customers and potential customers has become more complicated. This has caused our average sales cycle to further increase and, in some cases, has prevented the closure of sales that we believed were likely to close. In addition, historically our license sales have comprised a relatively small number of high value transactions; consequently, we may miss our revenue forecasts and may incur expenses that are not offset by corresponding revenue from the delay in even one transaction.

We may need additional capital, and raising such additional capital may be difficult or impossible and will likely significantly dilute existing stockholders.

We believe that existing capital resources will enable us to maintain current and planned operations for the next 12 months. However, our working capital requirements in the foreseeable future are subject to numerous risks and will depend on a variety of factors, in particular, whether we maintain or exceed the level of revenue achieved as of June 30, 2016 and that customers continue to pay on a timely basis. We may need to secure additional financing due to unforeseen or unanticipated market conditions. We may try to raise additional funds through public or private financings, strategic relationships, or other arrangements. Such financing may be difficult to obtain on terms acceptable to us, if at all. If we succeed in raising additional funds through the issuance of equity or convertible securities, then the issuance could result in substantial dilution to existing stockholders. If we raise additional funds through the issuance of debt securities or preferred stock, these new securities would have rights, preferences, and privileges senior to those of the holders of our common stock. The terms of these securities could impose restrictions on our operations.

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

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

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

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

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

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

We must compete successfully in our market segment.

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

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

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

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

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

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

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

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

Our international operations involve various risks.

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

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

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

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

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

We generally recognize license or subscription revenue from a customer sale when persuasive evidence of an arrangement exists, the product or access to the product has been delivered, the arrangement does not involve significant customization of the software, the license or subscription fee is fixed or determinable and collection of the fee is probable. If an arrangement requires significant customization or implementation services from us, recognition of the associated license or subscription and service revenue could be delayed. The timing of the commencement and completion of these services is subject to factors that may be beyond our control, as this process may require access to the customer’s facilities and coordination with the customer’s personnel after delivery of the software. In addition, customers could cancel or delay product implementations. Implementation typically involves working with sophisticated software, computing and communications systems. If we experience difficulties with implementation or do not meet project milestones in a timely manner, we could be obligated to devote more customer support, engineering and other resources to a particular project. Some customers may also require us to develop customized features or capabilities. If new or existing customers cancel or have difficulty deploying our products or require significant amounts of our professional services, support, or customized features, revenue recognition could be cancelled or further delayed and our costs could increase, causing increased variability in our operating results.

Our reserves may be insufficient to cover receivables we are unable to collect.

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We assume a certain level of credit risk with our customers in order to do business. Conditions affecting any of our customers could cause them to become unable or unwilling to pay us in a timely manner, or at all, for products or services we have already provided them. In the past, we have experienced collection delays from certain customers, and we cannot predict whether we will continue to experience similar or more severe delays in the future. Although we have established reserves to cover losses due to delays or inability to pay, there can be no assurance that such reserves will be sufficient to cover our losses. If losses due to delays or inability to pay are greater than our reserves, it could harm our business, operating results and financial condition.

We may be subject to legal liability and/or negative publicity for the services provided to consumers via our technology platforms.

Our technology platforms enable representatives of our customers as well as individual service providers to communicate with consumers and other persons seeking information or advice on the Internet. The law relating to the liability of online platform providers such as us for the activities of users of their online platforms is often challenged in the U.S. and internationally. We may be unable to prevent users of our technology platforms from providing negligent, unlawful or inappropriate advice, information or content via our technology platforms, or from behaving in an unlawful manner, and we may be subject to allegations of civil or criminal liability for negligent, fraudulent, unlawful or inappropriate activities carried out by users of our technology platforms.

Claims could be made against online services companies under both U.S. and foreign law such as fraud, defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated by users of our technology platforms. In addition, domestic and foreign legislation has been proposed that could prohibit or impose liability for the transmission over the Internet of certain types of information. Our defense of any of these actions could be costly and involve significant time and attention of our management and other resources.

The Digital Millennium Copyright Act, or DMCA, is intended, among other things, to reduce the liability of online service providers for listing or linking to third party web properties that include materials that infringe copyrights or rights of others. Additionally, portions of The Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third party content. A safe harbor for copyright infringement is also available under the DMCA to certain online service providers that provide specific services, if the providers take certain affirmative steps as set forth in the DMCA. Important questions regarding the safe harbor under the DMCA and the CDA have yet to be litigated, and we cannot guarantee that we will meet the safe harbor requirements of the DMCA or of the CDA. If we are not covered by a safe harbor, for any reason, we could be exposed to claims, which could be costly and time-consuming to defend.

Unplanned system interruptions and capacity constraints and failure to effect efficient transmission of customer communications and data over the Internet could harm our business and reputation.

Our customers have in the past experienced some interruptions with eGain cloud operations. We believe that these interruptions will continue to occur from time to time. These interruptions could be due to hardware and operating system failures. As a result, our business will suffer if we experience frequent or long system interruptions that result in the unavailability or reduced performance of our hosted operations or reduce our ability to provide remote management services. We expect to experience occasional temporary capacity constraints due to sharply increased traffic or other Internet-wide disruptions, which may cause unanticipated system disruptions, slower response times, impaired quality, and degradation in levels of customer service. If this were to continue to happen, our business and reputation could be seriously harmed.

The growth in the use of the Internet has caused interruptions and delays in accessing the Internet and transmitting data over the Internet. Interruptions also occur due to systems burdens brought on by unsolicited bulk email or “Spam,” malicious service attacks and hacking into operating systems, viruses, worms and a “Trojan” horse, the proliferation of which is beyond our control and may seriously impact our and our customers’ businesses.

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Because we provide cloud-based software, interruptions or delays in Internet transmissions will harm our customers' ability to receive and respond to online interactions. Therefore, our market depends on ongoing improvements being made to the entire Internet infrastructure to alleviate overloading and congestion.

Our success largely depends on the efficient and uninterrupted operation of our computer and communications hardware and network systems. A significant amount of our computer and communications systems are located in Sunnyvale, California. Due to our location, our systems and operations are vulnerable to damage or interruption from fire, earthquake, power loss, telecommunications failure and similar events. Customer data that we store in third party data centers may also be vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rate and our ability to attract new customers.

We do maintain a business continuity plan for our customers in the event of an outage. We maintain other co-locations for the purposes of disaster recovery as well as maintaining backups of our customer's information. We provide premium disaster recovery and standard disaster recovery to our customers. If a customer opts not to pay for premium disaster recovery, we will only assure that their data is available within 72 hours. This delay could cause severe disruptions to our customers' customers and may result in customer termination of our solutions. Our premium disaster recovery service provides for an alternative data center and a return to operations within one business day.

We have entered into service agreements with some of our customers that require minimum performance standards, including standards regarding the availability and response time of our remote management services. If we fail to meet these standards, our customers could terminate their relationships with us, and we could be subject to contractual refunds and service credits to, and exposure to claims for losses by, customers. Any unplanned interruption of services may harm our ability to attract and retain customers.

If our security measures are breached and unauthorized access is obtained to a customer's data or our data or our IT systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our IT systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third party access to their customer data located in our cloud environment. Because we do not control the transmissions between customer authorized third parties, or the processing of such data by customer authorized third parties, we cannot ensure the integrity or security of such transmissions or processing. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability.

The terms we agree to in our Service Level Agreements or other contracts may result in increased costs or liabilities, which would in turn affect our results of operations.

Our Service Level Agreements (“SLAs”) provides for service credits for system unavailability, and in some cases, indemnities for loss, damage or costs resulting from use of our system. If we were required to provide any of these in a material way, our results of operations would suffer.

We have been and may in the future be sued by third parties for various claims including alleged infringement of proprietary rights.

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We are involved in various legal matters arising from the normal course of business activities. These may include claims, suits, and other proceedings involving alleged infringement of third-party patents and other intellectual property rights, and commercial, labor and employment, and other matters.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may receive in the future communications from third parties claiming that we or our customers have infringed the intellectual property rights of others. In addition we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. Our technologies and those of our customers may be subject to injunction if they are found to infringe the rights of a third party or we may be required to pay damages, or both. Many of our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, lead to attempts on the part of other parties to pursue similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices or pay monetary damages, or enter into short- or long-term royalty or licensing agreements.

Any adverse determination related to intellectual property claims or other litigation could prevent us from offering our service to others, could be material to our financial condition or cash flows, or both, or could otherwise adversely affect our operating results. In addition, depending on the nature and timing of any such dispute, a resolution of a legal matter could materially affect our future results of operation or cash flows or both.

We rely on trademark, copyright, trade secret laws, contractual restrictions and patent rights to protect our intellectual property and proprietary rights and if these rights are impaired, then our ability to generate revenue will be harmed.

If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have some U.S. patents and pending U.S. patent applications, we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

Our failure or inability to develop non-infringing technology or license the proprietary rights on a timely basis would harm our business.

We may be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the patents and other intellectual property rights of third parties. Our products may infringe issued patents that may relate to our products because patent applications in the United States are not publicly disclosed until the patent is issued, and hence applications may have been filed which relate to our software products. Intellectual property litigation is expensive, time consuming, and could divert management's attention away

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from running our business. This litigation could also require us to develop non-infringing technology or enter into royalty or license agreements. These royalty or license agreements, if required, may not be available on acceptable terms, if at all, in the event of a successful claim of infringement.

Software errors could be costly and time-consuming for us to correct, and could harm our reputation and impair our ability to sell our solutions.

Our solutions are based on complex software that may contain errors, or "bugs," that could be costly to correct, harm our reputation and impair our ability to sell our solutions to new customers. Moreover, customers relying on our solution may be more sensitive to such errors, and potential security vulnerabilities and business interruptions for these applications. If we incur substantial costs to correct any errors of this nature, our operating margins could be adversely affected. Because our customers depend on our solutions for critical business functions, any service interruptions could result in lost or delayed market acceptance and lost sales, higher service-level credits and warranty costs, diversion of development resources and product liability suits.

Our stock price has demonstrated volatility and continued market conditions may cause declines or fluctuations.

The price at which our common stock trades has been and will likely continue to be highly volatile and show wide fluctuations due to factors such as the following:

- concerns related to liquidity of our stock;
- actual or anticipated fluctuations in our operating results, our ability to meet announced or anticipated profitability goals and changes in or failure to meet securities analysts' expectations;
- announcements of technological innovations and/or the introduction of new services by us or our competitors;
- developments with respect to intellectual property rights and litigation, regulatory scrutiny and new legislation;
- conditions and trends in the Internet and other technology industries; and
- general market and economic conditions.

Furthermore, the stock market has recently and in the past experienced significant price and volume fluctuations that have affected the market prices for the common stock of technology companies, regardless of the specific operating performance of the affected company. These broad market fluctuations may cause the market price of our common stock to decline.

Our insiders who are significant stockholders may control the election of our board and may have interests that conflict with those of other stockholders.

Our directors and executive officers, together with their affiliates and members of their immediate families, beneficially owned, in the aggregate, approximately 39% of our outstanding capital stock as of September 8, 2016, of which our Chief Executive Officer, Ashutosh Roy, beneficially owned approximately 32% as of such date. As a result of these concentrated holdings, Mr. Roy individually or together with this group has the ability to exercise significant control over most matters requiring our stockholders' approval, including the election and removal of directors and the approval of significant corporate transactions.

Our offshore product development, support and professional services may prove difficult to manage or may not allow us to realize our cost reduction goals, produce effective new solutions and provide professional services to drive growth.

We use offshore resources to perform new product and services development and provide support and professional consulting efforts, which requires detailed technical and logistical coordination. We must ensure that our

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international resources and personnel are aware of and understand development specifications and customer support, as well as implementation and configuration requirements and that they can meet applicable timelines. If we are unable to maintain acceptable standards of quality in support, product development and professional services, our attempts to reduce costs and drive growth through new products and margin improvements in technical support and professional services may be negatively impacted, which would adversely affect our results of operations. Outsourcing services to offshore providers may expose us to misappropriation of our intellectual property or that of our customers, or make it more difficult to defend intellectual property rights in our technology.

If we are unable to hire and retain key personnel, our business and results of operations would be negatively affected.

Our success will also depend in large part on the skills, experience and performance of our senior management, engineering, sales, marketing and other key personnel. The loss of the services of any of our senior management or other key personnel, including our Chief Executive Officer and co-founder, Ashutosh Roy, could harm our business. Additionally, an increase in attrition in the Indian workforce on which we rely for research and development would have significant negative effects on us and our results of operations. If we cannot hire and retain qualified personnel, our ability to expand our business would be impaired and our results of operations would suffer.

The U.S.-EU Safe Harbor Framework for the transfer of personally identifiable information, or PII, that we have relied upon has been overturned and the current legal framework's uncertainty could expose us to risks of noncompliance and costs associated with compliance.

We have in the past relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established a means for legitimating the transfer of PII by U.S. companies doing business in Europe from the European Economic Area to the U.S. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. – EU Safe Harbor Framework is no longer deemed to be a valid method of compliance with restrictions set forth in the Data Protection Directive (and member states' implementations thereof) regarding the transfer of data outside of the European Economic Area. In light of the ECJ opinion in Case C-362/14, we anticipate engaging in efforts to legitimize data transfers from the European Economic Area. We may be unsuccessful in establishing legitimate means of transferring data from the European Economic Area, we may experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our services due to the potential risk exposure to such customers as a result of the ECJ ruling, and we and our customers are at risk of enforcement actions taken by an EU data protection authority until such point in time that we ensure that all data transfers to us from the European Economic Area are legitimized. We may find it necessary to establish systems to maintain EU-origin data in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business. We publicly post our privacy policies and practices concerning our processing, use and disclosure of PII. Our publication of our privacy policy and other statements we publish that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive or misrepresentative of our practices.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.

Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases foreign data privacy laws and regulations, such as the European Union's Data Protection Directive, and the country-specific regulations that implement that directive, also govern the processing of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union’s e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our solutions or restrict our ability to store and process data or, in some cases, impact our ability to offer our services and solutions in certain locations.

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In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on us. Our customers expect us to meet voluntary certification or other standards established by third parties, such as TRUSTe. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our service effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our subscription solution.

Industry-specific regulation is evolving and unfavorable industry-specific laws, regulations or interpretive positions could harm our business.

Our customers and potential customers do business in a variety of industries, including financial services, the public sector, healthcare and telecommunications. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit customers' use and adoption of our services and reduce overall demand for our services. For example, some financial services regulators have imposed guidelines for use of cloud computing services that mandate specific controls or require financial services enterprises to obtain regulatory approval prior to outsourcing certain functions. If we are unable to comply with these guidelines or controls, or if our customers are unable to obtain regulatory approval to use our service where required, our business may be harmed. In addition, an inability to satisfy the standards of certain voluntary third-party certification bodies that our customers may expect, such as an attestation of compliance with the Payment Card Industry (PCI) Data Security Standards, may have an adverse impact on our business. If in the future we are unable to achieve or maintain these industry-specific certifications or other requirements or standards relevant to our customers, it may harm our business.

In some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business.

We may need to license third-party technologies and may be unable to do so on commercially reasonable terms.

To the extent we need to license third-party technologies, we may be unable to do so on commercially reasonable terms or at all. In addition, we may fail to successfully integrate any licensed technology into our products or services. Third-party licenses may expose us to increased risks, including risks associated with the integration of new technology, the diversion of resources from the development of our own proprietary technology, and our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs. Our inability to obtain and successfully integrate any of these licenses could delay product and service development until equivalent technology can be identified, licensed and integrated. This in turn would harm our business and operating results.

Changes to current accounting policies could have a significant effect on our reported financial results or the way in which we conduct our business.

Generally accepted accounting principles and the related accounting pronouncements, implementation guidelines and interpretations for some of our significant accounting policies are highly complex and require subjective judgments and assumptions. Some of our more significant accounting policies that could be affected by changes in the accounting rules and the related implementation guidelines and interpretations include:

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- recognition of revenue;
- contingencies and litigation; and
- accounting for income taxes.

Changes in these or other rules, or scrutiny of our current accounting practices, or a determination that our judgments or assumptions in the application of these accounting principles were incorrect, could have a significant adverse effect on our reported operating results or the way in which we conduct our business.

We depend on broad market acceptance of our applications and of our business model.

We depend on the widespread acceptance and use of our applications as an effective solution for businesses seeking to manage high volumes of customer interactions across multiple channels, including Web, phone, email, print and in-person. While we believe the potential to be very large, we cannot accurately estimate the size or growth rate of the potential market for such product and service offerings generally, and we do not know whether our products and services in particular will achieve broad market acceptance. The market for customer engagement software is rapidly evolving, and concerns over the security and reliability of online transactions, the privacy of users and quality of service or other issues may inhibit the growth of the Internet and commercial online services. If the market for our applications fails to grow or grows more slowly than we currently anticipate, our business will be seriously harmed.

Furthermore, our business model is premised on business assumptions that are still evolving. Our business model assumes that both customers and companies will increasingly elect to communicate via multiple channels, as well as demand integration of the online channels into the traditional telephone-based call center. Our business model also assumes that many companies recognize the benefits of a hosted delivery model and will seek to have their customer engagement software applications hosted by us. If any of these assumptions is incorrect or if customers and companies do not adopt digital technology in a timely manner, our business will be seriously harmed and our stock price will decline.

We may be unable to respond to the rapid technological change and changing customer preferences in the online sales, marketing, customer service, and/or online consumer services industries and this may harm our business.

If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions in the online sales, marketing, customer service and/or e-commerce industry or our customers' or Internet users' requirements or preferences, our business, results of operations and financial condition would be materially and adversely affected. Business on the Internet is characterized by rapid technological change. In addition, the market for online sales, marketing, customer service and expert advice solutions is relatively new. Sudden changes in customer and Internet user requirements and preferences, frequent new product and service introductions embodying new technologies, such as broadband communications, and the emergence of new industry standards and practices such as but not limited to security standards could render our services and our proprietary technology and systems obsolete. The rapid evolution of these products and services will require that we continually improve the performance, features and reliability of our services. Our success will depend, in part, on our ability to:

- enhance the features and performance of our services;
- develop and offer new services that are valuable to companies doing business online as well as Internet users; and
- respond to technological advances and emerging industry standards and practices in a cost-effective and timely manner.

If any of our new services, including upgrades to our current services, do not meet our customers' or Internet users' expectations, our business may be harmed. Updating our technology may require significant additional capital expenditures and could materially and adversely affect our business, results of operations and financial condition.

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If new services require us to grow rapidly, this could place a significant strain on our managerial, operational, technical and financial resources. In order to manage our growth, we could be required to implement new or upgraded operating and financial systems, procedures and controls. Our failure to expand our operations in an efficient manner could cause our expenses to grow, our revenue to decline or grow more slowly than expected and could otherwise have a material adverse effect on our business, results of operations and financial condition

We may engage in future acquisitions or investments that could dilute our existing stockholders, cause us to incur significant expenses or harm our business.

We may review acquisition or investment prospects that we believe may complement our current business or enhance our technological capabilities. Integrating any newly acquired businesses or their technologies or products may be expensive and time-consuming, and may not result in benefits to our business. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us, if at all, and, in the case of equity financings, may result in dilution to our existing stockholders. We may not be able to operate acquired businesses profitably. If we are unable to integrate newly acquired entities or technologies effectively, our operating results could suffer. Future acquisitions by us could also result in large and immediate write-offs, incurrence of debt and contingent liabilities, or amortization of expenses related to goodwill and other intangibles, any of which could harm our operating results.

We may not be able to realize the benefits of offering the limited “Try & Buy” free version of our service

We offer a limited version of our subscription service to customers or potential customers free of charge (known as “Try & Buy”) in order to promote usage, brand and product awareness, and adoption, and we invest time and resources for such initial engagements without compensation from the customers. Some customers never enter into a definitive contract for our paid subscription service despite the time and effort we may have expended on such Try & Buy initiatives. To the extent that these customers do not become paying customers, we will not realize the intended benefits of this marketing effort, and our ability to grow our business and revenue may be harmed.

The uncertainty surrounding the implementation and effect of Brexit may cause increased economic volatility, affecting our operations and business

On June 23, 2016, voters in the United Kingdom (U.K.) approved an advisory referendum to withdraw membership from the European Union (E.U.), which proposed exit (referred to as Brexit) could cause disruptions to, and create uncertainty surrounding, our business in the U.K. and E.U., including affecting our relationships with our existing and future customers, suppliers and employees. As a result, Brexit could have an adverse effect on our future business, financial results and operations. The referendum is non-binding but if passed into law, negotiations would commence to determine the future terms of the U.K.’s relationship with the E.U., and there can be no assurance regarding the terms, timing or consummation of any such arrangements. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the U.K. and the other economies in which we operate. There can be no assurance that any or all of these events will not have a material adverse effect on our business operations, results of operations and financial condition.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

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ITEM 2.PROPERTIES

We lease all facilities used in our business. The following table summarizes our principal properties:

Location	Principal Use	Approximate Square Footage	Lease Expiration Date
Sunnyvale, California	Corporate Headquarters	42,541	2022
Pune, India	Corporate Offices	33,262	2021
Slough, England	Corporate Headquarters	14,173	2016
Newbury, England	Corporate Offices	14,090	2024

ITEM 3.LEGAL PROCEEDINGS

In the ordinary course of business, we are involved in various legal proceedings and claims related to alleged infringement of third-party patents and other intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour, and other claims. We have been, and may in the future be, put on notice and/or sued by third parties for alleged infringement of their proprietary rights, including patent infringement.

We evaluate all claims and lawsuits with respect to their potential merits, our potential defenses and counterclaims, settlement or litigation potential and the expected effect on us. Our technologies may be subject to injunction if they are found to infringe the rights of a third party. In addition, our agreements require us to indemnify our customers for third-party intellectual property infringement claims, which could increase the cost to us of an adverse ruling on such a claim.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant.

The following table sets forth information regarding eGain’s current executive officers as of September 13, 2016:

Name	Age	Position

Ashutosh Roy	50	Chief Executive Officer and Chairman
Eric Smit	54	Chief Financial Officer
Promod Narang	58	Senior Vice President of Products and Engineering
Joe Brown	66	Senior Vice President of Worldwide Sales

Ashutosh Roy co-founded eGain and has served as Chief Executive Officer and a director of eGain since September 1997 and President since October 2003. From May 1995 through April 1997, Mr. Roy served as Chairman of WhoWhere? Inc., an Internet-service company co-founded by Mr. Roy. From June 1994 to April 1995, Mr. Roy co-founded Parsec Technologies, a call center company based in New Delhi, India. From August 1988, to August 1992, Mr. Roy worked as a Software Engineer at Digital Equipment Corp. Mr. Roy holds a B.S. in Computer Science from the Indian Institute of Technology, New Delhi, a Master's degree in Computer Science from Johns Hopkins University and an M.B.A. from Stanford University.

Eric Smit has served as Chief Financial Officer since August 2002. From April 2001 to July 2002, Mr. Smit served as Vice President, Operations of eGain. From June 1999 to April 2001, Mr. Smit served as Vice President, Finance and Administration of eGain. From June 1998 to June 1999, Mr. Smit served as Director of Finance of eGain. From December 1996 to May 1998, Mr. Smit served as Director of Finance for WhoWhere? Inc., an Internet services company. From April 1993 to November 1996, Mr. Smit served as Vice President of Operations and Chief Financial Officer of Velocity Incorporated, a software game developer and publishing company. Mr. Smit holds a Bachelor of Commerce in Accounting from Rhodes University, South Africa.

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Promod Narang has served as Sr. Vice President of Engineering of eGain since March 2000. Mr. Narang joined eGain in October 1998, and served as Director of Engineering prior to assuming his current position. Prior to joining eGain, Mr. Narang served as President of VMpro, a system software consulting company from September 1987 to October 1998. Mr. Narang holds a Bachelor of Science in Computer Science from Wayne State University.

Joe Brown was appointed as Senior Vice President of Worldwide Sales on November 1, 2015. Prior to joining eGain, Mr. Brown served as Senior Vice President of World Wide Sales at Avangate, an enterprise software company, from May 2011 to January 2015. From January 2005 to February 2011, Mr. Brown served as Vice President of RightNow Technologies, a company that provides CRM solutions. Mr. Brown holds a Bachelors of Commerce from University of Witwatersrand and a Master of Business Leadership from University of South Africa.

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PART II

ITEM 5.MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The following table sets forth, for the periods indicated, high and low bid prices for eGain's common stock as reported by the NASDAQ Stock Market LLC.

Year Ended June 30, 2016	High	Low
First Quarter	$ 5.01	$ 3.13
Second Quarter	$ 5.00	$ 3.78
Third Quarter	$ 4.46	$ 2.79
Fourth Quarter	$ 3.99	$ 2.65
Year Ended June 30, 2015		
First Quarter	$ 7.14	$ 5.66
Second Quarter	$ 5.91	$ 3.99
Third Quarter	$ 5.32	$ 3.02
Fourth Quarter	$ 5.22	$ 2.82

Holders

As of September 1, 2016, there were approximately 218 stockholders of record. This number does not include stockholders whose shares are held in trust by other entities. We estimate that there were approximately 2,900 beneficial stockholders of our common stock as of September 1, 2016.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all available funds for use in the operation of our business and do not intend to pay any cash dividends in the foreseeable future.

Equity Compensation Plan Information

The following table summarizes our equity compensation plans as of June 30, 2016:

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders			
1998 Stock Plan	35,209	$ 0.67	—
2005 Stock Incentive Plan	1,566,535	$ 4.55	1,153,694
Equity compensation plans not approved by security holders			
2000 Non-Management Stock Option Plan	10,000	$ 0.66	—
2005 Management Stock Option Plan	871,484	$ 5.33	756,649
Total	2,483,228	$ 4.76	1,910,343

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Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Index and the Nasdaq Composite Total Return Index for each of the last five fiscal years ended June 30, 2016, assuming an initial investment of $100. Data for the Standard & Poor's 500 Index and the Nasdaq Composite Total Return Index assume no dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

	06/30/12	06/30/13	06/30/14	06/30/15	06/30/16
eGain Corporation	$ 100.00	$ 176.51	$ 124.22	$ 91.93	$ 51.74
Nasdaq Composite	$ 100.00	$ 117.60	$ 154.26	$ 176.53	$ 173.56
S&P Software & Services Select Industry Index	$ 100.00	$ 123.09	$ 153.45	$ 178.38	$ 177.92

Equity Compensation Plans Not Approved By Security Holders

2000 Non-Management Stock Option Plan

In July 2000, our board of directors adopted the 2000 Non-Management Stock Option Plan, which provides for the grant of non-statutory stock options and stock purchase rights to employees of eGain. A total of 200,000 shares of common stock were reserved for issuance under the 2000 Non-Management Stock Option Plan. This plan expired in July 2010 and there are no further options available to grant under the 2000 Plan.

2005 Management Stock Option Plan

In May 2005, our board of directors adopted the 2005 Management Stock Option Plan, or the 2005 Management Plan, pursuant to which the Compensation Committee may grant non-qualified stock options to purchase up to 962,400 shares of eGain common stock, at an exercise price of not less than 100% of the fair market value of such common stock,

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to directors, officers and key employees of the Company and its subsidiaries. In September 2014, our board approved an increase in the number of shares of commons stock reserved for issuance by 1,000,000 and extended the expiration date of the of the 2005 Management Stock Option Plan to September 30, 2024.

In both November 2007 and September 2011, our board of directors approved an increase of 500,000 shares for issuance under the 2005 Management Stock Option Plan. In September 2014, our board of directors approved the amendment to the 2005 Management Stock Option Plan, which approved an increase in the number of shares of common stock reserved for issuance thereunder by 1,000,000 shares from 1,962,400 shares to 2,962,400 shares. Options granted under the 2005 Management Plan are subject to vesting as determined by the Compensation Committee. The options are exercisable for up to ten years from the date of grant.

Issuer Repurchases of Equity Securities

On September 14, 2009, we announced that our board of directors approved a repurchase program under which we may purchase up to 1,000,000 shares of our common stock. The duration of the repurchase program is open-ended. Under the program, we purchase shares of common stock from time to time through the open market and privately negotiated transactions at prices deemed appropriate by management. The repurchase is funded by cash on hand. There were no shares repurchased during fiscal years 2016 and 2015.

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ITEM 6.SELECTED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with the information under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our consolidated financial statements, the related notes and the accompanying independent registered public accounting firm’s report, which are included in “Item 8. Financial Statements and Supplementary Data.”

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	Year ended June 30, 2016	2015	2014	2013	2012
	(in thousands, except per share information)				
Revenue					
Subscription and support	$ 42,783	$ 42,311	$ 40,477	$ 32,281	$ 23,594
License	14,466	18,325	14,800	12,853	11,067
Professional services	12,126	15,277	14,985	13,755	8,703
Total revenue	69,375	75,913	70,262	58,889	43,364
Cost of subscription and support	12,401	12,082	8,518	5,495	5,363
Cost of license	29	61	104	151	(39)
Cost of professional services	11,259	16,998	14,840	12,360	8,112
Total cost of revenue	23,689	29,141	23,462	18,006	13,436
Gross profit	45,686	46,772	46,800	40,883	29,928
Operating Expenses					
Research and development	16,063	16,042	9,963	8,419	6,132
Sales and marketing	27,722	32,703	33,367	24,434	20,086
General and administrative	7,774	9,313	7,529	6,787	5,743
Total operating expenses	51,559	58,058	50,859	39,640	31,961
Income / (loss) from operations	(5,873)	(11,286)	(4,059)	1,243	(2,033)
Interest expense, net	(1,958)	(834)	(181)	(483)	(722)
Other income / (expense), net	728	11	(415)	303	(677)
Income / (loss) before income tax benefit (provision)	(7,103)	(12,109)	(4,655)	1,063	(3,432)
Income tax benefit (provision)	863	(320)	(591)	(379)	(390)
Net income / (loss)	$ (6,240)	$ (12,429)	$ (5,246)	$ 684	$ (3,822)
Per share information					
Basic net income / (loss) per common share	$ (0.23)	$ (0.47)	$ (0.21)	$ 0.03	$ (0.16)
Diluted net income / (loss) per common share	$ (0.23)	$ (0.47)	$ (0.21)	$ 0.03	$ (0.16)
Weighted average shares used in computing basic net income / (loss) per common share	27,056	26,609	25,353	24,780	24,329
Weighted average shares used in computing diluted net income / (loss) per common share	27,056	26,609	25,353	26,089	24,329
Below is a summary of stock - based compensation included in the costs and expenses above:					
Cost of revenue	$ 249	$ 476	$ 280	$ 121	$ 77
Research and development	$ 472	$ 736	$ 386	$ 261	$ 180
Sales and marketing	$ 169	$ 574	$ 464	$ 360	$ 274
General and administrative	$ 298	$ 531	$ 397	$ 339	$ 325

	June 30, 2016	2015	2014	2013	2012
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments (including restricted cash)	$ 11,785	$ 9,309	$ 8,815	$ 17,235	$ 10,946
Working capital	$ (886)	$ (2,039)	$ (1,885)	$ 2,021	$ 2,860
Total assets	$ 48,063	$ 49,731	$ 32,647	$ 43,536	$ 27,943
Deferred revenue	$ 15,717	$ 15,812	$ 13,713	$ 19,736	$ 8,083

Long-term debt (bank borrowings and capital lease obligations)	$ 20,376	$ 18,554	$ 4,208	$ 2,000	$ 7,230

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ITEM 7.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of eGain’s financial condition and results of operations should be read together with the consolidated financial statements and related notes in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. These risks and uncertainties may cause actual results to differ materially from those discussed in the forward-looking statements.

Overview

eGain was incorporated in Delaware in September 1997. We are a leading provider of cloud-based and on-site customer engagement solutions. For nearly two decades, our solutions have helped improve customer experience, grow sales, and optimize service processes across the web, social, and phone channels. Hundreds of global enterprises rely on us to transform fragmented sales engagement and customer service operations into unified customer engagement hubs.

In fiscal year 2016, we recorded annual revenue of $69.4 million and loss from operations of $5.9 million, compared to annual revenue of $75.9 million and a loss from operations of $11.3 million in fiscal year 2015. The year-over-year decrease in total revenue was primarily driven by the 21% decrease in license revenue and 21% decrease in professional services revenue. License revenue was $14.5 million in fiscal year 2016, compared to $18.3 million in fiscal year 2015. Subscription and support revenue was $42.8 million in fiscal year 2016, compared to $42.3 million in fiscal year 2015. Professional services revenue was $12.1 million in fiscal year 2016, compared to $15.3 million in fiscal year 2015. Cash provided by operations was $1.9 million for fiscal year 2016, compared to cash used in operations of $10.5 million for fiscal year 2015.

Unbilled Deferred Revenue

Unbilled deferred revenue represents business that is contracted but not yet invoiced or collected and off–balance-sheet and, accordingly, is not recorded in deferred revenue. As such, the deferred revenue balance on our consolidated balance sheet does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. As of June 30, 2016, unbilled deferred revenue increased to $31.1 million, up from approximately $26.5 million as of June 30, 2015.

Key Financial Measures

We monitor the key financial performance measures set forth below as well as cash and cash equivalents and available debt capacity, which are discussed in “Liquidity and Capital Resources,” to help us evaluate trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational effectiveness and efficiencies. These key financial performance measures include certain non-GAAP metrics, including Adjusted EBITDA as defined below. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with generally accepted accounting principles (GAAP).

Adjusted EBITDA, a non-GAAP financial measure, is defined as net income (loss), adjusted for the impact of purchase accounting adjustments to deferred revenue related to acquisitions, depreciation and amortization, stock-based compensation expense, interest expense, net, income tax (benefit) provision, amortization of acquired intangibles, acquisition-related expenses and severance and related charges.

Management believes that it is useful to exclude certain non-cash charges and non-core operational charges from Adjusted EBITDA because (1) the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and (2) such expenses can vary significantly between periods as a result of the timing of new stock-based awards and acquisitions.

The following table presents our key financial measures, including a reconciliation of Adjusted EBITDA to net income (loss) for each of the periods indicated:

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	Fiscal Year Ended June 30							
	2016		2015		2014			
Revenue	$	69,375	$	75,913	$ 70,262			
Gross profit		45,686		46,772	46,800			
Adjusted EBITDA								
Net loss	$	(6,240)	$	(12,429)	$ (5,246)			
Add: Purchase accounting adjustments to deferred revenue related to acquisitions	Total cash cost per silver ounce (1)	$	(2.70	)	$ (4.56	) $(1.64	) $(5.45	)

(1) A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).

The $17.8 million and $59.8 million increases in gross profit during the second quarter and first six months of 2011, respectively, compared to the same 2010 periods were primarily the result of higher average prices for all metals produced at Greens Creek, as discussed in Results of Operations above, partially offset by lower production due to lower ore volume and ore grades for all four metals. The ore volume decreases are mainly due to the lack of availability of higher-volume long-hole stopes, while the ore grade variances are due to differences in the sequencing of production from the various mine areas as a part of the overall mine plan. In addition, gross profit at Greens Creek was impacted by negative price adjustments to revenues of $5.6 million during the second quarter of 2011 and positive price adjustments to revenues of $1.1 million during the first six months of 2011, compared to negative price adjustments of $4.9 million and $8.2 million for the second quarter and first six months of 2010, respectively. Price adjustments to revenues result from changes in metals prices between transfer of title of concentrates to buyers and final settlements during the period. The impact of the negative price adjustments for the first six months of 2011 was partially offset by a net gain of $0.7 million on forward contracts related to concentrates shipped during 2011, compared to a gain of $6.4 million in the same period in 2010 (see Note 11 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information). Cost of sales and other direct production costs increased by 2% and 14% in the second quarter and first six months of 2011, respectively, compared to the same 2010 periods, due primarily to the timing of shipments, which is reflected in payable metal quantities sold in the table above.

Mining and milling costs per ton increased by 29% in the second quarter of 2011 compared to 2010, and by 22% for the first six months of 2011 over the same period in 2010. The increase was driven primarily by higher power costs as we generated more power on-site due to lower availability of less expensive hydroelectric power, the result of lower precipitation levels in Southeastern Alaska. Labor cost was also higher, due primarily to higher fringe benefits costs.

Depreciation, depletion and amortization were 26% less in the second quarter of 2011 than in 2010, and were lower by 25% over the six-month period of 2011 versus 2010. The primary cause of the decrease was lower metals production as described above, as the majority of depreciation is calculated on a units-of-production basis.

Cash cost per ounce of silver increased by $1.86 for the second quarter of 2011 compared to the same period in 2010 primarily as a result of higher production costs, treatment and freight costs, and mine license tax and other costs by $4.60, $4.28, and $1.12 per ounce, respectively. The increase in production costs is mainly attributable to higher power costs, due to increased reliance on more expensive diesel-generated power, and higher fringe benefit costs. The factors above were partially offset by higher by-product credits of $8.14 per ounce resulting from higher average market zinc, lead, and gold prices, in spite of lower ore grades for those metals. Cash cost per ounce increased by $3.81 for the six-month period ended June 30, 2011 compared to the same period in 2010 due primarily to higher production costs, mine license tax and other costs, and treatment and freight costs by $2.55, $1.31, and $1.23 per ounce, respectively. This is partially offset by higher by-product credits of $1.28 per ounce due to higher prices, in spite of lower ore grades for zinc, lead, and gold.

The difference between what we report as “production” and “payable metal quantities sold” is due essentially to the difference between the quantities of metals contained in the concentrates we produce versus the portion of those metals actually payable by our smelter customers according to the terms of the smelter contracts. Differences can arise further from inventory changes incidental to shipping schedules. The decrease in payable quantities sold for the second quarter of 2011 compared to the same period in 2010 is due to the lack of high volume long-hole stopes and low ore grades.

While value from zinc, lead and gold by-products is significant, we believe that identification of silver as the primary product of the Greens Creek unit is appropriate because:

- silver has historically accounted for a higher proportion of revenue than any other metal and is expected to do so in the future;

we have historically presented Greens Creek as a producer primarily of silver, based on the original analysis that justified putting the project into production, and believe that consistency in disclosure is important to our investors regardless of the relationships of metals prices and production from year to year;

metallurgical treatment maximizes silver recovery;
the Greens Creek deposit is a massive sulfide deposit containing an unusually high proportion of silver; and
in most of its working areas, Greens Creek utilizes selective mining methods in which silver is the metal targeted for highest recovery.

We periodically review our proven and probable reserves to ensure that reporting of primary products and by-products is appropriate. Within our cost per ounce of silver calculations, because we consider zinc, lead and gold to be by-products of our silver production, the values of these metals offset operating costs within our cost per ounce calculations.

The Lucky Friday Segment

The following is a comparison of the operating results and key production statistics of our Lucky Friday segment (dollars are in thousands, except for per ton and per ounce amounts):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Sales	$36,044	$21,690	$70,606	$45,024
Cost of sales and other direct production costs	(13,753)	(10,921)	(26,555)	(22,128)
Depreciation, depletion and amortization	(1,495)	(1,912)	(3,077)	(3,901)
Gross profit	$20,796	$8,857	$40,974	$18,995
Tons of ore milled	75,743	79,428	164,503	171,469
Production:				
Silver (ounces)	791,249	797,385	1,548,073	1,679,464
Lead (tons)	4,578	5,047	9,522	10,548
Zinc (tons)	1,904	2,142	4,059	4,673
Payable metal quantities sold:				
Silver (ounces)	722,107	728,641	1,423,199	1,541,618
Lead (tons)	4,180	4,604	8,763	9,659
Zinc (tons)	1,458	1,523	3,022	3,369
Ore grades:				
Silver ounces per ton	11.13	10.75	10.13	10.51
Lead percent	6.47	6.80	6.26	6.61
Zinc percent	2.85	3.09	2.85	3.12
Mining cost per ton	$61.36	$56.62	$59.82	$54.71
Milling cost per ton	$17.07	$15.35	$16.17	$14.87
Total cash cost per silver ounce (1)	$6.46	$4.47	$5.74	$3.81

(1) A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).

The $11.9 million and $22.0 million increases in gross profit for the second quarter and first six months of 2011, respectively, compared to the same periods in 2010 resulted primarily from significantly higher silver, lead and zinc prices, partially offset by lower base metal ore grades. Cost of sales and other direct production costs increased by 26% and 20% in the second quarter and first six months of 2011, respectively, compared to the same periods in 2010 due primarily to increases in employee profit sharing and taxes, due to increased profitability.

Depreciation was 22% lower in the second quarter of 2011 compared to the same period in 2010, and 21% lower on a year-to-date basis, due to a reduction in units-of-production depreciation. The majority of the decrease was incidental to an extension of expected mine life at Lucky Friday, resulting in the book value of units-of-production assets being depreciated over a longer duration. The extension of the expected mine life is primarily due to the positive economics of the #4 Shaft project which, if completed, would provide deeper access beyond the current workings (see Overview above for further discussion). In addition, production was lower in both periods of 2011 compared to the same periods in 2010.

Mining and milling costs per ton increased by 9% in both the second quarter and first six months of 2011 compared to the same periods in 2010 primarily due to increased costs of fuel, consumable underground materials, reagents, power, and maintenance supplies.

The $1.99 increase in total cash costs per silver ounce for the second quarter of 2011, compared to the same period in 2010 is due primarily to higher treatment and freight and employee profit sharing and other costs of $2.80 and $2.04, respectively. This is partially offset by higher lead and zinc by-product credits of $2.27 per ounce from increased prices for those metals and lower production costs of $0.58 per ounce. Cash costs per silver ounce increased by $1.93 for the six-month period ended June 30, 2011 compared to the same 2010 period primarily because of higher employee profit sharing and other costs, treatment and freight, and production costs of $2.16, $1.98 and $0.77, respectively. This is partially offset by higher lead and zinc by-product credits of $2.98 per ounce from increased prices from those metals.

The difference between what we report as "production" and "payable metal quantities sold" is due essentially to the difference between the quantities of metals contained in the concentrates we produce versus the portion of those metals actually payable by our smelter customers according to the terms of the smelter contracts. The decrease in payable quantities sold for the second quarter of 2011 compared to the same period in 2010 is attributable to the decrease in production due to a 10-day shut-down of operations in April at Lucky Friday as the result of an accident, as discussed further in the Overview section above discussed above.

While value from lead and zinc is significant, we believe that identification of silver as the primary product of the Lucky Friday unit is appropriate because:

silver has historically accounted for a higher proportion of revenue than any other metal and is expected to do so in the future;
the Lucky Friday unit is situated in a mining district long associated with silver production; and
the Lucky Friday unit generally utilizes selective mining methods to target silver production.

We periodically review our proven and probable reserves to ensure that reporting of primary products and by-products is appropriate. Because we consider zinc and lead to be by-products of our silver production, the values of these metals offset operating costs within our cost per ounce calculations.

Over the past years we have evaluated alternatives for deeper access at the Lucky Friday mine in order to expand its operational life. As a result, we initiated work on an internal shaft at the Lucky Friday (#4 Shaft) in late 2009. See the Overview section above for more information on #4 Shaft. Our Board of Directors gave its final approval of the project in August 2011.

Many of the employees at our Lucky Friday unit are represented by a union. The collective bargaining agreement with the union expires on April 30, 2016.

Corporate Matters

Other significant variances affecting our net income for the second quarter and first six months of 2011 as compared to the same periods in 2010 were as follows:

- Higher general and administrative expense in the first half of 2011 by $0.5 million which was primarily the result of an increase in workforce costs and variable compensation.
- $1.5 million increase in other operating expense primarily as a result of an increase in pension plan actuarial liabilities in the first half of 2011. See Note 7 of Notes to Condensed Consolidation Financial Statements (Unaudited) for more information.
- Interest expense increased by $1.0 million in the second quarter of 2011 compared to the same period in 2010 due to the accrual of pre-lodging interest associated with the proposed terms of potential settlement with the Plaintiffs in the Coeur d'Alene Basin environmental litigation. The pre-lodging interest period ended with lodging of the Consent Decree with the Court in June 2011. See Note 4 of Notes to the Condensed Consolidated Financial Statements (Unaudited) for more information.
- We entered into a base metals forward sales program based on forecasted future production in the second quarter 2010 resulting in a $0.6 million gain and a $1.5 million loss on derivative contracts in the second quarter and first six months of 2011, respectively, compared to a $2.0 million gain for the second quarter and first six months of 2010.
- An income tax provision of $43.1 million for the first six months of 2011 compared to an income tax provision of $2.0 million for the first six months of 2010 due to higher pre-tax income in the 2011 period and release of valuation allowances on our deferred tax assets in the first quarter of 2010. See Note 3 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information.

Reconciliation of Total Cash Costs (non-GAAP) to Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP)

The tables below present reconciliations between non-GAAP total cash costs to cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP) for our operations at the Greens Creek and Lucky Friday units for the three and six months ended June 30, 2011 and 2010 (in thousands, except costs per ounce).

Total cash costs include all direct and indirect operating cash costs related directly to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining and marketing expense, on-site general and administrative costs, royalties, and mining production taxes, net of by-product revenues earned from all metals other than the primary metal produced at each unit. Total cash costs provide management and investors an indication of net cash flow, after consideration of the realized price received for production sold. Management also uses this measurement for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective. "Total cash cost per ounce" is a measure developed by mining companies in an effort to provide a comparable standard, however, there can be no assurance that our reporting of this non-GAAP measure is similar to that reported by other mining companies.

Cost of sales and other direct production costs and depreciation, depletion and amortization, is the most comparable financial measure calculated in accordance with GAAP to total cash costs. The sum of the cost of sales and other direct production costs and depreciation, depletion and amortization for our operating units in the tables below is presented in our Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) (Unaudited) (in thousands).

	Total, All Properties			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total cash costs (1)	$ 1,169	$ (4,784)	$ 3,699	$ (12,317)
Divided by ounces produced	2,250	2,628	4,705	5,112
Total cash cost per ounce produced	$ 0.52	$ (1.82)	$ 0.79	$ (2.41)
Reconciliation to GAAP:				
Total cash costs	$ 1,169	$ (4,784)	$ 3,699	$ (12,317)
Depreciation, depletion and amortization	11,204	15,020	23,466	31,089
Treatment costs	(25,948)	(21,619)	(50,183)	(46,535)
By-product credits	66,931	64,066	131,442	133,461
Change in product inventory	(4,164)	(2,401)	(2,631)	(2,858)
Reclamation and other costs	877	283	1,067	64
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 50,069	$ 50,565	$ 106,860	$ 102,904

	Green Creek Unit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total cash costs (1)	$ (3,942)	$ (8,345)	$ (5,187)	$ (18,711)
Divided by ounces produced	1,459	1,831	3,157	3,433
Total cash cost per ounce produced	$ (2.70)	$ (4.56)	$ (1.64)	$ (5.45)
Reconciliation to GAAP:				
Total cash costs	$ (3,942)	$ (8,345)	$ (5,187)	$ (18,711)
Depreciation, depletion and amortization	9,709	13,108	20,389	27,188
Treatment costs	(20,220)	(18,063)	(39,335)	(38,000)
By-product credits	54,001	52,850	104,064	108,776
Change in product inventory	(4,198)	(2,096)	(2,340)	(2,430)
Reclamation and other costs	(529)	278	(363)	52
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 34,821	$ 37,732	$ 77,228	$ 76,875

	Lucky Friday Unit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Total cash costs (1)	$5,111	$3,561	$8,886	$6,394
Divided by silver ounces produced	791	797	1,548	1,679
Total cash cost per ounce produced	$6.46	$4.47	$5.74	$3.81
Reconciliation to GAAP:				
Total cash costs	$5,111	$3,561	$8,886	$6,394
Depreciation, depletion and amortization	1,495	1,912	3,077	3,901
Treatment costs	(5,728)	(3,556)	(10,848)	(8,535)
By-product credits	12,930	11,216	27,378	24,685
Change in product inventory	34	(305)	(291)	(428)
Reclamation and other costs	1,406	5	1,430	12
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$15,248	$12,833	$29,632	$26,029

(1) Includes all direct and indirect operating cash costs related directly to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining and marketing expense, on-site general and administrative costs, royalties and mining production taxes, net of by-product revenues earned from all metals other than the primary metal produced at each unit.

Financial Liquidity and Capital Resources

Our liquid assets include (in millions):

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 377.4	$ 283.6
Marketable equity securities	4.2	2.7
Total cash, cash equivalents and investments	$ 381.6	$ 286.3

Cash and cash equivalents increased by $93.8 million in the first half of 2011, as discussed below, while the value of non-current marketable equity securities increased by $1.5 million due to the purchase of securities in March 2011, partially offset by the sale of securities during the first quarter of 2011 (see Note 2 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information).

For more than a year Hecla Limited has been involved in settlement negotiations with representatives of the United States, the State of Idaho and the Tribe on the terms of settlement with respect to the Coeur d'Alene Basin environmental litigation and related claims. Those settlement negotiations culminated in a comprehensive settlement reflected in a Consent Decree lodged with the Court on June 13, 2011. We believe that the United States is in the process of evaluating any public comments it received on the Consent Decree and anticipate the Plaintiffs will seek Court approval and entry of the Consent Decree some time during the third quarter of 2011. While there is no assurance that the Consent Decree will be entered by the Court, if it is entered, Hecla Limited would make the following payments:

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$102 million of cash, $55.5 million of cash or Hecla Mining Company common stock, and approximately $9.5 million in proceeds from Series 3 warrants received by Hecla through April 12, 2011 and referred to below, all payable 30 days after entry of the Consent Decree;

$25 million of cash 30 days after the first anniversary of entry of the Consent Decree;

$15 million of cash 30 days after the second anniversary of entry of the Consent Decree; and

Approximately $56.4 million by August 2014, as quarterly payments of the proceeds from the exercise of any outstanding Series 1 and Series 3 warrants (which have an exercise price of between $2.45 and $2.50 per share) during the quarter, with the remaining balance, if any, due in August 2014, regardless of whether any of the remaining warrants are exercised.

The foregoing payments of $25 million, $15 million, and $56.2 million require third party surety. Further, between April 15, 2011 and the lodging of the Consent Decree on June 13, 2011, $197.5 million of the foregoing payments accrued interest at the annual rate of 3.25%, totaling to $1,069,792 of interest owed by Hecla Limited. The $25 million and $15 million payments would also accrue interest from the entry of the Consent Decree until payment at the Superfund rate (currently 0.69%). In addition to the foregoing payments, Hecla Limited is obligated to provide the Plaintiffs with a limited amount of land it currently owns to be used as a repository waste site. The interest in the land to be provided was acquired by Hecla Limited in prior periods, and will require no further payments of cash.

As a result of our current cash balance, the performance of our operations, current metals prices, and full availability of our $60 million revolving credit agreement, we believe our cash, cash equivalents, investments, projected cash from operations, and availability of financing if needed will be adequate to meet our obligations during the next twelve months, including any required settlement payments and capital outlays for the #4 Shaft project discussed below. We currently estimate that a total of approximately $112 million will be incurred on capital expenditures for equipment, infrastructure, and development at our Lucky Friday and Greens Creek units in 2011. We also estimate that exploration and pre-development expenditures will total approximately $33 million in 2011.

To increase production and longevity at the Lucky Friday mine, we have initiated work on #4 Shaft, including: detailed shaft design, excavation of the hoist room and off shaft development access to shaft facilities, placement and receipt of orders for major equipment purchases, and other construction activities. The #4 Shaft project , as currently designed, is expected to involve capital expenditures of approximately $200 million, which includes approximately $70 million that has been spent on the project as of June 30, 2011. Our ability to finance such a project will depend on our operational performance, metals prices, our ability to estimate capital costs, sources of liquidity available to us, and other factors. We believe that our available cash, revolving credit agreement, cash from operations, and access to equity and financial markets will allow us to proceed even if the proposed settlement of the Coeur d'Alene Basin environmental litigation and related claims is finalized and payments made as anticipated thereunder. We may also mitigate market risk from time to time with selective base metal derivative contract programs. However, a sustained downturn in metals prices or significant increases in operational or capital costs or other factors beyond our control could compel us to suspend the project in the future.

	Six Months Ended	
	June 30, 2011	June 30, 2010
Cash provided by operating activities (in millions)	$ 127.2	$ 73.4

Cash provided by operating activities in the first six months of 2011 increased by $53.8 million compared to the same period in 2010 primarily due to higher income, as adjusted for non-cash items. The improved results are attributable to higher prices for all metals produced at our operations. Working capital and other operating asset and liability changes resulted in a net cash flow reduction of $3.9 million in the first six months of 2011 compared to a net increase in cash flows of $0.8 million in the 2010 period. The $4.7 million decrease is attributed to higher accounts receivable due primarily to the timing of concentrate shipments at Greens Creek and higher metals prices, and a reduction in accrued taxes resulting from the payment of Alaska mine license taxes at Greens Creek in the second quarter of 2011.

	Six Months Ended	
	June 30, 2011	June 30, 2010
Cash used in investing activities (in millions)	$ (32.9)	$ (23.8)

During the first six months of 2011 we invested $43.1 million in capital expenditures, including $2.5 million in non-cash capital lease additions, an increase of $14.7 million compared to the same period last year, due to an increase in capital spending at both the Greens Creek and Lucky Friday units. Our restricted cash and investment balances decreased during the first half of 2011 by $9.4 million, compared to a $1.5 million decrease in the same period of 2010, due to reduced reclamation bond collateralization requirements. During the first quarter of 2011, we purchased marketable securities having a cost basis of $3.2 million, and sold investments having a cost of $0.8 million for proceeds of $1.4 million (see Note 2 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information). In January 2010 we sold investments having a cost basis of $0.6 million for proceeds of $1.1 million.

	Six Months Ended	
	June 30, 2011	June 30, 2010
Cash (used in) provided by financing activities (in millions)	$ (0.5)	$ 43.2

Warrants to purchase approximately 1.8 million shares of our common stock were exercised in the first quarter of 2011, resulting in proceeds to us of approximately $4.4 million, with additional proceeds of $0.5 million from the exercise of options during the first half of 2011. During the first half of 2010, warrants and options exercised resulted in net cash proceeds of $45.6 million. The remaining warrants outstanding at June 30, 2011 to purchase approximately 22.7 million shares of our common stock have exercise prices ranging from $2.45 to $2.56 per share and expire in 2014. Any future proceeds from the exercise of Series 1 and Series 3 warrants outstanding along with approximately $9.5 million in proceeds from Series 1 and Series 3 warrants preciously exercised will be paid over by us to the Plaintiffs under the terms of the settlement of the Basin litigation. See Note 8 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information on our warrants outstanding.

We paid cash dividends totaling $3.3 million on our 6.5% Mandatory Convertible Preferred Stock and $0.2 million on our Series B Preferred Stock in the first half of 2011. We paid $1.0 million in cash dividends on our Series B Preferred Stock in the first half of 2010, while $19.6 million in 6.5% Mandatory Convertible Preferred Stock dividends were paid in shares of our common stock. On January 1, 2011, all of the outstanding shares of our 6.5% Mandatory Convertible Preferred Stock were converted to shares of our common stock, and we paid the final quarterly dividend on that series of preferred stock in January 2011. We are no longer required to pay quarterly dividends of approximately $3.3 million as a result of the conversion. We made repayments on our capital leases of $1.3 million and $0.7 million in the six month periods ended June 30, 2011 and 2010, respectively.

We acquired treasury shares valued at $0.5 million during the first half of 2011 compared to $0.7 million during the same 2010 period as the result of employee elections to settle tax obligations related to stock option exercises and vested restricted stock units through the sale of shares.

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Contractual Obligations, Contingent Liabilities and Commitments

The table below presents our fixed, non-cancelable contractual obligations and commitments primarily related to our outstanding purchase orders, certain capital expenditures, our credit facility and lease arrangements as of June 30, 2011 (in thousands):

	Payments Due By Period				
	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
Purchase obligation (1)	$8,510	$- -	$- -	$-	$8,510
Commitment fees (2)	495	784	- -	- -	1,279
Contractual obligations (3)	6,791	- -	- -	- -	6,791
Capital lease commitments (4)	3,413	1,723	2,178	796	8,110
Operating lease commitments (5)	2,825	4,113	1,553	1,178	9,669
Supplemental executive retirement plan (6)	325	663	790	2,328	4,106
Total contractual cash obligations	$22,359	$7,283	$4,521	$4,302	$38,465

(1) Consists of open purchase orders of approximately $6.2 million at the Greens Creek unit and $2.3 million at the Lucky Friday unit. Included in these amounts are approximately $5.3 million and $2.2 million related to various capital projects at the Greens Creek and Lucky Friday units, respectively.

(2) In October 2009, we entered into a $60 million revolving credit agreement, which was amended in March 2010, July 2010, and December 2010. We are required to pay a standby fee, dependent on our leverage ratio, of between 0.825% and 1.05% per annum on undrawn amounts under the revolving credit agreement. There was no amount drawn under the revolving credit agreement as of June 30, 2011, and the amounts above assume no amounts will be drawn during the agreement's term. For more information on our credit facility, see Note 9 of Notes to Condensed Consolidated Financial Statements (Unaudited).

(3) As of June 30, 2011, we were committed to approximately $5.3 and $0.2 million for various capital projects at the Greens Creek and Lucky Friday units, respectively. Total contractual obligations at June 30, 2011 also included approximately $1.3 million for commitments relating to non-capital items at Greens Creek.

(4) Represents scheduled capital lease payments of $6.6 million and $1.5 million (including interest), respectively, for equipment at our Greens Creek and Lucky Friday units. These leases have fixed payment terms and contain bargain purchase options at the end of the lease periods (see Note 9 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information).

(5) We enter into operating leases in the normal course of business. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease arrangements.

(6) There were no funding requirements as of June 30, 2011 under our other defined benefit pension plans. See Note 7 of Notes to Condensed Consolidated Financial Statements (Unaudited) for more information

We record a liability for costs associated with mine closure, reclamation of land and other environmental matters. At June 30, 2011, our liability for these matters totaled $318.6 million, including $262.2 for Hecla Limited's liability relating to the Coeur d'Alene River Basin in northern Idaho. On June 13, 2011, a Consent Decree settling the Coeur d'Alene Basin environmental litigation and related claims was lodged with the U.S. District Court in Idaho. However, there is no assurance that the Consent Decree will be entered by the Court. If it is entered, Hecla Limited would be obligated to make significant cash payments to the Plaintiffs. See the Financial Liquidity and Capital Resources section above for more information on the financial terms of the proposed settlement. Future expenditures related to closure, reclamation and environmental expenditures at our other sites are difficult to estimate, although we anticipate we will make substantial expenditures relating to these obligations over the next 30 years. For additional information relating to our environmental obligations, see Note 4 of Notes to Condensed Consolidated Financial Statements (Unaudited).

Off-Balance Sheet Arrangements

At June 30, 2011, we had no existing off-balance sheet arrangements, as defined under SEC regulations, that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Critical Accounting Estimates

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements in our annual report filed on Form 10-K for the year ended December 31, 2010. As described in Note 1, we are required to make estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue, and expenses. Our estimates are based on our experience and our interpretation of economic, political, regulatory, and other factors that affect our business prospects. Actual results may differ significantly from our estimates.

We believe that our most critical accounting estimates are related to future metals prices; obligations for environmental, reclamation, and closure matters; mineral reserves; and accounting for business combinations, as they require us to make assumptions that were highly uncertain at the time the accounting estimates were made and changes in them are reasonably likely to occur from period to period. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our board of directors, and the Audit Committee has reviewed the disclosures presented below. In addition, there are other items within our financial statements that require estimation, but are not deemed to be critical. However, changes in estimates used in these and other items could have a material impact on our financial statements.

Future Metals Prices

Metals prices are key components in estimates that determine the valuation of some of our significant assets and liabilities, including properties, plants and equipment, deferred tax assets, and certain accounts receivable. Metals prices are also an important component in the estimation of reserves. As shown under Item 1A. — Risk Factors in our annual report filed on Form 10-K for the year ended December 31, 2010, metals prices have historically been volatile. While average prices for all four metals we produce performed favorably for the five consecutive years prior to 2008, there was a reduction in the average prices for zinc and lead in 2008 compared to 2007, and average prices for silver, zinc and lead were lower in 2009 compared to 2008. Average prices for all four metals rebounded in 2010 and were higher than their levels in both 2009 and 2008, and average prices for all four metals were higher for the first half of 2011compared to the same period in 2010. However, we have recorded in the past impairments to our asset carrying value because of low prices, and we can offer no assurance that prices will either remain at their current levels or increase. Future metals prices may also affect the analysis of our ability to pay for environmental remediation or damage settlements.

Processes supporting valuation of our assets and liabilities that are most significantly affected by prices include analyses of asset carrying values, depreciation, reserves, and deferred income taxes. On at least an annual basis – and more frequently if circumstances warrant – we examine our depreciation rates, reserve estimates, and the valuation allowances on our deferred tax assets. We examine the carrying values of our assets as changes in facts and circumstances warrant. In our analyses of carrying values and deferred taxes, we apply several pricing views to our forecasting model, including current prices, analyst price estimates, forward-curve prices, and historical prices (see Mineral Reserves, below, regarding prices used for reserve estimates). Using applicable accounting guidance and our view of metals markets, we use the average of the various methods to determine whether the values of our assets are fairly stated, and to determine the level of valuation allowances, if any, on our deferred tax assets. In addition, estimates of future metals prices are used in the valuation of certain assets in the determination of the purchase price allocations for our acquisitions (see Business Combinations below).

Sales of all metals products sold directly to smelters are recorded as revenues when title and risk of loss transfer to the smelter (generally at the time of shipment) at estimated forward metals prices for the estimated month of settlement. Due to the time elapsed from shipment to the smelter to the final settlement with the smelter we must estimate the prices at which sales of our metals will be settled. Previously recorded sales and trade accounts receivable are adjusted to estimated settlement metals prices until final settlement by the smelter. Changes in metals prices between shipment and final settlement result in changes to revenues and accounts receivable previously recorded upon shipment. As a result, our trade accounts receivable balances are subject to changes in metals prices until final settlement occurs. For more information, see part O. Revenue Recognition of Note 1 of Notes to Consolidated Financial Statements of Notes to Consolidated Financial Statements in our annual report filed on Form 10-K for the year ended December 31, 2010.

We utilize financially-settled forward contracts to manage our exposure to changes in prices for zinc and lead. See Item 3. Quantitative and Qualitative Disclosures About Market Risk - Commodity-Price Risk Management below for more information on our contract programs. These contracts do not qualify for hedge accounting and are therefore marked-to-market though earnings each period. Changes in zinc and lead prices between the dates that the contracts are entered into and their settlements will result in changes to the fair value asset or liability associated with the contracts, with a corresponding gain or loss recognized in earnings.

Obligations for Environmental, Reclamation and Closure Matters

The most significant liability on our balance sheet is for accrued reclamation and closure costs. We have conducted considerable remediation work at sites in the United States for which remediation requirements have not been fully determined, nor have they been agreed to by us and various regulatory agencies with oversight over the properties. We have estimated our liabilities under appropriate accounting guidance. On at least an annual basis – and more frequently if warranted – management reviews our liabilities with our Audit Committee. However, the range of liability proposed by the plaintiffs in environmental proceedings considerably exceeds the liabilities we have recognized. If substantial damages were awarded, claims were settled, or remediation costs incurred in excess of our accruals, our financial results or condition could be materially adversely affected.

Mineral Reserves

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at long-term averages, as described in Item 2. — Property Descriptions in our annual report on Form 10-K filed for the year ended December 31, 2010. Our assessment of reserves occurs at least annually, and periodically utilizes external audits.

Reserves are a key component in valuation of our properties, plants and equipment. Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare future cash flows to current asset values to ensure that carrying values are reported appropriately. Reserves also play a key role in the valuation of certain assets in the determination of the purchase price allocations for acquisitions (see Business Combinations below). Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at acquisition date. The valuation of assets acquired and liabilities assumed requires management to make significant estimates and assumptions, especially with respect to long-lived assets, including estimates of future metals prices and mineral reserves, as discussed above. In some cases, we use third-party appraisers to determine the fair values and lives of property and other identifiable assets. For example, in April 2008, we completed the acquisition of all of the equity of the Rio Tinto, plc subsidiaries holding a 70.3% interest in the Greens Creek mine, giving our various subsidiaries control of 100% of Greens Creek. We utilized a third-party appraiser to allocate the $758.5 million purchase price to the fair value of the assets and liabilities assumed at the date of acquisition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our risk management activities includes forward-looking statements that involve risk and uncertainties, as well as summarizes the financial instruments held by us at June 30, 2011, which are sensitive to changes in interest rates and commodity prices and are not held for trading purposes. Actual results could differ materially from those projected in the forward-looking statements. In the normal course of business, we also face risks that are either nonfinancial or nonquantifiable (see Item 1A. – Risk Factors in our annual report filed on Form 10-K for the year ended December 31, 2010 and Part II – Other Information, Item 1A. Risk Factors in this quarterly report on Form 10-Q and our previous quarterly report on Form 10-Q for the quarter ended March 31, 2011).

Commodity-Price Risk Management

At times, we may use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals which we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production, thereby partially offsetting our exposure to price fluctuations. These instruments do, however, expose us to (i) credit risk in the event of non-performance by counterparties for contracts in which the contract price exceeds the spot price of a commodity and (ii) price risk to the extent that the spot price exceeds the contract price for quantities of our production contained under contract positions.

In April 2010, we began utilizing financially-settled forward contracts to sell lead and zinc at fixed prices for settlement at approximately the same time that our unsettled concentrate sales contracts will settle. The settlement of each concentrate lot is based on the average spot price of the metal during the month of settlement, which may differ from the prices used to record the sale when the sale takes place. The objective of the contracts is to manage the exposure to changes in prices of zinc and lead contained in our concentrate shipments between the time of sale and final settlement. These contracts do not qualify for hedge accounting and are marked-to-market through earnings each period. We recognized a $0.7 million net gain on the contracts during the first half of 2011, which is included in sales of products. The net gain recognized on the contracts offsets price adjustments on our provisional concentrate sales related to changes to lead and zinc prices between the time of sale and final settlement.

In addition, in May 2010, we also began utilizing financially-settled forward contracts to manage the exposure of changes in prices of zinc and lead contained in our forecasted future concentrate shipments. These contracts also do not qualify for hedge accounting and are marked-to-market through earnings each period. We recognized a $1.5 million net loss on the contracts during the first half of 2011. The net losses on these contracts is included as a separate line item under other income (expense), as they relate to forecasted future shipments, as opposed to sales that have already taken place but are subject to final pricing. The losses recognized during the first half of 2011 are the result of increasing lead prices, partially offset by gains due to a reduction in zinc prices, during the quarter. However, this program is designed to mitigate the impact of potential future declines in lead and zinc prices from the price levels established in the contracts (see average price information below).

For the fair value of the contracts outstanding under the two programs discussed above, at June 30, 2011, we recorded a current liability of $10.5 million, which is included in current derivative contract liabilities, and a non-current liability of $1.1 million, which is included in other non-current liabilities.

The following table summarizes the quantities of base metals committed under forward sales contracts at June 30, 2011:

	Metric tonnes under contract		Average price per pound	
	Zinc	Lead	Zinc	Lead
Contracts on provisional sales				
2011 settlements	8,100	4,500	$ 1.02	$ 1.17
Contracts on forecasted sales				
2011 settlements	7,350	6,175	$ 0.96	$ 1.01
2012 settlements	26,650	18,000	$ 1.11	$ 1.11
2013 settlements	4,700	8,300	$ 1.16	$ 1.16

Provisional Sales

Sales of all metals products sold directly to smelters, including by-product metals, are recorded as revenues when title and risk of loss transfers to the smelter (generally at the time of shipment) at forward prices for the estimated month of settlement. Due to the time elapsed from shipment to the smelter and the final settlement with the smelter; we must estimate the prices at which sales of our metals will be settled. Previously recorded sales are adjusted to estimated settlement metals prices until final settlement by the smelter. Changes in metals prices between shipment and final settlement will result in changes to revenues previously recorded upon shipment. Metals prices can and often do fluctuate widely and are affected by numerous factors beyond our control (see Item 1A – Risk Factors – A substantial or extended decline in metals prices would have a material adverse effect on us in our annual reported filed on Form 10-K for the year ended December 31, 2010 for more information). At June 30, 2011, metals contained in concentrates and exposed to future price changes totaled approximately 1.6 million ounces of silver, 4,431 ounces of gold, 9,391 tons of zinc, and 5,341 tons of lead. If the price for each metal were to change by one percent, the change in the total value of the concentrates sold would be approximately $1.0 million. However, as noted in Commodity-Price Risk Management above, in April 2010 we initiated a program designed to mitigate the risk of negative price adjustments with limited mark-to-market financially-settled forward contracts for our zinc and lead sales.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures as required by Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures, including controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to our management (including our CEO and CFO), were effective as of June 30, 2011, in ensuring them in a timely manner that material information required to be disclosed in this report has been properly recorded, processed, summarized and reported. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system which is determined to be effective cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

Part II - Other Information

Hecla Mining Company and Subsidiaries

Item 1. Legal Proceedings

For information concerning legal proceedings, refer to Note 4 of Notes to Condensed Consolidated Financial Statements (Unaudited), which is incorporated by reference into this Item 1.

Item 1A. Risk Factors

Item 1A – Risk Factors of our annual report filed on Form 10-K for the year ended December 31, 2010 and Item 1A – Risk Factors of our quarterly report on Form 10-Q for the quarter ended March 31, 2011 set forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. Those risk factors continue to be relevant to an understanding of our business, financial condition and operating results. A risk factor has been updated in this Form 10-Q to provide updated information, as set forth below.

LEGAL, MARKET AND REGULATORY RISKS

Mining accidents or other adverse events at an operation could decrease our anticipated production.

Production may be reduced below our historical or estimated levels as a result of mining accidents; unfavorable ground conditions; work stoppages or slow-downs; lower than expected ore grades; safety concerns; non-routine repairs and maintenance; MSHA concerns or mandates; the metallurgical characteristics of the ore that are less economic than anticipated; or our equipment or facilities fail to operate properly or as expected. For example, in the second quarter of 2010, mining activities at the Lucky Friday mine stopped for approximately two weeks due to some deterioration of shaft infrastructure at the #2 Shaft, which is the mine's secondary escape way. That stoppage adversely impacted production in the second quarter of 2010. Upon completion of repairs to #2 Shaft, the mine returned to normal production. In addition, in April 2011, a fatal accident occurred at the Lucky Friday Mine resulting in a cessation of operations at the mine for approximately 10 days. That stoppage adversely impacted production in the second quarter of 2011. For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 6. Exhibits

See the exhibit index to this Form 10-Q for the list of exhibits.

Items 2, 3, 4 and 5 of Part II are not applicable and are omitted from this report.

SIGNATURES

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

HECLA MINING COMPANY
(Registrant)

Date: August 9, 2011	By:	/s/ Phillips S. Baker Phillips S. Baker, Jr., President, Chief Executive Officer and Director
Date: August 9, 2011	By:	/s/ James A. Sabala James A. Sabala, Senior Vice President and Chief Financial Officer

Hecla Mining Company and Wholly Owned Subsidiaries
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Index to Exhibits

3.1 Certificate of Incorporation of the Registrant as amended to date. Filed as exhibit 3.1 to Registrant's Form 10-Q for the quarter ended June 30, 2010 (File No. 1-8491), and incorporated herein by reference.

3.2 Bylaws of the Registrant as amended to date. Filed as exhibit 3.1 to Registrant's Current Report on Form 8-K filed on December 6, 2007 (File No. 1-8491), and incorporated herein by reference.

4.1(a) Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant. Filed as part of exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No 1-8491), and incorporated herein by reference.

4.1(b) Certificate of Designation, Preferences and Rights of Series B Cumulative Convertible Preferred Stock of the Registrant. Filed as part of exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-8491), and incorporated herein by reference.

4.2(a) Form of Series 1 Common Stock Purchase Warrant. Filed as exhibit 4.1 to Registrant's Current Report on Form 8-K filed on December 11, 2008 (File No. 1-8491), and incorporated herein by reference.

4.2(b) Form of Series 3 Common Stock Purchase Warrant. Filed as exhibit 4.1 to Registrant's Current Report on Form 8-K filed on February 9, 2009 (File No. 1-8491), and incorporated herein by reference.

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
99.1	Mine safety information listed in Section 1503 of the Dodd-Frank Act. *
101.INS	XBRL Instance. **
101.SCH	XBRL Taxonomy Extension Schema.**
101.CAL	XBRL Taxonomy Extension Calculation.**
101.DEF	XBRL Taxonomy Extension Definition.**
101.LAB	XBRL Taxonomy Extension Labels.**
101.PRE	XBRL Taxonomy Extension Presentation.**

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* Filed herewith.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities and Exchange Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.