

EGAIN COMMUNICATIONS CORP  
Form DEF 14A  
October 10, 2006

United States

Securities and Exchange Commission

Washington, D.C 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**eGain Communications Corporation**

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**eGAIN COMMUNICATIONS  
CORPORATION**

**345 East Middlefield Road**

**Mountain View, CA 94043**

**(650) 230-7500**

October 10, 2006

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of eGain Communications Corporation that will be held on November 16, 2006, at 10:00 A.M., at 345 East Middlefield Road, Mountain View, California.

The formal notice of the Annual Meeting and the Proxy Statement has been made a part of this invitation.

After reading the Proxy Statement, please mark, date, sign and return, at an early date, the enclosed proxy in the enclosed prepaid envelope, to ensure that your shares will be represented. **YOUR SHARES MAY NOT BE VOTED WITH RESPECT TO EACH OF THE PROPOSALS UNLESS YOU SIGN, DATE AND RETURN THE ENCLOSED PROXY OR ATTEND THE ANNUAL MEETING IN PERSON.**

A copy of eGain's 2006 Annual Report to Stockholders on Form 10-K is also enclosed.

The Board of Directors and management look forward to seeing you at the meeting.

Sincerely yours,

Ashutosh Roy

*Chief Executive Officer*

**eGAIN COMMUNICATIONS CORPORATION**

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**Notice of Annual Meeting of Stockholders**

**to be held November 16, 2006**

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To the Stockholders of eGain Communications Corporation:

The Annual Meeting of Stockholders of eGain Communications Corporation, a Delaware corporation ( eGain ), will be held at 345 East Middlefield Road, Mountain View, California, on November 16, 2006, at 10:00 A.M., Pacific Time, for the following purposes:

1. To elect directors to serve until the 2007 Annual Meeting of Stockholders and thereafter until their successors are elected and qualified;
2. To ratify the appointment of BDO Seidman, LLP as eGain's independent registered public accounting firm; and
3. To transact such other business as may properly come before the Annual Meeting and any adjournment of the Annual Meeting.

Stockholders of record as of the close of business on September 22, 2006 are entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. A complete list of stockholders entitled to vote at the Annual Meeting will be available at eGain's offices 345 East Middlefield Road, Mountain View, California 94043 ten days prior to the meeting.

**It is important that your shares are represented at this meeting. Even if you plan to attend the meeting, we hope that you will promptly mark, sign, date and return the enclosed proxy. This will not limit your right to attend or vote at the meeting.**

By Order of the Board of Directors,

Stanley F. Pierson

*Secretary*

Mountain View, California

October 10, 2006

**eGAIN COMMUNICATIONS CORPORATION**

**345 East Middlefield Road**

**Mountain View, CA 94043**

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**PROXY STATEMENT**

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This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of eGain Communications Corporation, a Delaware corporation ( eGain or the Company ), of proxies in the accompanying form to be used at the Annual Meeting of Stockholders of eGain to be held at 345 East Middlefield Road, Mountain View, California on November 16, 2006, 10:00 a.m., Pacific Time, and any postponement or adjournment thereof (the Annual Meeting ). The shares represented by the proxies received in response to this solicitation and not properly revoked will be voted at the Annual Meeting in accordance with the instructions therein. A stockholder who has given a proxy may revoke it at any time before it is exercised by filing with the Secretary of eGain a written revocation or a duly executed proxy bearing a later date or by voting in person at the Annual Meeting. On the matters coming before the Annual Meeting for which a choice has been specified by a stockholder by means of the ballot on the proxy, the shares will be voted accordingly. If no choice is specified, the shares will be voted **FOR** the election of the five nominees for director listed in this Proxy Statement and **FOR** approval of the proposals referred to in Item 2 in the Notice of Annual Meeting and described in this Proxy Statement.

Stockholders of record at the close of business on September 22, 2006 (the Record Date ), are entitled to vote at the Annual Meeting. As of the close of business on that date, eGain had 15,314,393 shares of common stock, \$0.001 par value (the common stock ), outstanding. The presence in person or by proxy of the holders of a majority of eGain s outstanding shares of common stock constitutes a quorum for the transaction of business at the Annual Meeting. Each holder of common stock is entitled to one vote for each share held as of the Record Date.

Directors are elected by a plurality vote. The five nominees for director who receive the most votes cast in their favor will be elected to serve as a director. Other proposals submitted for stockholder approval at the Annual Meeting will be decided by the affirmative vote of the majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on such proposal. Abstentions with respect to any proposal are treated as shares present or represented and entitled to vote on that proposal and thus have the same effect as negative votes. If a broker which is the record holder of shares indicates on a proxy that it does not have discretionary authority to vote on a particular proposal as to such shares, or if shares are not voted in other circumstances in which proxy authority is defective or has been withheld with respect to a particular proposal, these non-voted shares will be counted for quorum purposes but are not deemed to be present or represented for purposes of determining whether stockholder approval of that proposal has been obtained.

The expense of printing, mailing proxy materials and solicitation of proxies will be borne by eGain. eGain will reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation materials to beneficial owners of the common stock. No additional compensation will be paid to such persons for such solicitation.

This Proxy Statement, the accompanying form of proxy and the Annual Report to Stockholders on Form 10-K for the fiscal year ended June 30, 2006, including financial statements, are being mailed to stockholders on or about October 13, 2006.

**IMPORTANT**

**Please mark, sign and date the enclosed proxy and return it at your earliest convenience in the enclosed postage-paid return envelope so that, whether you intend to be present at the Annual Meeting or not, your shares can be voted. This will not limit your rights to attend or vote at the Annual Meeting.**

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

**Nominees**

The Board of Directors proposes the election of five directors of eGain to serve until the 2007 Annual Meeting of Stockholders and thereafter until their successors are elected and qualified. If any nominee is unable or declines to serve as director at the time of the Annual Meeting, an event not now anticipated, proxies will be voted for any nominee designated by the Board of Directors to fill the vacancy.

Names of the nominees and certain biographical information about them are set forth below:

*Ashutosh Roy*, age 40, co-founded eGain and has served as Chief Executive Officer and a Director of eGain since September 1997 and as President and Chief Executive Officer since October 1, 2003. From May 1995 through April 1997, Mr. Roy served as Chairman of WhoWhere? Inc., an Internet-services 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 Masters degree in Computer Science from Johns Hopkins University and an M.B.A. from Stanford University.

*Gunjan Sinha*, age 39, co-founded eGain and has served as a Director of eGain since inception in September 1997 and as President of eGain from January 1, 1998 until September 30, 2003. Since October 1, 2003, Mr. Sinha has served as Chairman of MetricStream Inc., a supplier of software applications for enterprise quality and compliance management. From May 1995 through April 1997, Mr. Sinha served as President of WhoWhere? Inc., an Internet-services company co-founded by Mr. Sinha. Prior to co-founding WhoWhere? Inc., Mr. Sinha was a hardware developer of multiprocessor servers at Olivetti Advanced Technology Center. In June 1994, Mr. Sinha co-founded Parsec Technologies. Mr. Sinha holds a degree in Computer Science from the Indian Institute of Technology, New Delhi, a Masters degree in Computer Science from UC Santa Cruz, and a Masters degree in Engineering Management from Stanford University.

*Mark A. Wolfson*, age 54, has served as a Director of eGain since June 1998. Dr. Wolfson has served as a Managing Partner of Oak Hill Capital Management, Inc. since 1998 and a Vice-President of Keystone, Inc since 1995. Since 2001, Dr. Wolfson has held the title of Consulting Professor at the Stanford University Graduate School of Business, where he has been a faculty member since 1977, including a three-year term as Associate Dean, and formerly held the title of Dean Witter Professor. Dr. Wolfson serves on the board of directors of Accretive Healthcare and Financial Engines. Dr. Wolfson holds a Ph.D. from the University of Texas, Austin and a B.S. and Masters degree from the University of Illinois.

*David G. Brown*, age 49, has served as a Director of eGain since August 2000. Since August 1999, Mr. Brown has served as the Managing Partner of Oak Hill Venture Partners. Prior to August 1999, Mr. Brown was Vice President and Chief Financial Officer of Keystone, Inc. He has served as a principal of Arbor Investors, LLC (since August 1995), as well as a Vice President of Keystone, Inc. (since August of 1993). Mr. Brown serves on the board of directors of ProQuest and several privately held companies. Mr. Brown holds a B.A. degree from Bowdoin College and an M.B.A. from the Amos Tuck School of Business Administration.

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*Phiroz P. Darukhanavala*, age 58, has served as a member of eGain's Board of Directors since September 2000. Dr. Darukhanavala has served in various capacities with BP Amoco p.l.c. and The British Petroleum Company since 1975, most recently as Vice President and Chief Technology Officer for Group Digital business. Before assuming his current position, Dr. Darukhanavala was Director of Global IT Services for the BP Group responsible for the rollout of the Common Operating Environment project worldwide and IT Functional Chief for BP-Exploration. Dr. Darukhanavala has also served as CIO of BP-Alaska and Director of BP-Exploration Business Systems. Dr. Darukhanavala holds a Ph.D. and M.S. degrees in Operations Research from Case Western Reserve University in Cleveland, Ohio.

## **Board Meetings and Committees**

The Board of Directors held four meetings during fiscal 2006. All directors, with the exception of Dr. Darukhanavala, attended all of the meetings of the Board of Directors and of the committees on which such directors serve.

The Board of Directors has appointed a Compensation Committee, a Stock Option Committee, a Nominating and Corporate Governance Committee and an Audit Committee.

The members of the Compensation Committee are three non-employee directors, David G. Brown, Phiroz P. Darukhanavala and Mark A. Wolfson. The Compensation Committee held one meeting during fiscal 2006. The Compensation Committee's functions are to assist in the implementation of, and provide recommendations with respect to, general and specific compensation policies and practices of eGain.

The members of the Stock Option Committee are Ashutosh Roy and Dr. Wolfson. The Stock Option Committee held one meeting in fiscal 2006 and took certain actions by written consent. The Stock Option Committee's functions are to grant options to eGain's employees and other service providers, consistent with eGain's compensation policies and practices.

The members of the Nominating and Corporate Governance Committee are Mr. Brown, Dr. Darukhanavala and Dr. Wolfson, each of whom has been determined to be independent in accordance with the rules of The Nasdaq Global Market and the Securities and Exchange Commission. The Nominating and Corporate Governance Committee had one meeting in fiscal 2006. The Nominating and Corporate Governance Committee's primary functions are to seek and recommend to the Board qualified candidates for election to the Board and to oversee matters of corporate governance, including the evaluation of the Board's performance and processes, and assignment and rotation of members of the committees established by the Board. The Nominating and Corporate Governance Committee operates under the Nominating and Corporate Governance Committee Charter adopted by the Board in October 2004. The Charter is available at the Company's website at: [http://www.egain.com/about\\_us/investors](http://www.egain.com/about_us/investors).

The members of the Audit Committee are three non-employee directors, Mr. Brown, Dr. Darukhanavala and Dr. Wolfson, each of whom has been determined to be independent in accordance with the rules of The Nasdaq Global Market and the Securities and Exchange Commission. Messrs. Wolfson and Brown are the financial experts, as defined by the Securities and Exchange Commission, on the Audit Committee. The Audit Committee held five meetings during fiscal 2006. The Audit Committee's functions are to review the scope of the annual audit, monitor the independent auditor's relationship with eGain, advise and assist the Board of Directors in evaluating the independent auditor's examination, supervise eGain's financial and accounting organization and financial reporting, and nominate, for approval of the Board of Directors, a firm of certified public accountants whose duty it is to audit the financial statements of eGain for the fiscal year for which it is appointed.

## **Stockholder Communications with the Board of Directors**

If you wish to communicate with the Board of Directors, you may send your communications in writing to: Secretary, eGain Communications Corporation, 345 East Middlefield Road, Mountain View, California 94043. You must include your name and address in the written communication and indicate whether or not you are a stockholder of the Company. The Secretary will review any communications received from a stockholder, and all material communications from stockholders will be forwarded to the appropriate director or directors or committee of the Board based on the subject matter.

**Code of Ethics**

In October 2004, the Board approved a code of ethics applicable to the Board, senior management including financial officers, and all other employees. The Code of Ethics and Business Conduct ( Code of Ethics ) includes standards to deter wrongdoing and promote honest and ethical conduct, including the ethical handling of

actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports filed with the Securities and Exchange Commission; compliance with laws; prompt internal reporting of violations of the Code of Ethics, and accountability for the adherence to the Code of Ethics. The Code of Ethics is available on the Company's website at: [http://www.egain.com/about\\_us/investors](http://www.egain.com/about_us/investors). Copies of the Code of Ethics are also available in print upon written request to Secretary, eGain Communications Corporation, 345 East Middlefield Road, Mountain View, California 94043.

### **Director Qualifications**

The Nominating and Corporate Governance Committee periodically reviews with the Board the appropriate skills and characteristics required of Board members given the current Board composition. The Nominating and Corporate Governance Committee believes that the Board should be comprised of individuals who have leadership qualities and a record of success in their arena of activity and who can make substantial contributions to Board operations. The assessment of Board candidates includes, but is not limited to, consideration of relevant industry experience, relevant financial experience, general business experience and compliance with independence and other qualifications necessary to comply with any applicable corporate and securities laws and the rules and regulations thereunder. Specific consideration shall also be given to: (i) contributions valuable to the business community; (ii) personal qualities of leadership, character, judgment and whether the candidate possesses and maintains throughout service on the Board a reputation in the community at large of integrity, competence and adherence to the highest ethical standards; (iii) relevant knowledge and diversity of background and experience in such things as business, software development, manufacturing, technology, finance and accounting, marketing, international business, government and the like; or (iv) whether the candidate is free of conflicts and has the time required for preparation, participation and attendance at all meetings. Other than the foregoing, there are no stated minimum criteria for director nominees. The Nominating and Corporate Governance Committee does, however, believe it is appropriate for at least one, and preferably, multiple, members of the Board to meet the criteria for an audit committee financial expert as defined by Securities and Exchange Commission rules, and that a majority of the members of the Board meet the definition of independent director under the rules of the Nasdaq Global Market, although eGain is currently not subject to Nasdaq listing requirements. The Nominating and Corporate Governance Committee also believes it is appropriate for certain members of management to serve on the Board. When evaluating a candidate for the Board, the Nominating and Corporate Governance Committee does not assign specific weight to any of these factors nor does it believe that all of the criteria necessarily apply to every candidate. A director's qualifications in light of the above-mentioned criteria is considered at least each time the director is nominated or re-nominated for Board membership.

### **Identifying and Evaluating Director Nominees**

The Nominating and Corporate Governance Committee considers candidates for Board membership suggested by Board members and management of the Company. The Nominating and Corporate Governance Committee will consider persons recommended by the Company's security holders in the same manner as a nominee recommended by Board members or management. A security holder who wishes to suggest a prospective nominee for the Board should notify eGain's Secretary or any member of the Nominating and Corporate Governance Committee in writing with any supporting material the security holder considers appropriate. After completing the evaluation and review, the Nominating and Corporate Governance Committee makes a recommendation to the full Board as to the person who should be nominated to the Board, and the Board considers the nominees after evaluating the recommendation and report of the Nominating and Corporate Governance Committee. Each director candidate recommended for election at this year's Annual Meeting is an existing director seeking re-election to the Board.

### **Compensation of Directors**

Directors of eGain do not currently receive any fees for service on the Board of Directors. Directors are reimbursed for their expenses for each meeting attended. Pursuant to eGain's 1998 Stock Plan, each non-



employee director will receive, if re-elected as a director at the Annual Meeting, an option to purchase 500 shares of common stock at an exercise price equal to the fair market value of the common stock on the date of grant. Such options will vest on the first anniversary of the grant.

**Compensation Committee Interlocks and Insider Participation**

Messrs. Brown, Darukhanavala and Wolfson, all of whom are non-employee directors, serve as members of the Compensation Committee. None of eGain's executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of eGain's Board of Directors or Compensation Committee.

**The Board of Directors recommends a vote FOR election as director of the nominees set forth above.**

**PROPOSAL 2**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Upon the recommendation of the Audit Committee, the Board of Directors has appointed the firm of BDO Seidman, LLP as eGain's independent registered public accounting firm for the fiscal year ending June 30, 2007, subject to ratification by the stockholders. BDO Seidman, LLP audited eGain's financial statements for the fiscal year ending June 30, 2006. Representatives of BDO Seidman, LLP are expected to be present at eGain's Annual Meeting. They will have an opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions.

Ratification will require the affirmative vote of a majority of the shares present and voting at the meeting in person or by proxy. In the event ratification is not provided, the Board of Directors will review its future selection of eGain's independent registered public accounting firm.

**The Board of Directors recommends a vote FOR ratification of BDO Seidman LLP as eGain's independent registered public accounting firm.**

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information concerning the beneficial ownership of common stock of eGain as of September 22, 2006 for the following:

- each person or entity who is known by eGain to own beneficially more than 5% of the outstanding shares of eGain's common stock;
- each of eGain's current directors;
- eGain's chief executive officer and four other most highly compensated executive officers during the fiscal year ended June 30, 2006; and
- all directors and executive officers of eGain as a group.

Unless otherwise noted, the address of each named beneficial owner is that of eGain.

The percentage ownership is based on 15,314,393 shares of eGain common stock outstanding as of September 22, 2006. All options and warrants exercisable within 60 days after September 22, 2006 are deemed to be beneficially owned by the person or entity holding such options and warrants. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of such acquisition rights. Unless otherwise indicated below, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

| <b>Name and Address of Beneficial Owner</b>  | <b>Shares of<br/>Common Stock<br/>Beneficially Owned</b> | <b>Percentage of<br/>Common Stock<br/>Beneficially Owned</b> |
|--|--|--|
| <b>Certain Beneficial Owners:</b>  |  |  |
| OHCP GenPar, L.P. (1)<br>201 Main Street, Suite 1620<br>Ft. Worth, TX 76102                  | 4,407,803  | 28.5%  |
| J. Taylor Crandall (2)<br>201 Main Street, Suite 3100<br>Ft. Worth, TX 76102                 | 1,449,379  | 9.4  |
| Crosslink Capital, Inc. (3)<br>Two Embarcadero Center, Suite 2200<br>San Francisco, CA 94111 | 1,281,200  | 8.4  |
| Granite Private Equity III, LLC (4)<br>One Cablevision Center<br>Liberty, NY 12754           | 1,113,245  | 7.3  |
| Deutsche Bank A.G. (5)<br>60 Wall Street<br>New York, NY 10005                               | 982,275  | 6.4  |
| <b>Management:</b>   |  |  |
| Ashutosh Roy (6)   | 1,317,826  | 8.4  |

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|  |           |      |
|--|-----------|------|
| Gunjan Sinha (7)   | 1,116,043 | 7.3  |
| Promod Narang (8)  | 250,871   | 1.6  |
| Eric Smit (9)  | 195,921   | 1.3  |
| Mark A. Wolfson (10)   | 18,666    | *    |
| David G. Brown (11)  | 18,166    | *    |
| Phiroz P. Darukhanavala (12)                                     | 11,500    | *    |
| William Paschen (13)   | 14,327    | *    |
| Thomas Hresko (14)   | 6,000     | *    |
| All executive officers and directors as a group (9 persons) (15) | 2,949,320 | 18.6 |

\* Indicates less than one percent.

- (1) Includes 4,151,749 shares that are beneficially owned and 134,726 shares subject to an immediately exercisable warrant held by Oak Hill Capital Partners, L.P. and 117,873 shares that are beneficially owned and 3,455 shares subject to an immediately exercisable warrant held by Oak Hill Capital Management Partners, L.P. OHCP MGP, LLC, a Delaware limited liability company, is the general partner of OHCP GenPar, L.P., a Delaware limited partnership, which is the general partner of Oak Hill Capital Partners, L.P. and consequently has voting control and investment discretion over securities held by Oak Hill Capital Partners, L.P. OHCP MGP, LLC disclaims beneficial ownership of the shares held by Oak Hill Capital Partners, L.P. OHCP MGP, LLC, a Delaware limited liability company, is the general partner of OHCP GenPar, L.P., a Delaware limited partnership, which is the general partner of Oak Hill Capital Management Partners, L.P. and consequently has voting control and investment discretion over securities held by Oak Hill Capital Management Partners, L.P. OHCP MGP, LLC disclaims beneficial ownership of the shares held by Oak Hill Capital Management Partners, L.P. Mark Wolfson, a director of eGain, is a vice president of Oak Hill Capital Management, Inc., a Delaware corporation which provides management and consulting services to Oak Hill Capital Partners, L.P. and Oak Hill Capital Management Partners, L.P. and is a principal of Oak Hill Venture Partners, a related entity of the above-referenced entities. David Brown, a director of eGain, is the managing partner of Oak Hill Venture Partners, a related entity of the above-referenced entities.
- (2) Includes 1,375,185 shares that are beneficially owned and 70,153 shares subject to an immediately exercisable warrant held by FW Investors V, L.P., a Delaware limited partnership, and 4,041 shares held by Group III 31, LLC. FW Management II, L.L.C., a Delaware limited liability company is the general partner of FW Investors V, L.P. and consequently has voting control and investment discretion over securities held by FW Investors V, L.P. FW Management II, L.L.C. disclaims beneficial ownership of the shares held by FW Investors V, L.P. J. Taylor Crandall is the sole member of FW Management II, L.L.C. and Group III 31, LLC.
- (3) Represents 1,281,200 shares beneficially owned as reported on Form 13g on March 10, 2006.
- (4) Represents 1,113,245 shares beneficially owned. Alan Gerry is the managing member of Gerry Holding Co. II, LLC, which is the managing member of Granite Private Equity III, LLC and consequently has voting control and investment discretion over securities held by Granite Private Equity III, LLC.
- (5) Represents 982,275 shares beneficially owned as estimated by eGain.
- (6) Includes 852,603 shares that are beneficially owned, 232,933 shares subject to an immediately exercisable warrant and 232,290 shares subject to immediately exercisable options.
- (7) Includes 1,114,543 shares that are beneficially owned and 1,500 shares that would be beneficially owned upon exercise of director options.
- (8) Includes 143,525 shares that are beneficially owned and 107,346 shares that would be beneficially owned upon exercise of options.
- (9) Includes 144,947 shares that are beneficially owned and 50,974 shares that would be beneficially owned upon exercise of options.
- (10) Represents 16,166 shares that are beneficially owned as a result of the distribution by FW Ventures I, L.P. and 2,500 shares that would be beneficially owned upon exercise of director options held by Dr. Wolfson. Mark Wolfson, a director of eGain, is a as vice president of Oak Hill Capital Management, Inc., a Delaware corporation which provides management and consulting services to Oak Hill Capital Partners, L.P. and Oak Hill Capital Management Partners, L.P. Dr. Wolfson disclaims beneficial ownership as to the shares owned by OHCP GenPar, L.P. and related entities.
- (11) Represents 16,166 shares that are beneficially owned as a result of the distribution by FW Ventures I, L.P. and 2,000 shares that would be beneficially owned upon exercise of director options held by Mr. Brown. David Brown, a director of eGain, is the managing partner of Oak Hill Venture Partners, a related entity of the above-referenced entities. Mr. Brown disclaims beneficial ownership as to the shares owned by OHCP GenPar, L.P. and related entities.
- (12) Represents 11,500 shares that would be beneficially owned upon exercise of director options held by Dr. Darukhanavala.

- (13) Includes 137 shares that are beneficially owned and 14,190 shares that would be beneficially owned upon exercise of options.  
 (14) Represents 6,000 shares beneficially owned.  
 (15) Includes 422,300 shares subject to currently exercisable options or options exercisable within 60 days of September 22, 2006. Also includes 232,933 shares subject to an immediately exercisable warrant.

### Equity Compensation Plan Information

| Plan Category  | Number of securities<br>to be issued upon exercise<br>of outstanding options,<br>warrants and rights<br><br>(a) | Weighted-average<br>exercise price<br>of<br>outstanding options,<br>warrants and<br>rights<br><br>(b) | Number of securities remaining<br>available for future issuance<br>under equity compensation<br>plans (excluding securities<br>reflected in column (a))<br><br>(c) |
|--|---|---|--|
| Equity compensation plans approved by security holders     |   |   |  |
| Assumed Stock Option Plans (1)                             | 8,419   | \$ 57.87  |  |
| 1998 Stock Plan  | 614,484   | \$ 6.00   | 1,864  |
| 2005 Stock Incentive Plan                                  | 199,250   | 0.99  | 260,750  |
| Equity compensation plans not approved by security holders |   |   |  |
| Assumed Stock Option Plans (1)                             | 73  | \$ 40.75  |  |
| 2000 Non-Management Plan                                   | 155,008   | \$ 11.63  | 42,839   |
| 2005 Management Plan                                       | 907,800   | \$ 0.64   | 50,850   |
| Total  | 1,885,034   | \$ 3.58   | 356,303  |

- (1) Includes the aggregate number of securities to be issued upon exercise of options assumed in connection with our acquisition of several companies. There are no remaining options available for future issuance under these plans.

### 2000 Non-Management Plan

In July 2000, eGain's Board of Directors adopted the 2000 Non-Management Plan (the "2000 Non-Management Plan") which provides for the grant of nonstatutory 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 Non-Management Plan.

### 2005 Management Stock Option Plan

In May 2005, eGain's Board of Directors adopted the 2005 Management Stock Option Plan (the "2005 Management Plan") pursuant to which, the Compensation Committee may grant NSOs 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, to directors, officers and key employees of the Company and its subsidiaries. Options granted under the 2005 Management Plan are subject to vesting as determined by the Compensation Committee. The options are exercisable for up to five (5) years from the date of grant.



## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table summarizes information concerning compensation paid to eGain's Chief Executive Officer and each of eGain's other four most highly compensated executive officers whose total annual salary and bonus exceeded \$100,000, for services rendered in all capacities to eGain during the fiscal years ended June 30, 2006, 2005 and 2004. These individuals are referred to as the named executive officers.

| Name and Principal Position   | Fiscal Year | Annual Compensation |           |           | Long-Term Compensation          |
|---|-------------|---------------------|-----------|-----------|---------------------------------|
|   |             | Salary(\$)          | Bonus(\$) | Other(\$) | Security Underlying Options (#) |
| Ashutosh Roy (1)<br>President, Chief Executive Officer and Chairman | 2006        | 24                  |           |           |                                 |
|   | 2005        | 24                  |           |           | 500,000                         |
|   | 2004        | 29,183              |           |           |                                 |
| Promod Narang (2)<br>Vice President of Products & Technology        | 2006        | 152,625             | 29,625    |           |                                 |
|   | 2005        | 150,000             |           |           | 90,000                          |
|   | 2004        | 121,600             | 2,772     |           | 35,000                          |
| Eric Smit (3)<br>Chief Financial Officer                            | 2006        | 160,000             | 68,200    |           |                                 |
|   | 2005        | 147,115             |           |           | 70,000                          |
|   | 2004        | 143,500             |           |           | 10,000                          |
| Thomas Hresko (4)<br>Worldwide Vice President of Sales              | 2006        | 89,231              | 24,869    |           | 125,000                         |
|   | 2005        |                     |           |           |                                 |
|   | 2004        |                     |           |           |                                 |
| William Paschen (5)<br>Regional Vice President of Sales             | 2006        | 129,575             | 161,863   |           |                                 |
|   | 2005        | 123,750             | 119,268   |           | 25,000                          |
|   | 2004        | 97,500              | 136,016   |           | 1,500                           |

- (1) Mr. Roy's grant of an option to purchase 500,000 shares in fiscal 2005 vests as to 1/48 of the shares each full month of service to eGain.
- (2) Mr. Narang's grant of an option to purchase 35,000 shares in fiscal 2004 vests as to 1/48 of the shares each full month of service to eGain.  
Mr. Narang's grant of an option to purchase 90,000 shares in fiscal 2005 vests as to 1/48 of the shares each full month of service to eGain.
- (3) Mr. Smit's grant of an option to purchase 10,000 shares in fiscal 2004 vests as to 1/48 of the shares each full month of service to eGain.  
Mr. Smit's grant of an option to purchase 70,000 shares in fiscal 2005 vests as to 1/48 of the shares each full month of service to eGain.
- (4) Mr. Hresko's grant of an option to purchase 125,000 shares in fiscal 2006 vests as to 1/48 of the shares each full month of service to eGain.
- (5) Mr. Paschen's grant of an option to purchase 1,500 shares in fiscal 2004 vests as to 1/48 of the shares each full month of service to eGain.  
Mr. Paschen's grant of an option to purchase 25,000 shares in fiscal 2005 vests as to 1/48 of the shares each full month of service to eGain.

**Recent Option Grants**

The following tables set forth certain information as of June 30, 2006 and for the fiscal year then ended with respect to stock options granted to and exercised by the individuals named in the Summary Compensation Table above.

| Name            | Number of Securities Underlying Options | Percentage of Total Options Granted to Employees in Fiscal 2006 | Exercise or Base Price (\$/Share) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1) |            |
|-----------------|---|---|-----------------------------------|-----------------|--|------------|
|                 |   |   |                                   |                 | 5%(\$)   | 10%(\$)    |
| Ashutosh Roy    |   |   |                                   |                 |  |            |
| Promod Narang   |   |   |                                   |                 |  |            |
| Eric Smit       |   |   |                                   |                 |  |            |
| Thomas Hresko   | 125,000                                 | 35%   | \$ 0.76                           | 12/07/15        | \$ 59,755  | \$ 151,430 |
| William Paschen |   |   |                                   |                 |  |            |

- (1) Potential realizable value assumes that the stock price increases from the exercise price from the date of grant until the end of the option term (10 years) at the annual rate specified (5% and 10%). Annual compounding results in total appreciation of approximately 62.9% (at 5% per year) and 159.4% (at 10% per year). The assumed annual rates of appreciation are specified in SEC rules and do not represent eGain's estimate or projection of future stock price growth.

**Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

| Name            | Shares Acquired on Exercise | Value Realized (\$) | Number of Unexercised Options at June 30, 2006 |                           | Value of Unexercised In-the Money Options at June 30, 2006 (1) |                           |
|-----------------|-----------------------------|---------------------|--|---------------------------|--|---------------------------|
|                 |                             |                     | Exercisable/Unexercisable                      | Exercisable/Unexercisable | Exercisable/Unexercisable                                      | Exercisable/Unexercisable |
| Ashutosh Roy    |                             | \$                  | 180,207  | 322,917                   | \$ 116,875   | \$ 213,125                |
| Promod Narang   |                             |                     | 94,091   | 74,438                    | 21,038   | 38,363                    |
| Eric Smit       |                             |                     | 42,172   | 49,428                    | 16,362   | 29,838                    |
| Thomas Hresko   |                             |                     |  | 125,000                   |  | 67,500                    |
| William Paschen |                             |                     | 11,430   | 16,615                    | 5,844  | 10,656                    |

- (1) Calculated on the basis of the fair market value of the underlying securities at June 30, 2006 (\$1.30 per share) minus the exercise price. Some options listed in the table have an exercise price that is greater than the fair market value.

**REPORT OF THE COMPENSATION COMMITTEE  
OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION**

The following report on executive compensation is provided by the Compensation Committee of the Board of Directors (the Compensation Committee) to assist stockholders in understanding the committee's objectives and procedures in establishing the compensation of eGain's executive officers and describes the basis on which it made fiscal 2006 compensation determinations. The Compensation Committee is currently comprised of three non-employee directors. In making its determinations, the Compensation Committee relied, in part, on independent surveys and public disclosures of compensation of management of companies in the ecommerce software industry.

**Compensation Objectives**

The Compensation Committee believes that compensation of eGain's executive officers should:

- encourage creation of stockholder value and achievement of strategic corporate objectives by providing management with longer term incentives through equity ownership by management;
- provide a competitive total compensation package that enables eGain to attract and retain, on a long-term basis, high caliber personnel;
- provide total compensation opportunity that is competitive with companies in eGain's industry, taking into account relative company size, performance and geographic location as well as individual responsibilities and performance; and
- provide fair compensation consistent with internal compensation programs.

**Key Elements of Executive Compensation**

The compensation of executive officers is based upon eGain's financial performance as well as an evaluation of eGain's progress in the achievement of certain business objectives, including the execution of corporate and collaborative agreements, the expansion of eGain's business and the attainment of certain operational and research and development milestones in eGain's technology development programs, as well as the achievement of individual business objectives by each executive officer. eGain's existing compensation structure for executive officers generally includes a combination of salary and stock options and may include cash bonuses for performance determined to be deserving of such bonuses by the Compensation Committee.

*Salary.* Salary levels are largely determined through comparisons with companies of similar headcount and market capitalizations or complexity in the ecommerce software industry. Actual salaries are based on individual performance contributions within a competitive salary range for each position that is established through job evaluation of responsibilities and market comparisons. The Compensation Committee, on the basis of its knowledge of executive compensation in the industry, believes that eGain's salary levels for the executive officers, other than Mr. Roy, are at a level that the Compensation Committee, at the time such salary determinations were made, considered to be reasonable and necessary given eGain's financial resources and the stage of its development. Mr. Roy's salary was set at \$24 per annum at his request beginning October 2003. The Compensation Committee reviews salaries on an annual basis. At such time, the Compensation Committee may change each executive officer's salary based on the individual's contributions and responsibilities over the prior 12 months and changes in median comparable company pay levels.

*Stock Options.* The Compensation Committee believes that by providing those persons who have substantial responsibility for the management and growth of eGain with an opportunity to increase their ownership of eGain stock through stock option grants, the interests of stockholders and executive officers will be closely aligned. Therefore, executive officers are eligible to receive stock options when the Compensation Committee performs its annual salary review; although the Stock Option Committee, at its discretion, may grant

options at other times in recognition of exceptional achievements. The number of shares underlying stock options granted to executive officers is based on competitive practices in the industry as determined by independent surveys and the Compensation Committee's knowledge of industry practice.

### **Chief Executive Officer Compensation**

Ashutosh Roy is eGain's Chief Executive Officer. From the beginning of fiscal year 2004 through October 15, 2003, Mr. Roy's salary was \$100,000 per annum. In October 2003 at the request of Mr. Roy, the Compensation Committee reduced Mr. Roy's salary to \$24.00 per annum, which he continues to receive as of today. Mr. Roy made this request in light of the continued difficult economic environment surrounding eGain's industry and as part of eGain's commitment to reduce its expense and pursue profitability.

eGain's policy is generally to qualify compensation paid to executive officers for deductibility under Section 162(m) of the Internal Revenue Code. However, eGain reserves the discretion to pay compensation to its executive officers that may not be deductible.

Mr. Roy is a member of the Board of Directors, but did not participate in matters involving the evaluation of his own performance or the setting of his own compensation.

### **Compensation Committee**

Mark A. Wolfson

David G. Brown

Phiroz P. Darukhanavala

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The Audit Committee of the Board of Directors (the "Audit Committee") operates under a written charter adopted by the Board of Directors on April 24, 2001. The current members of the Audit Committee are Mark A. Wolfson, David G. Brown and Phiroz P. Darukhanavala, each of whom meets the independence standards established by The Nasdaq Global Market.

The Audit Committee performs the following activities:

- overseeing eGain's financial reporting process on behalf of the Board of Directors; and
- provides independent, objective oversight of eGain's accounting functions and internal controls.

The Audit Committee reviewed and discussed the audited financial statements contained in the 2006 Annual Report on Form 10-K with eGain's management and its independent registered public accounting firm. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent registered public accounting firm are responsible for expressing an opinion on the material conformity of those financial statements with accounting principles generally acceptable in the United States.

The Audit Committee met privately with the independent registered public accounting firm, and discussed issues deemed significant by the registered public accounting firm, including those required by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards), as amended. In addition, the Audit Committee discussed with the independent registered public accounting firm their independence from eGain and its management, including the matters in the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with the Audit Committees). The Audit Committee also considered BDO's provision of non-audit services to eGain and determined that such provision of such services was compatible with maintaining the independence of BDO.

In reliance on the reviews and discussions outlined above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in eGain's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, for filing with the Securities and Exchange Commission.

Audit Committee

Mark A. Wolfson

David G. Brown

Phiroz P. Darukhanavala

## INFORMATION CONCERNING INDEPENDENT AUDITORS

The aggregate fees for professional services by BDO Seidman, LLP, the Company's independent auditors, and certain of their international affiliates, in fiscal 2006 and fiscal 2005 for these various services to the Company and its subsidiaries were:

### **Audit Fees**

The aggregate audit fees billed or to be billed by BDO Seidman, LLP and its international affiliates for professional services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company's quarterly reports on Form 10-Q and services that were provided in connection with statutory and regulatory filings or engagements was approximately \$277,000 for fiscal 2006 and \$207,000 for fiscal 2005.

### **Audit-Related Fees**

The aggregate fees billed or to be billed by BDO Seidman, LLP or certain of its international affiliates for services related to financial statements or regulatory compliance reasonably related to the performance of review of Company's or its subsidiaries financial statements was approximately \$3,000 for fiscal 2006, there were no audit related fees for fiscal 2005.

### **Tax Fees**

The aggregate fees billed or to be billed by BDO Seidman, LLP for professional services related to tax advice, tax compliance, tax auditing, tax planning and foreign tax matters were approximately \$42,765 for fiscal 2006 and \$42,625 for fiscal 2005.

### **All Other Fees**

There were no fees billed to the Company by BDO Seidman, LLP for the fiscal years ended June 30, 2006 and 2005 for services and products to the Company and its subsidiaries other than those reported in the categories above

### **Policy on Pre-Approval of Retention of Independent Auditors**

The engagement of BDO Seidman, LLP and certain of its international affiliates for non-audit accounting and tax services performed for the Company is limited to those circumstances where these services are considered integral to the audit services that it provides or in which there is another compelling rationale for using its services. Pursuant to the Sarbanes-Oxley Act of 2002, all audit and permitted non-audit services for which the Company engages BDO Seidman, LLP and certain of its international affiliates require pre-approval by the Audit Committee. The percentage of Statutory Audit Fees, Tax Fees and All Other Fees, out of all fees paid to BDO Seidman, LLP and certain of its international

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affiliates, and all as approved by the Audit Committee in accordance with these procedures, was 100% for both fiscal 2006 and 2005.

As noted in the report of the Audit Committee on page 14 of this proxy statement, the Audit Committee considered the provision by BDO Seidman, LLP and certain of its international affiliates of non-audit services to the Company and determined that the provision of these services was compatible with maintaining the independence of BDO Seidman, LLP.

**STOCK PRICE PERFORMANCE GRAPH**

The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) of eGain's common stock with a Self-Determined Peer Group (the Peer Group) and the CRSP Total Return Index for the Nasdaq U.S. and Foreign Stocks (the Nasdaq Composite Index), assuming an investment of \$100 in each on September 23, 1999. eGain's common stock is traded on the OTC Bulletin Board owned by the Nasdaq Global Market, Inc. The comparisons in the table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of eGain's common stock.

**Companies in the Self-Determined Peer Group:**

eGain Communications Corp.

Kana Software Inc.

Art Technology Group Inc.

Onyx Software Corporation

**RELATED PARTY TRANSACTIONS**

Since July 1, 2005, there have not been any transactions or series of transactions to which eGain was or is a party in which the amount involved exceeded or exceeds \$60,000 and in which any director, executive officer, holder of more than 5% of any class of eGain's voting securities or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than the transactions described below.

**Transactions with Management, Directors and Others**

In the past, eGain has granted options to purchase common stock to its directors and executive officers. eGain intends to grant such options to its directors and executive officers in the future.

It is eGain's current policy that all transactions between eGain and its officers, directors, 5% stockholders and eGain's affiliates will be entered into only if these transactions are approved by a majority of the disinterested directors, are on terms no less favorable to eGain than could be obtained from unaffiliated parties and are reasonably expected to benefit eGain.

**STOCKHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING**

Proposals of stockholders of eGain that are intended to be presented by such stockholders at eGain's 2007 Annual Meeting must be received by the Secretary of eGain no later than July 6, 2007 in order that they may be included in eGain's proxy statement and form of proxy relating to that meeting.

A stockholder proposal not included in the eGain proxy statement for the 2007 Annual Meeting will be ineligible for presentation at the meeting unless the stockholder gives timely notice of the proposal in writing to the Secretary of eGain at the principal executive offices of eGain and otherwise complies with the provisions of its Bylaws. To be timely, eGain's Bylaws provide that eGain must have received the stockholder's notice not less than 50 days nor more than 75 days prior to the scheduled date of such meeting. However, if notice or prior public disclosure of the date of the annual meeting is given or made to stockholders less than 65 days prior to the meeting date, eGain must receive the stockholder's notice by the close of business on the 15th day after the earlier of the day eGain mailed notice of the annual meeting date or provided such public disclosure of the meeting date.

**OTHER MATTERS**

eGain knows of no other business that will be presented at the Annual Meeting. If any other business is properly brought before the Annual Meeting, it is intended that proxies in the enclosed form will be voted in accordance with the judgment of the persons voting the proxies.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Under the securities laws of the United States, eGain's directors, executive officers and any persons holding more than 10% of eGain's common stock are required to report their initial ownership of eGain's common stock and any subsequent changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and eGain is required to identify in this Proxy Statement those persons who failed to timely file these reports. All of the filing requirements were satisfied for fiscal 2006 except that in January 2006 late Form 4 filings were made with respect to options granted to directors Mark Wolfson, Phiroz Darukhanavala and David Brown, and in February 2006 late Form 3 and 4 filings were made for executive Thomas Hresko with respect to certain granted options and acquired common stock. All late filings were due solely to administrative errors that were corrected as soon as they were determined.

**ANNUAL REPORT ON FORM 10-K**

A copy of eGain's combined annual report to stockholders and Annual Report on Form 10-K for the fiscal year ended June 30, 2006 accompanies this proxy statement. An additional copy will be furnished without charge to beneficial stockholders or stockholders of record upon request to Chief Financial Officer, eGain Communications Corporation, 345 East Middlefield Road, Mountain View, California 94043.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

eGain's Annual Report on Form 10-K for the fiscal year ended June 30, 2006 was filed with the Securities and Exchange Commission on September 27, 2006. The following portions of the Annual Report are incorporated in this proxy statement by reference:

- Reports of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Stockholders' (Deficit) Equity and Comprehensive Loss
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
- Selected Financial Data
- Management's Discussion and Analysis of Financial Condition and Results of Operations
- Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- Quantitative and Qualitative Disclosure About Market Risk

Whether you intend to be present at the Annual Meeting or not, we urge you to return your signed proxy promptly.

By order of the Board of Directors,

Ashutosh Roy

*Chief Executive Officer*

October 10, 2006





