

ELOYALTY CORP  
Form 10-Q  
November 05, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 26, 2009**

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 0-27975

**eLoyalty Corporation**

*(Exact Name of Registrant as Specified in Its Charter)*

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**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**36-4304577**  
*(I.R.S. Employer  
Identification No.)*

**150 Field Drive**  
**Suite 250**

**Lake Forest, Illinois 60045**

*(Address of Registrant's Principal Executive Offices) (Zip Code)*

**(847) 582-7000**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [This requirement is not yet applicable to the registrant.] Yes  No

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  Smaller reporting company

(Do not check if a 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 number of shares of the registrant's Common Stock, \$0.01 par value per share, outstanding as of October 29, 2009 was 14,218,007.

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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****eLoyalty Corporation****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share and per share data)**

	September 26, 2009	December 27, 2008
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 29,397	\$ 27,064
Restricted cash	3,746	3,655
Receivables, (net of allowances of \$79 and \$107)	11,394	10,005
Prepaid expenses	11,518	7,783
Other current assets	2,309	1,251
Total current assets	58,364	49,758
Equipment and leasehold improvements, net	6,978	6,424
Goodwill	2,643	2,643
Intangibles, net	493	611
Other long-term assets	8,905	4,787
Total assets	\$ 77,383	\$ 64,223
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Current Liabilities:		
Accounts payable	\$ 3,638	\$ 3,904
Accrued compensation and related costs	5,979	4,994
Unearned revenue	20,981	11,525
Other current liabilities	4,859	4,647
Total current liabilities	35,457	25,070
Long-term unearned revenue	13,522	5,274
Other long-term liabilities	2,060	2,572
Total liabilities	51,039	32,916
Redeemable Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,617,309 and 3,619,537 shares issued and outstanding with a liquidation preference of \$19,417 and \$19,107 at September 26, 2009 and December 27, 2008, respectively	18,448	18,460
Stockholders Equity:		
Preferred stock, \$0.01 par value; 35,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value; 50,000,000 shares authorized; 14,843,887 and 14,152,702 shares issued at September 26, 2009 and December 27, 2008, respectively; and 14,210,245 and 13,661,746 outstanding at September 26, 2009 and December 27, 2008, respectively	148	142
Additional paid-in capital	202,477	198,853
Accumulated deficit	(188,020)	(180,201)

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Treasury stock, at cost, 633,642 and 490,956 shares at September 26, 2009 and December 27, 2008, respectively	(3,172)	(2,457)
Accumulated other comprehensive loss	(3,537)	(3,490)
Total stockholders' equity	7,896	12,847
Total liabilities and stockholders' equity	\$ 77,383	\$ 64,223

See accompanying notes to the Condensed Consolidated Financial Statements.

**Table of Contents****eLoyalty Corporation****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited and in thousands, except per share data)**

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 26, 2009	Sept. 27, 2008	Sept. 26, 2009	Sept. 27, 2008
Revenue:				
Services	\$ 19,688	\$ 18,198	\$ 59,764	\$ 57,769
Product	1,977	956	14,847	5,851
Revenue before reimbursed expenses (net revenue)	21,665	19,154	74,611	63,620
Reimbursed expenses	1,033	941	2,996	2,487
Total revenue	22,698	20,095	77,607	66,107
Operating expenses:				
Cost of services	12,507	11,673	38,027	38,598
Cost of product	1,353	1,041	12,470	4,865
Cost of revenue before reimbursed expenses	13,860	12,714	50,497	43,463
Reimbursed expenses	1,033	941	2,996	2,487
Total cost of revenue, exclusive of depreciation and amortization shown below:	14,893	13,655	53,493	45,950
Selling, general and administrative	8,870	10,608	27,609	33,285
Severance and related costs	276	686	1,028	1,138
Depreciation and amortization	1,114	1,094	3,373	3,149
Total operating expenses	25,153	26,403	85,503	83,522
Operating loss	(2,455)	(5,948)	(7,896)	(17,415)
Interest and other income (expense), net	287	(95)	93	(13)
Loss before income taxes	(2,168)	(6,043)	(7,803)	(17,428)
Income tax benefit (provision)	18	(27)	(16)	(76)
Net loss	(2,150)	(6,070)	(7,819)	(17,504)
Dividends related to Series B convertible preferred stock	(322)	(324)	(969)	(973)
Net loss available to common stockholders	\$ (2,472)	\$ (6,394)	\$ (8,788)	\$ (18,477)
Basic net loss per common share	\$ (0.19)	\$ (0.63)	\$ (0.66)	\$ (1.93)
Diluted net loss per common share	\$ (0.19)	\$ (0.63)	\$ (0.66)	\$ (1.93)
Shares used to calculate basic net loss per share	13,317	10,171	13,218	9,562
Shares used to calculate diluted net loss per share	13,317	10,171	13,218	9,562

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Stock-based compensation, primarily restricted stock, is included in individual line items above:

Cost of services	\$ 34	\$ 682	\$ 419	\$ 2,682
Selling, general and administrative	1,222	2,376	4,262	9,144
Severance and related costs		58	248	103

See accompanying notes to the Condensed Consolidated Financial Statements.

**Table of Contents****eLoyalty Corporation****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited and in thousands)**

	<b>For the</b>	
	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>
	<b>Sept. 26,</b>	<b>Sept. 27,</b>
	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (7,819)	\$ (17,504)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,373	3,149
Stock-based compensation	4,681	11,826
Provision for uncollectible amounts	10	(16)
Severance and related costs	248	229
Changes in assets and liabilities:		
Receivables	(1,339)	2,110
Prepaid expenses	(8,323)	(325)
Other assets	(1,456)	(2,836)
Accounts payable	(270)	2,391
Accrued compensation and related costs	957	(903)
Unearned revenue	17,678	2,081
Other liabilities	(502)	2
 Net cash provided by operating activities	 7,238	 204
 <b>Cash Flows from Investing Activities:</b>		
Capital expenditures and other		