

ELOYALTY CORP
Form 10-Q
August 07, 2008
Table of Contents

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 JUNE 28, 2008**

OR

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

Commission File Number 0-27975

eLoyalty Corporation

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: ELOYALTY CORP - Form 10-Q

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 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 July 30, 2008 was 10,526,563.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements (unaudited)</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	33
<u>Part II. Other Information</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	34
Item 6. <u>Exhibits</u>	34
<u>Signatures</u>	35

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)**

	June 28, 2008	December 29, 2007
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 13,507	\$ 21,412
Restricted cash	3,655	2,455
Receivables, (net of allowances of \$82 and \$110)	11,975	11,322
Prepaid expenses	10,587	8,465
Other current assets	1,278	1,074
Total current assets	41,002	44,728
Equipment and leasehold improvements, net	7,321	7,391
Goodwill	2,643	2,643
Intangibles, net	764	828
Other long-term assets	4,007	4,461
Total assets	\$ 55,737	\$ 60,051
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current Liabilities:		
Accounts payable	\$ 4,720	\$ 2,997
Accrued compensation and related costs	4,005	5,555
Unearned revenue	13,701	11,772
Other current liabilities	3,866	3,783
Total current liabilities	26,292	24,107
Long-term unearned revenue	5,321	7,416
Other long-term liabilities	2,267	1,625
Total liabilities	33,880	33,148
Redeemable Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,631,547 and 3,745,070 shares issued and outstanding with a liquidation preference of \$19,169 and \$19,768 at June 28, 2008 and December 29, 2007, respectively	18,521	19,100
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; 10,640,381 and 9,885,458 shares issued at June 28, 2008 and December 29, 2007; and 10,485,348 and 9,735,492 outstanding at June 28, 2008 and December 29, 2007, respectively	106	99
Additional paid-in capital	178,056	172,483
Accumulated deficit	(169,982)	(158,548)

Edgar Filing: ELOYALTY CORP - Form 10-Q

Treasury stock, at cost, 155,033 and 149,966 shares at June 28, 2008 and December 29, 2007	(1,174)	(2,731)
Accumulated other comprehensive loss	(3,670)	(3,500)
Total stockholders' equity	3,336	7,803
Total liabilities and stockholders' equity	\$ 55,737	\$ 60,051

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		For the	
	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenue:				
Services	\$ 18,219	\$ 23,301	\$ 39,571	\$ 45,478
Product	3,117	1,356	4,895	5,763
Revenue before reimbursed expenses (net revenue)	21,336	24,657	44,466	51,241
Reimbursed expenses	808	1,313	1,546	2,651
Total revenue	22,144	25,970	46,012	53,892
Operating expenses:				
Cost of services	13,576	15,224	26,925	29,961
Cost of product	2,423	918	3,824	4,432
Cost of revenue before reimbursed expenses	15,999	16,142	30,749	34,393
Reimbursed expenses	808	1,313	1,546	2,651
Total cost of revenue, exclusive of depreciation and amortization shown below:	16,807	17,455	32,295	37,044
Selling, general and administrative	11,234	12,089	22,677	24,527
Severance and related costs	283		452	
Depreciation and amortization	1,092	948	2,055	1,721
Total operating expenses	29,416	30,492	57,479	63,292
Operating loss	(7,272)	(4,522)	(11,467)	(9,400)
Interest and other income (expense), net	4	591	82	918
Loss before income taxes	(7,268)	(3,931)	(11,385)	(8,482)
Income tax provision	(16)	(6)	(49)	(2)
Net loss	(7,284)	(3,937)	(11,434)	(8,484)
Dividends related to Series B preferred stock	(325)	(363)	(649)	(729)
Net loss available to common stockholders	\$ (7,609)	\$ (4,300)	\$ (12,083)	\$ (9,213)
Basic net loss per common share	\$ (0.80)	\$ (0.52)	\$ (1.31)	\$ (1.13)
Diluted net loss per common share	\$ (0.80)	\$ (0.52)	\$ (1.31)	\$ (1.13)
Shares used to calculate basic net loss per share	9,454	8,203	9,258	8,119
Shares used to calculate diluted net loss per share	9,454	8,203	9,258	8,119

Edgar Filing: ELOYALTY CORP - Form 10-Q

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

Cost of services	\$ 1,640	\$ 260	\$ 2,000	\$ 556
Selling, general and administrative	3,346	2,195	6,768	5,506
Severance and related costs			45	

See accompanying notes to the Condensed Consolidated Financial Statements.

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

	For the	
	Six Months Ended	
	June 28,	June 30,
	2008	2007
Cash Flows from Operating Activities:		
Net loss	\$ (11,434)	\$ (8,484)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,055	1,721
Stock-based compensation	8,813	6,062
Provision for uncollectible amounts	(10)	152
Changes in assets and liabilities:		
Receivables	(647)	(1,492)
Prepaid expenses	(1,099)	(3,720)
Other assets	(343)	635
Accounts payable	1,706	2,049
Accrued compensation and related costs	(1,386)	722
Unearned revenue	(209)	6,765
Other liabilities	(488)	(693)
Net cash (used in) provided by operating activities	(3,042)	3,717
Cash Flows from Investing Activities:		
Capital expenditures and other	(435)	(2,191)
Net cash used in investing activities	(435)	(2,191)
Cash Flows from Financing Activities:		
Acquisition of treasury stock	(2,459)	(2,307)
Increase in restricted cash	(1,200)	(14)
Payment of Series B dividends	(669)	(737)
Proceeds from stock compensation and employee stock purchase plans	211	214
Principal payments under capital lease obligations	(332)	
Other		24
Net cash used in financing activities	(4,449)	(2,820)
Effect of exchange rate changes on cash and cash equivalents	21	(164)
Decrease in cash and cash equivalents	(7,905)	(1,458)
Cash and cash equivalents, beginning of period	21,412	31,645
Cash and cash equivalents, end of period	\$ 13,507	\$ 30,187
Non-Cash Investing and Financing Transactions:		