

ELOYALTY CORP
Form 10-Q
November 08, 2007
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 SEPTEMBER 29, 2007

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)

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

150 Field Drive
Suite 250

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

Edgar Filing: ELOYALTY CORP - Form 10-Q

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Edgar Filing: ELOYALTY CORP - Form 10-Q

The number of shares of the registrant's Common Stock, \$0.01 par value per share, outstanding as of November 1, 2007 was 9,818,643.

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>	13
Item 3. <u>Qualitative and Quantitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	31
<u>Part II. Other Information</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6. <u>Exhibits</u>	32
<u>Signatures</u>	33

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 29, 2007	December 30, 2006
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 24,496	\$ 31,645
Restricted cash	1,283	283
Receivables, (net of allowances of \$93 and \$93)	13,259	12,816
Prepaid expenses	7,757	5,352
Other current assets	1,648	2,125
Total current assets	48,443	52,221
Equipment and leasehold improvements, net	6,297	4,793
Goodwill	2,643	2,643
Intangibles, net	804	1,034
Other long-term assets	4,295	3,877
Total assets	\$ 62,482	\$ 64,568
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current Liabilities:		
Accounts payable	\$ 4,782	\$ 4,247
Accrued compensation and related costs	4,614	3,479
Unearned revenue	11,199	7,435
Other current liabilities	3,089	4,420
Total current liabilities	23,684	19,581
Long-term unearned revenue	6,795	5,411
Other long-term liabilities	442	60
Total liabilities	30,921	25,052
Redeemable Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,752,591 and 4,098,369 shares issued and outstanding with a liquidation preference of \$19,473 and \$21,633 at September 29, 2007 and December 30, 2006, respectively	19,138	20,902
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; 9,927,352 and 9,078,794 shares issued at September 29, 2007 and December 30, 2006; and 9,818,643 and 9,078,794 outstanding at September 29, 2007 and December 30, 2006, respectively	100	91
Additional paid-in capital	170,558	162,059
Accumulated deficit	(152,640)	(139,810)

Edgar Filing: ELOYALTY CORP - Form 10-Q

Treasury stock, at cost, 108,709 shares at September 29, 2007	(2,163)	
Accumulated other comprehensive loss	(3,432)	(3,726)
Total stockholders' equity	12,423	18,614
Total liabilities and stockholders' equity	\$ 62,482	\$ 64,568

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of this financial information.

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		Nine Months Ended	
	Sept. 29,	Sept. 30,	Sept. 29,	Sept. 30,
	2007	2006	2007	2006
Revenue:				
Services	\$22,461	\$ 19,485	\$ 67,939	\$ 51,987
Product	2,909	5,165	8,672	11,002
Revenue before reimbursed expenses (net revenue)	25,370	24,650	76,611	62,989
Reimbursed expenses	1,243	1,266	3,894	3,104
Total revenue	26,613	25,916	80,505	66,093
Operating Expenses:				
Cost of services	14,945	14,232	44,906	42,864
Cost of product	2,169	3,208	6,601	7,924
Cost of revenue before reimbursed expenses	17,114	17,440	51,507	50,788
Reimbursed expenses	1,243	1,266	3,894	3,104
Total cost of revenue, exclusive of depreciation and amortization shown below:	18,357	18,706	55,401	53,892
Selling, general and administrative	11,959	6,406	36,486	18,761
Severance and related costs	5	385	5	730
Depreciation and amortization	913	641	2,634	1,718
Total operating expenses	31,234	26,138	94,526	75,101
Operating loss	(4,621)	(222)	(14,021)	(9,008)
Interest and other income (expense), net	281	224	1,199	483
(Loss) income before income taxes	(4,340)	2	(12,822)	(8,525)
Income tax provision	(6)	(6)	(8)	(57)
Net loss	(4,346)	(4)	(12,830)	(8,582)
Dividends related to Series B preferred stock	(341)	(366)	(1,070)	(1,098)
Net loss available to common stockholders	\$ (4,687)	\$ (370)	\$ (13,900)	\$ (9,680)
Basic net loss per common share	\$ (0.55)	\$ (0.05)	\$ (1.68)	\$ (1.45)
Diluted net loss per common share	\$ (0.55)	\$ (0.05)	\$ (1.68)	\$ (1.45)
Shares used to calculate basic net loss per share	8,578	6,792	8,272	6,694
Shares used to calculate diluted net loss per share	8,578	6,792	8,272	6,694

Edgar Filing: ELOYALTY CORP - Form 10-Q

Non-cash compensation, primarily restricted stock, included in individual line items above:

Cost of services	\$ 187	\$ 438	\$ 743	\$ 1,051
Selling, general and administrative	2,066	611	7,572	1,561

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of this financial information.

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

	For the	
	Nine Months Ended Sept. 29,	Sept. 30,
	2007	2006
Cash Flows from Operating Activities:		
Net loss	\$ (12,830)	\$ (8,582)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,634	1,718
Non-cash compensation	8,315	2,612
Provision for uncollectible amounts	152	
Changes in assets and liabilities:		
Receivables	(473)	(2,356)
Prepaid expenses	(2,802)	(5,648)
Other assets	922	(2,062)
Accounts payable	527	1,892
Accrued compensation and related costs	1,078	(656)
Unearned revenue	5,051	7,360
Other liabilities	(1,117)	1,135
Net cash provided by (used in) operating activities	1,457	(4,587)
Cash Flows from Investing Activities:		
Sale of short-term investments		4,000
Capital expenditures and other	(3,384)	(3,071)
Net cash (used in) provided by investing activities	(3,384)	929
Cash Flows from Financing Activities:		
Acquisition of treasury stock	(3,069)	
Payment of Series B dividends	(1,465)	(1,464)
Proceeds from stock compensation and employee stock purchase plans	379	38
(Increase) decrease in restricted cash	(1,000)	221
Other	24	
Net cash used in financing activities	(5,131)	(1,205)
Effect of exchange rate changes on cash and cash equivalents	(91)	260
Decrease in cash and cash equivalents	(7,149)	(4,603)
Cash and cash equivalents, beginning of period	31,645	17,851
Cash and cash equivalents, end of period	\$ 24,496	\$ 13,248
Non-Cash Investing and Financing Transactions:		
Capital lease obligations incurred	\$ 528	\$