

ELOYALTY CORP  
Form PREM14A  
March 30, 2011

**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**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

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**eLOYALTY CORPORATION**

(Name of Registrant as Specified In Its Charter)

(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:  
Not applicable

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(2) Aggregate number of securities to which transaction applies:  
Not applicable

(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):

The filing fee was determined based on the \$40,850,000 total consideration proposed to be paid to eLoyalty Corporation in the transaction.

(4) Proposed maximum aggregate value of transaction:  
\$40,850,000

(5) Total fee paid:  
\$4,742.69

The filing fee was calculated in accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, and was determined by multiplying \$.00011610 by the proposed maximum aggregate value of the transaction.

.. 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:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

150 Field Drive, Suite 250

Lake Forest, Illinois 60045

[ ], 2011

Dear eLoyalty Stockholder:

On behalf of the board of directors and management of eLoyalty Corporation, I cordially invite you to attend the 2011 Annual Meeting of eLoyalty's stockholders (the Annual Meeting). The Annual Meeting will be held at 9:00 a.m. Central Time on Thursday, May 19, 2011, at the LaQuinta Inn & Suites, 2000 S. Lakeside Drive, Bannockburn, IL 60015.

In addition to the election of three Class III directors, the ratification of the appointment of our independent public accountants for 2011, the approval, by a non-binding advisory vote, of our executive compensation program ( Say on Pay Proposal ), and a recommendation, by a non-binding advisory vote, for the frequency of advisory votes on our executive compensation program ( Frequency Vote on Say on Pay ), we are also seeking your approval for an important transaction. On March 17, 2011, eLoyalty entered into an acquisition agreement (the Acquisition Agreement) with TeleTech Holdings, Inc., a Delaware corporation, and Magellan Acquisition Sub, LLC, a Colorado limited liability company and wholly-owned subsidiary of TeleTech Holdings, Inc. (collectively, TeleTech), pursuant to which TeleTech will purchase substantially all of the assets, and assume certain of the liabilities, related to the Integrated Contact Solutions Business Unit and the eLoyalty registered trademark / trade name of eLoyalty Corporation. These assets and liabilities are referred to as the ICS Business. If the sale is completed, eLoyalty will receive cash consideration in the amount of \$40.85 million less certain adjustments as set forth in the Acquisition Agreement. The full text of the Acquisition Agreement is included as *Annex A* to the proxy statement that accompanies this letter.

At the Annual Meeting, eLoyalty will ask you to consider and vote upon a proposal to approve the sale of the ICS Business as contemplated by the Acquisition Agreement (the Proposal to Sell the ICS Business). You will also be asked to consider and vote upon a proposal to approve an amendment to our Certificate of Incorporation (the Charter) to change our name to Mattersight Corporation (the Name Change Charter Amendment). If there are insufficient votes in favor of the preceding proposals, eLoyalty will ask you to consider and vote upon a proposal to adjourn the Annual Meeting to solicit additional proxies (the Proposal to Adjourn the Annual Meeting).

Our board of directors, after careful consideration, has approved the Acquisition Agreement and determined that the Proposal to Sell the ICS Business and the Name Change Charter Amendment are advisable, fair to, and in the best interests of, eLoyalty and its stockholders. Our board of directors recommends that you vote **FOR** the Proposal to Sell the ICS Business, **FOR** the Name Change Charter Amendment, **FOR** the Proposal to Adjourn the Annual Meeting, if necessary or appropriate, **FOR** the election of the three directors identified herein, **FOR** the ratification of the appointment of Grant Thornton LLP as our independent public accountants for the 2011 fiscal year, **FOR** the Say on Pay Proposal, and for **3 YEARS** with respect to the Frequency Vote on Say on Pay. Details of the business to be conducted at the Annual Meeting are given in the attached Notice of Annual Meeting and Proxy Statement. At the Annual Meeting, stockholders will have an opportunity to comment and ask appropriate questions.

The Proposal to Sell the ICS Business and the Name Change Charter Amendment must be approved by the affirmative vote of holders of a majority of our outstanding shares of stock entitled to vote at the Annual Meeting. In connection with the Acquisition Agreement, our directors, executive officers, and certain stockholders entered into voting agreements with TeleTech, the forms of which are included as *Annex B* to the proxy statement that accompanies this letter. Pursuant to the terms of the voting agreements, each such stockholder agreed to vote all of his, her, or its shares of eLoyalty stock for the Proposal to Sell the ICS Business and the Name Change Charter Amendment. As of March 24, 2011, the record date for the Annual Meeting, these

stockholders had voting power over approximately 48.5% of our outstanding shares of stock. The Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal must each be approved by the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote as of the record date and present in person or represented by proxy at the Annual Meeting. The nominees for director will be elected by a plurality of the votes cast at the Annual Meeting, meaning the nominees who receive the greatest number of votes will be elected as directors. The Frequency Vote on Say on Pay will also be determined by a plurality of the votes cast at the Annual Meeting, meaning the frequency that receives the greatest number of votes will be selected.

The completion of the proposed sale of the ICS Business is subject to the satisfaction or waiver of customary closing conditions. More information about the Proposal to Sell the ICS Business, the Name Change Charter Amendment, and the other business to be conducted at the Annual Meeting is contained in the accompanying proxy statement. We encourage you to read the accompanying proxy statement in its entirety because it describes the proposed sale and documents related to the proposed sale and related transactions and provides specific information about the Annual Meeting. You may also obtain more information about eLoyalty from documents we have filed with the Securities and Exchange Commission.

On behalf of our board of directors, we thank you for your continued support of eLoyalty. Whether or not you plan to attend the Annual Meeting, we encourage you to read the accompanying proxy statement and vote promptly. To ensure that your shares are represented at the meeting, whether or not you plan to attend the meeting in person, we urge you to submit a proxy with your voting instructions by telephone, via the Internet, or by signing, dating, and mailing your proxy card in accordance with the instructions provided on it.

Sincerely,

/s/ Kelly D. Conway  
Kelly D. Conway  
President and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the Acquisition Agreement or the transactions contemplated thereby, passed upon the merits or fairness of the Acquisition Agreement or the transactions contemplated thereby, or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

This proxy statement, dated [ ], 2011 is first being mailed to stockholders on or about [ ], 2011.

**eLOYALTY CORPORATION**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MAY 19, 2011**

The Annual Meeting of eLoyalty Corporation, a Delaware corporation (referred to herein as the Company, eLoyalty, we, us, or our as the context requires), will be held at 9:00 a.m. Central Time on Thursday, May 19, 2011, at the LaQuinta Inn & Suites, 2000 S. Lakeside Drive, Bannockburn, IL 60015, for the following purposes:

1. To approve the sale of substantially all of the assets, and the assumption of certain liabilities, related to our Integrated Contact Solutions Business Unit and the eLoyalty registered trademark / trade name (together, these assets and liabilities are referred to as the ICS Business ) by eLoyalty Corporation to TeleTech as contemplated by the Acquisition Agreement between TeleTech and eLoyalty, dated as of March 17, 2011 and attached as *Annex A* to the accompanying proxy statement. We refer to this proposal as the Proposal to Sell the ICS Business ;
  2. To approve an amendment to our Certificate of Incorporation (the Charter ) to change our name to Mattersight Corporation. We refer to this proposal as the Name Change Charter Amendment ;
  3. To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Annual Meeting to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment. We refer to this proposal as the Proposal to Adjourn the Annual Meeting ;
  4. To elect three Class III directors to serve for an ensuing term of three years;
  5. To ratify the appointment of Grant Thornton LLP as our independent public accountants for 2011;
  6. To approve, by a non-binding advisory vote, our executive compensation program. We refer to this proposal as the Say on Pay Proposal ;
  7. To recommend, by a non-binding advisory vote, the frequency of advisory votes on our executive compensation program. We refer to this proposal as the Frequency Vote on Say on Pay ; and
  8. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.
- The foregoing items of business are more fully described in the proxy statement accompanying this Notice.

Only holders of record of shares of eLoyalty Common Stock, \$0.01 par value per share ( Common Stock ), and holders of record of shares of eLoyalty 7% Series B Convertible Preferred Stock, \$0.01 par value per share ( Series B Stock ; together with the Common Stock, eLoyalty Stock ), at the close of business on March 24, 2011 (the Record Date ) may vote at the Annual Meeting. A list of the stockholders entitled to vote at the Annual Meeting will be available for inspection at eLoyalty s offices at 150 Field Drive, Suite 250, Lake Forest, Illinois, during normal business hours, for ten days prior to the Annual Meeting.

By Order of the Board of Directors,

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/s/ Christine R. Carsen  
Christine R. Carsen  
Vice President, Associate General Counsel, and Corporate Secretary

Lake Forest, Illinois

[ ], 2011

**IMPORTANT: WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, AND SIGN THE PROXY CARD AND MAIL IT PROMPTLY, OR YOU MAY VOTE BY TELEPHONE OR VIA THE INTERNET BY FOLLOWING THE DIRECTIONS ON THE PROXY CARD. ANY ONE OF THESE METHODS WILL ENSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. NO POSTAGE NEED BE AFFIXED TO THE COMPANY-PROVIDED PROXY CARD ENVELOPE IF MAILED IN THE UNITED STATES.**



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**QUESTIONS AND ANSWERS ABOUT THE PROPOSAL TO SELL THE ICS BUSINESS, THE NAME CHANGE CHARTER AMENDMENT, AND THE ANNUAL MEETING**

*The following questions and answers address briefly some questions you might have regarding the Proposal to Sell the ICS Business, the Name Change Charter Amendment and the Annual Meeting. These questions and answers might not address all questions that might be important to you as a stockholder of eLoyalty. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement.*

**Questions and Answers about the Proposal to Sell the ICS Business**

**What is the proposed transaction?**

The proposed transaction is the sale of substantially all of the assets, and the assumption of certain liabilities, related to our Integrated Contact Solutions Business Unit, including the eLoyalty registered trademark / trade name, pursuant to the Acquisition Agreement, dated as of March 17, 2011, by and between eLoyalty and TeleTech. These assets and liabilities are referred to as the ICS Business.

**Why did we agree to sell the ICS Business?**

In reaching its determination to enter into the Acquisition Agreement and approve the sale of the ICS Business, our board of directors consulted with our management and our legal and financial advisors and considered a number of factors. After careful evaluation of the potential benefits, negative factors, and other material considerations relating to the sale of the ICS Business and the Acquisition Agreement, our board of directors concluded that the sale of the ICS Business and entering into the Acquisition Agreement are advisable, fair to, and in the best interests of, eLoyalty and its stockholders. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Reasons for the Sale of the ICS Business*.

**Have any stockholders already agreed to approve the Proposal to Sell the ICS Business?**

Yes. The Company's directors, executive officers and certain stockholders, who, as of the Record Date, collectively had voting power over approximately 48.5% of the issued and outstanding shares of eLoyalty Stock, entered into voting agreements with TeleTech. Under the voting agreements, unless the Acquisition Agreement is terminated, including in connection with our receipt of a superior proposal as further described under *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Voting Agreements*, these stockholders have agreed, subject to certain exceptions, to vote their shares for the approval of the Proposal to Sell the ICS Business.

**When is the sale of the ICS Business expected to be completed?**

Unless the Acquisition Agreement is terminated prior to the Annual Meeting, the sale of the ICS Business will occur as soon as practicable after the Annual Meeting, assuming all of the conditions in the Acquisition Agreement have been satisfied or waived. We and TeleTech are working toward satisfying the conditions to closing and completing the sale of the ICS Business as soon as reasonably practicable.

**What will happen after the Proposal to Sell the ICS Business is approved by our stockholders?**

After the Proposal to Sell the ICS Business is approved by our stockholders at the Annual Meeting and other conditions to the sale are satisfied, we will sell the ICS Business to TeleTech and continue to operate our Behavioral Analytics Service Business Unit, which will be our only remaining business. We will remain a public company.

**What will happen if the Acquisition Agreement is terminated?**

If the Acquisition Agreement is terminated, then the sale of the ICS Business will not be completed as currently contemplated. In such event, we would continue to conduct our business as currently conducted and would evaluate all available strategic alternatives. Under specified circumstances, eLoyalty might be required to pay TeleTech \$1.5 million as a termination fee and/or up to \$500,000 in reasonable out-of-pocket expenses in the event that the transactions contemplated by the Acquisition Agreement are not completed. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Termination Fees*.

**What will happen to my shares of eLoyalty Stock if the sale of the ICS Business is completed?**

A stockholder who owns shares of eLoyalty Stock immediately prior to the closing of the sale of the ICS Business, subject to any actions taken solely by the stockholder, will continue to hold the same number of shares immediately following the closing. As a result of the proposed sale, the holders of Series B Stock will be entitled to receive a liquidation preference of approximately \$19.4 million before any dividends or distributions can be made to the holders of Common Stock. Of this amount, we currently expect to pay approximately \$1.3 million, representing dividends in arrears, immediately following the closing. We also intend to assess from time to time after the closing whether we have available funds for a full or partial distribution of the remaining liquidation preference to the holders of Series B Stock. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Post-Closing Business and Proceeds from the Sale of the ICS Business*.

**How was the purchase price for the ICS Business determined?**

The purchase price for the ICS Business was negotiated between our board of directors and our representatives and representatives of TeleTech over a period of several months. Our board of directors selected the proposed sale of the ICS Business to TeleTech among the alternatives we were pursuing, among other reasons, because our board of directors believed it to be in the best interests of eLoyalty and its stockholders, offered the best value, and was likely to be completed. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Background of the Sale of the ICS Business*.

**Questions and Answers about the Name Change Charter Amendment**

**What is the proposed Name Change Charter Amendment?**

The proposed Name Change Charter Amendment would change our name from eLoyalty Corporation to Mattersight Corporation upon the closing of the sale of the ICS Business.

**Why are we asking for a stockholder vote for the Name Change Charter Amendment?**

Delaware law requires that we obtain approval from our stockholders in order to amend our Charter.

**Why are we changing our name?**

We believe that the name Mattersight Corporation more closely aligns our public identity with our Behavioral Analytics Service Business Unit, which will be our only remaining business and the sole focus of our board of directors and management after the sale of the ICS Business. Also, we are selling the rights to use the name and registered trademark eLoyalty to TeleTech. Therefore, after the closing of the sale of the ICS Business, we will be unable to continue using the name eLoyalty, subject to limited exceptions, without TeleTech's consent.

**What effect will the Name Change Charter Amendment have upon currently outstanding stock?**

If the Name Change Charter Amendment is approved by the stockholders and becomes effective, the rights of stockholders holding certificated shares under currently outstanding stock certificates and the number of shares represented by those certificates will remain unchanged. The name change will not affect the validity or

transferability of any currently outstanding stock certificates that bear the name eLoyalty Corporation, nor will it be necessary for stockholders with certificated shares to surrender or exchange any stock certificates they currently hold as a result of the name change. Uncertificated shares currently held in direct registration accounts and any new stock certificates that are issued after the name change becomes effective will bear the name Mattersight Corporation. Finally, if the Name Change Charter Amendment is approved, we expect that the trading symbol for our Common Stock on the Nasdaq Global Market will be changed from ELOY to MATR.

**Is the Name Change Charter Amendment conditioned on the closing of the sale of the ICS Business?**

Yes. The Name Change Charter Amendment is conditioned upon the closing of the sale of the ICS Business. If the closing of the sale of the ICS Business does not occur, then we will not file the Name Change Charter Amendment with the Secretary of State of the State of Delaware to change our name.

**Have any stockholders already agreed to approve the Name Change Charter Amendment?**

Yes. Pursuant to the voting agreement described above, the Company's directors, executive officers and certain stockholders, who, as of the Record Date, collectively had voting power over approximately 48.5% of the issued and outstanding shares of eLoyalty Stock, have agreed to vote the shares of eLoyalty Stock owned by them in favor of the Name Change Charter Amendment. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Voting Agreements*.

**Questions and Answers about the Annual Meeting**

**Why did you send me this proxy statement?**

You are receiving a proxy statement and proxy card because you owned shares of eLoyalty Stock as of the Record Date. This proxy statement and proxy card relate to our Annual Meeting (and any adjournment thereof) and describe the matters on which we would like you, as a stockholder, to vote. This proxy statement summarizes information you need to know to vote at the Annual Meeting. All stockholders are cordially invited to attend the Annual Meeting in person. However, you do not need to attend the meeting to vote your shares. Instead, you may simply vote by proxy through the Internet, by telephone, or by mail.

We included the Proposal to Sell the ICS Business in this proxy statement because we are required to obtain the approval of our stockholders in connection with a sale of all or substantially all of our assets. We believe that the sale of the ICS Business likely constitutes a sale of substantially all of our assets under Delaware law, as revenue from the ICS Business accounted for \$60 million, or 68%, of our total revenues of \$88 million for the fiscal year ended January 1, 2011. In addition, the ICS Business has historically produced net income while our remaining Behavioral Analytics Service Business Unit has operated at a loss.

**When and where will the Annual Meeting be held?**

The Annual Meeting will be held at the LaQuinta Inn & Suites, 2000 S. Lakeside Drive, Bannockburn, IL 60015, on Thursday, May 19, 2011 at 9:00 a.m. Central Time.

**What is the Proposal to Adjourn the Annual Meeting?**

The Proposal to Adjourn the Annual Meeting would permit us to adjourn or postpone the Annual Meeting if a quorum is present. A quorum will be present at the Annual Meeting if the holders of a majority of the shares of eLoyalty Stock outstanding and entitled to vote generally in the election of directors on the Record Date are present, either in person or by proxy. We would adjourn the Annual Meeting for the purpose of soliciting additional proxies in the event that, at the Annual Meeting, the affirmative vote in favor of the Proposal to Sell the ICS Business and the Name Change Charter Amendment is less than a majority of shares of eLoyalty Stock outstanding and entitled to vote at the Annual Meeting. Holders of approximately 48.5% of the issued and outstanding shares of eLoyalty Stock have agreed to vote the shares of eLoyalty Stock owned by them in favor of the Proposal to Sell the ICS Business and the Name Change Charter Amendment.

**What will happen if the Proposal to Adjourn the Annual Meeting is approved by our stockholders?**

If the Proposal to Adjourn the Annual Meeting is approved and the Proposal to Sell the ICS Business and the Name Change Charter Amendment are not approved at the Annual Meeting while a quorum is present, then we will be able to adjourn or postpone the Annual Meeting for the purpose of soliciting additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment. If you have previously submitted a proxy on the proposals discussed in this proxy statement and wish to revoke it upon adjournment or postponement of the Annual Meeting, you may do so.

**Am I entitled to appraisal or dissenters' rights in connection with the Proposal to Sell the ICS Business, the Name Change Charter Amendment, or the Proposal to Adjourn the Annual Meeting?**

No. The General Corporation Law of the State of Delaware does not provide for stockholder appraisal or dissenters' rights in connection with these types of actions.

**What will I be asked to vote upon at the Annual Meeting?**

At the Annual Meeting, you will be asked to vote upon the following:

to approve the Proposal to Sell the ICS Business;

to approve the Name Change Charter Amendment;

to approve the Proposal to Adjourn the Annual Meeting, if necessary or appropriate;

to elect three Class III directors to serve for an ensuing term of three years;

to ratify the appointment of Grant Thornton LLP as our independent public accountants for 2011;

to approve, on an advisory basis, the Say on Pay Proposal; and

to elect, on an advisory basis, the frequency of advisory votes on our executive compensation program.

**How does our board of directors recommend that our stockholders vote?**

After careful consideration, our board of directors recommends that you vote:

**FOR** the Proposal to Sell the ICS Business;

**FOR** the Name Change Charter Amendment;

**FOR** the Proposal to Adjourn the Annual Meeting;

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**FOR** the election of the three directors identified herein;

**FOR** the ratification of the appointment of Grant Thornton LLP as our independent public accountants for the 2011 fiscal year;

**FOR** the Say on Pay Proposal; and

For **3 YEARS** with respect to the Frequency Vote on Say on Pay.

You should read *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Reasons for the Sale of the ICS Business* for a discussion of the factors that our board of directors considered in deciding to recommend the approval of the sale of the ICS Business. In addition, in considering the recommendation of our board of directors with respect to the sale of the ICS Business, you should be aware that some of our directors and executive officers have interests in the transaction that are different from, or in addition to, the interests of our stockholders generally. See

*PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Interests of Certain Persons in the Sale of the ICS Business.*

**Who is entitled to vote at the Annual Meeting?**

You are entitled to vote if you owned shares of eLoyalty Stock as of the close of business on March 24, 2011 (the Record Date). Each share of eLoyalty Stock is entitled to one vote and there is no cumulative voting. As of the Record Date we had 19,162,325 shares of eLoyalty Stock outstanding. Both Delaware law and our bylaws require our board of directors to establish a record date in order to determine who is entitled to receive notice of the Annual Meeting, and to attend and vote at the Annual Meeting and any continuations, adjournments or postponements of the meeting.

**How many votes must be present to hold the Annual Meeting?**

In order to conduct the business of the Annual Meeting, we must have a quorum. A quorum requires the presence, in person or by proxy, of a majority of the 19,162,325 shares of eLoyalty Stock outstanding and entitled to vote generally in the election of directors on the Record Date. Your shares are counted as present if you attend the meeting and vote in person or if you properly return a proxy over the Internet, by telephone or by mail. Abstentions will be counted for purposes of establishing a quorum. See *THE ANNUAL MEETING Record Date and Quorum*.

**What vote is required to approve each of the proposals?**

The Proposal to Sell the ICS Business and the Name Change Charter Amendment must be approved by the affirmative vote of holders of a majority of the shares of eLoyalty Stock outstanding and entitled to vote as of the close of business on the Record Date. The Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal must each be approved by the affirmative vote of holders of a majority of the shares of eLoyalty Stock outstanding and entitled to vote as of the close of business on the Record Date and present in person or represented by proxy at the Annual Meeting. The nominees for director will be elected by a plurality of the votes cast at the Annual Meeting, meaning the nominees who receive the greatest number of votes will be elected as directors. The Frequency Vote on Say on Pay will also be determined by a plurality of the votes cast at the Annual Meeting, meaning the frequency that receives the greatest number of votes will be the choice of stockholders. See *THE ANNUAL MEETING Vote Required for Approval*.

**How do I vote or change my vote?**

You may vote in person at the Annual Meeting or by proxy through the Internet, by telephone, or by mail. You may revoke your proxy at any time before the voting at the Annual Meeting by: voting again at a later date by telephone or through the Internet; submitting a new proxy that is properly signed with a later date; sending a properly signed written notice of your revocation to our Corporate Secretary, at eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045, Attention: Corporate Secretary; or voting in person at the Annual Meeting. Attendance at the Annual Meeting will not itself revoke an earlier submitted proxy. If your shares are held in street name through a broker, bank, or other nominee, then you must contact your broker, bank, or nominee to revoke your proxy. See *THE ANNUAL MEETING Voting, Proxies and Revocation*.

**If my shares are held in street name by my broker, will my broker vote my shares for me?**

Your broker or nominee is not permitted to use discretion and vote your shares on non-routine matters without your instructions. Shares that are not permitted to be voted by your broker are called broker non-votes. Without your instructions, your shares will not be voted by your broker, which will have the same effect as a vote AGAINST the Proposal to Sell the ICS Business and AGAINST the Name Change Charter Amendment. Broker non-votes will have no effect on the election of directors, the ratification of the appointment of Grant Thornton LLP as our independent public accountants for the 2011 fiscal year, the Say on Pay Proposal, or the Frequency Vote on Say on Pay. See *THE ANNUAL MEETING Vote Required for Approval*.



**How are proxies solicited?**

This proxy solicitation is being made and paid for by eLoyalty on behalf of its board of directors. Our directors, officers, and employees may solicit proxies by personal interview, mail, email, telephone, facsimile, or other means of communication. These directors, officers, and employees will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of eLoyalty Stock that the brokers and fiduciaries hold of record. Upon request, we will reimburse the brokers and other fiduciaries for their reasonable out-of-pocket expenses for doing this.

**What does it mean if I get more than one proxy card?**

If your shares are registered differently and are in more than one account, then you might receive more than one proxy card. Please complete, sign, date, and return all of the proxy cards you receive regarding the Annual Meeting to ensure that all of your shares are voted.

**How are proxies counted?**

On all matters, each share has one vote. The Proposal to Sell the ICS Business and the Name Change Charter Amendment require the affirmative vote of the holders of a majority of the shares outstanding as of the Record Date. Since the Proposal to Sell the ICS Business and the Name Change Charter Amendment require the approval of the holders of a majority of our shares outstanding as of the Record Date, both broker non-votes and abstentions would have the same effect as votes AGAINST such proposals. The Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal must each be approved by the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote as of the Record Date and present in person or represented by proxy at the Annual Meeting. A failure to vote your shares of eLoyalty Stock or a broker non-vote will have no effect on the outcome of the Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal. An abstention will have the same effect as voting AGAINST the Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal. The nominees for director will be elected by a plurality of the votes cast at the Annual Meeting, meaning the nominees who receive the greatest number of votes will be elected as directors. The Frequency Vote on Say on Pay will also be determined by a plurality of the votes cast at the Annual Meeting, meaning the frequency that receives the greatest number of votes will be the choice of stockholders. With respect to the election of our directors and the Frequency Vote on Say on Pay, neither broker non-votes nor abstentions are included in the tabulation of the voting results and, therefore, do not have the effect of votes AGAINST such proposal.

**How do I obtain an additional copy of this proxy statement or copies of eLoyalty's most recent annual report on Form 10-K?**

If you would like an additional copy of this proxy statement or a copy of our annual report on Form 10-K for the fiscal year ended January 1, 2011 filed with the Securities and Exchange Commission (the SEC) on March 17, 2011, we will send you one without charge. Please either send your request in writing to Christine R. Carsen, Vice President, Associate General Counsel, and Corporate Secretary, eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045 or call 847-582-7000.

**Who can help answer my other questions?**

If you have more questions about the sale of the ICS Business, need assistance in submitting your proxy or voting your shares, or need additional copies of the proxy statement or the enclosed proxy card, you should contact Christine R. Carsen, Vice President, Associate General Counsel, and Corporate Secretary, eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045 or call 847-582-7000.

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**SUMMARY TERM SHEET**

*This summary, together with the question and answer section that precedes this section, highlights selected information from the proxy statement about the sale of assets, and the assumption of certain liabilities, related to our Integrated Contact Solutions Business Unit and the eLoyalty registered trademark / trade name. These assets and liabilities are referred to as the ICS Business. This summary and the question and answer section may not contain all of the information that is important to you. For a more complete description of the sale of the ICS Business, you should carefully read this proxy statement and the Acquisition Agreement attached hereto as Annex A before you vote. The location of the more detailed description of each item in this summary is provided in the parentheses listed below. See also Where You Can Obtain Additional Information on page 115.*

**Parties to the Acquisition Agreement (page 18)**

***eLoyalty Corporation***

eLoyalty is a customer interaction consulting and managed services company. We have been designing and implementing large-scale customer interaction solutions since 1990, and we possess unparalleled experience and qualifications in these application areas. We help our clients achieve breakthrough results with revolutionary analytics and advanced technologies that drive continuous business improvement. We currently operate our business through two primary business units: the Behavioral Analytics Service and Integrated Contact Solutions. The Behavioral Analytics Service Business Unit focuses on solutions that improve the reliability of call recording and applies human behavioral modeling to analyze and improve customer interactions. The Behavioral Analytics Service is primarily a hosted solution and is delivered as a managed subscription service. The Integrated Contact Solutions Business Unit focuses on helping clients realize the benefits of transitioning their contact centers to a single network infrastructure from the traditional two-network (voice network and separate data network) model. We have agreed to sell our Integrated Contact Solutions Business Unit pursuant to the Acquisition Agreement.

***TeleTech Holdings, Inc.***

TeleTech is one of the largest global providers of onshore, offshore, and work from home business process outsourcing services focusing on revenue generation, customer and enterprise management, and technology-enabled solutions. TeleTech helps Global 1000 companies enhance their strategic capabilities, improve quality and lower costs by designing, implementing and managing their critical front- and back-office processes. TeleTech provides a 24 x 7, 365 day fully integrated global solution that spans people, process, proprietary technology and infrastructure for governments and private sector clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless communication industries.

**The Purchase and Sale of the ICS Business (page 39)**

Pursuant to the terms of the Acquisition Agreement, dated as of March 17, 2011, by and between eLoyalty and TeleTech, we have agreed to sell substantially all of the assets related to the ICS Business, including the eLoyalty registered trademark / trade name, to TeleTech.

**Purchase Price (page 39)**

If the sale of the ICS Business pursuant to the Acquisition Agreement is completed, then TeleTech will pay us an aggregate cash purchase price of \$40.85 million, subject to adjustment as set forth in the Acquisition Agreement. Of the total purchase price, \$1.5 million will be funded into an escrow account to satisfy our obligations under any indemnity claims that may be made by TeleTech. The purchase price is subject to adjustment based on a managed services amount (generally, unearned revenue less prepaid expenses) as of the closing date, which we will be required to transfer with the ICS Business. The purchase price will also be adjusted to the extent the ICS Business's working capital ratio (generally, the ratio of current assets, excluding prepaid-cost deferrals, to current liabilities, excluding unearned revenue) is greater or less than 1.21 as of the closing date.

**Post-Closing Business and Proceeds from the Sale of the ICS Business (page 36)**

After giving effect to our payment of estimated transaction fees and expenses and before giving effect to purchase price adjustments set forth in the Acquisition Agreement, we estimate that the net cash proceeds from our sale of the ICS Business will be approximately \$38.9 million. The purchase price adjustments set forth in the Acquisition Agreement will cause the actual amount of net cash proceeds to vary from this estimate. The purchase price adjustments will require that we transfer cash with the ICS Business at closing representing certain net managed services amounts, which amounts were equal to approximately \$11.7 million as of January 1, 2011.

We intend to use a portion of the net proceeds from the sale of the ICS Business to support our Behavioral Analytics Service Business Unit, which will be our only remaining business. As a result of the proposed sale, the holders of Series B Stock will be entitled to receive a liquidation preference of approximately \$19.4 million before any dividends or distributions can be made to the holders of Common Stock. Of this amount, we currently expect to pay approximately \$1.3 million, representing dividends in arrears, immediately following the closing. We also intend to assess from time to time after the closing whether we have available funds for a full or partial distribution of the remaining liquidation preference to the holders of the Series B Stock. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Post-Closing Business and Proceeds from the Sale of the ICS Business*.

**Vote Required for Approval of the Proposal to Sell the ICS Business, the Name Change Charter Amendment, and Adjournment of the Annual Meeting (page 15)**

The Proposal to Sell the ICS Business and the Name Change Charter Amendment must be approved by the affirmative vote of the holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote at the Annual Meeting. The Proposal to Adjourn the Annual Meeting must be approved by the affirmative vote of the holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote and present at the Annual Meeting. See *THE ANNUAL MEETING Vote Required for Approval*.

**The Annual Meeting (pages 3, 14)**

See *Questions and Answers about the Annual Meeting* and *THE ANNUAL MEETING*.

**Reasons for the Sale of the ICS Business (page 26); Recommendation of Our Board of Directors (page 53)**

In reaching its determination to enter into the Acquisition Agreement and approve the sale of the ICS Business, our board of directors consulted with our management and our legal and financial advisors and considered a number of factors, including possible alternatives to the sale, the sale process and terms, and the opinion of NeXtAdvisors, LLC, a unit of North Point Advisors LLC, a member of FINRA ( NeXtAdvisors ), our financial advisor. After careful evaluation of the potential benefits, negative factors, and other material considerations relating to the sale of the ICS Business and the Acquisition Agreement, our board of directors concluded that the sale of the ICS Business and our entering into the Acquisition Agreement are advisable, fair to, and in the best interests of, eLoyalty and our stockholders.

**Our board of directors recommends that you vote FOR the approval of the Proposal to Sell the ICS Business, FOR the Name Change Charter Amendment, and FOR the Proposal to Adjourn the Annual Meeting.**

**Interests of Certain Persons in the Sale of the ICS Business (page 37)**

In considering the recommendation of our board of directors with respect to the Acquisition Agreement, our stockholders should be aware that some of our directors and executive officers have interests in the sale of the ICS Business that are different from, or in addition to, the interests of our stockholders generally. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Interests of Certain Persons in the Sale of the ICS Business*.

**Opinion of NeXtAdvisors (page 30)**

On March 11, 2011, NeXtAdvisors delivered its oral opinion, which opinion was subsequently confirmed in writing that day, to our board of directors to the effect that, as of such date and based upon the assumptions made, matters considered, and limits of such review, in each case as set forth in its opinion, the consideration to be received by eLoyalty pursuant to the proposed sale of the ICS Business to TeleTech was fair from a financial point of view to eLoyalty.

The full text of the written opinion of NeXtAdvisors, dated as of March 11, 2011, which sets forth the assumptions made, matters considered, and limits on the scope of the review undertaken in connection with the opinion, is attached as *Annex C* to this proxy statement. The summary of NeXtAdvisors' opinion contained in this proxy statement is qualified by reference to the full text of NeXtAdvisors' opinion, and you are encouraged to carefully read the opinion in its entirety. NeXtAdvisors' opinion was delivered to our board of directors for its use and benefit in its evaluation of the sale of the ICS Business to TeleTech, does not address the merits of the underlying decision by eLoyalty to sell the ICS Business, and does not constitute a recommendation to any eLoyalty stockholder as to how to vote on the Proposal to Sell the ICS Business.

**Governmental and Regulatory Approvals (page 35)**

Neither eLoyalty nor TeleTech is aware of any regulatory approvals required to be obtained, or waiting periods to expire, to complete the sale of the ICS Business to TeleTech. If the parties discover that approvals or waiting periods are necessary, then they will seek to obtain or comply with them.

**Certain U.S. Income Tax Consequences (page 35)**

The sale of the ICS Business should not result in any current United States federal income tax consequences to our stockholders. We expect to recognize a gain for United States federal income tax purposes on the sale of the ICS Business. However, based on the results of an analysis that we have undertaken with assistance of our tax advisors, we expect that for United States federal income tax purposes all or substantially all of the taxable gain resulting from the sale of the ICS Business will be offset by available net operating losses. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Certain U.S. Income Tax Consequences*.

**Nature of Our Business Following the Sale of the ICS Business (pages 36, 73)**

Following the sale of the ICS Business and the effectiveness of the Name Change Charter Amendment, we will continue to be a public company operating under the name Mattersight Corporation, and our Behavioral Analytics Service Business Unit will account for all of our revenues.

**Terms of the Acquisition Agreement (page 39)**

In the Acquisition Agreement, we make representations and warranties and have agreed to covenants, indemnification obligations, and other customary provisions. You are encouraged to read carefully the Acquisition Agreement in its entirety, a copy of which is attached hereto as *Annex A*, and *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement*.

**Termination of the Acquisition Agreement (page 49)**

The Acquisition Agreement may be terminated by either party if the sale of the ICS Business is not completed on or before July 3, 2011 or upon the issuance of an order or injunction by any governmental entity. TeleTech may terminate the Acquisition Agreement if (i) we do not receive stockholder approval of the Sale of the ICS Business by June 15, 2011, (ii) our board of directors withdraws its recommendation that our stockholders approve the Acquisition Agreement, (iii) we willfully and materially breach any of our obligations

with respect to alternative acquisition proposals, (iv) we intentionally or recklessly breach any representation or warranty or covenant in the Acquisition Agreement such that conditions to TeleTech's obligations to close are not met; or (v) any information we disclose to TeleTech after signing the Acquisition Agreement could reasonably be expected to give rise to a material adverse effect. We may terminate the Acquisition Agreement if (a) we enter into a third-party acquisition agreement that provides for a superior proposal (as defined in *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Covenants and Agreements*) prior to receipt of our stockholders' approval or (b) TeleTech breaches any representation or warranty or covenant in the Acquisition Agreement such that conditions to our obligations to close are not met. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Covenants and Agreements*.

#### **Termination Fee and Expense Reimbursement (page 50)**

If the Acquisition Agreement is terminated under circumstances described in detail elsewhere in this proxy statement and in the Acquisition Agreement, then we will be obligated to pay TeleTech \$1.5 million as a termination fee and/or up to \$500,000 in reasonable out-of-pocket expenses incurred in connection with the proposed sale of the ICS Business. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Termination Fees*

#### **Restrictions on Solicitation of Other Offers (page 44)**

The Acquisition Agreement provides that, from the date of the Acquisition Agreement until the earlier of the closing date or the termination of the Acquisition Agreement in accordance with its terms, eLoyalty may not, directly or indirectly, initiate, solicit, encourage, or participate in any discussions regarding an acquisition proposal (as defined in *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Covenants and Agreements*) by a party other than TeleTech, subject to the exceptions described below. If, however, we receive an unsolicited acquisition proposal that our board of directors determines in good faith after consultation with our legal and financial advisors is, or is reasonably likely to result in, a superior proposal (as defined in *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Covenants and Agreements*) from a party other than TeleTech prior to receipt of our stockholders' approval of the Proposal to Sell the ICS Business, and such offer does not arise from a breach of the restrictions on solicitation of other offers, we may furnish information concerning our business, properties, or assets pursuant to a confidentiality agreement and negotiate and participate in discussions and negotiations concerning an acquisition proposal. Further, prior to receipt of our stockholders' approval of the Proposal to Sell the ICS Business, our board of directors may withdraw or modify its recommendation to vote for *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS* if our board determines in good faith, after receiving advice of legal and financial advisors and taking into account any binding offer by TeleTech to amend the terms of the Acquisition Agreement and other factors related to the certainty of the acquisition proposal, that the failure to take such action would be reasonably likely to constitute a breach by our board of its fiduciary duties to our stockholders under Delaware law. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Covenants and Agreements*.

#### **Conditions to Closing (page 48)**

The consummation of the transactions contemplated by the Acquisition Agreement is subject to, among other things, the approval of our stockholders described above, receipt of certain required third-party consents and approvals, each party's respective representations and warranties in the Acquisition Agreement being true and correct as of the closing date to the standards described in the Acquisition Agreement, each party's performance in all material respects of its obligations required to be performed under the Acquisition Agreement on or prior to the closing date, EBITDA for the ICS Business for the twelve month period ended on March 31, 2011 exceeding \$8,000,000, and each party's delivery to the other party of all applicable transaction documents pursuant to the Acquisition Agreement. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Acquisition Agreement Conditions to the Sale of the ICS Business*.

**Indemnification (page 50)**

The Acquisition Agreement provides that, subject to specified exceptions, eLoyalty and TeleTech will be liable to each other for breaches of certain representations and warranties as set forth in the Acquisition Agreement if, and only to the extent, aggregate damages for such breaches exceed \$200,000. Subject to certain exceptions set forth in the Acquisition Agreement, each party's indemnification obligations are subject to a cap of \$2.0 million. To provide a partial fund against which TeleTech may assert an indemnification claim pursuant to the foregoing, \$1.5 million of the purchase price will be put in escrow and disbursed to us on the six month anniversary of the closing. In addition, we are required to indemnify TeleTech for any breach or failure by eLoyalty to perform any of the covenants of eLoyalty contained in the Acquisition Agreement, any liabilities arising from, or in connection with, any retained liability or any excluded asset, or from the noncompliance with any legal requirement related to fraud, intentional misrepresentation, or criminal acts committed by or on our behalf on or prior to the closing date.

Except as otherwise provided in the Acquisition Agreement, the indemnification provisions set forth in the Acquisition Agreement constitute the sole and exclusive remedy available to eLoyalty and TeleTech with respect to breaches of the representations, warranties, and covenants set forth in the Acquisition Agreement (other than each party's right to specific performance or injunctive relief or in cases of other willful misconduct).

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Statements in this proxy statement that are not historical facts (such as those related to the closing of the transactions contemplated by the Acquisition Agreement, our intended operations after the closing, and our use of proceeds from the sale of the ICS Business) are forward-looking statements that are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements, which may be identified by use of words such as plan, may, might, believe, expect, intend, could, would, should, and other words with similar meaning, in connection with any discussion of our prospects, financial statements, business, financial condition, revenues, results of operations, or liquidity, involve risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to other factors and matters contained or incorporated in this document, important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements include, among other things:

the occurrence of any event, change, or other circumstance that could give rise to the termination of the Acquisition Agreement;

the inability to complete the transactions contemplated by the Acquisition Agreement due to the failure to satisfy the conditions to the completion of the transactions contemplated by the Acquisition Agreement, including the receipt of stockholder approval;

the failure of the transactions contemplated by the Acquisition Agreement to close for any other reason;

the parties' ability to meet expectations regarding the timing for completion of the transactions contemplated by the Acquisition Agreement;

the retention of key employees at eLoyalty as a result of the transactions contemplated by the Acquisition Agreement;

business uncertainty and contractual restrictions during the pendency of the transactions contemplated by the Acquisition Agreement;

the possible effect of the announcement of the Acquisition Agreement and the transactions contemplated thereby on our customer and supplier relationships, operating results, and business generally;

the outcome of any legal proceedings that may be instituted against eLoyalty and others related to the Acquisition Agreement or the transactions contemplated thereby, including any dispute relating to the manner and time period in which the Company will satisfy obligations relating to the Series B Stock;

the inability of the ICS Business to achieve meaningful growth and sustainable profitability;

the amount of the purchase price adjustments, costs, fees, expenses and charges relating to the sale of the ICS Business;

the failure to operate our Behavioral Analytics Service Business Unit successfully;

changes in global or domestic economic conditions; and

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competition generally and the increasingly competitive nature of our industry.

In addition, we are subject to risks and uncertainties and other factors detailed in our annual report on Form 10-K for the fiscal year ended January 1, 2011, filed with the SEC on March 17, 2011, which should be read in conjunction with this proxy statement. See *Where You Can Obtain Additional Information* on page 115. Many of the factors that will impact the completion of the proposed transactions are beyond our ability to control or predict.



In light of the significant uncertainties inherent in the forward-looking statements contained in this proxy statement, readers should not place undue reliance on forward-looking statements. We cannot guarantee any future results, levels of activity, performance, or achievements. The statements made in this proxy statement represent our views as of the date of this proxy statement, and it should not be assumed that the statements made in this proxy statement remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements, except as may be required by law.

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## THE ANNUAL MEETING

### Time, Place, and Purpose of the Annual Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at the Annual Meeting to be held at the LaQuinta Inn & Suites, 2000 S. Lakeside Drive, Bannockburn, IL 60015 on Thursday, May 19, 2011, at 9:00 a.m. Central Time, or at any postponement or adjournment thereof. The proxy materials, together with a copy of eLoyalty's Annual Report, are first being made available to our stockholders beginning on or about [ ].

The purpose of the Annual Meeting is for our stockholders to consider and vote upon the Proposal to Sell the ICS Business, the Name Change Charter Amendment, the Proposal to Adjourn the Annual Meeting (if necessary or appropriate), the election of three Class III directors to serve for an ensuing term of three years, the ratification of the appointment of Grant Thornton LLP as our independent public accountants for 2011, the Say on Pay Proposal, and the Frequency Vote on Say on Pay.

### Recommendation of Our Board of Directors

Our board of directors, after careful consideration, has approved the Acquisition Agreement and determined that the sale of the ICS Business is advisable, fair to, and in the best interests of, eLoyalty and our stockholders. Our board of directors recommends that you vote **FOR** the Proposal to Sell the ICS Business, **FOR** the Name Change Charter Amendment, **FOR** the Proposal to Adjourn the Annual Meeting, if necessary or appropriate, for the purpose of soliciting additional proxies, **FOR** the election of the three directors identified herein, **FOR** the ratification of the appointment of Grant Thornton LLP as our independent public accountants for the 2011 fiscal year, **FOR** the Say on Pay Proposal, and for **3 YEARS** with respect to the Frequency Vote on Say on Pay. For a discussion of the material factors considered by our board of directors in reaching its conclusions regarding the sale of the ICS Business, see *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Reasons for the Sale of the ICS Business*.

### Record Date and Quorum

Only holders of record of shares of eLoyalty Common Stock, \$0.01 par value per share ( Common Stock ), and holders of record of shares of eLoyalty 7% Series B Convertible Preferred Stock, \$0.01 par value per share ( Series B Stock ; together with the Common Stock, eLoyalty Stock ), at the close of business on March 24, 2011 (the Record Date ) may vote at the Annual Meeting. On the Record Date, 19,162,325 shares of eLoyalty Stock, comprising 15,613,247 shares of Common Stock and 3,549,078 shares of Series B Stock, were outstanding and entitled to be voted at the Annual Meeting. Each share of eLoyalty Stock entitles the holder to one vote and both classes of eLoyalty Stock will vote together as a single class on (i) the Proposal to Sell the ICS Business, (ii) the Name Change Charter Amendment, (iii) the Proposal to Adjourn the Annual Meeting (if necessary or appropriate), (iv) the election of three Class III directors to serve for an ensuing term of three years, (v) the ratification of the appointment of Grant Thornton LLP as our independent public accountants for 2011, (vi) the Say on Pay Proposal, and (vii) the Frequency Vote on Say on Pay.

A quorum is necessary to hold a valid Annual Meeting. A quorum will be present at the Annual Meeting if the holders of a majority of the shares of eLoyalty Stock outstanding and entitled to vote generally in the election of directors on the Record Date are present, either in person or by proxy. Abstentions are counted for purposes of a quorum. Without your instructions, your broker or nominee is not permitted to use discretion and vote your shares on non-routine matters, such as the election of directors. Therefore, if you do not provide your broker or nominee instructions with respect to the election of directors, your shares will not be counted for purposes of determining the presence or absence of a quorum for the transaction of all business. If a quorum is not present at the Annual Meeting or if there are insufficient votes to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment (but sufficient votes to approve the Proposal to Adjourn the Annual Meeting), then the Annual Meeting will be adjourned or postponed to solicit additional proxies.

### **Routine vs. Non-Routine Matters**

The ratification of the appointment of Grant Thornton LLP as our independent public accountants for 2011 is considered to be a routine matter under applicable rules. A broker may generally vote on routine matters, and therefore there should be no broker non-votes in connection with this item. The Proposal to Sell the ICS Business, the Name Change Charter Amendment, the Proposal to Adjourn the Meeting, the election of directors, the Say on Pay Proposal, and the Frequency Vote on Say on Pay are considered to be non-routine matters under applicable rules. Because a broker cannot vote without instructions on non-routine matters, there may be broker non-votes on these Items.

### **Vote Required for Approval**

The Proposal to Sell the ICS Business and the Name Change Charter Amendment must be approved by the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding as of the Record Date. For the Proposal to Sell the ICS Business and the Name Change Charter Amendment, you may vote FOR or AGAINST or you may ABSTAIN. Because the Proposal to Sell the ICS Business and the Name Change Charter Amendment require the approval of the holders of a majority of our shares outstanding as of the Record Date, both broker non-votes and abstentions would have the same effect as votes AGAINST such proposals.

The Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal must each be approved by the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote as of the Record Date and present in person or represented by proxy at the Annual Meeting. A failure to vote your shares of eLoyalty Stock or a broker non-vote will have no effect on the outcome of the Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal. An abstention will have the same effect as voting AGAINST the Proposal to Adjourn the Annual Meeting, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, and the Say on Pay Proposal.

Our organizational documents do not provide for cumulative voting for directors. Therefore, the nominees for director will be elected by a plurality of the votes cast at the Annual Meeting. This means that the nominees for the three director seats who receive the most affirmative votes of shares outstanding and entitled to vote as of the Record Date and present in person or represented by proxy at the Annual Meeting will be elected to serve as directors. The Frequency Vote on Say on Pay will also be determined by a plurality of the votes cast at the Annual Meeting. This means that the frequency alternative that receives the most affirmative votes of shares outstanding and entitled to vote as of the Record Date and present in person or represented by proxy at the Annual Meeting will be the choice of stockholders. With respect to the election of our directors and the Frequency Vote on Say on Pay, neither broker non-votes nor abstentions are included in the tabulation of the voting results and, therefore, do not have the effect of votes AGAINST such proposal.

If your shares of eLoyalty Stock are held in street name, you will receive instructions from your broker, bank, or other nominee that you must follow in order to have your shares voted. Brokers who hold shares in street name for customers are precluded from exercising their voting discretion with respect to approving non-routine matters such as the Proposal to Sell the ICS Business, the Name Change Charter Amendment, the Proposal to Adjourn the Meeting, the election of directors, the Say on Pay Proposal, and the Frequency Vote on Say on Pay and, as a result, absent specific instructions from the beneficial owner of the shares, brokers are not empowered to vote those shares, referred to generally as broker non-votes. Broker non-votes will not be counted for purposes of determining whether a quorum is present at the Annual Meeting. Broker non-votes will have the same effect as a vote AGAINST the Proposal to Sell the ICS Business and the Name Change Charter Amendment, but will have no effect on the Proposal to Adjourn the Annual Meeting, the election of three Class III directors to serve for an ensuing term of three years, the ratification of the appointment of Grant Thornton LLP as the Company's independent public accountants, the Say on Pay Proposal, and the Frequency Vote on Say on Pay.

In connection with the Acquisition Agreement, our directors, executive officers, and certain stockholders have entered into voting agreements with TeleTech, dated as of March 17, 2011, the forms of which are attached hereto as *Annex B*. Pursuant to the terms of the voting agreements, each such stockholder agreed to vote all of his, her, or its shares of eLoyalty Stock for the approval of the Proposal to Sell the ICS Business and the Name Change Charter Amendment. As of the Record Date, these stockholders had voting power over approximately 48.5% of eLoyalty Stock. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Interests of Certain Persons in the Sale of the ICS Business* and *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Terms of the Voting Agreements*.

### Voting, Proxies, and Revocation

You may vote by proxy or in person at the Annual Meeting.

*Voting in Person* If you hold shares in your name as a stockholder of record and plan to attend the Annual Meeting and wish to vote in person, you will be given a ballot at the Annual Meeting or you may give us a signed proxy card before voting is closed. If you would like to attend the Annual Meeting, please bring proof of identification with you to the Annual Meeting. Even if you plan to attend the Annual Meeting, we strongly encourage you to submit a proxy for your shares in advance as described below, so your vote will be counted if you later decide not to attend. If your shares are held in street name, which means your shares are held of record by a broker, bank, or other nominee, and you wish to vote in person at the Annual Meeting, you must bring to the Annual Meeting a proxy from the record holder of the shares (your broker, bank, or nominee) authorizing you to vote at the Annual Meeting. To do this, you should contact your broker, bank, or nominee.

*Voting by Proxy* If you are a holder of record of eLoyalty Stock (that is, you hold your stock in your own name) on the Record Date, you may submit a proxy with your voting instructions by any of the following methods:

**Through the Internet:** Go to the web address [www.proxyvote.com](http://www.proxyvote.com) and follow the instructions included with the Notice of the Annual Meeting or, if applicable, on your proxy card, at any time before 11:59 p.m. Eastern Time on May 18, 2011. Instructions are also provided on the website.

**By Telephone:** Call 1-800-690-6903 on a touch-tone telephone from anywhere within the United States or Canada at any time before 11:59 p.m. Eastern Time on May 18, 2011, and follow the instructions included with the Notice of the Annual Meeting or, if applicable, on your proxy card. Instructions are also provided by recorded telephone message.

**By Mail:** You may also complete, sign, and mail your proxy card using the instructions provided on it.

If you choose to submit your proxy with voting instructions by telephone or through the Internet, you will be required to provide your assigned control number before your proxy will be accepted. This number is included either with the Notice of the Annual Meeting or, if applicable, on your proxy card. Once you have indicated how you want to vote in accordance with the instructions provided, you will receive a confirmation that your proxy has been successfully submitted.

Properly executed proxies that do not contain specific voting instructions will be voted **FOR** the Proposal to Sell the ICS Business, **FOR** the Name Change Charter Amendment, **FOR** the Proposal to Adjourn the Annual Meeting (if necessary or appropriate), **FOR** the election of the nominees for director shown under *PROPOSAL #4: ELECTION OF DIRECTORS Nominees*, **FOR** the ratification of the appointment of Grant Thornton LLP as our independent public accountants for 2011, **FOR** the Say on Pay Proposal, and for **3 YEARS** with respect to the Frequency Vote on Say on Pay.

*Revocation of Proxy* Submitting a proxy on the enclosed form does not preclude a stockholder from voting in person at the Annual Meeting. You may revoke your proxy at any time before the voting at the Annual Meeting by any of the following methods:

voting again at a later date by telephone or through the Internet your latest voting instructions will be counted and your earlier instructions, using the same procedures, revoked;

submitting a new proxy that is properly signed with a later date;

sending a properly signed written notice of your revocation to eLoyalty's Corporate Secretary, at eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045, Attention: Corporate Secretary; or

voting in person at the Annual Meeting. Attendance at the Annual Meeting will not itself revoke an earlier submitted proxy. If your shares are held in street name through a broker, bank, or other nominee, then you must contact your broker, bank, or nominee to revoke your proxy.

### **Adjournments and Postponements**

The Annual Meeting may be adjourned or postponed for the purpose of soliciting additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment. Any adjournment may be made without notice, other than by an announcement made at the Annual Meeting of the time, date, and place of the adjourned meeting. Approval of the Proposal to Adjourn the Annual Meeting, if necessary or appropriate, for the purpose of soliciting additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment requires, assuming a quorum is present, the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote and present in person or represented by proxy at the Annual Meeting. If a quorum is not present at the Annual Meeting, the stockholders entitled to vote at the meeting may adjourn the meeting until a quorum is present. Any signed proxies received by us in which no voting instructions are provided on this matter will be voted FOR the Proposal to Adjourn the Annual Meeting, if necessary or appropriate, to solicit additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment. In addition, when any meeting is convened, the presiding officer, if directed by our board of directors, may adjourn the meeting if (i) no quorum is present for the transaction of business or (ii) our board of directors determines that adjournment is necessary or appropriate to enable the stockholders to consider fully information which our board of directors determines has not been made sufficiently or timely available to stockholders or otherwise to effectively exercise their voting rights. Any adjournment or postponement of the Annual Meeting for the purpose of soliciting additional proxies will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use at the Annual Meeting as adjourned or postponed.

### **Rights of Stockholders Who Object to the Proposals**

The General Corporation Law of the State of Delaware does not provide for stockholder appraisal or dissenters' rights in connection with the types of actions contemplated under any of the proposals on the Annual Meeting agenda.

### **Solicitation of Proxies**

This proxy solicitation is being made and paid for by eLoyalty on behalf of its board of directors. Our directors, officers, and employees may solicit proxies by personal interview, mail, email, telephone, facsimile, or other means of communication. These directors, officers, and employees will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of eLoyalty Stock that the brokers and fiduciaries hold of record. Upon request, we will reimburse the brokers and other fiduciaries for their reasonable out-of-pocket expenses for doing so.

### **Questions and Additional Information**

**If you have more questions about the Proposal to Sell the ICS Business, the Name Change Charter Amendment or any other proposals on the Annual Meeting agenda, need assistance in submitting your proxy or voting your shares, or need additional copies of the proxy statement or the enclosed proxy card, you should contact Christine R. Carsen, Vice President, Associate General Counsel, and Corporate Secretary, eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045 or call 847-582-7000.**

**PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS**

This section of the proxy statement describes the proposed sale of the ICS Business to TeleTech. However, we highly recommend that you also carefully read the Acquisition Agreement included as *Annex A* to this proxy statement for the complete terms of the sale of the ICS Business and other information that might be important to you.

**Parties to the Acquisition Agreement**

***eLoyalty Corporation***

eLoyalty is a customer interaction consulting and managed services company. We have been designing and implementing large-scale customer interaction solutions since 1990, and we possess unparalleled experience and qualifications in these application areas. We help our clients achieve breakthrough results with revolutionary analytics and advanced technologies that drive continuous business improvement. We currently operate our business through two primary business units: the Behavioral Analytics Service and Integrated Contact Solutions. The Behavioral Analytics Service Business Unit focuses on solutions that improve the reliability of call recording and applies human behavioral modeling to analyze and improve customer interactions. The Behavioral Analytics Service is primarily a hosted solution and is delivered as a managed subscription service. The Integrated Contact Solutions Business Unit focuses on helping clients realize the benefits of transitioning their contact centers to a single network infrastructure from the traditional two-network (voice network and separate data network) model. We have agreed to sell our Integrated Contact Solutions Business Unit pursuant to the Acquisition Agreement.

Our principal executive offices are located at 150 Field Drive, Suite 250, Lake Forest, Illinois 60045, and the telephone number at our principal executive offices is (847) 582-7000. Effective June 1, 2011, our principal executive offices will be our location at 200 South Wacker Drive, Suite 820, Chicago, Illinois 60606, and our telephone number at our principal executive offices will be (877) 356-9252.

***TeleTech Holdings, Inc.***

TeleTech is one of the largest global providers of onshore, offshore and work from home business process outsourcing services focusing on revenue generation, customer and enterprise management, and technology-enabled solutions. TeleTech helps Global 1000 companies enhance their strategic capabilities, improve quality and lower costs by designing, implementing and managing their critical front- and back-office processes. TeleTech provides a 24 x 7, 365 day fully integrated global solution that spans people, process, proprietary technology and infrastructure for governments and private sector clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless communication industries.

The principal executive offices of TeleTech are located at 9197 S. Peoria Street, Englewood, Colorado 80112 and the telephone number at its principal executive offices is (303) 397-8100.

**Background of the Sale of the ICS Business**

Our board of directors reviews regularly the performance of our business and our strategies, opportunities and objectives in the markets in which we operate. In conjunction with those reviews, we assess the short- and long-term prospects of our business units and our Company as a whole. We evaluate opportunities to grow our Company organically and also inorganically, by means of mergers, acquisitions, divestitures, asset sales, and strategic alliances with other companies.

At a November 2008 meeting of our board of directors, our board began to consider the possibility of selling our Integrated Contract Solutions Business Unit, which we refer to in this proxy statement as the ICS Business. Our board believed that the lack of synergies between our two principal business units resulted in an unclear

investment proposition for both existing and new investors. Furthermore, our board believed that the sale of the ICS Business would enable the Company to focus its resources on growing the Behavioral Analytics Service Business Unit, which the Company believes has greater long-term market potential than the ICS Business. Following the meeting, our board and senior management consulted with investment banking firms to review our options.

At a February 2009 meeting of our board of directors, two investment banking firms presented their recommendations to our board and proposed valuation ranges of the ICS Business. Based on these recommendations, our board of directors determined not to proceed with a possible sale of the ICS Business at that time for several reasons, including, among other things, that the Behavioral Analytics Service Business Unit did not appear ready to operate as a standalone business. Furthermore, although the ICS Business was exhibiting improving performance, our board of directors and senior management did not believe that the Company would be able to obtain a favorable price in light of the then-current economic environment.

In October 2009, the Company received an unsolicited expression of interest from a bidder ( Party A ) for the purchase of the ICS Business. At a November 2009 meeting, our board of directors considered once again the potential benefits and effects of separating our principal business units. Our board of directors also reviewed certain updated valuation analyses for the ICS Business. At that time, our board of directors and senior management still did not believe that our Behavioral Analytics Service Business Unit was ready to operate as a standalone business. Among other things, the Behavioral Analytics Service Business Unit needed continued investment in new product development, a better developed sales function, and additional momentum from new contracts. Based on the updated valuation analyses and other factors, our board did not believe that it was an opportune time to pursue Party A s expression of interest further.

In early 2010, our board of directors and senior management again reviewed the possibility of selling the ICS Business in order to focus on our Behavioral Analytics Service Business Unit. Our board discussed strategic alternatives at length at a meeting on February 8, 2010. On one hand, the Behavioral Analytics Service Business Unit had shown increased revenues, a growing contract pipeline, a maturing sales and marketing platform, and broadened product footprint. On the other hand, the ICS Business continued to demonstrate slowing managed services growth, an overreliance on consulting services, and customer concentration risk.

At a meeting on May 5, 2010, our board of directors had another detailed discussion regarding the sale of the ICS Business. Our board of directors considered several factors in favor of divesting the ICS Business, including the following:

the ICS Business would require significant investments to move forward, including investments in management, customer interaction solutions, and intellectual property;

the ICS Business was diverting key Behavioral Analytics Service Business Unit resources;

a sale of the ICS Business would enable management to apply proceeds from the sale and other key resources to support our Behavioral Analytics Service Business Unit;

the ICS Business faces potential future strategic threats as a result of clients increasing desire for one large vendor with a broad geographic presence that can support their entire converged network; and

the ICS Business s results of operations were stabilizing, making it more attractive to potential bidders.

Our board instructed senior management to retain a financial advisor to assist it in exploring a potential sale of the ICS Business. Senior management discussed the potential engagement with various candidates over the next three weeks.

On June 8, 2010, eLoyalty retained NeXtAdvisors as its financial advisor for a sale of the ICS Business. From mid-June 2010 through mid-August 2010, our senior management and representatives of NeXtAdvisors

worked together to develop analyses of the ICS Business, an electronic data room for due diligence purposes, strategies for marketing the ICS Business, market assessments, valuation ranges, a forecasted financial model, and lists of potential buyers. In late July 2010, NeXtAdvisors began contacting potential strategic and financial buyers.

At a meeting of our board of directors held on August 4, 2010, the board discussed the anticipated benefits, risks and effects of a sale of the ICS Business. The board's principal conclusion was that eLoyalty could maximize stockholder value through a more strategic and singular focus on our Behavioral Analytics Service Business Unit following a sale of the ICS Business. Representatives of NeXtAdvisors discussed with our board the market for an enterprise asset sale, including an overview of potential buyers, the potential buyers contacted to date, valuation ranges, and strategies and timelines for the potential sale process. In addition, representatives of Winston & Strawn LLP, outside legal counsel for the Company (Winston & Strawn), made a presentation regarding the fiduciary duties of directors in the context of a sale transaction and discussed with our board of directors certain specific considerations in analyzing the sale of the ICS Business.

By the time of the meeting on August 4, 2010, NeXtAdvisors had contacted 43 buyers, nine of which executed confidentiality agreements and were granted access to the electronic data room. After the meeting, NeXtAdvisors continued to approach potential buyers and gauge interest in a potential sale of the ICS Business.

On September 1, 2010, our board of directors met to discuss the valuation of the ICS Business, optimal timing for the sale of the ICS Business, the strategy for the Behavioral Analytics Service Business Unit following the sale of the ICS Business, and potential uses of the anticipated proceeds from a sale of the ICS Business. Representatives of Winston & Strawn also discussed with our board of directors the impact that a sale of the ICS Business would have on the rights of the holders of Series B Stock. In particular, it was noted that the proposed sale would constitute a liquidation under the terms of the Certificate of Designations for the Series B Stock (the Series B Designations) and, as a result, the holders of Series B Stock would be entitled to receive a liquidation preference of approximately \$19.4 million before any dividends or distributions could be made to the holders of Common Stock. Our board of directors discussed the merits of forming a special committee to review and evaluate the potential uses of proceeds and engage in discussions with the holders of Series B Stock.

After the September 1, 2010 board meeting and continuing through mid-October 2010, NeXtAdvisors continued to approach potential buyers. In total, NeXtAdvisors approached 62 parties, including TeleTech, regarding the potential sale of the ICS Business. Of the 62 parties, 38, including nine strategic buyers and 29 financial buyers, executed confidentiality agreements and thereafter received additional information and materials relating to the ICS Business. In addition to conducting follow-up telephone calls and providing additional information at the request of the prospective bidders, representatives of NeXtAdvisors and our senior management made presentations to 12 of the parties, including six strategic buyers and six financial buyers, that had executed a confidentiality agreement.

Of the 38 parties that executed confidentiality agreements, five parties submitted non-binding initial indications of interest relating to the sale of the ICS Business (the Initial Indications). The Initial Indications, which were submitted from mid- to late-October 2010, proposed material terms and conditions relating to the sale of the ICS Business, including, without limitation, the proposed purchase price for the ICS Business (ranging from \$28 million to \$45 million), purchase price adjustments based on a managed services amount and a working capital ratio, escrow terms, financing conditions, and exclusivity.

At a meeting of our board of directors on November 3, 2010, our senior management and representatives of NeXtAdvisors updated our board as to the status of the efforts undertaken to date in connection with the proposed sale of the ICS Business as well as a summary of the material terms of the Initial Indications. After assessing the Initial Indications, our board instructed NeXtAdvisors to notify two of the parties (referred to as Party D and Party E) that had submitted Initial Indications that their bids were low in comparison to the other bidders and eLoyalty would not be pursuing further discussions with them.



From early November 2010 through mid-December 2010, our senior management and representatives of NeXtAdvisors conducted follow-up telephone calls with the three remaining bidders (referred to as Party B, Party C, and TeleTech) to confirm the terms of their Initial Indications and negotiate the purchase price and other material terms, such as the working capital adjustment, the managed services amount, the escrow amount and duration, as well as the payout of additional contingent consideration based on the forecasted financial results of the ICS Business for the first quarter of 2011.

On November 5, 2010, representatives of NeXtAdvisors had a conference call with Party B to discuss the possibility of additional contingent consideration based on the forecasted first quarter 2011 financial results of the ICS Business.

On November 8, 2010, representatives of NeXtAdvisors had a conference call with Party C to discuss the additional contingent consideration based on the forecasted first quarter 2011 financial results of the ICS Business. Party C expressed a willingness to include additional contingent consideration, but stated that it was still determining the appropriate multiple to apply to the forecasted first quarter 2011 financial results of the ICS Business.

Also on November 8, 2010, representatives of NeXtAdvisors had a conference call with TeleTech, who indicated that its final offer was \$43 million. In addition, subject to review by its counsel, TeleTech requested that 5% of the purchase price be held in escrow to ensure compliance with the Company's representations and warranties set forth in any definitive agreement.

On November 10, 2010, our senior management and NeXtAdvisors sent Party B, Party C, and TeleTech updated financial information relating to the ICS Business, including actual third quarter 2010 financial results and forecasted results for the fourth quarter of 2010 and the first quarter of 2011.

On November 11, 2010, Party B submitted a revised non-binding indication of interest relating to the sale of the ICS Business, which proposed a bid range of \$40 million to \$45 million and expressed a willingness to increase the bid with additional contingent consideration.

On November 13, 2010, representatives of NeXtAdvisors and senior management had a conference call with Party C to discuss the material terms of Party C's Initial Indication and clarify certain positions and calculations. Specifically, the parties addressed their respective definitions of the managed services amount and working capital adjustment and their opinions regarding the appropriate levels of each at the time of sale. Senior management determined that Party C was calculating the managed services amount and working capital adjustment in a different manner than Party B and TeleTech, which would result in eLoyalty receiving less cash at closing based on the latest available balance sheet of the ICS Business. Representatives of NeXtAdvisors, senior management, and Party C also discussed Party C's requirements regarding capital expenditures, desired escrow amounts, and the ICS Business' actual third quarter 2010 financial results and revised forecasted financial results for the fourth quarter of 2010 and the first quarter of 2011.

On November 15, 2010, Party C sent an email to NeXtAdvisors as a follow up to the conversation that took place on November 13, 2010. Party C indicated in its email a willingness to increase the proposed additional contingent consideration based on operating performance of the ICS Business in the first quarter of 2011. Party C proposed a risk sharing approach whereby the increase or decrease in trailing twelve-month EBITDA for the ICS Business at the end of the first quarter of 2011 would be divided in 60% and 40% proportions between eLoyalty and Party C, respectively. Party C also proposed a reduction in its original bid from \$40.5 million to \$39.6 million. The reduction in Party C's bid was based on the application of the implied multiple contained in their Initial Indication to the revised forecasted financial results of the ICS Business for the fourth quarter of 2010.

Party C also indicated in the email dated November 15, 2010 that it would reduce the escrow period from 24 months to 18 months, but would like to increase the amount to be held in escrow based on the same implied percentage in its Initial Indication, assuming the additional contingent consideration were paid out. Party C indicated a willingness to amend its capital expenditure requirements, subject to further diligence. Finally, Party C confirmed the manner in which it proposed purchase price adjustments based on the managed services amounts and working capital, which remained different from the calculations prepared by senior management and the other bidders.

On November 15, 2010, TeleTech submitted a revised non-binding indication of interest relating to the sale of the ICS Business, which, as discussed during the November 8, 2010 conference call, increased its original bid from \$42 million to \$43 million.

On November 17, 2010, our senior management had a meeting with Party B in an effort to determine the seriousness of Party B's bid and assess its progress on securing financing. Our senior management discussed potential areas of synergies in an effort to assist Party B with its financial model to finalize their bid.

On November 21, 2010, representatives of NeXtAdvisors had a conference call with Party B's bankers to discuss the bid range. The bankers tightened the bid range to \$42 million to \$45 million. The parties also discussed Party B's ability to finance the transaction, as its Initial Indication included a financing contingency. Party B's bank indicated it was currently in discussion with several other banks and private equity firms. They asked that Party B's potential financing sources be granted access to the electronic data room, as well as be supplied with additional information regarding the ICS Business' first quarter 2011 forecasted financial results. Data room access and the requested financial information were provided to two of Party B's potential financing sources.

On December 1, 2010, representatives of NeXtAdvisors and our senior management had a conference call with Party B during which Party B indicated that its final bid was \$40 million and it would not be offering any additional contingent consideration based on first quarter 2011 financial results of the ICS Business. Our senior management informed Party B that it did not expect to continue negotiations with Party B due to the lower purchase price and remaining financing uncertainties.

On December 7, 2010, our senior management and representatives of NeXtAdvisors held a telephonic meeting with our board to update them as to the status of the efforts undertaken to date in connection with the proposed sale of the ICS Business, as well as a summary of the key points requiring negotiation with the remaining bidders, Party C and TeleTech. Based on an analysis of the terms proposed, our board of directors authorized senior management to execute an exclusivity agreement with TeleTech. However, Party C's bid continued to include unresolved working capital and escrow issues that, if resolved favorably for the Company, could result in Party C's bid being more favorable than TeleTech's. As a result, our board directed senior management and NeXtAdvisors to continue discussions with both bidders regarding working capital and escrow issues in their respective bids prior to executing an exclusivity agreement.

On December 8, 2010, representatives of NeXtAdvisors and senior management had a conference call with TeleTech to discuss the definition of working capital and working capital requirements at closing. During the course of the conference call, the parties reached an agreement on the definition of working capital and the appropriate ratio for making a working capital adjustment to the purchase price.

The following day, TeleTech submitted a further revised non-binding indication of interest relating to the sale of the ICS Business (the TeleTech Second Revised Indication). The TeleTech Second Revised Indication updated certain material terms, including the adjustment to the purchase price based on a working capital ratio, and the terms of the escrow, which was set at 5% of the purchase price to be held for a period of six months.

Over the next few days, representatives of NeXtAdvisors and senior management conducted a series of follow-up conference calls with TeleTech and Party C to further refine certain terms, including the adjustment to the purchase price based on the working capital ratio.

During a follow-up conference call with Party C on December 10, 2010, Party C confirmed that the proposed terms set forth in its email dated November 15, 2010 were final. Our senior management notified Party C that, as a result, it would not be pursuing further negotiations with Party C. Senior management also updated our board of directors on the results of its discussions over the preceding three days with TeleTech and Party C.

Also on December 10, 2010, TeleTech submitted a further revised non-binding indication of interest relating to the sale of the ICS Business (the TeleTech Third Revised Indication ). The TeleTech Third Revised Indication reflected agreements made during conference calls between representatives of Winston & Strawn and Neal, Gerber & Eisenberg LLP, outside counsel to TeleTech ( Neal Gerber ).

On December 13, 2010, eLoyalty executed TeleTech's Third Revised Indication (the Executed Indication ), which included an exclusivity agreement pursuant to which eLoyalty agreed to only negotiate with TeleTech regarding the sale of the ICS Business for a period of sixty days. On December 13, 2010, TeleTech and its representatives were granted full access to the electronic data room that contained additional materials and documents relating to the ICS Business.

On December 20, 2010, our board of directors held a special telephonic meeting and determined to designate a special committee in connection with the sale of the ICS Business (the Special Committee ). Our board determined to designate a special committee because the Series B Stock is entitled to certain rights and preferences upon the sale of the ICS Business, and certain members of the board are holders of Series B Stock or may be deemed affiliates of holders of Series B Stock. The members of the Special Committee, Messrs. Mullen, Kohler, and Staley, are disinterested directors who do not, directly or indirectly, hold any shares of Series B Stock. The Special Committee was designated for the purpose of reviewing and evaluating potential uses of proceeds from the sale of the ICS Business, including potential distributions to stockholders, and making a recommendation to the full board regarding such use of proceeds. The Special Committee held its first meeting on December 23, 2010.

On January 5, 2011, TeleTech delivered to eLoyalty a first draft of the Acquisition Agreement based on the Executed Indication. As TeleTech conducted its due diligence, Winston & Strawn and Neal Gerber began negotiations on the terms of the Acquisition Agreement. On January 13, 2011, our senior management, TeleTech, NeXtAdvisors, Winston & Strawn, and Neal Gerber held a meeting at the offices of Winston & Strawn to discuss TeleTech's initial draft of the Acquisition Agreement. Negotiations over the terms of the Acquisition Agreement focused primarily on the details of the purchase price adjustments, termination fees and expenses, the escrow amount, the scope of the representations and warranties, the indemnification cap, and the indemnification deductible, and continued for the next several weeks, with the parties exchanging multiple drafts of an Acquisition Agreement.

On January 20, 2011, the Special Committee held a meeting in order to analyze the expected net proceeds from the sale of the ICS Business under various assumptions provided by management. The Special Committee also reviewed the Behavioral Analytics Service Business Unit cash flow forecast, sales plan, development plan, and other projections provided by management.

On February 11, 2011, TeleTech informed senior management and NeXtAdvisors that TeleTech's financial due diligence suggested higher projected general and administrative expenses for the ICS Business than those previously estimated. As a result, TeleTech believed that a reduction in the purchase price was warranted. NeXtAdvisors met with TeleTech on February 14, 2011 to discuss a purchase price reduction of approximately \$2.15 million. The following day, our senior management, TeleTech, NeXtAdvisors, Winston & Strawn, and Neal Gerber met to continue negotiations over the proposed purchase price reduction and its interplay with the

other open terms of the Acquisition Agreement, including the details of the purchase price adjustments, termination fees and expenses, the escrow amount, the indemnification cap, and the indemnification deductible.

The exclusivity period in the Executed Indication ended on February 11, 2011. As a result, senior management directed NeXtAdvisors to contact bidders that had expressed interest in the ICS Business in order to inform them of the developments with TeleTech and gauge their interest in renewing negotiations. NeXtAdvisors focused in particular on Party C and Party D. NeXtAdvisors provided certain updated financial information for the ICS Business to Party C and Party D and discussed with each of them over the next four days whether their prior bids could be increased. Party D did not express any interest in increasing its original bid range of \$31 to \$38 million.

On February 16, 2011, NeXtAdvisors and senior management updated our board of directors of the recent developments with TeleTech and discussed the benefits and effects of continuing negotiations with TeleTech or proceeding with discussions with other potential buyers. Our board of directors determined to pursue parallel paths of continuing negotiations TeleTech under the proposed purchase price reduction while continuing to try to make progress with Party C. NeXtAdvisors and senior management continued to discuss terms with Party C following the meeting on February 16, 2011. It was ultimately determined that there was little ability to achieve or confirm a higher bid from Party C than TeleTech's revised bid. Party C's proposal also continued to include escrow and working capital requirements that were significantly less favorable to the Company than TeleTech's proposed terms.

Effective February 18, 2011, the Company and TeleTech executed an amendment to the Executed Indication, which reflected a revised purchase price of \$40.85 million, extended of the exclusivity period until February 28, 2011, and contained various other terms negotiated at the February 15, 2011 meeting. On February 23, 2011, Neal Gerber delivered a revised draft of the Acquisition Agreement in order to reflect the recent negotiations.

Between February 14, 2011 and February 25, 2011, the Special Committee held four additional meetings in order to review and assess whether a distribution of net proceeds from the sale of the ICS Business was appropriate and in the best interests of the Company and its stockholders. Also during this time, the Special Committee engaged in discussions with our two largest holders of Series B Stock, Technology Crossover Ventures (TCV) and Sutter Hill Ventures (SHV), in order to discuss the proposed transaction in light of the provisions of the Series B Designations. See *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT Series B Stock Ownership Information*.

On February 28, 2011, our board of directors conducted a special meeting for the purpose of reviewing the terms of the proposed Acquisition Agreement. Also in attendance were representatives of NeXtAdvisors and Winston & Strawn. At this meeting, representatives of Winston & Strawn reviewed the material terms of the Acquisition Agreement and ancillary agreements, the current drafts of which had been previously circulated to and reviewed by all of the directors. Representatives of NeXtAdvisors reviewed with the board NeXtAdvisors' financial analyses of the proposed transaction and indicated that, under the current terms, NeXtAdvisors would be in a position to issue a fairness opinion.

At the meeting on February 28, 2011, the Special Committee also provided its current recommendation to the board that, based on an analysis of expected net proceeds under various assumptions and a review of projections for the Behavioral Analytics Service Business Unit, an immediate distribution to stockholders of net proceeds from the sale of the ICS Business would not be advisable and in the best interests of the Company. The Special Committee also updated the board on its discussions with TCV and SHV. SHV appeared willing to execute a voting agreement as requested by TeleTech. On the other hand, TCV indicated that it would not execute a voting agreement unless an agreement or resolution was reached on the timing and manner of cash distributions to be made to the holders of Series B Stock following the sale of the ICS Business.

TeleTech required voting agreements representing approximately 50% of the outstanding voting power to be executed in connection with the Acquisition Agreement. Between March 2, 2011 and March 10, 2011, the Company entered into confidentiality agreements with certain significant stockholders, and senior management discussed the proposed sale of the ICS Business with such stockholders. These stockholders, together with the Company's directors and executive officers, agreed to execute voting agreements binding them to vote in favor of the sale of the ICS Business at the Annual Meeting.

Between March 1, 2011 and March 10, 2011, the Company's senior management, TeleTech, Neal Gerber, and Winston & Strawn continued to work toward finalizing the Acquisition Agreement. The parties primarily discussed disclosure schedules, working capital mechanics, and issues regarding transferred employees and accounting systems. Neal Gerber delivered a revised draft of the Acquisition Agreement on March 11, 2011.

On March 11, 2011, our board of directors conducted a special meeting for the purpose of updating its prior discussion on the proposed Acquisition Agreement. Also in attendance were representatives of NeXtAdvisors, Winston & Strawn, and Potter Anderson & Corroon LLP, special Delaware counsel for the Company (Potter Anderson). At this meeting, representatives of NeXtAdvisors reviewed with the board NeXtAdvisors' financial analyses of the proposed transaction and presented the board with its oral opinion that the consideration to be received by eLoyalty was fair, from a financial point of view, to eLoyalty. Representatives of Winston & Strawn reviewed and discussed the directors' fiduciary duties in approving the sale transaction and provided an update on the principal terms of the Acquisition Agreement. Winston & Strawn also discussed with the board certain factors in favor of the sale of the ICS Business, as well as certain risks and potentially negative factors.

Representatives of Winston & Strawn and Potter Anderson discussed with our board of directors the impact that a sale of the ICS Business would have on the rights of the holders of Series B Stock, including the position expressed by TCV, both directly and through its outside legal counsel, that a cash payment equal to the amount of the liquidation preference is due to the holders of Series B Stock immediately upon the closing of the proposed sale. Counsel advised our board that the Series B Designations do not specify the time period or manner in which the liquidation preference is to be paid to the holders of Series B Stock following the sale of the ICS Business. Counsel also advised that, prior to any distribution being made, the Series B Designations should be amended to clarify, among other things, whether a partial payment would reduce the liquidation preference and to specify the effect of a full payment of the liquidation preference on the future dividend and priority rights of the Series B Stock. Further, counsel discussed with the board that a payment of all or any portion of the liquidation preference requires a determination that the Company has funds available for distribution under state law and that a distribution is in the best interests of the Company's stockholders as a whole.

After deliberating, our board of directors determined that the Acquisition Agreement and the transactions contemplated thereby were advisable, fair to, and in the best interests of eLoyalty stockholders, and voted unanimously (with one abstention) to approve them. Our board also voted unanimously (with one abstention) to designate the Special Committee as a standing committee of the board for the purposes of, among other things, assessing from time to time whether eLoyalty has available funds for a full or partial distribution of the liquidation preference to the holders of Series B Stock and continuing to engage in related discussions and negotiations with the holders of Series B Stock. Mr. Feinberg abstained from voting on both items after noting the lack of resolution with the holders of Series B Stock with respect to the payment of the liquidation preference. Later that day, NeXtAdvisors delivered the written fairness opinion attached hereto as *Annex C*.

Following the March 11, 2011 board meeting, Winston & Strawn, on behalf of eLoyalty, conducted telephonic discussions and negotiations with Neal Gerber, on behalf of TeleTech, in order to finalize the Acquisition Agreement and the related ancillary agreements. Between March 12, 2011 and March 17, 2011, TeleTech worked with certain employees of the ICS Business to finalize the terms of employment agreements with TeleTech, which will become effective upon the closing of the sale of the ICS Business.

On March 17, 2011, eLoyalty and TeleTech executed the Acquisition Agreement and ancillary agreements. On March 17, 2011, eLoyalty issued a press release announcing the sale of the ICS Business to TeleTech.

### Reasons for the Sale of the ICS Business

Our board of directors recommends approving the sale of the ICS Business because we believe that separating the ICS Business from our Behavioral Analytics Service Business Unit will enhance our potential to maximize value for our stockholders. We believe that focusing on our Behavioral Analytics Service Business Unit will permit greater management focus on what we believe to be our greatest opportunity for growth and long-term stockholder value. Operating the businesses separately will better position each business to realize its full potential without any restrictions from the other.

In evaluating the Acquisition Agreement and the other transactions contemplated thereby, including the sale of the ICS Business, and recommending that our stockholders approve the sale of the ICS Business and approve the Acquisition Agreement in accordance with the applicable provisions of Delaware law, our board of directors consulted with our senior management, outside legal counsel, and financial advisors. Our board of directors also consulted with outside legal counsel regarding the board's fiduciary duties, legal due diligence matters, and the terms of the Acquisition Agreement and related agreements. Based on these consultations, and the factors and the opinion of NeXtAdvisors discussed below and, in the case of the opinion, attached as *Annex C*, our board of directors concluded that the sale of the ICS Business was in the best interests of our stockholders and recommended that our stockholders adopt the Acquisition Agreement and approve the sale of the ICS Business.

The factors that our board of directors considered in reaching its determination included, but were not limited to, the following:

the amount of cash consideration to be received by us pursuant to the Acquisition Agreement;

financial information concerning the ICS Business and our Behavioral Analytics Service Business Unit, as well as current industry, economic, and market conditions relating to the ICS Business and our Behavioral Analytics Service Business Unit;

the possibility that the short- and long-term prospects of the ICS Business would continue to decline while the Behavioral Analytics Service Business Unit would continue to grow;

the need for long-term capital investment in both the ICS Business and our Behavioral Analytics Service Business Unit;

the facts that the ICS Business and our Behavioral Analytics Service Business Unit are two distinct segments without significant operating synergies and that the continued operation of the two businesses together may hinder their respective short- and long-term growth prospects;

the possibility that the Behavioral Analytics Service Business Unit's current and prospective customers, employees, and business partners may prefer to work with us as a pure play technology solution company;

our belief that we could create a more focused brand, business model, and investment opportunity with our Behavioral Analytics Service Business Unit as a stand-alone business;

the increased focus our management could place on our growing Behavioral Analytics Service Business Unit following the sale of the ICS Business;

the fact that the ICS Business is almost entirely dependent on its relationship with Cisco Systems, Inc. and has demonstrated an overreliance on consulting services;

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the extensive process we conducted with respect to the sale of the ICS Business, which covered a period of more than nine months and involved discussions with multiple parties to determine their interest in purchasing the ICS Business, none of which led to acquisition proposals that were as favorable to us as TeleTech's proposal;

the financial projections for the ICS Business set forth under *Projected Financial Information* on page 28;

the financial presentation of our financial advisor, NeXtAdvisors, including its oral opinion delivered to our board of directors on March 11, 2011, and subsequently confirmed in writing on March 11, 2011 (the full text of which is attached as *Annex C* to this proxy statement) as to the fairness, from a financial point of view and as of the date of the opinion, to us of the consideration to be received by us in the sale of the ICS Business, as more fully described below under the caption "The Sale of the ICS Business" Opinion of NeXtAdvisors ;

the business reputation, management, and financial resources of TeleTech, which our board of directors believed supported the conclusion that a transaction with TeleTech could be completed relatively quickly and efficiently;

the fact that the sale of the ICS Business would enable us to benefit from our existing net operating loss carryforward;

the fact that the Acquisition Agreement affords our board of directors flexibility to consider, evaluate, and accept superior proposals and alternative transactions in the period after signing and prior to the approval of the sale of the ICS Business by our stockholders under certain circumstances set forth in the Acquisition Agreement;

the reasonable likelihood of the consummation of the sale of the ICS Business in light of the relatively limited conditions to TeleTech's obligations to consummate the sale of the ICS Business, including the fact that the consummation of the sale of the ICS Business is not contingent on TeleTech's ability to secure financing commitments; and

the alternatives available if we were not to sell the ICS Business to TeleTech, including independent pursuit of growth of the ICS Business, all of which involve meaningful risks and uncertainties and none of which, in the view of our board of directors, were as favorable to us and our stockholders as, nor more favorable to us and our stockholders than, the sale of the ICS Business.

Our board of directors also identified and considered a number of uncertainties, risks, and potentially negative factors in its deliberations concerning the sale of the ICS Business, including:

the possibility that the transactions contemplated by the Acquisition Agreement, including the sale of the ICS Business, might not be consummated, and the facts that if the sale of the ICS Business is not consummated, (i) our directors, executive officers, and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the transaction, (ii) we will have incurred significant transaction costs, and (iii) the potential negative market perception of our continuing business could potentially result in a loss of customers, business partners, and employees, any of which may have a material and adverse effect on our stock price and results of operations;

the effect of the public announcement of the sale of the ICS Business and the Acquisition Agreement, including effects on our sales and customer relationships, operating results, stock price, and our ability to attract and retain key management and sales and marketing personnel;

the resultant loss of revenue and gross profit from the ICS Business and the fact that our stockholders will not participate in any future profit or growth of the ICS Business;

the fact that, after the sale of the ICS Business, we will be entirely dependent on the performance of our Behavioral Analytics Service Business Unit, which has not been profitable to date;

the fact that the sale of the ICS Business is considered a liquidation under the terms of the Series B Designations and, as a result, would give rise to certain rights and preferences to the holders of Series B Stock;



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the restrictions on the conduct of the ICS Business prior to completion of the sale of the ICS Business, requiring us to conduct the ICS Business only in the ordinary course, subject to specific limitations or TeleTech's consent, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the sale of the ICS Business;

the restrictions on the Company's ability to solicit or engage in discussions or negotiations with a third party regarding alternative transactions, and the requirement that we pay TeleTech a termination fee and/or termination expenses in certain cases in the event of a termination of the Acquisition Agreement;

the risk we will not be able to satisfy some or all of the conditions to TeleTech's obligations to consummate the sale of the ICS Business;

the risk that we could be exposed to future indemnification payments for a breach or violation of the representations and warranties or covenants contained in the Acquisition Agreement;

the risk that unforeseen liabilities and expenses may be incurred that may limit the ultimate amount of net proceeds from the sale of the ICS Business;

the significant costs involved in consummating the sale of the ICS Business, including financial advisory fees, legal, accounting, and other costs, which we estimate to be approximately \$2.0 million; and

the interests that our executive officers and directors may have with respect to the sale of the ICS Business in addition to their interests as stockholders of our company.

After careful and due consideration, our board of directors concluded that overall, the risks, uncertainties, restrictions, and potentially negative factors associated with the sale of the ICS Business were outweighed by the potential benefits of the sale of the ICS Business, and that many of these risks could be managed or mitigated prior to the consummation of the sale of the ICS Business or were unlikely to have a material adverse effect on our Company.

The foregoing information and factors considered by our board of directors are not intended to be exhaustive but are believed to include all of the material factors considered by our board of directors. In view of the variety of factors and the amount of information considered, our board of directors did not find it practicable to, and did not, quantify, rank or otherwise assign relative weights to the specific factors it considered in approving the sale of the ICS Business and the Acquisition Agreement. In addition, individual members of our board of directors may have given different weights to different factors. Our board of directors considered all of these factors as a whole, and overall considered them to be favorable to and to support its determination.

### **Projected Financial Information**

eLoyalty does not as a matter of course make public projections as to future performance or earnings due to the unpredictability of the underlying assumptions and estimates. However, certain non-public prospective financial information about the ICS Business was prepared by our senior management and made available to NeXtAdvisors, our board of directors, TeleTech, and other third-party bidders in connection with their consideration and evaluation of the proposed transaction.

We have included the material portion of the projections regarding the ICS Business in the table below to give our stockholders access to certain non-public information considered by NeXtAdvisors, our board of directors and TeleTech for purposes of considering and evaluating the proposed sale of the ICS Business. We have included in this proxy statement projections for the 2011 fiscal year, which were made available to NeXtAdvisors in February 2011 for purposes of preparing its financial analyses. Sets of projections for the fourth quarter of 2010 and the first quarter of 2011 were made available to NeXtAdvisors, TeleTech, and other third-party bidders during our negotiations for the sale of the ICS Business, but we do not believe that such projections are material for purposes of this proxy statement due to the fact that actual results for such periods are currently available or will be available prior to the date of the Annual Meeting.

As of the date of this proxy statement, we were not aware of anything that would materially change our projections for the 2011 fiscal year, but actual results might differ materially. The inclusion of this forecast

should not be regarded as an indication that NeXtAdvisors, our board of directors, TeleTech, or any other recipient of the information considered, or now considers, it to be a reliable prediction of future results. You should not place undue reliance on the projected financial information set forth below. No one has made or makes any representation to any stockholder regarding this projected financial information.

	<b>Fiscal Year 2011 Forecast for the ICS Business</b> (in thousands)
Revenue	\$ 61,625
Direct Costs	43,263
<b>Gross Margin</b>	<b>18,362</b>
Sales & Marketing	5,713
G&A Expenses	1,627
Total Operating Costs	7,340
Operating Margin	\$ 11,022
Corporate G&A Expenses <sup>(1)</sup>	1,550
<b>EBITDA</b>	<b>\$ 9,472</b>

- (1) Estimate of certain eLoyalty company-wide G&A expenses attributable to the ICS Business, including expenses related to staffing, facilities, insurance, accounting systems, and tax support.

We have advised recipients of our projected financial information that the information upon which it was based is subjective in many respects. The projected financial information reflects numerous assumptions with respect to industry performance, general business, economic, market, and financial conditions, and other matters, all of which are difficult to predict and beyond our control. The projected financial information also reflects estimates and assumptions related to our business that are inherently subject to significant economic and competitive uncertainties, all of which are difficult to predict and many of which are beyond our control. In addition, we believe that projecting financial performance for the ICS Business is inherently difficult due to the nature of its revenue, particularly in the product resale portion of the ICS Business. As a result, the projected results might not be realized and actual results might be significantly better or worse than projected. The projected financial information was not prepared with a view toward public disclosure or toward complying with generally accepted accounting principles, or GAAP, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The projected financial information included herein has been prepared by, and is the responsibility of, our management, and none of TeleTech, our board of directors, or NeXtAdvisors was involved in the preparation of the projected financial information or has any responsibility for the projected financial information.

The projected financial information has been prepared on a basis substantially consistent with the accounting principles used in our historical financial statements. For the foregoing reasons, as well as the basis and assumptions on which the projected financial information was compiled, the inclusion of the projected financial information in this proxy statement should not be regarded as an indication that such projected financial information will be an accurate prediction of future events, and this information should not be relied on as such. Except as required by applicable securities laws, eLoyalty does not intend to update or otherwise revise the projected financial information to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be incorrect.

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**Opinion of NeXtAdvisors**

***Opinion***

On March 11, 2011, at a meeting of our board of directors held to evaluate the transaction, NeXtAdvisors, a unit of North Point Advisors LLC, a member of FINRA<sup>1</sup>, our financial advisor, delivered to our board an oral opinion, confirmed by delivery of a written opinion, dated March 11, 2011, to the effect that, based upon and subject to the limitations and qualifications set forth in the opinion, as of the date of the opinion, the consideration to be received by eLoyalty in the sale of the ICS Business is fair from a financial point of view to eLoyalty.

The full text of the NeXtAdvisors opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by NeXtAdvisors. This opinion is attached as *Annex C* to this proxy statement and is incorporated into this proxy statement by reference. **We encourage our stockholders to read this opinion carefully in its entirety.**

The opinion (i) does not address the merits of the underlying business decision to enter into the proposed transaction versus any alternative strategy or transaction; (ii) does not address any transaction related to the proposed transaction; (iii) is not a recommendation as to how our board of directors or any stockholder should vote or act with respect to any matters relating to the proposed transaction, or whether to proceed with the proposed transaction or any related transaction; and (iv) does not indicate that the consideration received is the best possibly attainable under any circumstances. Instead, the opinion merely states whether the consideration in the proposed transaction is within a range suggested by certain financial analyses discussed with and approved in advance by eLoyalty, which analyses did not include the Excluded Analyses (as defined below), among others. The decision as to whether to proceed with the proposed transaction or any related transaction may depend on an assessment of factors unrelated to the financial analyses on which the opinion is based. In rendering the opinion, NeXtAdvisors expressed no opinion with respect to the amount or nature of any compensation to any of our officers, directors, or employees, or any class of such persons, relative to the consideration to be received by eLoyalty in the proposed transaction, or with respect to the fairness of any such compensation. The opinion should not be construed as creating any fiduciary duty on the part of NeXtAdvisors to any party.

In connection with the opinion, NeXtAdvisors made such reviews, analyses, and inquiries as it deemed necessary and appropriate under the circumstances. NeXtAdvisors also took into account its assessment of general economic, market, and financial conditions, as well as its experience in securities and business valuation, in general, and with respect to similar transactions, in particular. NeXtAdvisors' procedures, investigations, and financial analysis with respect to the preparation of its opinion included, but were not limited to, the items summarized below.

NeXtAdvisors, among other things:

Reviewed certain internal financial information and other data relating to the ICS Business and its financial prospects that were provided to NeXtAdvisors by the management of eLoyalty, including financial forecasts and estimates prepared by the management of eLoyalty;

Discussed certain short and long-term challenges that management of eLoyalty believes confront eLoyalty if eLoyalty were to retain the ICS Business, including without limitation the question of customer concentration;

Reviewed information obtained during discussions with members of the management and our board of directors concerning certain aspects of the proposed transaction and the business and financial prospects of the ICS Business;

<sup>1</sup> North Point Advisors, LLC is a securities broker/dealer registered with FINRA and the Securities and Exchange Commission and has registered offices in California and Illinois. North Point conducts business out of its Illinois office under the name NeXtAdvisors.

Performed certain valuation and comparative analyses using generally accepted valuation and analytical techniques including a discounted cash flow analysis, an analysis of selected public companies that NeXtAdvisors deemed relevant, and an analysis of selected transactions that NeXtAdvisors deemed relevant;

Compared the financial terms of the proposed transaction with publicly-available financial terms of certain other transactions that NeXtAdvisors believed to be generally relevant;

Reviewed a draft of the Acquisition Agreement dated March 10, 2011;

Discussed the information referred to above and the background and other elements of the proposed transaction with the management of eLoyalty; and

Conducted such other analyses and considered such other factors as NeXtAdvisors deemed appropriate.

In performing its analyses and rendering the opinion with respect to the proposed transaction, NeXtAdvisors, with our consent:

Relied upon the accuracy, completeness, and fair presentation of all information, data, advice, opinions, and representations obtained from public sources or provided to it from private sources, including our management, and did not independently verify such information;

Relied upon the fact that our board of directors and the Company have been advised by counsel as to all legal matters with respect to the proposed transaction, including whether all procedures required by law to be taken in connection with the proposed transaction have been duly, validly, and timely taken;

Assumed that any estimates, evaluations, forecasts, and projections furnished to NeXtAdvisors were reasonably prepared and based upon the best currently available information and good faith judgment of the person furnishing the same;

Assumed that information supplied and representations made by our management are substantially accurate regarding the Company and the proposed transaction;

Assumed that the representations and warranties made in the Acquisition Agreement are substantially accurate;

Assumed that the final versions of all documents reviewed by NeXtAdvisors in draft form conform in all material respects to the drafts reviewed;

Assumed that there has been no material change in the assets, financial condition, business, or prospects of the ICS Business since the date of the most recent financial statements and other information made available to NeXtAdvisors;

Assumed that all of the conditions required to implement the proposed transaction will be satisfied and that the proposed transaction will be completed in accordance with the Acquisition Agreement without any amendments thereto or any waivers of any material terms or conditions thereof; and

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Assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the proposed transaction will be obtained without any adverse effect on eLoyalty.

To the extent that any of the foregoing assumptions or any of the facts on which the opinion is based prove to be untrue in any material respect, the opinion cannot and should not be relied upon. Furthermore, in NeXtAdvisors' analysis and in connection with the preparation of the opinion, NeXtAdvisors has made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the proposed transaction.

NeXtAdvisors prepared the opinion effective as of its date. This opinion is necessarily based upon market, economic, financial and other conditions as they existed and could be evaluated as of that date, and NeXtAdvisors disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion which may come or be brought to the attention of NeXtAdvisors after the date of the opinion.

NeXtAdvisors did not evaluate our solvency or conduct an independent appraisal or physical inspection of any specific assets or liabilities (contingent or otherwise), nor was NeXtAdvisors furnished with any such evaluations or appraisals.

NeXtAdvisors did not express any opinion as to the market price or value of the Common Stock after announcement of the proposed transaction. The opinion should not be construed as a valuation opinion, a credit rating, a solvency opinion, or an analysis of our credit worthiness, and does not address the legal, tax or accounting consequences of the proposed transaction on eLoyalty or the holders of its securities. NeXtAdvisors has not made, and assumes no responsibility to make, any representation, or render any opinion, as to any legal matter.

Furthermore, NeXtAdvisors, with eLoyalty's consent, (i) did not review or perform any analyses with respect to any business of eLoyalty other than the ICS Business, and (ii) did not review or perform any analyses relating to the historical trading prices of the Common Stock, including without limitation any comparison of the consideration to be received by eLoyalty in the proposed transaction, on the one hand, to such historical trading prices and the value of our other businesses, on the other (the excluded analyses described in clauses (i) and (ii) are referred to together herein as the "Excluded Analyses").

The opinion was furnished for the use and benefit of our board of directors in connection with its evaluation of the transaction. In addition, our board of directors has not asked NeXtAdvisors to address, and its opinion did not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of eLoyalty. The opinion has been approved by the Opinion Review Committee of NeXtAdvisors.

#### *Financial Analyses*

The following is a summary of the material analyses that NeXtAdvisors prepared in connection with its opinion. This summary includes information presented in tabular format. In order to understand fully the financial analyses used by NeXtAdvisors, these tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

In performing its financial analyses, NeXtAdvisors noted the following:

The ICS Business, including its revenue and EBITDA, is almost entirely dependent on its relationship with Cisco Systems, Inc.;

Client losses occurred in the first and second quarters of 2010; and

The ICS Business' EBITDA is dependent on an estimated Corporate G&A expense allocation of \$1.5 million in 2010, calculated by management. Financial forecasts incorporate this estimate, with a 3% per year inflation assumption beginning in 2011.

NeXtAdvisors did not separately assess the validity of this allocation.

The summary set forth below does not purport to be a complete description of the analyses performed by NeXtAdvisors in arriving at its opinion. The fact that any specific analysis has been referred to in the summary below or in this proxy statement is not meant to indicate that such analysis was given more weight than any other analysis. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances; therefore, such an opinion is not readily susceptible to partial analysis or summary description. No company, business or transaction used in such analyses as a comparison is identical to the ICS Business or the proposed sale of the ICS Business, nor is an evaluation of such analyses entirely mathematical. In arriving at its opinion, NeXtAdvisors did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, NeXtAdvisors believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all factors and analyses, would, in the view of NeXtAdvisors, create an incomplete and misleading view of the analyses underlying NeXtAdvisors' opinion.

*Selected Comparable Public Company Analysis*

Based on public and other available information, NeXtAdvisors calculated the multiples of enterprise value (EV) to 2010 calendar year EBITDA for selected communication services companies. As the ICS Business 2010 calendar year EBITDA also represents its last twelve months (LTM) EBITDA, NeXtAdvisors considered the corresponding period for the selected companies. For the purposes of its analysis, NeXtAdvisors defined enterprise value as equity value plus any debt, preferred stock, and minority interest less cash and cash equivalents; NeXtAdvisors defined EBITDA as earnings before interest, taxes, depreciation and amortization adjusted for one-time expenses and non-cash charges including stock-based compensation expense. Companies were selected, among other reasons, because they share similar business characteristics with the ICS Business based on operational characteristics and financial metrics. However, none of the companies selected is identical or directly comparable to the ICS Business. The 2010 revenue of each of the selected companies exceeds that of the ICS Business, and none of the selected companies is almost entirely dependent on any single vendor or provider as is the case for the ICS Business. Accordingly, NeXtAdvisors made judgments and assumptions concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the public trading value of the selected companies. The companies selected include:

Black Box Corporation

Cbeyond, Inc.

Hickory Tech Corporation

The following table sets forth the multiples indicated by this analysis, as compared to the purchase price multiple of 5.7x 2010 EBITDA:

	Range of All Companies		First Quartile	Third Quartile
EV / 2010A EBITDA	5.2x	6.9x	5.3x	6.2x

*Selected M&A Transactions Analysis*

NeXtAdvisors selected the three transactions listed below based on having a similar operational characteristics and financial metrics to the ICS Business as well as having publicly available information. Using this information, NeXtAdvisors calculated the multiples of enterprise value to LTM EBITDA. Given the lack of recent comparably sized transactions with public information, NeXtAdvisors included the \$3.2 billion sale of Dimension Data Holdings plc to Nippon Telegraph & Telephone Corporation. Due to the size and global diversity of the Dimension Data business (\$4.2 billion in LTM revenue at time of the acquisition), NeXtAdvisors applied a 50% discount to the multiple paid by Nippon Telegraph & Telephone Corporation. It should also be noted that at the time of the Enventis Telecom acquisition, Black Box Corporation, Cbeyond, Inc. and Hickory Tech Corporation were trading at a median of 12.1x LTM EBITDA. At the time of the Berbee Information Networks Corporation acquisition, the group was trading at a median of 9.8x LTM EBITDA. As of market close on March 10, 2011, the day before NeXtAdvisors issued its opinion, this group was trading at 5.5x LTM EBITDA.

Date Announced	Target	Acquirer
7/15/10	Dimension Data Holdings plc	Nippon Telegraph & Telephone Corporation
9/18/06	Berbee Information Networks Corporation	CDW Corporation
11/9/05	Enventis Telecom	Hickory Tech Corporation



The following table sets forth the multiples indicated by this analysis, as compared to the purchase price multiple of 5.7x 2010 (LTM) EBITDA:

	Range of All Companies		First Quartile	Third Quartile
EV / LTM EBITDA*	4.8x	8.4x	5.6x	7.4x

\* Reflects adjustment for Dimension Data

*Discounted Cash Flow Analysis*

NeXtAdvisors performed a discounted cash flow analysis of the ICS Business based upon estimates provided by management, including forward looking estimates relating to standalone costs for the ICS Business (including, without limitation, annual estimated corporate costs of operating the ICS Business as a stand-alone company of approximately \$1.55 million in 2011 and inflating at 3% per year thereafter). For the second, third, and fourth quarters of fiscal year 2011 and for fiscal years 2012, 2013, and 2014, respectively, after-tax unlevered free cash flow estimates for the ICS Business of \$0.9, \$1.4, \$1.8, \$14.1, \$10.8, and \$14.4 million, were utilized. For purposes of the analysis, NeXtAdvisors assumed a 35% standalone corporate tax rate. NeXtAdvisors calculated an implied range of terminal values for the ICS Business using a range of exit multiples of EBITDA from 4.0x to 7.0x. The unlevered free cash flows were then discounted to present values using a range of discount rates from 40.0% to 50.0%, which were derived based on substantial risks in the ICS Business. Most notably, there are significant risks associated with the ICS Business almost entire dependence on Cisco Systems, Inc. as a result of, among other things, the ICS Business reliance on Cisco's technology, product positioning, pricing, and discounting strategies. This was highlighted in the first and second quarters of 2010, when the ICS Business lost two clients as a result of acquisition-related and corporate level decisions to switch from Cisco to other competitors' platforms. An additional factor considered in determining the discount rate range is the inherent difficulty projecting financial performance, particularly the product resale portion of the ICS Business. This issue has been experienced in recent quarter performance and near-term forecast revisions, which have seen significant positive and negative deviations from original forecasts. The discounted cash flow analysis indicated the following approximate enterprise value reference ranges for the ICS Business, as compared to the purchase price of \$40.85 million:

(\$ Millions)	Low	High
Discounted Cash Flow	\$ 37.4	\$ 60.8

*Engagement of NeXtAdvisors*

NeXtAdvisors is a strategic advisory firm and is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions and private placements. With more than 20 years of experience, the principals of NeXtAdvisors have collectively completed more than 280 transactions totaling over \$41 billion in value across a diverse industry spectrum. The amount of consideration to be paid to eLoyalty was determined by negotiation between eLoyalty and TeleTech, not by recommendation of NeXtAdvisors. Our board of directors retained NeXtAdvisors to render the opinion because of its substantial experience in transactions similar to the proposed transaction, its knowledge of the ICS Business, and the terms under which NeXtAdvisors proposed to undertake the engagement.

NeXtAdvisors was retained by means of an engagement letter dated June 8, 2010 (as amended as of February 24, 2011). We have agreed to pay NeXtAdvisors an aggregate fee of 1.5% of the aggregate transaction consideration, which is contingent on the completion of the transaction. In addition, we agreed to pay NeXtAdvisors an initial retainer fee of \$25,000 and an opinion fee of \$250,000 upon delivery of its fairness opinion, neither of which is contingent upon consummation of the proposed transaction. The initial retainer fee and opinion fee are both fully creditable against the aggregate fee above. eLoyalty also agreed to reimburse NeXtAdvisors for its reasonable out-of-pocket expenses and to indemnify NeXtAdvisors against certain

liabilities arising from its engagement. Other than this engagement, during the prior two years, NeXtAdvisors has not had any material relationship with any party to the proposed transaction for which compensation has been received or is intended to be received, nor is any such material relationship or related compensation contemplated.

### **Governmental and Regulatory Approvals**

Neither eLoyalty nor TeleTech is aware of any regulatory approvals required to be obtained, or waiting periods to expire, to complete the sale of the ICS Business to TeleTech. If the parties discover that approvals or waiting periods are necessary, then they will seek to obtain or comply with them.

### **Certain U.S. Income Tax Consequences**

The following is a summary of certain United States income tax consequences to the Company and our stockholders on the sale of the ICS Business. The summary regarding the United States federal income tax consequences is based on the United States Internal Revenue Code of 1986, as amended (the Code), the regulations promulgated thereunder, and existing interpretations thereof as of the date hereof, all of which are subject to change, possibly with retroactive effect.

No ruling has been sought, and no opinion of counsel has been received, as to the tax treatment of the sale of the ICS Business to us or our stockholders, and the discussion herein is not binding on the Internal Revenue Service or any other taxing authority or any court of competent jurisdiction.

Unless otherwise stated herein, this discussion does not address state, local, non-U.S., or non-income tax consequences to us or our stockholders. The discussion also does not address different tax consequences that may result with respect to future transactions or distributions by the Company. Stockholders should consult with their own tax advisors if they want to better understand the tax consequences of the sale of the ICS Business.

### ***Stockholders***

The sale of the ICS Business should not result in any current United States federal income tax consequences to our stockholders.

### ***eLoyalty***

#### ***General***

We expect to recognize a gain for United States federal income tax purposes on the sale of the ICS Business. However, based on the results of an analysis that we have undertaken with the assistance of our tax advisors, we expect that for United States federal income tax purposes all or substantially all of the taxable gain resulting from the sale of the ICS Business will be offset by available net operating losses. Depending upon several factors, the current use of net operating losses to offset the gain on the sale of the ICS Business may result in the Company incurring more United States federal income taxes in subsequent years than we would have incurred if we had not sold the ICS Business.

#### ***Alternative Minimum Tax***

Because of the rules in the Code regarding the use of net operating losses, we expect that the sale of the ICS Business will result in the Company incurring some United States federal alternative minimum tax in the year of the sale.

*State and Local Income Taxes*

Because of different state rules on the use of net operating losses, we expect that the sale of the ICS Business will result in the Company incurring state and local income taxes in the year of the sale.

**Effects on eLoyalty if the Sale of the ICS Business is Completed**

If the Proposal to Sell the ICS Business is approved by our stockholders at the Annual Meeting and the sale of the ICS Business is completed, we will sell the ICS Business to TeleTech and continue to operate our Behavioral Analytics Service Business Unit, which will be our only remaining business, and we will remain a public company.

**Post-Closing Business and Proceeds from the Sale of the ICS Business**

After giving effect to our payment of estimated transaction fees and expenses and before giving effect to purchase price adjustments set forth in the Acquisition Agreement, we estimate that the net cash proceeds from our sale of the ICS Business will be approximately \$38.9 million. The purchase price adjustments set forth in the Acquisition Agreement will cause the actual amount of net cash proceeds to vary from this estimate. The purchase price adjustments will require that we transfer cash with the ICS Business at closing representing certain net managed services amounts (generally, unearned revenue less prepaid expenses), which amounts were equal to approximately \$11.7 million as of January 1, 2011.

Upon the closing of the sale of the ICS Business, our board of directors and management will focus their attention on our Behavioral Analytics Service Business Unit, which will be our only remaining business. We intend to analyze possibilities for enhancing our Behavioral Analytics Service Business Unit that may have been less available to us, due to resource issues or otherwise, when we operated both the ICS Business and the Behavioral Analytics Service Business Unit.

Our goals following the conclusion of the sale of the ICS Business will be to continue to grow and diversify revenue in our Behavioral Analytics Service business and improve gross margin. To achieve growth, we plan to implement distribution strategies that may include expanding our U.S. direct sales capabilities, studying international expansion possibilities, and considering strategic partnerships. We also intend to implement certain product strategies that may include deploying distinct new applications, such as customer attrition, back office, and fraud prevention.

Upon the closing of the sale of the ICS Business, we will face a number of risks and uncertainties. The ICS Business has historically accounted for a substantial portion of our revenues. Without that source of revenue, there will be additional pressure on our Behavioral Analytics Service business to grow revenues and achieve profitability. Our Behavioral Analytics Service business has never been profitable and we cannot provide you any assurance regarding when or if the Behavioral Analytics Service business will achieve profitability. After the closing of the sale of the ICS Business, we will be a small public company with a substantial cash balance. This may make us an attractive takeover target and we may be subject to unsolicited bids, which could become distracting to management and may ultimately not be in the best interests of our stockholders.

The closing of the sale of the ICS Business will constitute a liquidation under the terms of the Series B Designations. As a result, the holders of Series B Stock will be entitled to receive a liquidation preference of approximately \$19.4 million before any dividends or distributions could be made to the holders of Common Stock. We currently expect to pay approximately \$1.3 million of the liquidation preference, which amount represents dividends in arrears, immediately following the closing. TCV, the holder of a majority of the outstanding Series B Stock, has expressed its position, both directly and through outside legal counsel, that a cash payment equal to the full amount of the liquidation preference is due to the holders of Series B Stock immediately upon the closing of the proposed sale of the ICS Business. We do not believe that the Series B Designations specify the time period or manner in which the liquidation preference is to be paid to the holders of Series B Stock following the sale of the ICS Business. We believe that a payment of all or any portion of the

liquidation preference requires a determination that the Company has funds available for distribution under state law and that a distribution is in the best interests of the Company's stockholders as a whole. We also believe that, prior to any distribution being made, the Series B Designations should be amended to clarify, among other things, whether a partial payment would reduce the liquidation preference and to specify the effect of a full payment of the liquidation preference on the future dividend and priority rights of the Series B Stock. An amendment to these provisions of the Series B Designations would require the consent of a majority of the outstanding Series B Stock.

In December 2010, our board of directors formed a Special Committee to review and evaluate the potential uses of proceeds from the proposed sale of the ICS Business and engage in discussions with the holders of Series B Stock. Our board of directors determined to designate the Special Committee because certain members of the board are holders of Series B Stock or may be deemed affiliates of holders of Series B Stock. The members of the Special Committee, Messrs. Mullen, Kohler, and Staley, are disinterested directors who do not, directly or indirectly, hold any shares of Series B Stock. The Special Committee has initially recommended to the board that, based on an analysis of expected net proceeds under various assumptions and a review of Behavioral Analytics' projections, an immediate distribution to stockholders with net proceeds from the sale of the ICS Business would not be advisable and in the best interests of the Company's stockholders as a whole. Following this recommendation, our board determined to designate the Special Committee as a standing committee for the purposes of, among other things, assessing from time to time whether eLoyalty has available funds for a full or partial distribution of the liquidation preference to the holders of Series B Stock and continuing to engage in related discussions and negotiations with the holders of Series B Stock.

Through the Special Committee, we are currently in discussions with TCV and other holders of Series B Stock as to the timing and manner of any distributions to the holders of Series B Stock following the closing of the proposed sale. No assurance may be given that we will reach a mutually agreeable resolution of these matters prior to closing. In the absence of such resolution, it is possible that TCV or other holders of Series B Stock could seek to enforce their rights to receive the liquidation preference.

#### **Effects on eLoyalty if the Sale of the ICS Business is Not Completed**

If the sale of the ICS Business is not completed as currently contemplated by the Acquisition Agreement, we would continue to conduct our business as currently conducted and would evaluate all available strategic alternatives. If the Acquisition Agreement is terminated under certain specified circumstances, we might be required to pay TeleTech a termination fee of \$1.5 million and/or reimburse TeleTech for its reasonable out-of-pocket expenses in an amount not to exceed \$500,000.

#### **No Appraisal or Dissenters' Rights**

Stockholders who do not approve the Proposal to Sell the ICS Business may vote against the proposal, but under the General Corporation Law of the state of Delaware, appraisal and dissenters' rights are not provided to stockholders in connection with this action.

#### **Interests of Certain Persons in the Sale of the ICS Business**

In considering the recommendation of our board of directors with respect to the Acquisition Agreement, our stockholders should be aware that our directors and executive officers have interests in the sale of the ICS Business that are different from, or in addition to, the interests of our stockholders generally. Our board of directors was aware of these interests and considered them in adopting the Acquisition Agreement and approving the sale of the ICS Business and recommending that our stockholders approve the sale of the ICS Business.

#### ***Employment Agreement with Mr. Pollema***

The sale of the ICS Business constitutes a change of control under the terms of the current employment agreement with Steven C. Pollema, our Vice President, Integrated Contact Solutions Business Unit.

Mr. Pollema's employment agreement provides that a failure by eLoyalty to assign his agreement in connection with a change of control would give rise to the right of Mr. Pollema to terminate his agreement for "good reason" and receive severance as described under the terms of his agreement. Mr. Pollema has executed a termination letter with respect to his existing employment agreement with eLoyalty and entered into a new employment agreement with TeleTech, each of which is contingent upon the closing of the sale of the ICS Business. Under the terms of Mr. Pollema's new employment agreement with TeleTech, Mr. Pollema will be entitled to receive from TeleTech a minimum base salary, an annual bonus incentive, restricted stock units, severance compensation for certain termination events, and other customary benefits for an agreement of this type.

***Performance Unit Awards held by Mr. Pollema***

In November 2009, Mr. Pollema was awarded 15,000 performance units under our 1999 Stock Incentive Plan. The sale of the ICS Business constitutes an acceleration event for these performance units that may require a payment to Mr. Pollema. The value of the aggregate incentive pool, of which Mr. Pollema is entitled to approximately 17%, is equal to 15% of the amount by which the net purchase price (as defined under the program) for the ICS Business exceeds \$36 million. The actual amount of the incentive pool will be determined by the Compensation Committee of the board (the "Compensation Committee") following completion of the sale under the terms of the program. Any distribution approved by the Compensation Committee will be settled in shares of Common Stock, with the number of shares being determined by dividing the ultimate value of the incentive pool, if any, by the 10-day average closing price of the Common Stock as of the distribution date.

***Employment Agreement with Mr. Conway***

The sale of the ICS Business constitutes a change of control under the terms of the employment agreement with Kelly Conway, our President and Chief Executive Officer. Mr. Conway's employment agreement provides that, upon a change of control, the vesting of his restricted stock awards and stock option grants shall be accelerated for a period of three years following the change of control. If the sale of the ICS Business closes as proposed, Mr. Conway would be entitled to vesting of 476,278 shares of Common Stock and 31,250 options. The sale of the ICS Business would also constitute "good reason" under the terms of the employment agreement, which would allow Mr. Conway to terminate his employment and receive severance. The Compensation Committee and Mr. Conway are currently discussing certain amendments to Mr. Conway's employment agreement that would include, among other things, a waiver of certain rights that would arise upon the closing of the proposed sale of the ICS Business. These rights include accelerated vesting with respect to a portion of Mr. Conway's restricted stock and "good reason" severance rights. In view of the reduction in the size and scope of the Company's operations following the sale of the ICS Business, it is expected that the employment agreement amendments would also include reductions in Mr. Conway's base salary, target bonus amount, and future severance rights. Finally, in consideration of these amendments and in recognition of Mr. Conway's significant efforts in connection with the proposed sale transaction, it is expected that the employment agreement amendments will provide for a transaction bonus payable to Mr. Conway upon the closing of the proposed sale. We expect that the amendments to Mr. Conway's employment agreement will be finalized prior to closing the proposed sale of the ICS Business.

***Series B Stock Liquidation Preference***

Mr. Tench Coxe, Chairman of our board of directors, is managing director of the general partner of Sutter Hill Ventures, which together with its affiliates currently holds approximately 37% of our outstanding Series B Stock. Mr. Coxe may be deemed to have beneficial ownership of such Series B Stock under the rules and regulations of the SEC. Certain of our other directors hold shares of Series B Stock in amounts representing less than 1% of the total outstanding Series B Stock. The closing of the sale of the ICS Business will constitute a "liquidation" under the terms of the Series B Designations. As a result, the holders of Series B Stock will be entitled to receive a liquidation preference of approximately \$19.4 million before any dividends or distributions could be made to the holders of Common Stock. Of this amount, we currently expect to pay approximately \$1.3 million, representing dividends in arrears, immediately following the closing. In addition, our board of directors

has designated a Special Committee for the purposes of, among other things, assessing from time to time whether eLoyalty has available funds for a full or partial distribution of the remaining liquidation preference to the holders of Series B Stock, and continuing to engage in related discussions and negotiations with TCV, the holder of a majority of the outstanding Series B Stock, and the other holders of Series B Stock. See *PROPOSAL #1: PROPOSAL TO SELL THE ICS BUSINESS Post-Closing Business and Proceeds from the Sale of the ICS Business*.

#### ***Voting Agreement***

Our directors, executive officers, and certain stockholders have entered into voting agreements with TeleTech, dated as of March 17, 2011, the forms of which are attached hereto as *Annex B*. See *Terms of the Voting Agreements*.

#### **Terms of the Acquisition Agreement**

The following is a summary of the material terms of the Acquisition Agreement. This summary does not purport to describe all the terms of the Acquisition Agreement and is qualified by reference to the complete Acquisition Agreement, which is attached to this proxy statement as *Annex A* and which we incorporate into this proxy statement by reference. We urge you to read the Acquisition Agreement carefully and in its entirety because it, and not the summary set forth in this proxy statement, is the legal document that governs the sale of the ICS Business.

The terms of the Acquisition Agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the sale of the ICS Business. The Acquisition Agreement contains representations and warranties that we, on the one hand, and TeleTech, on the other hand, made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligations to consummate the sale of the ICS Business, as well as their indemnity rights, and may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws. In addition, certain representations and warranties relate to information that is not known currently by either party and have been negotiated such that the risk that such representations or warranties are ultimately shown to not be true is allocated between the parties.

In addition, such representations and warranties are qualified by information in confidential disclosure schedules that we provided TeleTech in connection with signing the Acquisition Agreement. While we do not believe that the disclosure schedules contain information which has not been previously publicly disclosed and that the securities laws require to be publicly disclosed, the disclosure schedules do contain information that modifies, qualifies, and creates exceptions to the representations and warranties set forth in the attached Acquisition Agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts because they are modified by the underlying disclosure schedules. These disclosure schedules contain certain information that has been included in our prior public disclosures, as well as additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Acquisition Agreement, which subsequent information may or may not be fully reflected in our public disclosures.

#### ***General; Purchase Price***

Pursuant to the terms of the Acquisition Agreement, upon the closing of the sale of the ICS Business, TeleTech will make a cash payment of \$40,850,000 to the Company, subject to the adjustments described below. Of the total purchase price, \$1,500,000 will be funded into an escrow account to satisfy our obligations, if any, under any indemnity claims that may be made by TeleTech.

The purchase price is subject to adjustment based on a managed services amount (generally, unearned revenue less prepaid expenses) as of the closing date, which we will be required to transfer with the ICS Business. The purchase price will also be adjusted to the extent the ICS Business's working capital ratio (generally, the ratio of current assets, excluding prepaid cost deferrals, to current liabilities, excluding unearned revenue) is greater or less than 1.21 as of the closing date. The purchase price will initially be adjusted at closing based upon the financial statements of the ICS Business as of the last day of the prior fiscal month. The purchase price will be further adjusted within 60 days of the closing date to reflect any increases or decreases of the Managed Service amount or working capital ratio based on the financial statements of the ICS Business as of the closing date. If we dispute TeleTech's calculations within 20 days of our receipt of such calculations, and any such dispute cannot be resolved within 10 days, then the disputed calculations will be submitted to an independent accounting firm for final determination.

***Scope of Purchased Assets, Excluded Assets, Assumed Liabilities, and Excluded Liabilities***

The assets we propose to sell to TeleTech consist of substantially all of the assets of the ICS Business, including, without limitation, the following assets (to the extent they are necessary for or primarily used in the ICS Business): all accounts receivable; all pre-paid cost deferrals relating to the ICS Business; certain assumed real property leases; certain equipment (leased and owned); certain assumed contracts; all rights to causes of action, lawsuits and similar claims (except to the extent they relate to excluded assets or retained liabilities) relating to the ICS Business; intellectual property (including the registered trademark / trade name eLoyalty); all books and records; all goodwill relating to the ICS Business; certain licenses and permits; cash and cash equivalents in an amount equal to the amount of the working capital and managed services adjustments described above; insurance proceeds relating to any purchased assets (to the extent the corresponding liability is an assumed liability); and all equity interests in eLoyalty International Limited (our wholly-owned Irish subsidiary, referred to in this proxy statement as the Irish Sub).

Certain of our assets are specifically excluded from the purchased assets pursuant to the terms of the Acquisition Agreement, including the following assets: intercompany accounts receivable; assets used in connection with the continuing business (provided that such assets are not necessary for or primarily related to the ICS Business); assets relating to our benefit plans; assets primarily related to retained liabilities; intellectual property unrelated to the ICS Business; certain real property interests; equity interests in all of our subsidiaries other than the Irish Sub; certain licenses and permits; insurance policies (other than proceeds thereunder relating to purchased assets); and certain marketing materials.

Under the terms of the Acquisition Agreement, TeleTech will assume certain liabilities relating to the ICS Business, including the following liabilities: obligations under the executory portion of assumed contracts; certain liabilities relating to transferred employees; certain obligations associated with unearned revenue relating to assumed contracts; certain employment and payroll taxes relating to transferred employees; certain taxes related to the Irish Sub; certain real and personal property taxes relating to the purchased assets; and certain environmental liabilities relating to the assumed real property leases. TeleTech will not assume the following retained liabilities: any liability relating to the excluded assets; certain liabilities related to benefit plans; our liabilities arising under the Acquisition Agreement; all indebtedness for borrowed money; environmental liabilities not related to assumed real property leases; certain liabilities related to current and former employees; certain taxes; accounts payable relating to contracts that are not assumed by TeleTech; and liabilities related to indebtedness.

***Closing***

Closing of the sale of the ICS Business under the Acquisition Agreement will occur on the date that is the Company's first month-end for accounting purposes following the satisfaction or waiver of all conditions to the obligations of the parties to consummate the transactions contemplated thereby, including the adoption and approval of the sale of the ICS Business and the Acquisition Agreement by the holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote at the Annual Meeting, or at such other time as we and TeleTech may agree upon in writing.

***Representations and Warranties***

The Acquisition Agreement contains a number of customary representations and warranties applicable to us, subject in some cases to customary qualifications, relating to, among other things, the following:

our valid existence and good standing, and other corporate matters;

authorization, valid execution and delivery, and enforceability of the Acquisition Agreement;

binding effect of the Acquisition Agreement and the other agreements contemplated thereby;

conflicts or violations under charter documents, contracts and instruments of law;

governmental consents, permits, approvals and filings required in connection with the sale of the ICS Business;

title, condition, and sufficiency of the purchased assets;

equipment related to the ICS Business;

receivables in respect of the ICS Business;

delivery and accuracy of financial statements related to the Company and the ICS Business;

filing and accuracy of the Company's SEC reports;

tax matters related to the ICS Business and the Irish Sub;

absence of certain changes to the ICS Business since September 25, 2010;

absence of undisclosed liabilities;

pending or threatened litigation related to the Company or the purchased assets;

real property leases related to the ICS Business;

material contracts related to the ICS Business;



licenses and permits related to the ICS Business;

liabilities related to products sold and services provided by the ICS Business;

compliance with laws applicable to the ICS Business;

environmental matters related to the assumed real estate leases;

intellectual property matters related to the ICS Business;

software used in or related to the ICS Business;

insurance matters related to the ICS Business;

labor and employee benefit matters related to the ICS Business;

customers and suppliers related to the ICS Business;

transactions between the Company and its affiliates in respect of the ICS Business;

brokers or finders fees, and other fees with respect to the sale of the ICS Business;

our board's approval of the sale of the ICS Business and the Acquisition Agreement;

requisite stockholder approval of the sale of the ICS Business;

solvency of the Company after giving effect to the sale of the ICS Business;

opinion of financial advisor;

information contained in this proxy statement; and

matters with respect to government contracts related to the ICS Business.

Certain representations and warranties in the Acquisition Agreement provide exceptions for items that are not reasonably likely to have a Material Adverse Effect. For purposes of the Acquisition Agreement, a Material Adverse Effect means any material adverse effect, circumstance, or change, or any violation or other matter, if such material adverse effect, circumstance, change, violation, or other matter, either individually or in the aggregate with all other effects, circumstances, changes, violations or other matters, has or could reasonably be expected to have (either before or after the closing of the sale of the ICS Business), a material adverse effect on the business, prospects, assets, condition (including financial condition) or results of operations of the ICS Business, taken as a whole, but excluding any effect, circumstance, change, violation, or other matter to the extent directly resulting from or directly attributable to any of the following:

economic effects or changes that are generally applicable to the industries or markets in which the ICS Business operates (except to the extent such effect or change disproportionately affects the ICS Business);

general changes in the United States or world financial markets or general economic conditions (except to the extent such change disproportionately affects the ICS Business);

any adverse change, event, development or effect arising from or relating to (i) any laws or regulatory conditions issued by any governmental authority that does not relate only to the ICS Business or (ii) any changes in generally accepted accounting principals or other accounting requirements or principles or interpretation thereof;

the announcement, pendency, or consummation of the transactions contemplated by the Acquisition Agreement;

actions or omissions of the Company or any of its subsidiaries that are taken after the date of the Acquisition Agreement and required thereby or taken with the prior written consent of TeleTech; and

the commencement or continuation of a natural disaster, war, armed hostilities, acts of terrorism, or any other local, international, or national calamity, whether or not involving the United States (except to the extent such occurrence disproportionately affects the ICS Business).

If any material adverse effect, circumstance, change, violation, or other matter relating to the financial condition or results of operations of the ICS Business taken as a whole, in the aggregate with all other such effects, circumstances, changes, violations, or other matters, could not reasonably be expected to result in (i) losses or liability to TeleTech of \$750,000 or more in the aggregate within 12 months after the closing date or (ii) EBITDA, as defined in the Acquisition Agreement, for any twelve month period ending at the end of a calendar quarter during 2011 equaling no more than 92.5% of EBITDA for the corresponding twelve month period ended at the end of the corresponding calendar quarter during 2010, then such effect, circumstance, change, violation, or other matter will not be deemed a Material Adverse Effect; provided, however that if the results in (i) or (ii) could be reasonably expected, then such effect, circumstance, change, violation, or other matter will be deemed a Material Adverse Effect.

The Acquisition Agreement also contains a number of customary representations and warranties applicable to TeleTech, subject in some cases to customary qualifications, relating to, among other things, the following:

TeleTech's corporate organization, valid existence and good standing, and other corporate matters;

authorization, valid execution and delivery, and enforceability of the Acquisition Agreement;

binding effect of the Acquisition Agreement and the other agreements contemplated thereby;

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conflicts or violations under charter documents, contracts, and instruments of law;

governmental consents, permits, approvals, and filings required in connection with the sale of the ICS Business;

brokers or finders fees, and other fees with respect to the sale of the ICS Business;

sufficiency of funds; and

pending or threatened material litigation.

*Covenants and Agreements*

*Conduct of ICS Business Prior to Closing*

Under the Acquisition Agreement, we have agreed that, until the closing of the sale of the ICS Business or the earlier termination of the Acquisition Agreement, except as expressly contemplated by the Acquisition Agreement or as set forth in the confidential disclosure schedules to the Acquisition Agreement, we will operate the ICS Business in the ordinary course of commercial operations customarily engaged in by the ICS Business consistent with past custom and practice and will use commercially reasonable efforts to:

maintain insurance in such amounts and against such risks and losses as are consistent with past practice and apply all insurance proceeds received with respect to claims made for the purchased assets to replace or repair, as applicable, such purchased assets;

preserve intact all business organizations in respect of the ICS Business;

keep available the services of the current officers and employees of the ICS Business;

preserve the ICS Business's relationships with customers, creditors, and suppliers;

maintain books, accounts, and records in respect of the ICS Business; and

comply with any applicable laws.

We have also agreed that, until the closing of the sale of the ICS Business or the earlier termination of the Acquisition Agreement, except as expressly contemplated by the Acquisition Agreement, as set forth in the confidential disclosure schedules to the Acquisition Agreement, as required by applicable law, or as consented to by TeleTech, we will not:

amend any of our organizational documents in any manner which could reasonably be expected to adversely affect the sale of the ICS Business;

merge or consolidate with any entity or acquire any interest in any business or entity that in any manner could reasonably be expected to adversely affect the sale of the ICS Business;

liquidate, dissolve, or effect any recapitalization or reorganization in any form;

sell, lease, license, transfer, encumber, or otherwise dispose of any of the purchased assets or any interests therein that are material, individually or in the aggregate, to the ICS Business, except for such assets or interests therein that are used, consumed, performed, replaced, or sold in the ordinary course of business or permitted encumbrances;

create, incur, assume, or suffer to exist any new encumbrance (except permitted encumbrances) affecting any of the purchased assets;

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change any of our accounting principles or practices used in the preparation of financial statements, or revalue or reclassify in any material respect any of the purchased assets or assumed liabilities, except as required by generally accepted accounting principles;

change in any material respect our pricing policies or credit practices, the rate or timing of our payment of accounts payable or our collection of accounts receivable or change our earnings accrual rates on contracts, except as required by generally accepted accounting principles;

fail to pay any creditor any amount owed to such creditor in the ordinary course of business in accordance with our business practices, unless such amount is being contested or disputed in good faith;

enter into or renew any contract with or engage in any transaction with any affiliate for which TeleTech could have any liability;

make any capital investment in, any loan to or any acquisition of the securities or assets of any other person (or series of related capital investments, loans, and acquisitions) which could reasonably be expected, individually or in the aggregate, to adversely affect any of the purchased assets;

except for the purchase of supplies in the ordinary course of business, make any capital expenditures or commitments for capital expenditures involving more than \$50,000 in respect of the ICS Business;

enter into, terminate, renew, amend in any material respect, or waive any material right under, any material contract, except in the ordinary course of business;

take or fail to take any action that will cause a termination of or material breach or default under any material contract;

make or change any material tax election, settle or compromise any material tax liability, file any amendment to a tax return, settle any material claim or material assessment in respect of taxes or consent to any extension or waivers of the limitation period applicable to any material claim or assessment in respect of taxes, or change in any respect any accounting method in respect of taxes, with respect to the ICS Business or the purchased assets, subject to certain limited exceptions;

settle or compromise any pending or threatened legal proceeding for more than \$50,000 in any way that would have any adverse impact upon, or create any material liability for, TeleTech or, after the closing, the ICS Business;

except as required by applicable law, in accordance with the terms of any benefit plan, or with respect to any individual who will not become an employee of TeleTech, (i) grant any severance, retention or termination pay to, or amend any existing severance, retention or termination arrangement with, any current or former manager, officer, employee or any agent of the ICS Business, (ii) increase or accelerate the payment or vesting of benefits payable under any existing severance, retention or termination pay policies or employment agreements, (iii) enter into or amend any employment, consulting, deferred compensation or other similar agreement with any manager, officer, or consultant of the ICS Business, other than execution of our standard employment terms and conditions by new employees in the ordinary course of business, (iv) establish, adopt, or amend any collective bargaining agreement, bonus, profit-sharing, thrift, pension, retirement, post-retirement medical or life insurance, retention, deferred compensation, compensation, stock option, restricted stock, or other benefit plan or arrangement covering any present or former manager, director, officer, or employee, or any beneficiaries thereof, of the ICS Business, (v) undertake any office closing or employee layoffs, except in the ordinary course of business, or (vi) increase the compensation, bonus, or other benefits payable or to become payable to any manager, director, or officer or employee of the ICS Business, except in the ordinary course of business;

cancel or fail to renew all current insurance policies in respect of the ICS Business at the same limits in effect as of the date of the Acquisition Agreement up to and through the closing date;

take or fail to take any action that may have any adverse impact upon, or create any material liability for, TeleTech or the ICS Business relating to the infringement of any intellectual property right of any other person; or

agree, resolve or commit to do any of the foregoing or any other action that would be reasonably likely to cause any of the conditions to the consummation of the transactions contemplated by the Acquisition Agreement to not be satisfied.

*Solicitation of Other Offers and Restrictions on Solicitations of Other Offers*

The Acquisition Agreement provides that, until the closing of the sale of the ICS Business or the earlier termination of the Acquisition Agreement, we will not (nor will we authorize or permit any of our representatives, affiliates, subsidiaries, officers, directors, employees, or advisors to):

directly or indirectly solicit, initiate, or encourage the submission of any Acquisition Proposal (as defined below);

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enter into any letter of intent, agreement in principle, acquisition agreement, or any other similar agreement with respect to any Acquisition Proposal (each, a Third Party Acquisition Agreement ); or

directly or indirectly participate in any discussions or negotiations regarding, or furnish to any person any non-public information with respect to, or knowingly take any other action to facilitate any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal.

Notwithstanding the restrictions set forth above, until receipt of the requisite stockholder approval of the Acquisition Agreement, we may, in response to an unsolicited Acquisition Proposal that does not result in a breach of the restrictions set forth above, (i) furnish information to the person making such Acquisition Proposal pursuant to a customary confidentiality and standstill agreement not less restrictive than the confidentiality agreement between us and TeleTech related to the sale of the ICS Business and (ii) participate in discussions or negotiations with such person regarding any Acquisition Proposal, if our board (a) believes in good faith the Acquisition Proposal to be bona fide, (b) determines in good faith (after consultation with outside legal counsel and a qualified financial advisor) that the unsolicited Acquisition Proposal constitutes or would reasonably be expected to lead to a Superior Proposal (as defined below), (c) determines that the failure to take any of the above actions would not be consistent with its fiduciary duties to our stockholders, and (d) provides to TeleTech, within 48 hours of receiving an Acquisition Proposal, the materials terms thereof along with the identify of the person making it. We must keep TeleTech reasonably informed of the status of any such Acquisition Proposal.

Neither our board nor any committee thereof will withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to TeleTech, its recommendation that our stockholders approve the Acquisition Agreement or approve or recommend or propose publicly to approve or recommend to our stockholders, or otherwise permit or cause the Company to accept or enter into, an Acquisition Proposal (any such action, an Adverse Recommendation Change ). In addition, the Company will not approve, recommend, publicly propose or enter into any Third Party Acquisition Agreement, nor, with certain exceptions, release any third party from, or waive any provisions of, any confidentiality and standstill agreement to which the Company is a party. Notwithstanding the foregoing, if our board, prior to receipt of the requisite stockholder approval of the Acquisition Agreement, (i) receives an Acquisition Proposal that does not result in a breach of the Acquisition Agreement and that it determines in good faith (after consultation with outside legal counsel and a qualified financial advisor) constitutes a Superior Proposal, and (ii) determines in good faith (after consultation with outside legal counsel) that failure to take any of the following actions would not be consistent with its fiduciary duties to our stockholders, then the board may (a) make an Adverse Recommendation Change and/or (b) cause the Company to enter into a Third Party Acquisition Agreement with respect to such Superior Proposal, but only if we have concurrently with entering into such Third Party Acquisition Agreement terminated this Acquisition Agreement pursuant to its terms.

If our board determines to effect an Adverse Recommendation Change or to authorize the Company to enter into a Third Party Acquisition Agreement with respect to a Superior Proposal, we must provide written notice to TeleTech thereof, along with a copy of the Superior Proposal, at least five days prior to such Adverse Recommendation Change or Third Party Acquisition Agreement becoming effective; provided that any material amendment to the terms of such Superior Proposal after the initial notice will require us to provide a new notice to TeleTech and restart the five day period referred to above. In determining whether to effect an Adverse Recommendation Change or to cause the Company to enter into a Third Party Acquisition Agreement in response to a Superior Proposal, our board will negotiate in good faith with TeleTech (to the extent TeleTech desires to negotiate) with respect to any offer from TeleTech and take into account in good faith any changes to the terms of this Acquisition Agreement proposed by TeleTech (in response to an Adverse Recommendation Notice or otherwise) in determining whether such Acquisition Proposal still constitutes a Superior Proposal.

The term Acquisition Proposal means any written inquiry, proposal, or offer relating to a possible (i) amalgamation, merger, consolidation, tender offer, or similar transaction involving the ICS Business or the Company, other than an amalgamation, merger, consolidation, or similar transaction involving the Company but not involving the purchased assets or assets to which TeleTech receives benefit under the Transition Services Agreement; (ii) sale, lease, or other disposition, directly or indirectly (including by way of merger, consolidation, share, or unit exchange or otherwise) of any of the purchased assets or assets to which TeleTech receives benefit



under the Transition Services Agreement, other than the sale, lease, or other disposition of the purchased assets used, consumed, replaced, or sold in the ordinary course of business; (iii) issuance, sale, or other disposition of (including by way of merger, consolidation, share, or unit exchange or otherwise) our securities (or options, rights, or warrants to purchase or securities convertible into, such securities) other than option grants to our employees in the ordinary course of business or any issuance, sale, or other disposition that will close after the sale of the ICS Business to TeleTech and which will not preclude the consummation of such sale; (iv) liquidation, dissolution, recapitalization, or other similar type of transaction with respect to the Company other than any of the purchased assets or assets to which TeleTech receives benefit under the Transition Services Agreement or any such transaction that will close after the sale of the ICS Business to TeleTech and which will not preclude the consummation of such sale; (v) transaction which is similar in form, substance, or purpose to any of the foregoing transactions; or (vi) public announcement of an agreement, proposal, plan, or intent to do any of the foregoing; provided, however, that the term Acquisition Proposal does not include (a) the transactions contemplated by the Acquisition Agreement or (b) any transaction not involving the purchased assets or assets to which TeleTech receives benefit under the Transition Services Agreement.

The term Superior Proposal means any bona fide Acquisition Proposal, including any Acquisition Proposal relating solely to the ICS Business, made by a third party (i) on terms which our board determines in good faith, after consultation with the Company's outside legal counsel and qualified financial advisors, to be more favorable from a financial point of view to our stockholders than the transactions contemplated by the Acquisition Agreement, taking into account all the terms and conditions of such proposal, and the Acquisition Agreement (including any proposal by TeleTech to amend the terms of the Acquisition Agreement and the transactions contemplated thereby), (ii) that is not subject to a financing condition (and if financing is required, such financing is then fully committed to the third party), (iii) that includes termination rights of the third party on terms no less favorable to the Company than the terms set forth in the Acquisition Agreement, and (iv) that, in the good faith, reasonable judgment of our board is reasonably capable of being completed, taking into account all financial, regulatory, legal, and other aspects of such proposal, without unreasonable delay, all from a third party capable of performing such terms.

#### *Stockholder Approval*

We agreed to hold a stockholders meeting as soon as reasonably practicable following the execution of the Acquisition Agreement and the mailing of the related proxy statement for the purpose of voting on the approval of the sale of the ICS Business. Pursuant to the terms of the Acquisition Agreement, our board will use its reasonable, good faith efforts to obtain the approval of our stockholders of the sale of the ICS Business.

#### *Other Covenants and Agreements*

The Acquisition Agreement contains certain other customary covenants and agreements relating to, among other things:

the providing of notice information with respect to any matter arising after the execution of the Acquisition Agreement which, if existing or occurring prior to such execution, would have been required to be disclosed under the terms of the Acquisition Agreement;

the filing of this proxy statement with the SEC (and cooperation in response to any comments from the SEC with respect to such statement);

TeleTech's access to our properties, management, books, and records in respect of the ICS Business;

the parties' retention of business records relating to periods prior to the closing date for a period of six years after the execution of the Acquisition Agreement;

the giving of all required notices to third parties and governmental authorities, and the use of commercially reasonable efforts to obtain all licenses and permits, consents, waivers, approvals, authorizations, declarations, and filings that are required to consummate the transactions contemplated by the Acquisition Agreement;

affiliate agreements;

confidentiality;

the use of the eLoyalty mark and logo;

the delivery of monthly financial statements and a pre-closing financial statement in respect of the ICS Business;

the use of commercially reasonable efforts to cooperate with and assist TeleTech (i) in transferring all transferrable licenses and permits to TeleTech to the extent such licenses and permits are not necessary or desirable for the Company after the closing, (ii) in obtaining for TeleTech those licenses and permits as may be necessary to operate and conduct the ICS Business as now conducted or to occupy any premises in which the ICS Business is operated or conducted, (iii) in negotiating in good faith with the applicable third parties buyout agreements, early termination agreements, or similar agreements with respect to certain leased equipment, and (iv) in negotiating in good faith with the applicable third parties agreements regarding TeleTech's use after the closing of certain intellectual property and software licenses; and

cooperation in good faith prior to the closing to amend and update certain exhibits to the Acquisition Agreement.

***Employee Matters***

On the closing date, TeleTech will make offers of employment to certain of our employees identified by them and listed on the confidential disclosure schedule to the Acquisition Agreement. Any such employee who accepts TeleTech's offer of employment and commences employment with TeleTech shall be referred to, individually, as a Transferred Employee and, collectively, as the Transferred Employees. Following the closing date, TeleTech will provide (i) to each Transferred Employee compensation at least equal to that provided by us to such Transferred Employee immediately prior to the closing date and (ii) to Transferred Employees generally, employee benefits comparable, in the aggregate, to those provided by TeleTech to similarly situated employees of TeleTech. In addition, TeleTech has agreed, with certain exceptions, to take the following actions with respect to Transferred Employees: (a) waive any limitations regarding pre-existing conditions and eligibility waiting periods under any TeleTech benefit plans; (b) provide each Transferred Employee, to the extent commercially practicable, with credit for any payments toward out of pocket limits and deductibles paid prior to the closing date in satisfying any applicable deductible or out-of-pocket requirements under any TeleTech benefit plan; and (c) for eligibility and vesting purposes (but not benefit accruals) treat all service by the Transferred Employees with the Company before the closing date as service with TeleTech.

Pursuant to the terms of the Acquisition Agreement, we will remain responsible for the payment of all wages and other remuneration due to our employees with respect to their services as our employees prior to the closing date. TeleTech will not assume any obligations to any of our current or former employees, including but not limited to any obligations, commitments, or liabilities related to employment, compensation, severance, and benefits incurred on or prior to the closing date, except for certain non-benefit related liabilities reflected on the ICS Business's closing date balance sheet. We will hold TeleTech harmless from and against all direct and indirect costs, expenses, and liabilities of any sort arising from or relating to any claims by or on behalf of our employees with respect to liabilities under our benefit plans, severance pay, or termination pay, liabilities relating to consultation requirements with any works council or union, and transfers or undertakings in the applicable foreign jurisdiction, and similar obligations relating to the termination of such employees' employment with the Company. In addition, we agreed to terminate, waive, and release any rights or remedies that we may have with respect to the solicitation of employment or employment by TeleTech of any Transferred Employee, including any claims or rights we may have against TeleTech or any Transferred Employee under any non-hire, non-solicitation, non-competition, confidentiality, or employment agreement or any cause of action based on similar rights arising by contract, at common law, or by statute or regulation. In addition, we and TeleTech agreed to comply (and to cooperate in good faith to the extent necessary to permit each party to comply) with certain applicable federal, state, local, and foreign laws, rules and regulations regarding the transfer of employees.

*Conditions to the Sale of the ICS Business*

*Conditions to Each Party's Obligation*

Each party's obligation to complete the sale of the ICS Business is subject to the satisfaction or waiver of the following conditions:

there must exist no valid judicial order which prohibits the consummation of the transactions contemplated by the Acquisition Agreement; and

the sale of the ICS Business and the Acquisition Agreement must have been approved by the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote at the Annual Meeting (sometimes referred to in this proxy statement as the requisite stockholder approval).

*Conditions to TeleTech's Obligation*

TeleTech's obligation to complete the sale of the ICS Business is subject to the satisfaction or waiver of certain conditions, including the following:

each of the representations and warranties made by us in the Acquisition Agreement must be true and correct in all respects without regard to any materiality qualifier thereon on and as of the closing date as though such representation or warranty was made on and as of the closing date (other than those made as of a specified date earlier than the closing date in which case each such representation or warranty shall have been so true and correct on and as of such earlier date), except for such failures to be true and correct as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

we must have performed in all material respects all obligations required to be performed by us under the Acquisition Agreement at or prior to the closing;

all consents and approvals required under the Acquisition Agreement must have been obtained and in full force and effect;

EBITDA for the twelve month period ended on March 31, 2011 shall exceed \$8,000,000; and

we must have delivered to TeleTech (i) bills of sale, assignments, deeds, or other applicable documents of transfer necessary to effect the sale of the purchased assets, (ii) executed counterparts to the certain related agreements; (iii) a FIRPTA affidavit; (iv) clearance and bulk sales certificates with respect to any taxing jurisdiction requested by TeleTech; (v) the ICS Business Closing Date Balance Sheet (as defined in the Acquisition Agreement); (vi) an officer's certificate with respect to the satisfaction of the foregoing conditions relating to representations and warranties made, and obligations required to be performed, by us under the terms of the Acquisition Agreement; and (vii) such documentation as may be reasonably requested by TeleTech to vest good and valid title to the Irish Sub in a subsidiary of TeleTech.

*Conditions to Our Obligation*

Our obligation to complete the sale of the ICS Business is subject to the satisfaction or waiver of certain conditions, including the following:

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the representations and warranties made by TeleTech in the Acquisition Agreement must be true and correct in all material respects on and as of the closing date as though such representation or warranty was made on and as of the closing date (other than those made as of a specified date earlier than the closing date in which case each such representation or warranty shall have been so true and correct on and as of such earlier date);

TeleTech must have performed in all material respects all obligations required to be performed by it under the Acquisition Agreement at or prior to the closing; and

TeleTech must have delivered to us (i) the purchase payment described above; (ii) executed counterparts to the Related Agreements; (iii) an officer's certificate with respect to the satisfaction of the foregoing conditions relating to representations and warranties made, and obligations required to be performed, by TeleTech under the terms of the Acquisition Agreement; and (iv) such other customary documents, instruments or certificates as shall be reasonably requested by us and as shall be consistent with the terms of the Acquisition Agreement.

***Termination of the Acquisition Agreement***

The Acquisition Agreement may only be terminated:

by mutual written consent of us and TeleTech;

by either us or TeleTech, if:

the closing shall not have occurred on or before July 3, 2011, provided that such right to terminate is not available to any party whose failure to perform any of its obligations under the Acquisition Agreement resulted in the failure of the closing to be so consummated by such date; or

any final, nonappealable order by a court of competent jurisdiction is issued which precludes the consummation of the closing or the transaction contemplated by the Acquisition Agreement or the Related Agreements (by injunction or otherwise), provided that such right to terminate is not available to a party if the issuance of such order was primarily due to the failure of such party to perform any of its obligations under the Acquisition Agreement;

by TeleTech, if:

the requisite stockholder approval is not obtained within 90 days after execution of the Acquisition Agreement by the parties;

an Adverse Recommendation Change occurs;

we willfully and materially breach the terms of the Acquisition Agreement dealing with third-party Acquisition Proposals in any respect adverse to TeleTech;

we intentionally or recklessly breach any representation or warranty, covenant, or agreement contained in the Acquisition Agreement, and such breach, individually or in combination with any other breach, would cause any of the conditions to TeleTech's obligation to complete the sale of the ICS Business not to be satisfied; or

in the course of us providing TeleTech information with respect to any matter arising after the execution of the Acquisition Agreement, any such information, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the ICS Business; and

by us, if:

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we enter into a Third Party Acquisition Agreement providing for a Superior Proposal, provided that we may only exercise this termination right if we have complied with certain relevant obligations under the Acquisition Agreement; or

TeleTech breaches any representation or warranty, covenant, or agreement contained in the Acquisition Agreement, and such breach, individually or in combination with any other such breach, would cause any of the conditions to our obligation to complete the sale of the ICS Business not to be satisfied.

### ***Termination Fees***

We must pay to TeleTech a fee equal to (i) \$1,500,000 plus (ii) all of TeleTech's reasonable out-of-pocket expenses, including all attorneys' fees, financial advisors' fees, accountants' fees, and filing fees (the Termination Expenses), up to an aggregate amount not to exceed \$500,000, in the following circumstances:

TeleTech terminates the Acquisition Agreement on the basis of an Adverse Recommendation Change;

TeleTech terminates the Acquisition Agreement on the basis of a willful and material breach by us of the terms of the Acquisition Agreement dealing with third-party Acquisition Proposals in any respect adverse to TeleTech; or

we terminate the Acquisition Agreement on the basis of our entry into a Third Party Acquisition Agreement providing for a Superior Proposal.

If TeleTech terminates the Acquisition Agreement on the basis that (i) the requisite stockholder approval is not obtained within 90 days after execution of the Acquisition Agreement by the parties or (ii) we intentionally or recklessly breach any representation or warranty, covenant, or agreement contained in the Acquisition Agreement, and such breach, individually or in combination with any other breach, would cause any of the conditions to TeleTech's obligation to complete the sale of the ICS Business not to be satisfied, then we will pay TeleTech a fee equal to the Termination Expenses.

### ***Noncompetition and Nonsolicitation***

In connection with the sale of the ICS Business, we have agreed that, for a period of five years after the closing date of the sale of the ICS Business, we will not and will cause our subsidiaries not to own an interest in, operate, join, control, advise, work for, consult to, have a financial interest that provides any control of, or participate in any person producing, designing, providing, soliciting orders for, selling, distributing, consulting to, or marketing or remarketing products or services competitive with or in substantially the same line of business as the ICS Business, or any part thereof, as of the closing date. Notwithstanding the foregoing, neither we nor our affiliates are prohibited from (i) maintaining and/or undertaking passive investments in less than 5% of the outstanding stock of any publicly-traded corporation or (ii) engaging in the business operated by the Company and its subsidiaries as of the closing date (but immediately after giving effect to the sale of the ICS Business), and any other business incidental or relating thereto, including, among other things, (a) the provision of solutions to improve the reliability of call recording, (b) the process of employing human behavioral modeling to analyze and improve customer solutions and help optimize the performance of call center agents, (c) the process of employing human behavioral modeling and analytics in the areas of Fraud Analytics, Collections Analytics, Back Office Analytics, Predictive Modeling, Email Analytics, and Student Analytics, (d) the implementation and hosting of related hardware and software, and (e) the provision of related training and add-on consulting services.

In addition, we have agreed that, for a period of three years after the closing date of the sale of the ICS Business, we will not and will cause our subsidiaries not to take any action, formal or informal, direct or indirect, to induce any employee of TeleTech (or of any of its respective affiliates) to terminate his or her employment with TeleTech (or of any of its respective affiliates), or attempt to interfere with the relationship or prospective relationship between TeleTech (or of any of its respective affiliates) and any creditor, licensee, customer, prospective customer, employee, or other party. Notwithstanding the foregoing, we shall not be restricted from making general solicitations of employment (including the use of general advertisements and recruiting agencies) not specifically directed at the employees of TeleTech (or of any of its respective affiliates) and hiring any person (i) who responds thereto, or (ii) whose employment has been previously terminated by TeleTech (or of any of its respective affiliates).

### ***Indemnification***

Subject to the certain limitations set forth below, we must indemnify and hold harmless TeleTech and its managers, members, officers, and employees (in their capacity as such), and its and their affiliates and agents, against and in respect of any and all losses incurred directly or indirectly, in connection with, arising from or as a

result of (i) any material breach of any of the covenants made in the Acquisition Agreement by us or any of our affiliates, (ii) any breach of any of the representations and warranties made in the Acquisition Agreement by us, (iii) the ownership, use, or possession of the excluded assets, (iv) the retained liabilities, (v) the ownership and operation of the continuing business following the closing of the sale of the ICS Business, or (vi) any fraud, intentional misrepresentation or criminal acts committed by or on behalf of us or any of our affiliates on or prior to the closing date of the sale of the ICS Business. In general, we are not obligated to make TeleTech whole for any losses suffered as a result of any breach of our representations or warranties or a material breach of our notification covenant until TeleTech suffers losses in excess of \$200,000, at which point we are obligated to indemnify the indemnified party to the full extent of all losses, subject to limitations set forth below. Notwithstanding the foregoing, we are obligated to indemnify TeleTech for all losses with respect to claims based upon breaches of representations and warranties relating to (a) authorization, valid execution and delivery, and enforceability of the Acquisition Agreement, (b) conflicts or violations under charter documents, contracts and instruments of law, (c) title and condition of the purchased assets, (d) taxes, and (e) brokers' or finders' fees. Our liability for any claim for indemnification brought by TeleTech based upon a breach of a representation or warranty or a material breach of our notification covenant is limited to \$2,000,000, except for indemnification claims based on fraud or any breach of a representation or warranty made in connection with breaches of the representations and warranties relating to (1) authorization, valid execution and delivery, and enforceability of the Acquisition Agreement, (2) conflicts or violations under charter documents, contracts and instruments of law, (3) title and condition of the purchased assets, (4) taxes, and (5) brokers' or finders' fees, for which there is no limit.

Subject to the certain limitations set forth below, TeleTech must indemnify and hold harmless us and our directors, stockholders, officers and employees (in their capacity as such), and their affiliates and agents against and in respect of any and all losses incurred directly or indirectly in connection with, arising from or as a result of (i) any material breach of any of the covenants made in the Acquisition Agreement by TeleTech or any of its respective affiliates, (ii) any breach of any of the representations or warranties made in the Acquisition Agreement by TeleTech, (iii) the assumed liabilities, (iv) the ownership and operation of the ICS Business following the closing of the sale of the ICS Business (other than in respect of the retained liabilities), or (v) any fraud, intentional misrepresentation or criminal acts committed by or on behalf of TeleTech or any of its affiliates on or prior to the closing date of the sale of the ICS Business. TeleTech is generally not obligated to make us whole for any losses suffered as a result of any breach of its representations or warranties until we suffer losses in excess of \$200,000, at which point TeleTech is obligated to indemnify us to the full extent of all losses, subject to limitations set forth below. Notwithstanding the foregoing, TeleTech is obligated to indemnify us for all losses with respect to claims based upon breaches of representations and warranties relating to (a) authorization, valid execution and delivery, and enforceability of the Acquisition Agreement, (b) conflicts or violations under charter documents, contracts and instruments of law, (c) governmental consents, permits, approvals and filings required in connection with the sale of the ICS Business, and (d) brokers' or finders' fees. TeleTech's liability for any claim for indemnification brought by us based upon a breach of a representation or warranty is limited to \$2,000,000, except for indemnification claims based on fraud or any breach of a representation or warranty made in connection with breaches of the representations and warranties relating to (1) authorization, valid execution and delivery, and enforceability of the Acquisition Agreement, (2) conflicts or violations under charter documents, contracts and instruments of law, (3) governmental consents, permits, approvals and filings required in connection with the sale of the ICS Business, and (4) brokers' or finders' fees.

#### ***Tax Matters***

Under the terms of the Acquisition Agreement, we and TeleTech will each pay or cause to be paid fifty percent (50%) of all transfer, documentary, sales, use, value-added, property, gross receipts, stamp, registration or other similar taxes incurred in connection with the transfer and sale of the purchased assets. In addition, we will pay TeleTech an amount equal to all taxes with respect to the Irish Sub that have accrued but were not paid before the closing date to the extent such taxes were not included as a liability on the ICS Business's balance sheet. TeleTech will pay all post-closing period taxes applicable to the ICS Business or the purchased assets and all assumed taxes.



We will prepare and file, or cause to be prepared and timely filed, all tax returns related to the Irish Sub, the ICS Business, and the purchased assets for all pre-closing tax periods. TeleTech will prepare and file, or cause to be prepared and timely filed, all tax returns related to the Irish Sub, the ICS Business, and the purchased assets for all post-closing tax periods.

We will receive the sole benefit of all refunds for taxes with respect to which the liabilities are either retained by us or assumed by TeleTech, including all refunds related to the Irish Sub for pre-closing tax periods. All refunds for post-closing tax periods applicable to the ICS Business or the purchased assets will be for the sole benefit of TeleTech. All refunds for transfer taxes will be for the equal benefit of the parties.

### ***Expenses***

Except as otherwise set forth in the Acquisition Agreement, each party will pay all costs and expenses incident to its negotiation and preparation of the Acquisition Agreement and to its performance and compliance with all agreements and conditions contained therein on its part to be performed or complied with, including the fees, expenses and disbursements of its counsel and accountants.

### ***Amendment and Waiver***

The Acquisition Agreement may be amended or waived if such amendment or waiver is in writing and signed, in the case of an amendment, by us and TeleTech, or in the case of a waiver, by the party against whom the waiver is to be effective. No failure or delay by any party in exercising any right, power or privilege under the Acquisition Agreement shall operate as a waiver thereof.

### **Terms of Other Agreements**

#### ***Terms of the Voting Agreements***

In connection with the Acquisition Agreement, the Company's directors, executive officers and certain stockholders, who, as of the Record Date, collectively had voting power over approximately 48.5% of the issued and outstanding shares of eLoyalty Stock, entered into voting agreements with TeleTech. Under the terms of the voting agreements, each stockholder has irrevocably appointed TeleTech's secretary as proxy for such stockholder to vote his, her, or its shares, including any shares acquired after the date of the agreement, (i) for the Proposal to Sell the ICS Business, the Name Change Charter Amendment, and the other transactions contemplated by, and in each case pursuant to, the terms of the Acquisition Agreement, and (ii) against any proposal regarding any Acquisition Proposal (as defined above). The proxy automatically terminates upon termination of the Acquisition Agreement or upon any material amendment or modification of the Acquisition Agreement that adversely affects the consideration payable to us.

Under the terms of the voting agreement that TeleTech entered into with our directors and executive officers, SHV and certain affiliates of SHV (the Insider Stockholders), who, as of the Record Date, collectively had voting power over approximately 33% of the issued and outstanding shares of eLoyalty Stock, the Insider Stockholders have also agreed that, subject to certain exceptions, they will not transfer any shares prior to the closing date of the proposed sale. The voting agreements that TeleTech entered into with RKB Capital, LP, Peter D. Schleider, Peninsula Master Fund, Ltd. and Alydar Partners, LLC (the Non-Insider Stockholders), who, as of the Record Date, collectively had voting power over approximately 15% of the issued and outstanding shares of eLoyalty Stock, provide that, subject to certain exceptions, the Non-Insider Stockholders will not transfer any shares for at least ten business days following the date of the agreements.

The forms of the voting agreements entered into with the Insider Stockholders and the Non-Insider Stockholders are attached to this proxy statement as *Annex B*. The foregoing summary of the voting agreements does not purport to be complete, and all stockholders are urged to read the form voting agreements attached hereto as *Annex B* in their entirety.

*Terms of the Escrow Agreement*

Pursuant to the terms of the Acquisition Agreement, \$1.5 million of the total purchase price will be funded into an escrow account to satisfy our obligations under any indemnification claims that may be made by TeleTech. In connection with the Acquisition Agreement, we and TeleTech will enter into an escrow agreement with an escrow agent effective upon the closing of the sale of the ICS Business, pursuant to which the escrow agent will hold \$1,500,000 until the six month anniversary of the closing, subject to any claims that may be made by TeleTech.

**Recommendation of Our Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR**

**PROPOSAL #1, THE PROPOSAL TO SELL THE ICS BUSINESS.**

**eLOYALTY CORPORATION**

**SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA**

The following unaudited pro forma consolidated financial information sets forth the pro forma consolidated results of operations of the Company for fiscal years ended 2010, 2009, and 2008, which ended January 1, 2011, December 26, 2009, and December 27, 2008, respectively, and the pro forma balance sheets of the Company as of January 1, 2011 and December 26, 2009.

The unaudited pro forma consolidated statements of operations have been derived from the Company's historical consolidated financial information and give effect to the proposed sale of all of the assets and assumption of certain liabilities of the Company's ICS Business, in exchange for approximately \$40.85 million in cash, subject to adjustment, as if such sale had occurred on the first day of fiscal years 2010, 2009, and 2008, which began on December 27, 2009, December 28, 2008, and December 30, 2007, respectively. In addition, the unaudited pro forma consolidated balance sheets have been derived from the Company's historical consolidated financial information and give effect to the proposed sale of the ICS Business as if it had occurred on each of the balance sheet dates.

The unaudited pro forma consolidated statements of operations are based on the assumptions and adjustments described in the accompanying notes and do not reflect any adjustments for non-recurring items or changes in operating strategies arising as a result of the transaction. These unaudited pro forma consolidated financial statements include no assumptions regarding the use of proceeds (other than to pay transaction related expenses), which are presented as additional cash on the unaudited pro forma consolidated balance sheets. Accordingly, the actual effect of the transaction, due to this and other factors, could differ from the pro forma adjustments presented herein. However, management believes that the assumptions used and the adjustments made are reasonable under the circumstances and given the information available.

The unaudited pro forma consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or the financial position that would have been achieved had the transaction been consummated as of the dates indicated or of the results that may be obtained in the future. These unaudited pro forma consolidated financial statements and the accompanying notes should be read together with the Company's Annual Report on Form 10-K for the year ended January 1, 2011 filed with the Securities Exchange Commission on March 17, 2011. The historical financial information included in Company's Annual Report on Form 10-K is also attached hereto as Annex D.

## eLOYALTY CORPORATION

## UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEETS

JANUARY 1, 2011

(In thousands, except share and per share data)

	Historical eLoyalty	Pro Forma Adjustment	Pro Forma eLoyalty
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 20,872	\$ 30,049a	\$ 50,921
Restricted cash	2,460		2,460
Receivables, net	8,613	(6,572)b	2,041
Prepaid expenses	13,746	(9,443)b	4,303
Other current assets	892	(596)b	296
Total current assets	46,583	13,438	60,021
Equipment and leasehold improvements, net	5,867	(1,470)b	4,397
Goodwill	2,643	(1,671)b	972
Intangibles, net	428	(76)b	352
Other long-term assets	10,671	(7,090)b	3,581
Total assets	\$ 66,192	\$ 3,131	\$ 69,323
<b>LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY:</b>			
Current Liabilities:			
Accounts payable	\$ 2,498	\$ (2,134)b	\$ 364
Accrued compensation and related costs	3,033	(986)b	2,047
Unearned revenue	24,212	(16,327)b	7,885
Other current liabilities	4,983	(721)b	4,262
Total current liabilities	34,726	(20,168)	14,558
Long-term unearned revenue	15,928	(11,243)b	4,685
Other long-term liabilities	1,592	(30)b	1,562
Total liabilities	52,246	(31,441)	20,805
Series B Stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,549,078 shares issued and outstanding at January 1, 2011, with a liquidation preference of \$19,367 at January 1, 2011			
	18,100		18,100
Stockholders (Deficit) 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; 15,642,822 shares issued at January 1, 2011; and 14,786,005 outstanding at January 1, 2011			
	156		156
Additional paid-in capital	207,985		207,985
Accumulated deficit	(204,139)	34,572c	(169,567)
Treasury stock, at cost, 856,817 shares at January 1, 2011	(4,468)		(4,468)
Accumulated other comprehensive loss	(3,688)		(3,688)
Total stockholders (deficit) equity	(4,154)	34,572	30,418
Total liabilities and stockholders (deficit) equity	\$ 66,192	\$ 3,131	\$ 69,323

See accompanying notes to unaudited pro forma consolidated financial statements.

## eLOYALTY CORPORATION

## UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEETS

DECEMBER 26, 2009

(In thousands, except share and per share data)

	Historical eLoyalty	Pro Forma Adjustment	Pro Forma eLoyalty
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 28,982	\$ 31,818a	\$ 60,800
Restricted cash	3,745		3,745
Receivables, net	9,313	(5,874)b	3,439
Prepaid expenses	10,126	(4,982)b	5,144
Other current assets	944	(673)b	271
Total current assets	53,110	20,289	73,399
Equipment and leasehold improvements, net	6,194	(729)b	5,465
Goodwill	2,643	(1,671)b	972
Intangibles, net	476		476
Other long-term assets	8,180	(4,313)b	3,867
Total assets	\$ 70,603	\$ 13,576	\$ 84,179
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>			
Current Liabilities:			
Accounts payable	\$ 3,634	\$ (2,686)b	\$ 948
Accrued compensation and related costs	5,762	(2,406)b	3,356
Unearned revenue	20,436	(10,026)b	10,410
Other current liabilities	5,067	(669)b	4,398
Total current liabilities	34,899	(15,787)	19,112
Long-term unearned revenue	9,526	(5,725)b	3,801
Other long-term liabilities	1,705	(138)b	1,567
Total liabilities	46,130	(21,650)	24,480
Series B Stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,616,169 shares issued and outstanding at December 26, 2009, with a liquidation preference of \$19,733 at December 26, 2009			
	18,442		18,442
Stockholders (Deficit) 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; 14,871,521 shares issued at December 26, 2009; and 14,220,279 outstanding at December 26, 2009			
	149		149
Additional paid-in capital	203,627		203,627
Accumulated deficit	(190,821)	35,226c	(155,595)
Treasury stock, at cost, 651,242 shares at December 26, 2009	(3,295)		(3,295)
Accumulated other comprehensive loss	(3,629)		(3,629)
Total stockholders equity	6,031	35,226	41,257
Total liabilities and stockholders equity	\$ 70,603	\$ 13,576	\$ 84,179

See accompanying notes to unaudited pro forma consolidated financial statements.

## eLOYALTY CORPORATION

## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED JANUARY 1, 2011

(In thousands, except per share data)

	Historical eLoyalty	Pro Forma Adjustment <sup>(d)</sup>	Pro Forma eLoyalty
<b>Revenue:</b>			
Services	\$ 71,808	\$ (41,548)	\$ 30,260e
Product	12,581	(12,581)	
Revenue before reimbursed expenses (net revenue)	84,389	(54,129)	30,260
Reimbursed expenses	3,715	(3,090)	625
Total revenue	88,104	(57,219)	30,885
<b>Operating expenses:</b>			
Cost of services	43,326	(27,936)	15,390
Cost of product	10,360	(10,360)	
Cost of revenue before reimbursed expenses	53,686	(38,296)	15,390
Reimbursed expenses	3,715	(3,090)	625
Total cost of revenue, exclusive of depreciation and amortization shown below:	57,401	(41,386)	16,015
Selling, general and administrative	38,273	(9,366)	28,907
Severance and related costs	1,180	(686)	494
Depreciation	4,074	(784)	3,290
Amortization of intangibles	144	(4)	140
Total operating expenses	101,072	(52,226)	48,846
Operating loss	(12,968)	(4,993)	(17,961)
Interest and other (expense), net	(121)		(121)
Loss from continuing operations before income taxes	(13,089)	(4,993)	(18,082)
Income tax provision	(93)		(93)
Loss from continuing operations	(13,182)	(4,993)	(18,175)
Loss on discontinued operations	(136)		(136)
Net loss	(13,318)	(4,993)	(18,311)
Dividends related to Series B Stock	(1,273)		(1,273)
Net loss available to common stockholders	\$ (14,591)	\$ (4,993)	\$ (19,584)
<b>Per common share:</b>			
Basic loss from continuing operations	\$ (0.96)	\$	\$ (1.33)
Basic loss from discontinued operations	\$ (0.01)	\$	\$ (0.01)
Basic net loss available to common stockholders	\$ (1.06)	\$	\$ (1.43)



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Diluted loss from continuing operations	\$ (0.96)	\$	\$ (1.33)
Diluted loss from discontinued operations	\$ (0.01)	\$	\$ (0.01)
Diluted net loss available to common stockholders	\$ (1.06)	\$	\$ (1.43)
Shares used to calculate basic net loss per share	13.70		13.70
Shares used to calculate diluted net loss per share	13.70		13.70

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

Cost of services	\$ 99	\$ (31)	\$ 68
Selling, general and administrative	5,102	(786)	4,316
Severance and related costs	76	(57)	19

See accompanying notes to unaudited pro forma consolidated financial statements.

## eLOYALTY CORPORATION

## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED DECEMBER 26, 2009

(In thousands, except per share data)

	Historical eLoyalty	Pro Forma Adjustment <sup>(d)</sup>	Pro Forma eLoyalty
Revenue:			
Services	\$ 79,862	\$ (48,037)	\$ 31,825e
Product	17,780	(17,780)	
Revenue before reimbursed expenses (net revenue)	97,642	(65,817)	31,825
Reimbursed expenses	3,971	(3,233)	738
Total revenue	101,613	(69,050)	32,563
Operating expenses:			
Cost of services	52,442	(32,595)	19,847
Cost of product	14,814	(14,814)	
Cost of revenue before reimbursed expenses	67,256	(47,409)	19,847
Reimbursed expenses	3,971	(3,233)	738
Total cost of revenue, exclusive of depreciation and amortization shown below:	71,227	(50,642)	20,585
Selling, general and administrative	35,163	(10,427)	24,736
Severance and related costs	1,341	(371)	970
Depreciation	4,242	(490)	3,752
Amortization of intangibles	223		223
Total operating expenses	112,196	(61,930)	50,226
Operating loss	(10,583)	(7,120)	(17,703)
Interest and other income, net	53		53
Loss from continuing operations before income taxes	(10,530)	(7,120)	(17,650)
Income tax provision	(44)		(44)
Loss from continuing operations	(10,574)	(7,120)	(17,694)
Loss on discontinued operations	(46)		(46)
Net loss	(10,620)	(7,120)	(17,740)
Dividends related to Series B Stock	(1,292)		(1,292)
Net loss available to common stockholders	\$ (11,912)	\$ (7,120)	\$ (19,032)
Per common share:			
Basic loss from continuing operations	\$ (0.80)	\$	\$ (1.33)
Basic loss from discontinued operations	\$	\$	\$
Basic net loss available to common stockholders	\$ (0.90)	\$	\$ (1.44)

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Diluted loss from continuing operations	\$ (0.80)	\$	\$ (1.33)
Diluted loss from discontinued operations	\$	\$	\$
Diluted net loss available to common stockholders	\$ (0.90)	\$	\$ (1.44)
Basic weighted average shares outstanding	13.26		13.26
Diluted weighted average shares outstanding	13.26		13.26

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

Cost of services	\$ 504	\$ (270)	\$ 234
Selling, general and administrative	5,793	(1,254)	4,539
Severance and related costs	248		248

See accompanying notes to unaudited pro forma consolidated financial statements.

## eLOYALTY CORPORATION

## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED DECEMBER 27, 2008

(In thousands, except per share data)

	Historical eLoyalty	Pro Forma Adjustment <sup>(d)</sup>	Pro Forma eLoyalty
Revenue:			
Services	\$ 77,796	\$ (41,612)	\$ 36,184e
Product	9,777	(9,777)	
Revenue before reimbursed expenses (net revenue)	87,573	(51,389)	36,184
Reimbursed expenses	3,624	(2,325)	1,299
Total revenue	91,197	(53,714)	37,483
Operating expenses:			
Cost of services	53,586	(28,690)	24,896
Cost of product	7,945	(7,945)	
Cost of revenue before reimbursed expenses	61,531	(36,635)	24,896
Reimbursed expenses	3,624	(2,325)	1,299
Total cost of revenue, exclusive of depreciation and amortization shown below:	65,155	(38,960)	26,195
Selling, general and administrative	41,182	(11,395)	29,787
Severance and related costs	1,635	(52)	1,583
Depreciation	3,845	(507)	3,338
Amortization of intangibles	340		340
Total operating expenses	112,157	(50,914)	61,243
Operating loss	(20,960)	(2,800)	(23,760)
Interest and other income, net	70		70
Loss from continuing operations before income taxes	(20,890)	(2,800)	(23,690)
Income tax provision	(15)		(15)
Loss from continuing operations	(20,905)	(2,800)	(23,705)
Loss on discontinued operations	(748)		(748)
Net loss	(21,653)	(2,800)	(24,453)
Dividends related to Series B Stock	(1,296)		(1,296)
Net loss available to common stockholders	\$ (22,949)	\$ (2,800)	\$ (25,749)
Per common share:			
Basic loss from continuing operations	\$ (2.02)	\$	\$ (2.29)
Basic loss from discontinued operations	\$ (0.07)	\$	\$ (0.07)
Basic net loss available to common stockholders	\$ (2.21)	\$	\$ (2.48)
Diluted loss from continuing operations	\$ (2.02)	\$	\$ (2.29)

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Diluted loss from discontinued operations	\$ (0.07)	\$	\$ (0.07)
Diluted net loss available to common stockholders	\$ (2.21)	\$	\$ (2.48)
Basic weighted average shares outstanding	10.37		10.37
Diluted weighted average shares outstanding	10.37		10.37

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

Cost of services	\$ 3,345	\$ (1,472)	\$ 1,873
Selling, general and administrative	11,335	(3,413)	7,922
Severance and related costs	103		103

See accompanying notes to unaudited pro forma consolidated financial statements.

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**eLOYALTY CORPORATION**

**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

**Basis of Presentation**

The unaudited pro forma consolidated financial information gives effect to the proposed sale of all of the assets and the assumption of certain liabilities of the Company's ICS Business by TeleTech in exchange for \$40.85 million in cash, subject to adjustment as set forth in the Acquisition Agreement. The Company expects to account for the disposition as a discontinued operation in its consolidated financial statements in accordance with the Accounting Standards Codification (ASC) 205-20, *Accounting for the Impairment or Disposal of Long Lived Assets*, if stockholder approval of the transaction is obtained.

During the periods presented, the ICS Business operated as an operating segment within the Company. As such, the Company did not maintain separate, stand-alone financial statements for the ICS Business. Accordingly, the financial information of the ICS Business has been prepared from the Company's historical accounting records and does not purport to reflect a balance sheet and statement of operations that would have resulted if the ICS Business had been a separate, stand-alone company.

The unaudited pro forma consolidated statements of operations for the years ended January 1, 2011, December 26, 2009, and December 27, 2008 have been derived from the Company's historical consolidated financial information and give effect to the proposed sale as if it had occurred on December 27, 2009, December 28, 2008, and December 30, 2007, respectively. In addition, the unaudited pro forma consolidated balance sheets as of January 1, 2011 and December 26, 2009 have been derived from the Company's historical consolidated financial information and give effect to the proposed sale of the ICS Business as if it had occurred on each of the balance sheet dates.

The unaudited pro forma consolidated statements of operations are based on the assumptions and adjustments described in the accompanying notes and do not reflect any adjustments for non-recurring items or changes in operating strategies arising as a result of the transaction. These unaudited pro forma consolidated financial statements include no assumptions regarding the use of proceeds (other than to pay transaction related expenses), which are presented as additional cash on the unaudited pro forma consolidated balance sheets. Accordingly, the actual effect of the transaction, due to this and other factors, could differ from the pro forma adjustments presented herein. However, management believes that the assumptions used and the adjustments made are reasonable under the circumstances and given the information available.

These unaudited pro forma consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or the financial position that would have been achieved had the transaction been consummated as of the dates indicated or of the results that may be obtained in the future. These unaudited pro forma consolidated financial statements and the accompanying notes should be read together with the Company's Annual Report on Form 10-K for the year ended January 1, 2011 filed with the Securities and Exchange Commission on March 17, 2011. The historical financial information included in Company's Annual Report on Form 10-K is also attached hereto as Annex D.

## eLOYALTY CORPORATION

## NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

## Pro Forma Adjustments

Pro forma adjustments reflect those adjustments which are directly attributable to the transaction and include the following (amounts in thousands):

- a) Represents the purchase price of \$40,850 less estimated direct transaction costs of \$1,945. Also reflects the adjustment to proceeds for Managed Services and Working Capital Adjustments defined in Acquisition Agreement. The Managed Services adjustment reflects the net difference between total unearned revenue and associated prepaid/deferred costs. Managed Services adjustments of (\$11,728) and (\$6,970) were included in Cash and Cash equivalents in fiscal years 2010 and 2009, respectively. The Managed Services adjustments are based upon the net difference between total unearned revenue and associated prepaid/deferred costs as of each balance sheet date. The actual Managed Services adjustment will be determined as of the closing date and, therefore, may differ materially from the amounts presented. The Working Capital adjustment reflects the adjustment (up or down) that will be made to the proceeds based on the difference between (i) the ratio between current assets, excluding current prepaid/deferred costs, and current liabilities, excluding current unearned revenue, as of the closing date and (ii) 1.21. Working Capital adjustments of \$2,872 and (\$117) were included in Cash and Cash equivalents in fiscal years 2010 and 2009, respectively.
- b) Eliminates the assets to be acquired and liabilities to be assumed by TeleTech in connection with the disposition of the ICS Business.
- c) Represents the estimated gain on sale of net assets before federal, state, and foreign taxes.
- d) Eliminates the financial results of operations of the ICS Business, as adjusted for removal of revenue and direct costs of traditional CRM Consulting Services, includes facility costs associated with the office in Austin, Texas, which is primarily used by the ICS Business, and includes corporate and administrative costs that have been attributed to the ICS Business.

## Pro Forma Services Revenue

- e) Pro Forma services revenue, after the sale of the ICS Business, includes consulting services and subscription services from our Behavioral Analytics Service, as well as legacy revenue. Legacy revenue consists of (i) traditional CRM consulting services, which historically has been included in our ICS business segment, and (ii) marketing managed services, which historically has been included in our Behavioral Analytics Service business segment. Pro Forma services revenues are broken down as follows:

	For the Fiscal Years Ended		
	2010	2009	2008
Behavioral Analytics Consulting Services revenue	\$ 584	\$ 711	\$ 1,498
Behavioral Analytics Subscription Services revenue	24,147	18,406	11,614
Legacy revenue	5,529	12,708	23,072
Total	\$ 30,260	\$ 31,825	\$ 36,184

**UNAUDITED FINANCIAL STATEMENTS OF THE INTEGRATED CONTACT SOLUTIONS BUSINESS UNIT OF eLOYALTY CORPORATION**

The following unaudited financial statements, for fiscal years 2010, 2009, and 2008, which ended January 1, 2011, December 26, 2009, and December 27, 2008, respectively, were prepared to present, pursuant to the Acquisition Agreement, the assets to be acquired, the liabilities to be assumed, and the related revenues and direct expenses of the ICS Business.

The accompanying unaudited financial statements of the ICS Business exclude certain liabilities of the ICS Business (as not all liabilities are to be assumed) and exclude traditional CRM consulting revenue and direct expenses previously included in the Company's segment reporting for the ICS Business. In addition, allocated facility costs associated with our office in Austin, Texas, which is primarily utilized by the ICS Business, and corporate and administrative costs that have been attributed to the ICS Business, are included in these unaudited financial statements.

The accompanying financial statements have been prepared from the Company's historical accounting records and do not purport to reflect the revenues and direct expenses that would have resulted if the ICS Business had been a separate, stand-alone business during the periods presented. It is not practicable for management to reasonably estimate expenses that would have resulted if the ICS Business had operated as an unaffiliated, independent business. Since only certain assets are to be acquired and certain liabilities are to be assumed, a balance sheet and statement of stockholders' equity are not applicable.

As an operating segment of eLoyalty, the ICS Business is dependent upon eLoyalty for all of its working capital and financing requirements.

The unaudited financial statements of the ICS Business should be read in conjunction with our audited consolidated financial statements, including notes thereto, in our Annual Report filed on Form 10-K for the year ended January 1, 2011.



**INTEGRATED CONTACT SOLUTIONS BUSINESS UNIT OF eLOYALTY CORPORATION UNAUDITED STATEMENTS OF ASSETS AND LIABILITIES**

**AS OF JANUARY 1, 2011 AND DECEMBER 26, 2009**

(In thousands)

	January 1, 2011	December 26, 2009
<b>ASSETS</b>		
Receivables, net	\$ 6,572	\$ 5,874
Prepaid expenses	9,443	4,982
Other current assets	596	673
Equipment and leasehold improvements, net	1,470	729
Goodwill	1,671	1,671
Intangibles, net	76	
Other long-term assets	7,090	4,313
<b>Total assets</b>	<b>\$ 26,918</b>	<b>\$ 18,242</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 2,134	\$ 2,686
Accrued compensation and related costs	986	2,406
Unearned revenue	16,327	10,026
Other current liabilities	721	669
Long-term unearned revenue	11,243	5,725
Other long-term liabilities	30	138
<b>Total Liabilities</b>	<b>31,441</b>	<b>21,650</b>
<b>NET LIABILITIES</b>	<b>\$ 4,523</b>	<b>\$ 3,408</b>

**INTEGRATED CONTACT SOLUTIONS BUSINESS UNIT OF eLOYALTY CORPORATION UNAUDITED CONSOLIDATED  
STATEMENT OF OPERATIONS**

(In thousands)

	For the Fiscal Years Ended		
	2010	2009	2008
<b>Revenue:</b>			
Services	\$ 41,548	\$ 48,037	\$ 41,612
Product	12,581	17,780	9,777
Revenue before reimbursed expenses (net revenue)	54,129	65,817	51,389
Reimbursed expenses	3,090	3,233	2,325
Total revenue	57,219	69,050	53,714
<b>Direct expenses:</b>			
Cost of services	27,936	32,595	28,690
Cost of product	10,360	14,814	7,945
Reimbursed expenses	3,090	3,233	2,325
Selling, general and administrative	9,366	10,427	11,395
Severance and related costs	686	371	52
Depreciation	784	490	507
Amortization of intangibles	4		
Total direct expenses	52,226	61,930	50,914
<b>Excess of revenues over direct expenses</b>	<b>\$ 4,993</b>	<b>\$ 7,120</b>	<b>\$ 2,800</b>

**INTEGRATED CONTACT SOLUTIONS BUSINESS UNIT OF eLOYALTY CORPORATION UNAUDITED CONSOLIDATED  
STATEMENTS OF CASH FLOWS**

(In thousands)

	For the Fiscal Years Ended		
	2010	2009	2008
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 4,993	\$ 7,120	\$ 2,800
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	788	490	507
Stock-based compensation	817	1,524	4,885
(Reversal) provision for uncollectible amounts	(60)	47	27
Severance and related cost	57		
Changes in assets and liabilities:			
Receivables	(668)	89	(1,169)
Prepaid expenses	(7,267)	(3,947)	2,269
Other assets	73	191	(433)
Accounts payable	(553)	(200)	822
Accrued compensation and related costs	(1,417)	600	150
Unearned revenue	11,841	6,253	(4,147)
Other liabilities	40	(386)	(11)
<b>Net cash provided by operating activities</b>	<b>8,644</b>	<b>11,781</b>	<b>5,700</b>
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures and other	(1,593)	(415)	(78)
<b>Net cash used in investing activities</b>	<b>(1,593)</b>	<b>(415)</b>	<b>(78)</b>
<b>Cash Flows from Financing Activities:</b>			
Principal payments under capital lease obligations	(110)	(85)	(3)
Net distributions to eLoyalty Corporation	(6,967)	(11,300)	(5,583)
<b>Net cash used in financing activities</b>	<b>(7,077)</b>	<b>(11,385)</b>	<b>(5,586)</b>
Effect of exchange rate changes on cash and cash equivalents	26	19	(36)
<b>Increase in cash and cash equivalents</b>			
Cash and cash equivalents, beginning of period			
Cash and cash equivalents, end of period	\$	\$	\$
<b>Non-Cash Investing and Financing Transactions:</b>			
Capital lease obligations incurred	\$ 13	\$ 107	\$ 216
Capital equipment purchased on credit	13	107	216

See accompanying notes to consolidated financial statements.

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**INTEGRATED CONTACT SOLUTIONS BUSINESS UNIT OF eLOYALTY CORPORATION NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions, except share and per share data)**

**Note One Description of Business**

The ICS Business is engaged in the business of monitoring and supporting contact centers and related business applications, providing consulting and system integration services related to Cisco Voice over Internet Protocol solutions (including related hardware and software product resales), and providing operational consulting services to enhance customer services business performance through improved process efficiencies, redesign of call flows, and improved contact center operations.

**Note Two Summary of Significant Accounting Policies**

***Fiscal Year-End***

The fiscal year-end dates presented for fiscal years 2010, 2009, and 2008 are January 1, 2011, December 26, 2009, and December 27, 2008, respectively. Fiscal year 2010 consisted of fifty-three weeks instead of fifty-two weeks, which did not have a material impact on the ICS Business's financial position or results of operations.

***Basis of presentation***

The accompanying unaudited financial statements, for the fiscal years ended January 1, 2011, December 26, 2009, and December 27, 2008, were prepared to present, pursuant to the Acquisition Agreement, the assets to be acquired, the liabilities to be assumed, and the related revenues and direct expenses of the ICS Business.

The accompanying unaudited financial statements of the ICS Business exclude certain liabilities of the ICS Business (as not all liabilities are to be assumed) and exclude traditional CRM consulting revenue and direct expenses previously included in the Company's segment reporting for the ICS Business. In addition, allocated facility costs associated with our office in Austin, Texas, which is primarily utilized by the ICS Business, and corporate and administrative costs that have been attributed to the ICS Business, are included in these unaudited financial statements.

The accompanying financial statements have been prepared from the Company's historical accounting and do not purport to reflect the revenues and direct expenses that would have resulted if the ICS Business had been a separate, stand-alone business during the periods presented. It is not practicable for management to reasonably estimate expenses that would have resulted if the ICS Business had operated as an unaffiliated, independent business. Since only certain assets are to be acquired and certain liabilities are to be assumed, a balance sheet and statement of stockholders' equity are not applicable.

As an operating segment of eLoyalty, the ICS Business is dependent upon eLoyalty for all of its working capital and financing requirements.

***Use of Estimates***

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those amounts.

## ***Revenue Recognition***

### ***Integrated Contact Solutions Business Unit***

Managed services revenue included in the ICS Business consists of fees generated from the Company's contact center support and monitoring services. Support and monitoring services are generally contracted for a fixed fee, and the revenue is recognized ratably over the term of the contract. Support fees that are contracted on a time-and-materials basis are recognized as the services are performed for the client.

For fixed fee Managed services contracts, where the ICS Business provides support for third-party software and hardware, revenue is recorded at the gross amount of the sale. If the contract does not meet the requirements for gross reporting, then Managed services revenue is recorded at the net amount of the sale.

Consulting services revenue included in the ICS Business consists of the modeling, planning, configuring, or integrating of an Internet Protocol network solution within the ICS Business's clients' contact center environments. These services are provided to the client on a time-and-materials or fixed-fee basis. For the integration of a system, the ICS Business recognizes revenue as the services are performed, with performance generally assessed on the ratio of hours incurred to date compared to the total estimated hours over the entire term of the contract. For all other consulting services, the ICS Business recognizes revenue as the services are performed for the client.

Revenue from the sale of Product, which is generated from the resale of third-party software and hardware by the ICS Business, is generally recorded at the gross amount of the sale.

Within the Integrated Contact Solutions Service Line, Consulting services, Managed services, and the resale of Product may be sold and delivered together. In arrangements that include the resale of software, vendor-specific objective evidence ( VSOE ) must be determined for each of the individual elements. If VSOE does not exist for the allocation of revenue to the various elements of the arrangement, then all revenue from the arrangement is deferred until all elements of the arrangement without VSOE have been delivered to the client. Upon the delivery of the element without VSOE, revenue is allocated to this element based on the total value of the arrangement less the VSOE amounts established for the other elements. If the remaining undelivered elements are post-contract support ( PCS ) or other deliverables with similar attribution periods, then the arrangement revenue is recognized ratably over the remaining service period.

Multiple-element arrangements are segmented into separate earning processes when the elements have objective and reliable evidence of fair value and have value to the customer on a stand-alone basis. Revenue related to contracts with multiple elements is allocated based on the fair value of the element and is recognized in accordance with the ICS Business's revenue recognition policy for each type of element, as described above. If the fair value for any undelivered element cannot be established, then revenue is deferred until all elements have been delivered to the client. If PCS or similar services are the only remaining activity without established fair value, then the revenue for the entire arrangement is recognized ratably over the service period.

Reimbursed expenses revenue includes billable costs related to travel and other out-of-pocket expenses incurred while performing services for the ICS Business's clients. The cost of third-party product and support may be included within this category if the transaction does not satisfy the requirements for gross reporting. An equivalent amount of reimbursable expenses is included in Cost of revenue.

Payments received for Managed services contracts in excess of the amount of revenue recognized for these contracts are recorded as unearned revenue until revenue recognition criteria are met.

### ***Cost of Revenue before Reimbursed Expenses, Exclusive of Depreciation and Amortization***

Cost of services primarily consists of labor costs including salaries, fringe benefits, and incentive compensation of the ICS Business delivery personnel and Selling, general and administrative personnel working

on direct, revenue-generating activities and third-party pass-through costs related to the Company's Managed services. Cost of services also includes employee costs for travel expenses, training, laptop computer leases, and other expenses of a non-billable nature. Cost of services excludes depreciation and amortization.

#### ***Selling, General and Administrative***

Selling, general and administrative expenses consist primarily of salaries, incentive compensation, commissions, and employee benefits for business development, account management, solution development/support, marketing and administrative costs of the ICS Business. Corporate administrative costs directly attributable to the ICS Business, as well as allocated facility costs associated with the Austin location, primarily used by the ICS Business, are also included in these costs. The personnel costs included here are net of any labor costs directly related to the generation of revenue, which are represented in Cost of services.

The selling, general and administrative expenses are not necessarily indicative of the expenses that would have been incurred had the ICS Business operated as a separate stand-alone business during the periods presented. It is not practical for management to reasonably estimate the expenses that would have been incurred by the ICS Business had it operated as a separate stand alone business.

#### ***Unearned Revenue***

Current unearned revenue was \$16.3 million and \$10.0 million as of January 1, 2011 and December 26, 2009, respectively. Current unearned revenue reflects prepayment by the ICS Business's clients in advance of the ICS Business's recognition of this revenue. Payments are generally received in advance from clients that are utilizing the ICS Business's Managed services. Current unearned revenue will be recognized within the next 12 months.

Long-term unearned revenue was \$11.2 million and \$5.7 million as of January 1, 2011 and December 26, 2009, respectively. Long-term unearned revenue reflects prepayment by the ICS Business's clients in advance of the ICS Business's recognition of this revenue. Payments are generally received in advance from clients that are utilizing the ICS Business's Managed services. Long-term unearned revenue reflects revenue that will be recognized beyond the next 12 months.

#### ***Equipment and Leasehold Improvements***

Computers, software, furniture, and equipment are carried at cost and depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized over the lesser of the useful life or the lease term. The useful life for computers and software is three years. For enterprise software applications where a longer useful life is deemed appropriate, five years is used. For furniture and equipment, a useful life of five years is used. Maintenance and repair costs are expensed as incurred. The cost and related accumulated depreciation of assets sold or disposed of are eliminated from the respective accounts and the resulting gain or loss is included in the statements of operations. The carrying value of equipment and leasehold improvements is periodically reviewed to assess recoverability based on future undiscounted cash flows. An impairment loss, if any, would be measured as the excess of the carrying value over the fair value.

The ICS Business accounts for software developed for internal use in accordance with the guidance provided under ASC Topic 350, which addresses accounting for the costs of computer software developed or obtained for internal use. As such, costs incurred that relate to the planning and post-implementation phases of development are expensed. Costs incurred during the application development stage are capitalized and amortized over the asset's estimated useful life, which is generally three to five years.

The ICS Business leases certain equipment using both capital leases and operating leases. Assets leased under capital leases are recorded at the present value of future lease payments and depreciated on a straight line basis. All capital leases are for terms of either 30 or 36 months.

Equipment and leasehold improvements consist of the following:

	January 1, 2011	As of December 26, 2009
Computers and software	\$ 4.9	\$ 5.1
Furniture and equipment	0.3	0.3
Leasehold improvements	0.2	0.2
Equipment and leasehold improvements, gross	5.4	5.6
Accumulated depreciation and amortization	(3.9)	(4.9)
Equipment and leasehold improvements, net	\$ 1.5	\$ 0.7

Depreciation expense was \$0.8 million, \$0.5 million, and \$0.5 million, for fiscal years 2010, 2009, and 2008, respectively. Assets acquired under capital leases were \$0.0 million, \$0.1 million, and \$0.2 million in fiscal years 2010, 2009, and 2008, respectively. Depreciation expense on capital lease assets was \$0.1 million, \$0.1 million, and \$0.0 million in fiscal years 2010, 2009, and 2008, respectively.

#### **Goodwill**

Goodwill is tested annually for impairment using a two-step test approach. In the first step, the fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, then goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference will be recorded.

There has been no impairment identified as a result of the annual review of goodwill as of January 1, 2011 and December 26, 2009. The carrying value of goodwill was \$1.7 million as of January 1, 2011 and December 26, 2009, respectively.

#### **Intangible Assets**

Intangible assets reflect costs related to trademark applications. Trademark applications are amortized over 120 months. The original cost of intangible assets as of January 1, 2011 was \$0.1 million. The ICS Business did not have any intangible assets as of December 26, 2009. Accumulated amortization of intangible assets as of January 1, 2011 was four thousand dollars. No accumulated amortization of intangible assets existed at December 26, 2009. Amortization expense of intangible assets is currently anticipated to be eight thousand dollars in fiscal year 2011 and annually thereafter.

#### **Stock-Based Compensation**

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining fair value of stock-based awards at the grant date requires certain assumptions. Stock-based compensation totaled \$0.9 million, \$1.5 million, and \$4.9 million for the years ended January 1, 2011, December 26, 2010, and December 27, 2008, respectively. The table below provides a breakdown of stock-based compensation between direct cost categories:

	For the Fiscal Year		
	2010	2009	2008
Stock-based compensation			
Cost of services	\$ 31	\$ 270	\$ 1,472
Selling, general and administrative	786	1,254	3,413
Severance and related costs	57		
Total	\$ 874	\$ 1,524	\$ 4,885





**Note Three Receivables, Net**

Receivables consist of the following:

	January 1, 2011	As of December 26, 2009
Amounts billed to clients	\$ 5.7	\$ 5.2
Unbilled revenue	1.0	0.8
	6.7	6.0
Allowances for doubtful accounts	(0.1)	(0.1)
Receivables, net	\$ 6.6	\$ 5.9

Amounts billed to clients represent fees and reimbursable project-related expenses. Unbilled revenue represents fees, project-related expenses, materials, and subcontractor costs performed in advance of billings in accordance with contract terms. Unbilled revenue at January 1, 2011 and December 26, 2009 consists of amounts due from clients and is anticipated to be collected within normal terms. The ICS Business maintains allowances for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments and clients indicating their intention to dispute their obligation to pay for contractual services provided by us. If the financial condition of our clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Note Four Current Prepaid Expenses**

Current prepaid expenses were \$9.4 million and \$5.0 million as of January 1, 2011 and December 26, 2009, respectively. Current prepaid expenses primarily consist of third-party support costs related to our ICS Business's Managed services. These costs are recognized over the contract terms of the respective agreements, which are generally one to five years. Costs included in current prepaid expenses will be recognized within the next 12 months. Current prepaid expenses consisted of the following:

	January 1, 2011	As of December 26, 2009
Prepaid third-party support costs	\$ 9.0	\$ 4.7
Other	0.4	0.3
Total	\$ 9.4	\$ 5.0

**Note Five Other Long-Term Assets**

Other long-term assets were \$7.1 million and \$4.3 million as of January 1, 2011 and December 26, 2009, respectively. Other long-term assets primarily consist of third-party support costs related to managed services agreements. These costs are recognized over the terms of the respective agreements, which are generally one to five years. Costs included in long-term assets will be recognized over the remaining term of the agreements beyond the first 12 months. Other long-term assets consisted of the following:

	January 1, 2011	As of December 27, 2008
Prepaid third-party support costs	\$ 6.7	\$ 4.1
Other	0.4	0.2
Total	\$ 7.1	\$ 4.3



**Note Six Restructuring Charges**

Severance costs are comprised primarily of contractual salary and related fringe benefits over the severance payment period. During fiscal years 2010, 2009, and 2008, the ICS Business recognized pre-tax charges of \$0.7 million, \$0.4 million, and \$0.1 million, respectively. For fiscal year 2010, the ICS Business recorded \$0.7 million of expense related to severance and related costs for the elimination of 37 positions. The \$0.4 million of expense recorded in fiscal year 2009 was primarily due to the elimination of 15 positions, and \$0.1 million of expense recorded in fiscal year 2008 related to severance and related costs for the elimination of four positions.

During fiscal years 2010, 2009, and 2008, the ICS Business made cash payments of \$0.7 million, \$0.4 million, and \$0.1 million, respectively, related to cost-reduction actions, which were primarily severance and related costs. The ICS Business expects substantially all remaining severance payments to be paid out by the first quarter of 2011 pursuant to agreements entered into with affected employees.

The severance and related costs and their utilization for the fiscal years ended 2008, and 2009, and 2010 are as follows:

	<b>Employee Severance</b>	<b>Facilities</b>	<b>Total</b>
	\$	\$	\$
<b>Balance, December 29, 2007</b>			
Charges	0.1		0.1
Adjustments			
Charged to severance and related costs	0.1		0.1
Payments	(0.1)		(0.1)
<b>Balance, December 27, 2008</b>			
Charges	0.4		0.4
Adjustments			
Charged to severance and related costs	0.4		0.4
Payments	(0.4)		(0.4)
<b>Balance, December 26, 2009</b>			
Charges	0.7		0.7
Adjustments			
Charged to severance and related costs	0.7		0.7
Payments	(0.7)		(0.7)
<b>Balance, January 1, 2011</b>	\$	\$	\$

The \$22 thousand and \$8 thousand that remained reserved at January 1, 2011 and December 26, 2009, respectively, relate to severance and related costs and are in Accrued Compensation and Related Costs.

**Note Seven Leases****Capital Leases**

The ICS Business acquired \$0.0 million and \$0.1 million of computer equipment, software, and leasehold improvements using capital leases during fiscal years 2010 and 2009, respectively. There was \$0.1 million, \$0.1 million, and \$0.0 million of depreciation on capital leases during 2010, 2009, and 2008, respectively. All capital leases are for a term of either 30 or 36 months.



The following is a schedule, by year, of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of January 1, 2011:

Year	Amount
2011	\$ 0.1
2012	
2013	
Thereafter	
<b>Total minimum lease payments</b>	<b>\$ 0.1</b>
Less: estimated executory costs	
<b>Net minimum lease payments</b>	<b>\$ 0.1</b>
Less: amount representing interest	
<b>Present value of minimum lease payments</b>	<b>\$ 0.1</b>

	January 1, 2011	As of December 26, 2009
Computers and software	\$ 0.3	\$ 0.3
Accumulated depreciation and amortization	(0.2)	(0.1)
<b>Computers and software, net</b>	<b>\$ 0.1</b>	<b>\$ 0.2</b>

***Operating Leases***

The ICS Business leases property and computers under leases expiring at various dates through July 31, 2012. Rental expense for all operating leases approximated \$0.3 million, \$0.4 million, and \$0.4 million, for fiscal years ended 2010, 2009, and 2008, respectively.

Future minimum rental commitments under non-cancelable operating leases with terms in excess of one year are as follows:

Year	Amount
2011	\$ 0.2
2012	
2013	
2014	
2015	
Thereafter	
<b>Total minimum payments required</b>	<b>\$ 0.2</b>

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**PROPOSAL #2: THE NAME CHANGE CHARTER AMENDMENT**

**Purpose of Name Change Charter Amendment**

Stockholders will also consider at the Annual Meeting a proposal to amend the Charter to change our name to Mattersight Corporation upon the closing of the sale of the ICS Business. We are selling the rights to use the registered trademark eLoyalty to TeleTech. Therefore, after the closing of the sale of the ICS Business, we will be unable to continue using the name eLoyalty, subject to limited exceptions, without TeleTech's consent. Furthermore, we believe that the name Mattersight Corporation more closely aligns our public identity with our Behavioral Analytics Service Business Unit, which will be our only remaining business and the sole focus of our board of directors and management. If our stockholders approve the sale of the ICS Business but do not approve the Name Change Charter Amendment, we will pursue other legal means of changing our name, including pursuant to a reverse merger into a subsidiary of the Company. However, effecting the name change through a reverse merger may be more expensive and may divert management's attention from the operation of our business because a reverse merger may require consents of third parties under some of our existing commercial agreements and other contracts.

**Effect of Name Change Charter Amendment**

If the Name Change Charter Amendment is approved by the stockholders and becomes effective, the rights of stockholders holding certificated shares under currently outstanding stock certificates and the number of shares represented by those certificates will remain unchanged. The name change will not affect the validity or transferability of any currently outstanding stock certificates that bear the name eLoyalty Corporation, nor will it be necessary for stockholders with certificated shares to surrender or exchange any stock certificates they currently hold as a result of the name change. Uncertificated shares currently held in direct registration accounts and any new stock certificates that are issued after the name change becomes effective will bear the name Mattersight Corporation.

**Nasdaq Symbol**

The Company's Common Stock is currently listed for trading on the Nasdaq Global Market under the symbol ELOY. If the stockholders approve the Name Change Charter Amendment, we expect that the trading symbol for our Common Stock on the Nasdaq Global Market will be changed to MATR; an application to reserve this ticker symbol has been submitted to Nasdaq. We also expect that a new CUSIP number will be assigned to the Common Stock following the name change.

**No Appraisal or Dissenters' Rights**

You will not experience any change in your rights as a stockholder as a result of the Name Change Charter Amendment. None of Delaware law, the Charter, or our bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with the Name Change Charter Amendment, and we do not intend to independently provide stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Name Change Charter Amendment.

**Vote Required to Approve the Name Change Charter Amendment**

The approval of holders of a majority of the shares of eLoyalty Stock outstanding as of the Record Date will be required for approval of the proposal. Abstentions and broker non-votes will not be counted as having been voted on the proposal, and therefore will have the same effect as votes AGAINST the proposal.

**Recommendation of Our Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL #2, THE NAME CHANGE CHARTER AMENDMENT.**

**PROPOSAL #3: PROPOSAL TO ADJOURN THE ANNUAL MEETING**

The Annual Meeting may be adjourned or postponed for the purpose of soliciting additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment. Any adjournment may be made without notice, other than by an announcement made at the Annual Meeting of the time, date and place of the adjourned meeting. Approval of the Proposal to Adjourn the Annual Meeting, if necessary or appropriate, for the purpose of soliciting additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment requires, assuming a quorum is present, the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote and present at the Annual Meeting. If a quorum is not present at the Annual Meeting, the stockholders entitled to vote at the meeting may adjourn the meeting until a quorum shall be present. Any signed proxies received by us in which no voting instructions are provided on this matter will be voted **FOR** the Proposal to Adjourn the Annual Meeting, if necessary or appropriate, to solicit additional proxies to approve the Proposal to Sell the ICS Business and the Name Change Charter Amendment. In addition, when any meeting is convened, the presiding officer, if directed by our board of directors, may adjourn the meeting if (i) no quorum is present for the transaction of business or (ii) our board of directors determines that adjournment is necessary or appropriate to enable the stockholders to consider fully information which our board of directors determines has not been made sufficiently or timely available to stockholders or otherwise to exercise effectively their voting rights. Any adjournment or postponement of the Annual Meeting for the purpose of soliciting additional proxies will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use at the Annual Meeting as adjourned or postponed.

**No Appraisal or Dissenters Rights**

You will not experience any change in your rights as a stockholder as a result of the Proposal to Adjourn the Annual Meeting. None of Delaware law, the Charter, or our bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with the Proposal to Adjourn the Annual Meeting, and we do not intend to independently provide stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Proposal to Adjourn the Annual Meeting.

**Vote Required to Approve the Proposal to Adjourn the Annual Meeting**

Approval of the Proposal to Adjourn the Annual Meeting will require the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote and present at the Annual Meeting.

**Recommendation of Our Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL #3, THE NAME CHANGE CHARTER AMENDMENT.**

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**PROPOSAL #4: ELECTION OF DIRECTORS**

Our board of directors is divided into three classes of directors, each of which is elected for a three-year term. Only one class of directors stands for election at each annual meeting of eLoyalty's stockholders. At this year's Annual Meeting, the Class III directors stand for election. Three directors, Kelly D. Conway, David B. Mullen, and Michael J. Murray, have been nominated by the independent members of our board of directors to stand at the Annual Meeting for election to a three-year term expiring at the 2014 annual meeting of stockholders, for the reasons described below. If for any reason any of these nominees becomes unable or is unwilling to serve at the time of the meeting, then the persons named as proxies in the enclosed proxy card will have discretionary authority to vote for a substitute nominee selected by the independent members of our board of directors. It is not anticipated that any of the nominees will be unavailable for election.

**Vote Required for the Election of Directors**

The nominees for director will be elected by a plurality of the votes cast at the Annual Meeting. This means that the nominees for the three director seats who receive the most affirmative votes of shares outstanding and entitled to vote as of the Record Date and present in person or represented by proxy at the Annual Meeting will be elected to serve as directors.

**Recommendation of Our Board of Directors**

**THE BOARD RECOMMENDS A VOTE FOR PROPOSAL #4, THE ELECTION OF KELLY D. CONWAY, DAVID B. MULLEN, AND MICHAEL J. MURRAY.**

**Director Qualifications**

Our board of directors consists of seven directors, each of whom is well-qualified to serve on our board of directors and represent our stockholders' best interests. As described below under the caption "Selection of Director Nominees," the independent directors then in office (the "Nominating Directors") select nominees with a view to establishing a board of directors that is comprised of members who:

have the highest professional and personal ethics, consistent with our values and standards;

are committed to enhancing stockholder value;

have sufficient time to carry out their duties;

provide insight and practical wisdom based on experience; and

are capable of representing the interests of all stockholders.

We believe that each of the director nominees and other directors brings these qualifications to our board of directors. Moreover, they provide a diversity of business experience and personal skills in technology, finance, marketing, financial reporting, and other areas that contribute to an effective board of directors, as well as public board experience, and knowledge of the technology industry and our business.

The following describes the key qualifications, business skills, experience, and perspectives that each of our directors brings to the board of directors, in addition to the general qualifications described above and the information included in the biographical summaries provided below:

**Kelly D. Conway:** Twelve years' service as the Chief Executive Officer of the Company, with extensive knowledge of, and experience with, the information-technology industry and our operations, strategy, financial position, and management team.



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**Tench Coxe:** Eleven years service as Chairman of our board of directors, with extensive knowledge of, and experience with, the information-technology industry and our operations, strategy, and financial position; over 20 years experience in the venture capital business; and extensive experience on public company boards.

**Henry J. Feinberg:** Experience as Executive Chairman, Chief Executive Officer, and in various other senior management capacities, at various private and public corporations, as well as being a partner at a technology venture fund.

**John T. Kohler:** Experience as the Chief Executive Officer of a publicly-held technology and consulting company; over 30 years experience in other executive capacities; past experience on public company boards, including audit and compensation committees; and deep knowledge of our operations.

**David B. Mullen:** Fifteen years experience as a Chief Financial Officer, and over 25 years experience in other executive capacities at publicly-held technology companies; past experience on public company boards, particularly on audit committees; and strong financial acumen.

**Michael J. Murray:** Over 30 years of banking and finance experience, including service as the President of Global Corporate Investment Banking at Bank of America; extensive experience on public company boards; and deep knowledge of the Company.

**John C. Staley:** Experience as the Managing Partner Lake Michigan Area of Ernst & Young LLP; extensive experience on public company boards, particularly on audit committees; strong financial acumen; and deep knowledge of the Company.

#### **Nominees**

##### ***Class III Directors: Current Terms Expiring at the 2011 Annual Meeting and New Term Expiring at the 2014 Annual Meeting***

Kelly D. Conway, age 54, is the President and Chief Executive Officer of eLoyalty, a position he has held since its incorporation in May 1999 as a subsidiary of Technology Solutions Company ( TSC ) (eLoyalty spun off from TSC in February 2000). Mr. Conway joined TSC in November 1993 as Senior Vice President, assumed the position of Executive Vice President in July 1995, and became Group President in October 1998. He has been a director of eLoyalty since May 1999.

David B. Mullen, age 60, is the former Executive Vice President and Chief Financial Officer of Navteq Corporation, a leading provider of comprehensive digital map information for automotive navigation systems, mobile navigation devices, Internet-based mapping applications and government and business solutions, having held that position from December 2002 to January 2010. Navteq was acquired by Nokia Corporation in July 2008 and is now a wholly-owned subsidiary thereof. Mr. Mullen currently acts as an independent consultant. He has been a director of eLoyalty since March 2009.

Michael J. Murray, age 66, is the retired President of Global Corporate and Investment Banking at Bank of America Corporation, a banking and financial services company. He held such office from 1998 until his retirement in July 2000. From March 1997 until the merger between Bank of America and NationsBank in 1998, Mr. Murray headed Bank of America Corporation's Global Wholesale Bank and was responsible for its business with large corporate, international, and government clients around the world. Mr. Murray was named a Bank of America Vice Chairman and head of the United States and International Groups in September 1995. He serves as a director of Con-Way Inc. Mr. Murray has been a director of eLoyalty since June 1999.

#### **Other Directors**

##### ***Class I Directors: Current Terms Expiring at the 2012 Annual Meeting***

Tench Coxe, age 53, is a managing director of the general partner of SHV, a venture capital company located in Palo Alto, California, and has held that position since 1987. Mr. Coxe is a director of NVIDIA Corporation and various private companies. He has been a director of eLoyalty and the Chairman of our board of directors since February 2000.

John T. Kohler, age 64, is the former President and Chief Executive Officer of TSC. Mr. Kohler held such office from 1995 until his retirement in February 2000. He joined TSC as Senior Vice President in 1992, was promoted to Executive Vice President and named to the Office of the Chairman in 1993, and became President and Chief Operating Officer in 1994. He has been a General Partner of American Home Technology since 2000. Mr. Kohler has been a director of eLoyalty since May 1999.

***Class II Directors: Current Terms Expiring at the 2013 Annual Meeting***

Henry J. Feinberg, age 59, is Executive Chairman of Yield Management Systems located in Chicago, Illinois. Previously, Mr. Feinberg was a Partner at Technology Crossover Ventures, a venture capital firm located in Palo Alto, California. He has been a director of eLoyalty since May 2007.

John C. Staley, age 69, is the former Managing Partner Lake Michigan Area of Ernst & Young LLP, a global audit and tax firm, a position that he held from 1985 to his retirement in June 2001. Mr. Staley is presently a director of Hospira, Inc. and Nicor Inc., as well as various private companies. In the past five years, Mr. Staley also served on the board of CenterPoint Energy, Inc. He has been a director of eLoyalty since August 2002.

## **BOARD LEADERSHIP AND CORPORATE GOVERNANCE**

The business and affairs of eLoyalty are managed under the direction of our board of directors. Our board of directors has responsibility for establishing broad corporate policies relating to the overall performance of eLoyalty, rather than managing day-to-day operating details. Members of our board of directors stay informed of our business and operations by participating in quarterly board and committee meetings and through discussions with the Chief Executive Officer and other members of the executive management team.

### **Corporate Governance**

Having been elected by our stockholders, it is the responsibility of our board of directors to govern the Company's business and affairs. Our board of directors approves the executive management team, acts as an advisor to executive management, and monitors the performance of executive management and the Company. Our board of directors reviews the Company's corporate strategy, financial objectives, and operating plans, and is responsible for overseeing risk management and internal compliance.

### **Board Independence**

In accordance with the listing standards of The NASDAQ Stock Market LLC (NASDAQ), each board of directors must have a majority of independent directors. As such, with respect to each director, our board of directors has made a determination as to whether or not the director qualifies as independent. Under our independence determination procedure, no director may qualify as independent unless our board of directors affirmatively determines that (1) the director meets NASDAQ's independence standards, and (2) based on a review of all of the facts and circumstances of each non-management director's relationship with eLoyalty, there is no business, commercial, or personal relationship that would impact the performance by the director of his board duties.

Our board of directors has determined that six of our seven directors Messrs. Coxe, Feinberg, Kohler, Mullen, Murray, and Staley are independent. Mr. Conway is not independent because he is eLoyalty's President and Chief Executive Officer.

### **Board Leadership Structure**

Our board of directors is led by an independent Chairman, Mr. Coxe. Our Chief Executive Officer, Mr. Conway, is the only member of our board of directors who is not an independent director. eLoyalty believes that this is the most appropriate structure for the Company in light of the differences between the roles of Chairman and Chief Executive Officer. The Chief Executive Officer is responsible for setting the strategic direction of the Company and for the day-to-day leadership and performance of the Company, whereas the Chairman provides guidance to the Chief Executive Officer. Furthermore, this structure enhances the accountability of the Chief Executive Officer to our board of directors and strengthens our board's independence from management. We have had this leadership structure since our inception.

### **Board Oversight of Risk**

Our executive management team is responsible for its day-to-day risk management activities. Our board of directors oversees these risk management activities, delegating its authority in this regard to the Audit Committee of the board (the Audit Committee). The Audit Committee is responsible for discussing with executive management policies with respect to financial risk and enterprise risk management. The Audit Committee also oversees the Company's corporate compliance programs, including Section 404 compliance. In addition to the Audit Committee's risk management oversight, our board of directors regularly engages in discussions of the most significant risks that the Company is facing and how these risks are being managed.

The Company's Associate General Counsel and Corporate Secretary reports directly to the Chief Executive Officer rather than the Chief Financial Officer, thereby providing him with additional visibility to the Company's

risk profile. Our board of directors believes that the Audit Committee's risk oversight function, together with the efforts of the full board and the Chief Executive Officer in this regard, enables our board of directors to effectively oversee eLoyalty's risk management activities.

### **Board Meetings and Attendance**

Our board of directors held six meetings during the fiscal year ended January 1, 2011. During this period, each of the incumbent directors attended 85% or more of the aggregate number of board meetings and of the board committees on which he served. Our board of directors met in executive session four times in 2010. eLoyalty does not have a specific policy regarding board members' attendance at its annual stockholders meetings. The 2010 Annual Meeting was attended by Mr. Conway.

### **Selection of Director Nominees**

**Responsibility.** Our board of directors does not have a nominating or similar committee, although it has adopted a standing resolution, which provides that all nominees for membership on the board must be selected, or recommended to the full board for selection, by the Nominating Directors in accordance with the rules of NASDAQ. Under this standing resolution, the Nominating Directors are responsible for: (i) reviewing and, as applicable, recommending to the full board, possible candidates for membership on the board of directors, and assisting in attracting qualified candidates to fill vacant or newly created directorships; (ii) reviewing and recommending to the full board a slate of directors to be proposed for election at the annual stockholders' meeting and included in the proxy statement for such meeting, as well as reviewing and recommending to the full board any directors to fill vacancies that may exist on the board of directors; and (iii) reviewing the function and composition of the committees of the board and recommending to the full board qualified persons for membership on such committees. The affirmative vote of at least a majority of the Nominating Directors is required to approve any action that may or must be taken by the Nominating Directors. The Nominating Directors have the ability to retain, at eLoyalty's expense, special legal, accounting, or other consultants or experts they deem necessary in the performance of their duties under the standing resolution. Our board of directors believes that, in light of the independent directors' responsibility for eLoyalty's nominating processes under this resolution, it is unnecessary to have a separate nominating or similar committee of the board. The Nominating Directors have not held meetings separate from the board in their capacities as such. Our board of directors' standing resolution is available on our website, at [www.eLoyalty.com](http://www.eLoyalty.com). A copy of the standing resolution may also be obtained by sending a written request to the Corporate Secretary at eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045.

**Stockholder Nominees.** The Nominating Directors will consider properly submitted stockholder nominations for candidates for membership on our board of directors as described below under "Identifying and Evaluating Nominees for Directors." Any stockholder nominations proposed for consideration by the Nominating Directors should include the nominee's name and qualification for board membership. In addition, they must be submitted within the timeframe and to the address specified under "Submission of Stockholder Proposals for 2012" on page 114.

**Identifying and Evaluating Nominees for Directors.** In discharging its responsibilities to nominate candidates for election to our board of directors, the Nominating Directors have not specified any minimum qualifications for serving on the board nor do they operate under a formal diversity policy. However, the Nominating Directors endeavor to identify, evaluate, and approve candidates with a diversity of business experience and personal skills in technology, finance, marketing, financial reporting, and other areas that may be expected to contribute to an effective board. The Nominating Directors seek to assure that our board of directors is composed of individuals who have experience relevant to the needs of eLoyalty and who have the highest professional and personal ethics, consistent with our values and standards. Candidates should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Each director must represent the interests of all stockholders.

The Nominating Directors utilize a variety of methods for identifying and evaluating nominees for director. Candidates may come to the attention of the Nominating Directors through current board members, professional search firms (which may receive a fee), stockholders, or other persons. These candidates are evaluated at regular or special meetings of our board of directors, and may be considered at any point during the year. As described above, the Nominating Directors will consider properly submitted stockholder nominations for candidates for the board on the same basis as director-nominated candidates. All properly submitted recommendations will be aggregated and considered by the Nominating Directors.

### **Board Committee Structure and Responsibilities**

Our board of directors has two standing committees to assist it in the discharge of its responsibilities: an Audit Committee and a Compensation Committee. In addition, our board of directors formed a Special Committee in December 2010 in connection with the Sale of the ICS Business. Each of these committees is described below.

**Audit Committee.** The Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of our public accountants (including resolution of disagreements between management and the public accountants regarding financial reporting) subject, if applicable, to stockholder ratification of the public accountants' appointment, for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for us. The Audit Committee approves all audit engagement fees and terms and all non-audit engagements with the public accountants as required by applicable law and the requirements of NASDAQ. In connection with its duties, the Audit Committee regularly meets privately with our independent public accountants. The Audit Committee has adopted a policy for the receipt, retention, and treatment of complaints or concerns regarding accounting-related matters. See *Communications with the Board* on page 81. The Audit Committee operates under a written charter, the current version of which was adopted by our board of directors in March 2004. The Audit Committee reviews and reassesses the adequacy of this Charter annually. The Audit Committee Charter is available on our website, at [www.eLoyalty.com](http://www.eLoyalty.com). A copy of the Audit Committee Charter may also be obtained by sending a written request to the Corporate Secretary at eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045.

The Audit Committee, which met eight times during fiscal 2010, currently has four members: Mr. Staley, as Chairman, and Messrs. Murray, Mullen, and Kohler. Our board of directors has determined that each of Messrs. Kohler, Mullen, and Staley qualifies as an "audit committee financial expert", as that term is defined in the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002, and that Mr. Murray meets the financial literacy requirements of NASDAQ.

A report of the Audit Committee appears later in this proxy statement on page 110.

**Compensation Committee.** The Compensation Committee, which met four times during fiscal 2010, currently has three members: Mr. Coxe, as Chairman, and Messrs. Feinberg and Kohler. The Compensation Committee administers the eLoyalty Corporation 1999 Stock Incentive Plan (the "1999 Plan") and the eLoyalty Corporation 2000 Stock Incentive Plan (the "2000 Plan"), reviews and acts with respect to stock incentive and other employee benefit plans, approves or makes recommendations to our board of directors with respect to the salary and annual incentive compensation of, and stock awards for, our executive officers, and assesses the risk associated with our material incentive compensation programs. In administering the 1999 Plan and the 2000 Plan, the Compensation Committee may delegate certain of its duties to one or more of our officers as permitted by law and to the extent otherwise consistent with the terms of the 1999 Plan or 2000 Plan, as the case may be. The Compensation Committee has not engaged a compensation consultant. Compensation for senior executives is determined by the Compensation Committee after analyzing the Company's performance and the applicable executive, based on recommendations of our management. The Compensation Committee operates under a written charter, which was adopted by our board of directors in February 2011. The Compensation Committee will review and reassess the adequacy of this Charter annually. The Compensation Committee Charter is

available on our website, at [www.eLoyalty.com](http://www.eLoyalty.com). A copy of the Compensation Committee Charter may also be obtained by sending a written request to the Corporate Secretary at eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045.

A report of the Compensation Committee appears later in this proxy statement on page 90.

**Special Committee.** In December 2010, our board of directors formed a Special Committee to review and evaluate the potential uses of proceeds from the proposed sale of the ICS Business and engage in discussions with the holders of Series B Stock. Our board of directors determined to designate the Special Committee because certain members of the board are holders of Series B Stock or may be deemed affiliates of holders of Series B Stock. The members of the Special Committee, Messrs. Mullen, Kohler, and Staley, with Mr. Mullen serving as Chairman, are disinterested directors who do not, directly or indirectly, hold any shares of Series B Stock. Our board of directors has determined to designate the Special Committee as a standing committee for the purposes of, among other things, assessing from time to time whether we have available funds for a full or partial distribution of the liquidation preference to the holders of Series B Stock and continuing to engage in related discussions and negotiations with the holders of Series B Stock.

#### **Communications with the Board**

Anyone who has a concern about our conduct, or about our accounting, internal accounting controls, or auditing matters, may communicate that concern directly to our board of directors, the Audit Committee, or the directors who are not employees of eLoyalty or any of its subsidiaries ( Non-Employee Directors ). All concerns related to audit or accounting matters will be forwarded to the Audit Committee Chair for his review, as well as to eLoyalty's Corporate Secretary and Chief Financial Officer (unless the report alleges that person's involvement). After the Audit Committee Chair's initial review and a summary of the matter is prepared, the concern will be forwarded to the remaining Audit Committee members. All other concerns will be forwarded upon receipt to the appropriate directors for their review, as well as to eLoyalty's Corporate Secretary and Chief Financial Officer (unless the report alleges that person's involvement in the matter).

All reported concerns will be simultaneously reviewed and addressed by eLoyalty's Corporate Secretary or her designee. The status of all outstanding concerns addressed to our board of directors, the Non-Employee Directors, or the Audit Committee will be reported to the board on a quarterly basis. The board or the Audit Committee may direct special treatment, including the retention of outside advisors or counsel, for any concern reported to them. eLoyalty's corporate policies prohibit retaliatory action against any employee who raises concerns or questions in good faith about these matters.

Stockholders wishing to communicate with our board of directors, any individual director, the Non-Employee Directors, or the Audit Committee may do so by writing to eLoyalty's Corporate Secretary at 150 Field Drive, Suite 250, Lake Forest, Illinois 60045. The Corporate Secretary will forward any communications as directed by the stockholder. eLoyalty maintains a separate, internal system for the receipt of communications from employees.

#### **Code of Ethics**

eLoyalty has adopted a Code of Ethical Business Conduct, which sets the standard for ethics and compliance for all of its employees, including officers and directors. The Code of Ethical Business Conduct is available on eLoyalty's website, at [www.eLoyalty.com](http://www.eLoyalty.com). A copy of the Code of Ethical Business Conduct may also be obtained by sending a written request to the Corporate Secretary at eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045.

### **Transactions with Related Persons**

eLoyalty's Code of Ethical Business Conduct requires that all business transactions be at arms' length, negotiated in good faith, and based on merit alone. All of eLoyalty's employees have a responsibility and duty of loyalty to eLoyalty and all business decisions are to be made in the best interests of eLoyalty, which means putting eLoyalty's interests first. If a situation arises that would constitute a related-party transaction under SEC rules, then the independent directors will review the propriety of, and approve or disapprove, such transaction.

There were no transactions, relationships, or arrangements proposed during 2010 that would constitute related-person transactions under item 404 of Regulation S-K under the Securities Act.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires eLoyalty's directors and executive officers, as well as any persons who beneficially own more than 10% of our Common Stock, to file with the SEC initial reports and reports of changes in beneficial ownership of such stock. Persons subject to Section 16 are required by SEC regulations to furnish eLoyalty with copies of all Section 16(a) reports that they file.

Based on its review of copies of such reports filed through or furnished to eLoyalty and on written representations from certain reporting persons that no other reports were required, eLoyalty believes that all required Section 16(a) reports filed during or for fiscal 2010 with respect to persons who were subject to Section 16(a) reporting obligations during such period were filed on a timely basis.



## DIRECTOR COMPENSATION

### Meeting Attendance Fees

As agreed to by the Compensation Committee at its February 2009 meeting, during eLoyalty's fiscal year ended January 1, 2011, Non-Employee Directors each received \$750 for their attendance at each meeting of the board, \$1,000 per Audit Committee meeting attended, and \$250 for each Compensation Committee meeting attended (each of which was held in tandem with a meeting of the board). If any Compensation Committee meetings had been held apart from a board meeting, then each Compensation Committee member would have received \$500 per meeting attended; there were no separate Compensation Committee meetings in 2010. The members of the Special Committee each received \$750 for each meeting of the Special Committee held in 2010. eLoyalty also reimburses directors for any travel-related expenses incurred in attending meetings of the board and its committees; however, eLoyalty has adopted the practice of holding its board meetings by video conference, thereby minimizing the need to reimburse for these expenses.

### Initial Grant and Annual Grants

In addition to meeting attendance fees, Non-Employee Directors are eligible to receive automatic grants of stock options under the 1999 Plan, which provides for each Non-Employee Director to receive: (i) an option to purchase 50,000 shares of Common Stock upon commencement of service as a director (an Initial Grant); and (ii) an option to purchase 5,000 shares of Common Stock on the day after each annual meeting of stockholders during which such service continues (an Annual Grant). Stock options granted to Non-Employee Directors have an exercise price per share equal to the fair market value of a share of Common Stock on the grant date and a maximum term of ten years. Each Initial Grant vests ratably over a period of 48 months from the end of the month following the grant date. Each Annual Grant vests ratably over a period of 48 months, commencing with a vesting of 25% of such Annual Grant on May 31<sup>st</sup> of the year following the grant date and 6.25% of such Annual Grant on each quarterly vesting date thereafter.

In addition, at its February 2009 meeting, as ratified by unanimous written consent, our board of directors agreed that each Non-Employee Director would receive a one-time option to purchase 50,000 shares of Common Stock under the 1999 Plan. These stock options had an exercise price per share equal to the fair market value of a share of Common Stock on the grant date, which was February 18, 2009, and a maximum term of ten years, pursuant to the 1999 Plan. Vesting is scheduled to occur ratably over a period of 16 quarters, with the first quarterly vesting having occurred on February 28, 2009.

### 2010 Director Compensation

The following table summarizes the compensation that our Non-Employee Directors earned during 2010 for their service as members of our board of directors.

Name	Fees Earned or Paid in Cash	Option Awards (1)	Total
Tench Coxe	\$ 14,250	\$ 19,624	\$ 33,874
Henry J. Feinberg	\$ 6,250	\$ 19,624	\$ 25,874
John T. Kohler	\$ 14,250	\$ 19,624	\$ 33,874
Michael J. Murray	\$ 13,250	\$ 19,624	\$ 32,874
David B. Mullen	\$ 13,250	\$ 19,624	\$ 32,874
John C. Staley	\$ 11,250	\$ 19,624	\$ 30,874

- (1) Reflects the grant date fair value of the options granted during 2010, which was computed in accordance with FASB Accounting Standards Codification (ASC) 718. The assumptions used with respect to the valuation of option grants are set forth in our Form 10-K for the fiscal year ended January 1, 2011 under eLoyalty Corporation Consolidated Financial Statements Notes to Consolidated Financial Statements Note Fourteen Stock-Based Compensation.

The aggregate number of option awards outstanding for each Non-Employee Director as of January 1, 2011 is:

Name	Outstanding Options	
	Vested	Unvested
Tench Coxe	92,513	34,687
Henry J. Feinberg	69,479	45,521
John T. Kohler	104,493	34,687
Michael J. Murray	107,066	34,687
David B. Mullen	22,250	33,750
John C. Staley	74,811	34,687

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**
**Common Stock Ownership Information**

To eLoyalty's knowledge, the following table sets forth information regarding beneficial ownership of Common Stock (as beneficial ownership is determined for purposes of Rule 13d-3 under the Exchange Act) as of February 28, 2011, except as otherwise indicated, by: (i) each person or group that beneficially owns more than 5% of the outstanding shares of Common Stock; (ii) each of the four named executive officers of eLoyalty named in the Summary Compensation Table appearing later in this proxy statement; (iii) each of the directors, including the director nominees, of eLoyalty; and (iv) all current named executive officers and directors of eLoyalty as a group. To eLoyalty's knowledge, the table also shows, for such individuals and group, the percentage of eLoyalty's total voting power beneficially owned as of such date (based on the number of shares of Common Stock and Series B Stock, which generally votes with the Common Stock, so owned). Except as otherwise indicated below, each owner has sole voting and investment power with respect to all shares listed as beneficially owned.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned <sup>(1)(2)</sup>	Percent of Outstanding Common Stock <sup>(1)(2)</sup>	Percent of Total Voting Power <sup>(1)</sup>
Tench Coxe and various entities affiliated with Sutter Hill Ventures c/o Sutter Hill Ventures 755 Page Mill Road, Suite A-200 Palo Alto, CA 94304	4,746,690 <sup>(3)</sup>	28.0%	24.8%
Jay C. Hoag, Richard H. Kimball, and various entities affiliated with Technology Crossover Ventures 528 Ramona Street Palo Alto, CA 94301	2,984,405 <sup>(4)</sup>	17.1%	15.6%
John A. Murphy and various entities affiliated with Alydar Partners, LLC 222 Berkeley Street, 17 <sup>th</sup> Floor Boston, MA 02116	1,272,696 <sup>(5)</sup>	8.2%	6.6%
Kelly D. Conway S Squared Technology, LLC 515 Madison Avenue New York, NY 10022	1,379,692 843,000 <sup>(6)</sup>	8.8% 5.4%	7.2% 4.4%
Peninsula Capital Management, LP and Scott Bedford 235 Pine Street, Suite 1600 San Francisco, CA 94104	1,000,000 <sup>(7)</sup>	6.4%	5.2%
RKB Capital, LP 294 East Grove Lane, Suite 200A Wayzata, MN 55391	800,000 <sup>(8)</sup>	5.1%	4.2%
Michael J. Murray	354,708	2.3%	1.9%
Steven C. Pollema	143,655	*	*
John T. Kohler	114,869	*	*
John C. Staley	107,181	*	*
Henry J. Feinberg	78,282	*	*
William B. Noon	77,847	*	*
Christine R. Carsen	51,201	*	*
David B. Mullen	33,438	*	*
All directors and named executive officers as a group (10 individuals)	5,994,252	36.1%	31.3%

\* Less than 1 percent.

- (1) Includes shares of Common Stock that may be acquired on or within 60 days after February 28, 2011 through the exercise of stock options outstanding as of such date, as follows: Mr. Coxe, 96,263 shares; Mr. Kohler, 108,243 shares; Mr. Feinberg, 76,355 shares; Mr. Mullen, 25,438 shares; Mr. Murray, 110,816 shares; Mr. Staley, 78,561 shares; Mr. Conway, 175,000 shares; Mr. Noon, 750 shares; Mr. Pollema, 66,250 shares; Ms. Carsen, 0 shares; and all current directors and named executive officers of eLoyalty as a group, 737,676 shares. With respect to each of these individuals and such group, these shares have been deemed to be outstanding in computing the percent of class in the preceding table.
- (2) Includes shares of Common Stock that may be acquired within 60 days after February 28, 2011 through exercise of the conversion feature associated with the shares of Series B Stock held by such person or group, in the amounts reflected for such person or group in the table under the heading Series B Stock Ownership Information below. With respect to each of these persons and such group, these shares have been deemed to be outstanding in computing the percent of class in the preceding table.
- (3) Mr. Coxe is a managing director of the general partner of each of Sutter Hill Ventures, A California Limited Partnership, Sutter Hill Entrepreneurs Fund (AI), L.P., and Sutter Hill Entrepreneurs Fund (QP), L.P., which hold of record 2,183,260 shares, 5,853 shares, and 14,847 shares, respectively, of Common Stock. In such capacity, Mr. Coxe is deemed to have shared voting and investment power over all shares of Common Stock held of record by such partnerships. In addition, this amount also includes 4,894 shares and 96,263 options to purchase Common Stock held by Mr. Coxe (Mr. Coxe shares pecuniary interest in these shares with other individuals pursuant to a contractual relationship); 348,122 shares held in The Coxe Revocable Trust, of which Mr. Coxe and his spouse are trustees and as to which each has voting and investment power; and 13,818 shares held by Rooster Partners, LP of which Mr. Coxe is a trustee of a trust which is the general partner. Mr. Coxe disclaims beneficial ownership of such shares held by such limited partnerships and trust except to the extent of his pecuniary interest therein. Includes 19,183 shares held in The Anderson Living Trust of which David L. Anderson is the trustee, 72,453 shares held by Acrux Partners, LP of which Mr. Anderson is the trustee of a trust which is the general partner, 41,389 shares held by Anvest, L.P. of which Mr. Anderson is the trustee of a trust which is the general partner, and 13,100 shares held by a retirement trust for the benefit of Mr. Anderson. Mr. Anderson disclaims beneficial ownership of the living trusts and the limited partnerships shares except to the extent of his pecuniary interest therein. Includes 73,803 shares held in The Baker Revocable Trust of which G. Leonard Baker, Jr. is a trustee and 85,838 shares held by Saunders Holdings, L.P. of which Mr. Baker is a trustee of a trust which is the general partner. Mr. Baker disclaims beneficial ownership of the trusts and the limited partnership shares except to the extent of his pecuniary interest therein. Includes 156,976 shares held in The William H. Younger, Jr. Revocable Trust of which William H. Younger is the trustee, 19,759 shares held by a retirement trust for the benefit of Mr. Younger, and 10,849 shares held by Yovest, L.P. of which Mr. Younger is the trustee of a trust which is the general partner. Mr. Younger disclaims beneficial ownership of the revocable trusts and the limited partnership shares except to the extent of his pecuniary interest therein. Includes 41,356 shares held in the Gregory P. and Sarah J.D. Sands Trust Agreement of which Gregory P. Sands is a trustee, 6,697 shares held in the Gregory P. Sands Charitable Remainder Unitrust of which Mr. Sands is the trustee, and 980 shares held by a retirement trust for the benefit of Mr. Sands. Mr. Sands disclaims beneficial ownership of the trust agreement shares and the unitrust shares except to the extent of his pecuniary interest therein. Includes 1,671 shares owned by James C. Gaither individually, 29,412 shares held in The Gaither Revocable Trust of which Mr. Gaither is the trustee, and 1,785 shares held by Tallack Partners, L.P. of which Mr. Gaither is the trustee of a trust which is the general partner. Mr. Gaither disclaims beneficial ownership of the trusts and the limited partnership shares except to the extent of his pecuniary interest therein. Includes 74,314 shares held in The White Family Trust of which James N. White is a trustee and 4,974 shares held by a retirement trust for the benefit of Mr. White. Mr. White disclaims beneficial ownership of the family trust shares except to the extent of his pecuniary interest therein. Includes 56,285 shares held in the Jeffrey W. and Christina R. Bird Trust Agreement of which Jeffrey W. Bird is a trustee. Mr. Bird disclaims beneficial ownership of the trust agreement shares except to the extent of his pecuniary interest therein. Includes 20,597 shares held in The David and Robin Sweet Living Trust of which David E. Sweet is a trustee and 7,663 shares held by a retirement trust for the benefit of Mr. Sweet. Mr. Sweet disclaims beneficial ownership of the living trust shares except to the extent of his pecuniary interest therein. Includes 9,052 shares held in the Sheehan 2003 Trust of which Andrew T. Sheehan is a trustee.

- Mr. Sheehan disclaims beneficial ownership of the trust's shares except to the extent of his pecuniary interest therein. Although the share amounts in this footnote do not include any shares of Series B Stock, the number of shares owned and corresponding ownership percentage in the preceding table do give effect to the conversion of any Series B Stock held.
- (4) Includes 1,372 shares held by TCV III (GP), 6,524 shares held by TCV III, L.P., 173,418 shares held by TCV III (Q), L.P., 7,851 shares held by TCV III Strategic Partners, L.P., 889,052 shares held by TCV IV, L.P., and 33,383 shares held by TCV IV Strategic Partners, L.P. Although the share amounts in this footnote do not include any shares of Series B Stock, the number of shares owned and corresponding ownership percentage in the preceding table do give effect to the conversion of any Series B Stock held. Jay C. Hoag and Richard H. Kimball are the managing members of Technology Crossover Management III, L.L.C. ( TCM III ) and Technology Crossover Management IV, L.L.C. ( TCM IV ). TCM III is the managing general partner of TCV III (GP) and the sole general partner of TCV III, L.P., TCV III (Q), L.P, and TCV III Strategic Partners, L.P. (collectively the TCV III Funds ), and TCM IV is the sole general partner of TCV IV, L.P, and TCV IV Strategic Partners, L.P. (collectively the TCV IV Funds ). TCM III and TCM IV may be deemed to have sole voting and investment power with respect to the shares of Common Stock held by the TCV III Funds and the TCV IV Funds, respectively. As a result of their position as the managing members of TCM III and TCM IV, each of Messrs. Hoag and Kimball may also be deemed to have sole investment power and shared voting power over all shares of Common Stock held by the TCV Funds. Messrs. Hoag and Kimball disclaim beneficial ownership of such securities, except to the extent of their respective pecuniary interests therein.
  - (5) This information, which is not within the direct knowledge of eLoyalty, has been derived from a Schedule 13G/A filed with the SEC on February 14, 2011 with respect to Common Stock beneficially owned as of December 31, 2010. Based on the information contained therein, John A. Murphy shares voting and investment power with respect to 1,272,696 shares. Mr. Murphy is managing member of Alydar Capital, LLC and Alydar Partners, LLC, both Delaware limited liability companies, which own and share voting and investment power with respect to 322,672 shares and 1,272,696 shares, respectively, of Common Stock. Alydar Capital, LLC is the general partner of Alysheba Fund, L.P., Alysheba QP Fund, L.P., Alysun Fund, L.P., and Alysun QP Fund, L.P. Alydar Partners, LLC is the investment manager of Alysheba Fund, L.P. (which owns and has sole voting and investment power with respect to 9,020 shares of Common Stock), Alysheba QP Fund, L.P. (which owns and has sole voting and investment power with respect to 252,637 shares of Common Stock), Alysun Fund, L.P. (which owns and has sole voting and investment power with respect to 11,865 shares of Common Stock), Alysun QP Fund, L.P.(which owns and has sole voting and investment power with respect to 49,150 shares of Common Stock), Alysun Fund Limited (which owns and has sole voting and investment power with respect to 32,533 shares of Common Stock), and Alysheba Fund Limited (which owns and has sole voting and investment power with respect to 917,491 shares of Common Stock). Mr. Murphy disclaims beneficial ownership of all such shares.
  - (6) This information, which is not within the direct knowledge of eLoyalty, has been derived from a Schedule 13G/A filed with the SEC on February 11, 2011 with respect to Common Stock beneficially owned as of December 31, 2010. Based on the information contained therein, Seymour L. Goldblatt and Kenneth A. Goldblatt share sole voting and investment power with respect to 843,000 shares of Common Stock, including 166,698 shares beneficially owned by S Squared Capital II Management, LLC and 676,302 shares beneficially owned by S Squared Technology, LLC. Seymour L. Goldblatt and Kenneth A. Goldblatt disclaim beneficial ownership of all such shares, except to the extent of their pecuniary interest therein.
  - (7) This information, which is not within the direct knowledge of eLoyalty, has been derived from a Schedule 13G/A filed with the SEC on February 14, 2011 with respect to Common Stock beneficially owned as of December 31, 2010. Based on the information contained therein, Peninsula Capital Management, LP and its affiliate, Scott Bedford, beneficially own and share voting and investment power with respect to 1,000,000 shares of Common Stock.
  - (8) This information, which is not within the direct knowledge of eLoyalty, was provided to the Company by Mr. Peter Schleider and independently verified through beneficial ownership reports. Based on this information, Mr. Schleider beneficially owns sole voting and investment power with respect to 800,000 shares of Common Stock.

**Series B Stock Ownership Information**

To eLoyalty's knowledge, the following table sets forth information regarding beneficial ownership of Series B Stock (as beneficial ownership is determined for purposes of Rule 13d-3 under the Exchange Act) as of February 28, 2011, except as otherwise indicated, by: (i) each person or group that beneficially owns more than 5% of the outstanding shares of Series B Stock; (ii) each of the five named executive officers of eLoyalty named in the Summary Compensation Table appearing later in this proxy statement; (iii) each of the directors, including the director nominees, of eLoyalty; and (iv) all current named executive officers and directors of eLoyalty as a group. The Series B Stock generally votes with the Common Stock as a single class. See the table under the heading "Common Stock Ownership Information" above, for information regarding the aggregate voting power of eLoyalty held by the individuals and groups listed below. Except as otherwise indicated below, each owner has sole voting and investment power with respect to all shares listed as beneficially owned.

Name and Address of Beneficial Owner	Number of Shares of Series B Stock Beneficially Owned	Percent of Outstanding Series B Stock
Jay C. Hoag, Richard H. Kimball, and various entities affiliated with Technology Crossover Ventures 528 Ramona Street Palo Alto, CA 94301	1,872,805 <sup>(1)</sup>	52.8%
Tench Coxe and various entities affiliated with Sutter Hill Ventures c/o Sutter Hill Ventures 755 Page Mill Road, Suite A-200 Palo Alto, CA 94304	1,331,497 <sup>(2)</sup>	37.5%
Michael J. Murray	23,243	*
Kelly D. Conway	3,862	*
William B. Noon	234	*
Steven C. Pollema	53	*
John T. Kohler		
David B. Mullen		
John C. Staley		
Henry J. Feinberg		
Christine R. Carsen		
All directors and named executive officers as a group (10 individuals)	1,013,714	28.6%

\* Less than 1 percent.

- (1) Messrs. Hoag and Kimball are the two managing members of TCM III and TCM IV. TCM III is the managing general partner of TCV III (GP) and the sole general partner of TCV III, L.P., TCV III (Q), L.P., and TCV III Strategic Partners, L.P., and TCM IV is the sole general partner of the TCV IV Funds. Each of the TCV Funds holds of record shares of Series B Stock, and TCM III and TCM IV may be deemed to have sole voting and investment power with respect to the shares of Series B Stock held by the TCV III Funds and the TCV IV Funds, respectively. As a result of their position as the managing members of TCM III and TCM IV, each of Messrs. Hoag and Kimball may be deemed to have sole investment power and shared voting power over all shares of Series B Stock held by the TCV Funds. All of the shares of Series B Stock shown in the preceding table as beneficially owned by Messrs. Hoag and Kimball are held of record by the TCV Funds. TCM III and TCM IV and Messrs. Hoag and Kimball disclaim beneficial ownership of such securities, except to the extent of their respective pecuniary interests therein. The numbers of shares of Series B Stock held of record by each of the TCV Funds are as follows: TCV III (GP), 2,285 shares; TCV III, L.P., 10,852 shares; TCV III (Q), L.P., 288,422 shares; TCV III Strategic Partners, L.P., 13,057 shares; TCV IV, L.P., 1,501,673 shares; and TCV IV Strategic Partners, L.P., 56,516 shares.

- (2) Sutter Hill Ventures, A California Limited Partnership, Sutter Hill Entrepreneurs Fund (AI), L.P., and Sutter Hill Entrepreneurs Fund (QP), L.P. hold of record 806,840 shares, 8,854 shares, and 22,418 shares, respectively, of Series B Stock. Mr. Coxe is a managing director of the general partner of each of these entities. In such capacity, Mr. Coxe is deemed to have shared voting and investment power over all shares of Series B Stock held of record by such partnerships. Also includes 148,210 shares held in The Coxe Revocable Trust of which Mr. Coxe and his spouse are trustees and as to which each has voting and investment power. Mr. Coxe disclaims beneficial ownership of such shares held by such limited partnerships and trust except to the extent of his pecuniary interest therein. Includes 3,738 shares held in The Anderson Living Trust of which David L. Anderson is the trustee, 42,309 held by Acrux Partners, LP of which Mr. Anderson is a trustee of a trust which is the general partner, 28,020 shares held by Anvest, L.P. of which Mr. Anderson is the general partner, and 4,559 shares held by a retirement trust for the benefit of Mr. Anderson. Mr. Anderson disclaims beneficial ownership of the living trust s and the limited partnerships s shares except to the extent of his pecuniary interest therein. Includes 19,922 shares held in The Baker Revocable Trust of which G. Leonard Baker, Jr. is a trustee and 59,103 shares are held by Saunders Holdings, L.P. of which Mr. Baker is a general partner. Mr. Baker disclaims beneficial ownership of the trust s and the limited partnership s shares except to the extent of his pecuniary interest therein. Includes 83,942 shares held in The William H. Younger, Jr. Revocable Trust of which William H. Younger is the trustee. Mr. Younger disclaims beneficial ownership of the revocable trust s shares except to the extent of his pecuniary interest therein. Includes 21,739 shares held in the Gregory P. and Sarah J.D. Sands Trust Agreement of which Mr. Sands is a trustee. Mr. Sands disclaims beneficial ownership of the trust agreement s shares except to the extent of his pecuniary interest therein. Includes 10,092 shares owned by James C. Gaither individually and 4,960 shares held in The Gaither Revocable Trust of which Mr. Gaither is the trustee. Mr. Gaither disclaims beneficial ownership of the trust s shares except to the extent of his pecuniary interest therein. Includes 33,711 shares held in The White Family Trust of which James N. White is a trustee. Mr. White disclaims beneficial ownership of the family trust s shares except to the extent of his pecuniary interest therein. Includes 17,825 shares held in the Jeffrey W. and Christina R. Bird Trust Agreement of which Jeffrey W. Bird is a trustee. Mr. Bird disclaims beneficial ownership of the trust agreement s shares except to the extent of his pecuniary interest therein. Includes 15,255 shares held in The David and Robin Sweet Living Trust of which David E. Sweet is a trustee. Mr. Sweet disclaims beneficial ownership of the living trust s shares except to the extent of his pecuniary interest therein.

### **INCORPORATION BY REFERENCE**

Notwithstanding anything to the contrary in any of our other filings under the Exchange Act or the Securities Act, before or after the date of this proxy statement, that incorporate future SEC filings made by us, none of the information under the following Report of the Compensation Committee or Report of the Audit Committee will be incorporated by reference into any of our other filings with the SEC and shall not be deemed to be Soliciting Material under SEC rules. In addition, this proxy statement includes several website addresses, which are intended to provide inactive, textual references only. The information on these websites is not part of this proxy statement.

### **REPORT OF THE COMPENSATION COMMITTEE**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis that appears in eLoyalty's 2011 Notice of Annual Meeting and Proxy Statement.

Based on the review and discussions referred to above, the Compensation Committee recommended to the board that the Compensation Discussion and Analysis be included in eLoyalty's 2011 Notice of Annual Meeting and Proxy Statement for filing with the SEC.

Tench Coxe, Chair

Henry J. Feinberg

John T. Kohler

### **COMPENSATION AND RISK**

In early 2011, we conducted a risk assessment of our compensation policies and practices for all employees, including non-executive officers. We reviewed our employee compensation plans and programs, and noted numerous design elements that manage and mitigate risk without diminishing the incentive nature of the compensation, including: a balanced mix between cash and equity and between annual and longer-term incentives; and the use of discretionary and qualitative factors in the granting of individual incentive- and commission-based awards.

We also reviewed our compensation programs for certain design features that may have the potential to encourage excessive risk-taking, including: highly leveraged payout curves; unreasonable thresholds; awards with unlimited upside and no downside risk; and steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds. We concluded that our compensation programs do not include such design features. Finally, we analyzed our overall enterprise risks and whether our compensation programs have the potential to impact individual behavior in a manner that could exacerbate these enterprise risks. We concluded that our compensation programs are structured in a way that does not exacerbate enterprise risk. Based on our review, we believe that our employee compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee currently consists of Mr. Coxe, as Chairman, and Messrs. Feinberg and Kohler. None of Messrs. Coxe, Feinberg, or Kohler is a current or former officer or employee of eLoyalty and none has any relationship requiring disclosure under Item 404 of Regulation S-K promulgated under the Securities Act, as amended. During the last fiscal year, no executive officer of eLoyalty served on the board of directors or compensation committee of any other company whose executive officers served as a director or member of the Compensation Committee.



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## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

This Compensation Discussion and Analysis provides information regarding the fiscal 2010 compensation program for our named executive officers, specifically, our principal executive officer, our principal financial officer, and the executive officers who were our next most highly compensated executives as of the end of fiscal 2010 (collectively, the Named Executive Officers). These individuals were:

Kelly D. Conway, President and Chief Executive Officer;

William B. Noon, Vice President and Chief Financial Officer;

Steven C. Pollema, Vice President, Integrated Contact Solutions Business Unit; and

Christine R. Carsen, Vice President, Associate General Counsel, and Corporate Secretary.

This Compensation Discussion and Analysis describes the material elements of our executive compensation program during fiscal 2010. It also provides an overview of our executive compensation objectives and challenges, as well as our principal compensation policies and practices. Finally, it analyzes how and why the Compensation Committee arrived at its specific compensation decisions for our Named Executive Officers, including the key factors considered by the Compensation Committee in setting their compensation.

Our compensation philosophy has been focused on supporting and enabling the Company's transformation from a consulting services company to an analytics and managed services company. The Company has kept cash compensation (base salaries plus bonuses) relatively low compared to market cash compensation to conserve cash, and has granted restricted stock awards to incent management to build a high-growth, high-recurring-revenue business. This approach has enabled eLoyalty to develop and expand its two primary service lines: the Behavioral Analytics Service and Integrated Contact Solutions (ICS), which have grown their combined revenues from \$17 million in 2004 to \$77 million in 2010.

The Compensation Committee oversees our executive compensation program, approving or presenting recommendations to our board of directors with respect to the compensation of our Named Executive Officers. In addition, the Compensation Committee administers our stock-based incentive plans and establishes and reviews general policies relating to compensation and benefits of all our employees. None of the directors that serve on the Compensation Committee are officers or employees of eLoyalty.

### Compensation Program

**Overview.** The principal framework for the compensation of our Named Executive Officers and other eligible employees is the eLoyalty Vice President and Executive Compensation Program (the Compensation Program). The objective of the Compensation Program is to support and enable the Company's transformation from a consulting services company to an analytics and managed services company. In order to support this objective, the Compensation Committee reviews and approves all elements of compensation for each Named Executive Officer, taking into account recommendations from eLoyalty's Chief Executive Officer (for compensation other than his own), as well as competitive market guidance provided at the request of the Compensation Committee. The Compensation Committee uses a combination of structured compensation frameworks and subjective business judgment to determine actual salaries, bonuses, and restricted stock awards. In general, the total compensation awarded to eLoyalty's executives is designed to be equitable and market competitive. eLoyalty broadly defines its competitive market for executive talent and investment capital to be the technology, software, managed services, and business consulting industries. In determining executive compensation, eLoyalty does not perform formal benchmarking, but rather continuously calibrates the Compensation Program based on its senior-level recruiting activity and a general understanding of compensation practices within the competitive market.

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## Executive Compensation Decision-Making Process

**Determining Compensation for the Chief Executive Officer.** In 2010, Mr. Conway's compensation package consisted of a \$425,000 annual base salary, an earned annual incentive of \$448,688 (paid in the form of restricted stock), and a restricted stock grant of 200,000 shares of Common Stock. Mr. Conway's annual salary and cash bonus are established under the terms of his employment agreement with the Company. As of February 28, 2011, Mr. Conway owned approximately 1,200,830 million shares of Common Stock. On an annual basis, Mr. Conway has been awarded significant restricted stock grants rather than additional cash compensation because the Compensation Committee believes that increasing Mr. Conway's level of stock ownership aligns his interests with those of our stockholders.

### **Determining Compensation for the Other Named Executive Officers**

**Approach.** The Named Executive Officers comprise the Company's leadership team. The Compensation Program for the Named Executive Officers is designed to motivate individual performance, as members of the leadership team, to drive the Company's overall success and long-term stockholder value. As a result, the Named Executive Officers are incentivized to perform in respect of objectives both within and outside of the officer's primary area of responsibility. In addition, the total compensation awarded to the Company's executives is designed to be internally equitable and market competitive.

**Discretion and Judgment of the Compensation Committee.** The Compensation Committee determines the compensation for the Named Executive Officers. Each year, the Compensation Committee reviews the performance of each Named Executive Officer against his or her established goals to determine if changes in the officer's compensation are appropriate based on the considerations described below. Mr. Conway does not participate in the Compensation Committee's deliberations or decisions with regard to his own compensation. At the Compensation Committee's request, Mr. Conway provides input regarding the performance and appropriate compensation of the other Named Executive Officers. The Compensation Committee gives considerable weight to Mr. Conway's evaluation of the other Named Executive Officers because of his direct knowledge of each Named Executive Officer's performance and contributions.

## **The Role of Stockholder Say-on-Pay Votes**

In this Proxy Statement, we are providing our stockholders with the opportunity to cast an advisory vote on our executive Compensation Program. Proposals 6 and 7 below provide information regarding the proposals for the stockholder votes on our Named Executive Officer compensation program in 2011 and on the frequency with which this advisory vote should be conducted in future years. Although the stockholder vote is non-binding, the Compensation Committee will consider the outcome of the vote when making future compensation decisions for Named Executive Officers.

## **Elements of Compensation**

The Compensation Program consists of three principal elements of compensation, listed below:

long-term equity incentive awards in the form of restricted stock grants;

annual performance-based cash incentive awards (bonuses); and

base salary.

In addition, certain Named Executive Officers are entitled to post-termination severance and acceleration of vesting of stock options and shares of restricted stock upon a termination and/or a change of control (as described below in *Potential Payments Upon Termination or Change in Control* on page 104). Our other benefits consist of life and health insurance and a qualified 401(k) savings plan.

The Company continuously calibrates the Compensation Program based on senior-level recruiting activity and a general understanding of compensation practices within the competitive market. More specifically, Mr. Conway uses his experience in the industry and his general understanding of industry compensation trends and practices to inform his subjective recommendation for target bonus and restricted stock award amounts for the other Named Executive Officers. Similarly, the members of our Compensation Committee bring their collective experience within the industry and on other boards of directors and committees to bear in setting compensation levels for our Named Executive Officers.

### ***Long-Term Equity Incentives***

*Overview.* The goal of our long-term, equity-based incentive awards is to retain key executives, attract new executives, and align the interests of Named Executive Officers with stockholders. As described below, the ICS Incentive Program serves as the long-term incentive component of the compensation of ICS Business employees.

*Restricted Stock Grants.* The Company believes restricted stock grants incentivize its executives' performance and further align their interests with those of stockholders because the value of restricted stock grants increases or decreases with the Company's stock price. In addition, the grant date value of a restricted stock award is greater than the grant date value of a stock option, based on generally-accepted equity award valuation models. As a result, the Company is able to grant restrictive stock awards of fewer shares to deliver the same grant date value than it would if it were to grant stock options to its executives, which in turn reduces the dilutive effects of long-term equity awards on the Company's stock.

*Purpose of Long Vesting Periods.* The annual restricted stock awards granted to the Company's Named Executive Officers have a four year vesting period because the Company believes that long vesting periods encourage its executives to focus on the Company's long-term business objectives and long-term stock price performance. In addition, these long vesting periods are a significant factor in retaining executives thereby providing consistency in Company leadership. In the past, the annual restricted stock awards vested 25% one year after the grant date, with the remainder vesting on an equal quarterly basis thereafter for 16 quarters. However, for the last two years, the annual restricted stock awards have vested on an equal quarterly basis over a four year period, commencing with the quarterly vesting occurring at the end of May. This change in the vesting schedule was designed to give participants a more immediate benefit at a time when base salary levels were reduced across the Company. The Compensation Committee has discretion to grant awards with different vesting schedules for new hires or in other cases, as may be recommended by management.

*2010 and 2011 Equity Grants.* In 2010, we granted restricted stock awards to the Named Executive Officers, as follows: 200,000 shares to Mr. Conway; 15,000 shares to Mr. Noon; and 10,000 shares to Ms. Carsen. In addition, at the February 2011 meeting of the Compensation Committee, the following restricted stock awards were approved: 200,000 shares to Mr. Conway; 30,000 shares to Mr. Noon; and 15,000 shares to Ms. Carsen. Mr. Pollema did not receive a grant of shares in 2010 or 2011 due to his participation in the ICS Incentive Program. The Compensation Committee and Mr. Conway (other than with respect to his own award) approved the stock award levels for each Named Executive Officer, based upon a subjective assessment that such levels were consistent with industry practice, reflected the experience and responsibility levels of the officers and were sufficient to retain the officers. The grants awarded to the Named Executive Officers are subject to vesting in equal quarterly increments over a four-year period, commencing on May 31<sup>st</sup> of the year in which the grants were approved.

*ICS Incentive Program.* In November 2009, we launched a long-term incentive program for the ICS Business (the "ICS Incentive Program"), under the terms of which performance unit awards would be granted to certain employees of the business unit, including Mr. Pollema. The performance units were awarded under the 1999 Plan.

Under the terms of the ICS Incentive Program, Mr. Pollema received an initial award of 15,000 performance units, which amount was established and approved by the Compensation Committee in its discretion. Each

performance unit has an initial projected value of \$73.85, assuming achievement of a projected level of value of the ICS Business above a baseline value of \$36 million that was established by the Compensation Committee. The amount earned, if any, for each vested performance unit will vary based on (i) the ultimate value of the ICS Business relative to the baseline value of \$36 million and (ii) the number of other participants receiving similar performance units (because a fraction of the total increase in ICS Business value will make up a pool that is divided among all participants based on the relative size of awards). The performance period for the award began on October 1, 2009, and ends on December 29, 2012. On the last day of the performance period, the performance units granted will become fully vested. In the event of a sale of the ICS Business, a sale of the Company, a spin-off of the ICS Business, or a termination of Mr. Pollema's employment due to death or Disability (as defined under the ICS Incentive Program) (each, an Acceleration Event), such vesting will be accelerated, as follows: (a) 50% of the performance units granted will be deemed to have vested as of the date of the Acceleration Event and (b) 50% of the performance units will be deemed to have vested ratably on a daily basis from the grant date over a period ending on December 31, 2010, up to the date of the Acceleration Event. Any performance units remaining unvested as of the date of the Acceleration Event will be forfeited. Mr. Pollema must remain continuously employed until the earlier of an Acceleration Event or December 29, 2012 in order to receive payment. If Mr. Pollema's employment terminates for any reason (other than due to death or Disability) prior to the earlier of an Acceleration Event or December 29, 2012, then the performance units will be forfeited and he will not be entitled to any payment for the performance units. However, if Mr. Pollema is terminated without Cause (as defined in the 1999 Plan) during the six-month period (1) ending on December 29, 2012 or (2) prior to the occurrence of an Acceleration Event other than his termination due to death or Disability, Mr. Pollema will be deemed to have remained employed up to the end of such six-month period, and the percentage of performance units deemed to have vested shall be calculated as of the effective date of Mr. Pollema's termination.

On the date determined by the Compensation Committee for the settlement of performance units following the earlier of an Acceleration Event or December 29, 2012 (the Distribution Date), Mr. Pollema will earn and be paid the aggregate value (calculated as described above) of his vested performance units, which will be settled in shares of Common Stock, with the number of shares to be calculated using the average closing price of Common Stock during the 10 trading days prior to the Distribution Date.

#### ***Cash Compensation***

*Overview.* eLoyalty believes that base salaries should be based on the competitive marketplace for the specific responsibilities of the position as well as the experience, knowledge, and demonstrated performance of the individual. From time to time, in the discretion of the Compensation Committee and based on the recommendations of Mr. Conway (except with respect to his own base salary), merit-based salary increases are approved.

*Base Salaries.* In 2010, the Compensation Committee determined, in its subjective judgment and based on their demonstrated performance in the preceding year, that Mr. Noon's salary should be increased from \$190,000 to \$200,000, and that Ms. Carsen's salary should be increased from \$170,000 to \$175,000. The base salaries of Mr. Conway and Mr. Pollema remained unchanged at \$425,000 and \$300,000, respectively.

*Bonuses.* The amount of individual annual cash-based incentives awarded to all participants in the Compensation Program is based on two factors: (i) the target bonus amount of each participant, as established in his or her employment agreement or as otherwise established by the Chief Executive Officer and approved by the Compensation Committee; and (ii) individual performance levels for the relevant fiscal year as measured against assigned performance goals (detailed below).

In establishing individual target bonus amounts, the Compensation Committee has focused bonuses on rewarding and retaining Named Executive Officers and other vice presidents who are considered most essential to growing our Behavioral Analytics Service and Integrated Contact Solutions service lines.

Mr. Conway is assigned four performance goals and each other executive is assigned two or three performance goals, all of which are derived from the Company's annual goals for the relevant year. The Company's annual goals are established by Mr. Conway and our board of directors (see table below for 2010 annual goals). The goals assigned to each individual are those that the Compensation Committee has determined the individual plays an integral role in the Company's achieving.

*2010 Annual Goals.* Each quarter in fiscal 2010, the Compensation Committee, with input requested and received from Mr. Conway, evaluated eLoyalty's performance against the Company's 2010 annual goals. At its February 2011 meeting, the Compensation Committee reviewed eLoyalty's performance against the 2010 annual goals and determined that eLoyalty had attained its goals, as and to the extent described in the table below.

			<b>% Attainment</b>
			<b>Determined</b>
			<b>by the</b>
			<b>Compensation</b>
<b>Performance Measure</b>	<b>Description</b>	<b>Comment</b>	<b>Committee</b>
Company Profit and Loss Performance ( Company P&L )	Actual adjusted earnings for the Company versus the adjusted earnings plan of \$2.0 million	Adjusted earnings were (\$2.4 million);	0%
Behavioral Analytics Service Business Unit Profit and Loss Performance ( BA P&L )	Actual business unit margin for the Behavioral Analytics Service business unit versus the business unit margin plan of (\$2.1 million)	Behavioral Analytics Service business unit margin was (\$2.4 million)	75%
Behavioral Analytics Service Business Unit Bookings ( BA Bookings )	Actual bookings of the business unit versus the business unit's bookings plan of \$40 million	Actual bookings were \$50 million	100%
Behavioral Analytics Service Product Development ( BA Development )	Development of new functionality (subjective measure)	Developed significant new functionality, including First Call Resolution, Desktop Analytics, and Fraud Analytics	100%
Cash Management ( Cash Flow )	Actual ending cash balance and days sales outstanding ( DSO ) versus plan of \$26.6 million/40 day DSO	Ending cash balance was \$23.3 million and ending DSO was 33 days	80%
ICS Business Unit Profit and Loss Performance ( ICS P&L )	Actual business unit margin for the ICS Business versus the business unit margin plan of \$12.5 million	ICS Business unit margin was \$8.7 million	0%
ICS Business Unit Momentum ( ICS Momentum )	Increasing sales bookings for 2011 revenue for the ICS Business (subjective measure)	Backlog in 2010 grew 80%	100%
Compliance	Timely and accurate financial and securities reporting and filing (subjective measure)	Financial and securities reporting and filing met or exceeded expectations	100%

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Behavioral Analytics Service  
Business Unit Contracts and  
Intellectual Property Management

( BA Contracts and IP )

Timely contracting and robust  
intellectual property reviews

(subjective measure)

Contracting for the Behavioral  
Analytics Service business unit  
and intellectual property reviews  
met or exceeded expectations.

100%

As indicated above, the performance measures of BA Development, ICS Momentum, Compliance, and BA Contracts and IP were each subjective in nature and not subject to quantification.

Based on its evaluation of the Company's attainment of each of its 2010 goals, as and to the extent indicated above, the Compensation Committee approved payment of bonuses to certain participants in the Compensation Program. The actual amount of each individual's annual bonus was determined by (i) assigning a percentage of each individual's target bonus amount to each of the assigned performance goals, to derive a dollar amount associated with 100% achievement of the goal, (ii) multiplying the dollar amount associated with each performance goal by the appropriate percentage as indicated in the table above, to derive the actual bonus associated with such performance goal, and (iii) calculating the total bonus by adding together each of the amounts derived pursuant to the preceding clause.

*Individual Annual Bonuses*

(1) Target Bonus Amount of Named Executive Officers. The target bonus amount for each of the Named Executive Officers in 2010 was as follows: \$583,000 for Mr. Conway; \$80,000 for Mr. Noon; \$325,000 for Mr. Pollema, and \$65,000 for Ms. Carsen. The Compensation Committee and Mr. Conway approved the bonus targets for Mr. Noon and Ms. Carsen, based upon a subjective assessment that such levels were consistent with industry practice, reflected the experience and responsibility levels of the officers, and were sufficient to retain the officers. The bonus target levels for Mr. Conway and Mr. Pollema were contained in their respective employment contracts, which were similarly negotiated and set based on the aforementioned subjective assessments.

(2) Calculation of Individual Annual Bonuses. Using the formula indicated above, the Compensation Committee calculated and approved individual annual bonuses as follows:

	Target Bonus	Goal 1	Goal 2	Goal 3	Goal 4	Total
<b>Kelly D. Conway</b>	<b>\$583,000</b>	<b>BA Bookings</b>	<b>BA Development</b>	<b>Company P&amp;L</b>	<b>BA P&amp;L</b>	
% of Bonus		50%	20%	15%	15%	
% Attainment		100%	100%	0%	75%	
Bonus Amount		\$291,500	\$116,600	\$0	\$65,588	\$473,688*
<b>William B. Noon</b>	<b>\$80,000</b>	<b>Company P&amp;L</b>	<b>Cash Flow</b>	<b>Compliance</b>		
% of Bonus		40%	40%	20%		
% Attainment		0%	80%	100%		
Bonus Amount		\$0	\$25,600	\$16,000		\$41,600*
<b>Steven C. Pollema**</b>	<b>\$325,000</b>	<b>ICS P&amp;L</b>	<b>ICS Momentum</b>			
% of Bonus		75%	25%			
% Attainment		0%	100%			
Bonus Amount		\$0	\$0**			\$0**
<b>Christine R. Carsen</b>	<b>\$65,000</b>	<b>BA Bookings</b>	<b>BA Contracts and IP</b>	<b>Compliance</b>		
% of Bonus		40%	30%	30%		
% Attainment		100%	100%	100%		
Bonus Amount		\$26,000	\$19,500	\$19,500		\$65,000

\* In consideration of Mr. Noon's extraordinary performance in connection with the sale of the ICS Business, Mr. Conway agreed to allocate \$25,000 of his potential bonus to Mr. Noon. Accordingly, final bonus amounts approved by the Compensation Committee were \$448,688 for Mr. Conway and \$66,600 for Mr. Noon.

\*\* The Compensation Committee exercised its discretion not to award Mr. Pollema a bonus in light of the pending sale of the ICS Business.

In order to conserve cash, the bonuses awarded to the Named Executive Officers will be paid in restricted stock, which will vest on February 28, 2012. The number of shares for each bonus was calculated using the closing stock price on February 16, 2011, the date of the award.

### ***Stock Incentive Plans***

We administer two stock incentive plans, the 1999 Plan and the 2000 Plan, pursuant to which we grant equity-based awards such as restricted stock.

*1999 Plan.* Effective June 22, 1999, we adopted the 1999 Plan, which was amended and restated most recently as of May 15, 2008. The 1999 Plan will automatically terminate on May 15, 2018. The 1999 Plan is administered by the Compensation Committee, which may, in certain circumstances, delegate certain of its duties to one or more of the Named Executive Officers, but the full board retains the right to administer the 1999 Plan in all respects. The Compensation Committee has the power to interpret the 1999 Plan and to adopt rules for the administration, interpretation, and application of the plan according to its terms. Each year, on the first day of our fiscal year, the number of shares available to be issued under the 1999 Plan (other than with respect to incentive stock options) automatically increases by 5% of the number of issued and outstanding shares of Common Stock as of that date. As of January 1, 2011, there were 992,468 shares available for issuance or delivery under the 1999 Plan.

The principal purpose of the 1999 Plan is to attract, motivate, reward, and retain selected employees, consultants, agents, and directors through the granting of stock-based compensation awards. Employees and directors are eligible to be granted awards under the 1999 Plan. The Compensation Committee determines who will receive awards under the 1999 Plan, as well as the form of the awards, the number of shares underlying the awards, and the terms and conditions of the awards consistent with the terms of the 1999 Plan. The 1999 Plan provides for a variety of awards, including non-qualified stock options, incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), stock appreciation rights, restricted stock awards, and other stock-based awards. The specific terms of the awards are included in the individual award agreements.

*2000 Plan.* The 2000 Plan, which is similar to the 1999 Plan, was adopted May 12, 2000 and was amended and restated as of September 24, 2001. The 2000 Plan is administered by the Compensation Committee, but the full board retains the right to administer the 2000 Plan in all respects. The 2000 Plan will automatically terminate on September 23, 2011. The maximum percentage of shares with respect to which awards may be granted under the 2000 Plan to officers and to other Section 16 employees is 20% of the total number of shares available for awards under the 2000 Plan, as adjusted. As of January 1, 2011, there were 81,366 shares available for issuance or delivery under the 2000 Plan.

The 2000 Plan allows for awards to eligible employees, consultants, and independent contractors, including only non-qualified stock options and stock awards (both restricted stock and fully-vested bonus stock). Non-Employee Directors are not eligible for awards under the 2000 Plan. Options and stock awards may be subject to performance measures and vesting requirements. The terms of the awards, including rights upon termination of employment, are included in individual award agreements.

### ***Change in Control and Severance Benefits***

We provide the opportunity for our Named Executive Officers to be protected under the severance and, for certain Named Executive Officers, change of control provisions, contained in their employment agreements. We provide this opportunity to attract and retain an appropriate caliber of talent for the position and ensure that these executives are not influenced by their personal situation and are able to be objective in evaluating a potential change in control transaction, should one arise. Our severance and change of control provisions are summarized in *Potential Payments upon Termination or Change in Control* on page 104.



***Pension Benefits***

We do not sponsor any qualified or non-qualified defined benefit plans.

***Non-Qualified Deferred Compensation***

We do not maintain any non-qualified defined contribution or deferred compensation plans.

## EXECUTIVE COMPENSATION

2010 Summary Compensation Table<sup>(1)</sup>

The following table sets forth information regarding 2010 compensation for each of our 2010 Named Executive Officers; 2009 and 2008 compensation is presented for such executives who were also named executive officers in 2009 and 2008. In accordance with SEC rules, 2008 compensation is not presented for Mr. Noon and Ms. Carsen because they were not named executive officers in those years.

Name and Principal Position	Year	Salary <sup>(4)</sup>	Bonus <sup>(5)</sup>	Stock Awards <sup>(6)</sup>	Option Awards <sup>(7)</sup>	Non-Equity Incentive Plan Compensation <sup>(8)</sup>	All Other Compensation <sup>(8)</sup>	Total
Kelly D. Conway	2010	\$ 425,000		\$ 1,314,000		\$ 448,688		\$ 2,187,688
President and Chief Executive Officer	2009	\$ 423,750		\$ 604,000		\$ 583,000	\$ 1,973	\$ 1,612,723
	2008	\$ 508,989	\$ 325,000	\$ 446,200	\$ 591,940		\$ 5,175	\$ 1,877,304
William B. Noon <sup>(2)</sup> Vice President and Chief Financial Officer	2010	\$ 197,500	\$ 25,000	\$ 104,726		\$ 41,600		\$ 368,826
	2009	\$ 192,219		\$ 60,400		\$ 70,000	\$ 1,973	\$ 324,592
Steven C. Pollema	2010	\$ 300,000		\$ 65,000				\$ 365,000
Vice President, ICS Business Unit	2009	\$ 291,875		\$ 1,183,192		\$ 195,000	\$ 1,973	\$ 1,672,040
	2008	\$ 318,151	\$ 100,000	\$ 223,100	\$ 207,179		\$ 5,175	\$ 853,605
Christine R. Carsen <sup>(3)</sup>	2010	\$ 173,750		\$ 64,618		\$ 65,000		\$ 303,368
Vice President, Associate General Counsel and Corporate Secretary	2009	\$ 174,583		\$ 52,850		\$ 55,000	\$ 1,809	\$ 284,242

(1) For a description of the employment agreements entered into between eLoyalty and each of the current Named Executive Officers, see *Employment Agreements* on page 100.

(2) Effective February 12, 2009, Mr. Noon was named as the Company's Vice President and Chief Financial Officer.

(3) Effective February 12, 2009, Ms. Carsen was named as the Company's Corporate Secretary (in addition to her position of Vice President, Associate General Counsel, and Chief Privacy Officer).

(4) In connection with the salary replacement program during 2008, the then-current named executive officers were granted part of their salary in the form of shares of Common Stock; for 2008, the salary column includes the value of shares granted to the relevant named executive officers in lieu of salary through the end of that year. As reported above, 2010 and 2009 base salaries accounted for approximately 19% and 26%, respectively, of total compensation for Mr. Conway, and 65% and 29%, respectively on average for the other Named Executive Officers.

(5) Amounts of bonuses for 2009 have been re-characterized as non-equity incentive plan compensation because, as with 2010 annual incentives, determination of awards was based on attainment of pre-established goals in a more formulaic way than in years prior to 2009. Mr. Noon received a discretionary bonus of \$25,000 in 2010 in consideration of his extraordinary performance in connection with the sale of the ICS Business.

(6) Reflects the grant date fair value of the stock awards granted to Named Executive Officers in each applicable year, which was computed in accordance with FASB ASC 718. In 2009, for Mr. Pollema this amount includes a grant date fair value of \$1,107,692 for his award of performance units under the ICS Incentive Program. The target value of Mr. Pollema's award is \$1,107,692. The actual value of each vested performance unit will vary based on (i) the ultimate value of the ICS Business relative to the baseline value and (ii) the number of other participants receiving similar performance units (because a fraction of the total increase in ICS Business value will fund an incentive pool that is divided among all participants based on the relative number of the performance units held by each participant at the end of the performance period). There is no specified maximum value. The assumptions used with respect to the valuation of stock grants are set forth in eLoyalty's Form 10-K for the fiscal year ended January 1, 2011 under eLoyalty Corporation Consolidated Financial Statements Notes to

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Consolidated Financial Statements Note Fourteen Stock-Based Compensation. The amounts reported for 2008 have been restated to reflect the grant date fair value for the respective years, in accordance with SEC rules.

- (7) Reflects the grant date fair value of the options granted during 2008 to the applicable executives, which was computed in accordance with FASB ASC 718. The assumptions used with respect to the valuation of option grants are set forth in eLoyalty's Form 10-K for the fiscal year ended January 1, 2011 under eLoyalty Corporation Consolidated Financial Statements Notes to Consolidated Financial Statements Note Fourteen Stock-Based Compensation. These amounts have been restated to reflect the grant date fair value for the respective years, in accordance with SEC rules.
- (8) In 2010, employer contributions to an eLoyalty qualified defined contribution plan were suspended.

## Employment Agreements

The Named Executive Officers, Messrs. Conway, Noon, and Pollema, and Ms. Carsen, have employment agreements with us. The material terms of such agreements are summarized in the following paragraphs.

### *Employment Agreement with Mr. Conway*

Under his employment agreement, Mr. Conway's annual base salary is set at \$480,000, subject to annual review and discretionary adjustment. As discussed previously, Mr. Conway's annual base salary was reduced to \$425,000 by the Compensation Committee, effective April 2009, and was not increased in 2010. In addition to base salary, he is eligible to participate in our other compensation programs, including annual bonus, equity incentive awards, and other employee benefit programs. Mr. Conway's agreement does not specify a term of employment and states that he is an employee at will. His employment agreement provides that we may terminate his employment at any time, with or without Cause (as defined in the agreement), and that Mr. Conway may terminate his employment with or without Good Reason (as defined in the agreement).

The sale of the ICS Business constitutes a change of control under the terms of Mr. Conway's employment agreement. Mr. Conway's employment agreement provides that, upon a Change in Control, the vesting of his restricted stock awards and stock option grants shall be accelerated for a period of three years following the Change in Control. If the sale of the ICS Business closes as proposed, Mr. Conway would be entitled to vesting of 476,278 shares of Common Stock and 31,250 options. The sale of the ICS Business would also constitute Good Reason under the terms of the employment agreement, which would allow Mr. Conway to terminate his employment and receive severance.

The Compensation Committee and Mr. Conway are currently discussing certain amendments to Mr. Conway's employment agreement that would include, among other things, a waiver the accelerated vesting and Good Reason severance rights. In view of the reduction in the size and scope of the Company's operations following the sale of the ICS Business, it is expected that the employment agreement amendments would also include reductions in Mr. Conway's base salary, target bonus amount, and future severance rights. Finally, in consideration of these amendments and in recognition of Mr. Conway's significant efforts in connection with the proposed sale transaction, it is expected that the employment agreement amendments will provide for a transaction bonus payable to Mr. Conway upon the closing of the proposed sale. We expect that the amendments to Mr. Conway's employment agreement will be finalized prior to closing the proposed sale of the ICS Business.

The current terms of Mr. Conway's termination by us without Cause, by Mr. Conway for Good Reason, in connection with a Change in Control, or upon Mr. Conway's death or Disability (as defined in the agreement) are described in *Potential Payments upon Termination or Change in Control* beginning on page 104.

### *Employment Agreements with Other Named Executive Officers*

In addition to the employment agreement with Mr. Conway, we have employment agreements with Messrs Noon and Pollema and Ms. Carsen. These employment agreements generally provide for a base salary and eligibility to receive an annual performance bonus. The agreement of Mr. Pollema establishes a target amount for the annual performance bonus and also provides for grants of equity in the form of options or restricted shares. The actual amount of the bonus is generally discretionary and is determined based upon his performance and eLoyalty's performance against established annual goals. All of the agreements with Named Executive Officers include certain customary non-competition, non-solicitation, and proprietary information and invention provisions.

The employment agreement with Mr. Pollema provides that his employment may be terminated, with or without Cause (as defined in the agreement), by Mr. Pollema or by us. Mr. Pollema may also terminate his employment for Good Reason (as defined in the agreement). If we terminate Mr. Pollema's employment for Cause or he resigns without Good Reason, he is entitled to no further compensation or benefits other than those earned through the effective date of termination.

The employment agreements with Mr. Noon and Ms. Carsen provide that they may be terminated, with or without reason at any time, by the executive or us. If we terminate the executive's employment for Serious Misconduct (as defined in the agreement) or the executive resigns for any reason, the executive is entitled to no further compensation or benefits other than those earned through the effective date of termination.

The terms of the termination events detailed above for each executive are described in *Potential Payments upon Termination or Change in Control* beginning on page 104.

#### 2010 Grants of Plan-Based Awards<sup>(1)</sup>

The following table summarizes awards made to our Named Executive Officers in 2010. All equity-based awards were made under the 1999 Plan.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Target/Maximum (\$) <sup>(2)</sup>	Number of Shares of Stock (#)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(3)</sup>
Kelly D. Conway	2/08/10		200,000	\$ 1,184,000
	2/28/10		12,334	\$ 130,000
		\$ 583,000		
William B. Noon	2/08/10		15,000	\$ 88,800
	2/28/10		1,511	\$ 15,926
		\$ 80,000		
Steven C. Pollema	2/28/10	\$ 325,000	6,167	\$ 65,000
Christine R. Carsen	2/08/10		10,000	\$ 59,200
	2/28/10		514	\$ 5,418
		\$ 65,000		

- (1) All grants were approved by the Compensation Committee. Restricted stock includes a feature whereby we may withhold shares from vesting of the award, as applicable (which is generally treated as a sale of those shares back to eLoyalty at fair market value) to satisfy tax withholding obligations related to the grantee. Restricted stock grants generally vest in 16 equal quarterly increments equal to 6.25% of the shares of restricted stock granted. In the event dividends are paid to owners of Common Stock, dividends would be paid on the restricted shares, in the same amount and at the same time as paid to other owners of Common Stock.
- (2) This represents the potential amounts payable under our 2010 annual incentive program. No set threshold amounts are specified under the 2010 annual incentive program.
- (3) Valuation assumptions are found under eLoyalty Corporation Consolidated Financial Statements Notes to Consolidated Financial Statements Note Fourteen Stock-Based Compensation in eLoyalty's Form 10-K for the fiscal year ended January 1, 2011.

**Outstanding Equity Awards at 2010 Fiscal Year-End**

The following table shows the total number of stock options (vested and unvested) and unvested restricted stock awards outstanding for eLoyalty's Named Executive Officers as of January 1, 2011. These amounts do not include the shares of stock granted at the February 2011 board meeting. For information regarding the total beneficial ownership of eLoyalty securities by its Named Executive Officers, see *Security Ownership of Certain Beneficial Owners and Management* beginning on page 85.

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable <sup>(1)</sup>	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(2)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	
Kelly D. Conway	68,750	31,250	\$ 10.54	2/19/2018	291,875 <sup>(3)</sup>	\$ 1,868,000		
	100,000		\$ 21.95	2/20/2017				
William B. Noon	250		\$ 18.90	5/16/2011	24,437 <sup>(4)</sup>	\$ 156,397		
	500		\$ 17.50	4/02/2011				
Steven C. Pollema	24,063	10,937	\$ 10.54	2/19/2018	22,416 <sup>(5)</sup>	\$ 143,462	15,000 <sup>(7)</sup>	\$ 80,741 <sup>(7)</sup>
	20,000		\$ 21.95	2/20/2017				
	20,000		\$ 20.10	6/01/2011				
Christine R. Carsen					19,847 <sup>(6)</sup>	\$ 127,021		

(1) With respect to Mr. Conway, comprised of the following:

Initial option award of 100,000 on February 19, 2008; vesting 6,250 per quarter; 31,250 remaining unvested.

With respect to Mr. Pollema, comprised of the following:

Initial option award of 35,000 on February 19, 2008; vesting 2,187 per quarter; 10,937 remaining unvested.

(2) Market value is calculated based on the number of shares multiplied by the closing market price of Common Stock on December 31, 2010 which was \$6.40 per share.

(3) Comprised of the following:

Initial grant of 75,000 on May 31, 2006; vesting 3,750 per quarter; 7,500 remaining unvested;  
 Initial grant of 30,000 on February 19, 2008; vesting 1,875 per quarter; 9,375 remaining unvested;  
 Initial grant of 200,000 on February 11, 2009; vested 50,000 on February 28, 2010 and then vesting 12,500 per quarter; 112,500 remaining unvested; and  
 Initial grant of 200,000 on February 8, 2010; vesting 12,500 per quarter; 162,500 remaining unvested.

(4) Comprised of the following:

Initial grant of 10,000 on May 31, 2006; vesting 500 per quarter; 1,000 remaining unvested;  
 Initial grant of 20,000 on February 11, 2009; vested 5,000 on February 28, 2010 and then vesting 1,250 per quarter; 11,250 remaining unvested; and  
 Initial grant of 15,000 on February 8, 2010; vesting 937 per quarter; 12,187 remaining unvested.

- (5) Comprised of the following:  
Initial grant of 35,000 on May 31, 2006; vesting 1,750 per quarter; 3,500 remaining unvested;  
Initial grant of 1,100 on August 31, 2006; vesting 55 per quarter; 165 remaining unvested;

Initial grant of 15,000 on February 19, 2008; vesting 938 per quarter; 4,688 remaining unvested; and  
 Initial grant of 25,000 on February 11, 2009; vested 6,250 on February 28, 2010 and then vesting 1,562 per quarter;  
 14,063 remaining unvested.

(6) Comprised of the following:

Initial grant of 7,500 on November 6, 2008; vesting 468 per quarter; 1,877 remaining unvested;  
 Initial grant of 17,500 on February 11, 2009; vested 4,375 on February 28, 2010 and then vesting 1,093 per quarter; 9,845 remaining unvested; and  
 Initial grant of 10,000 on February 08, 2010; vesting 625 per quarter; 8,125 remaining unvested

(7) Mr. Pollema was awarded 15,000 performance units under the ICS Incentive Program, which equates to 12,616 shares of Common Stock based on a share price of \$6.40 on December 31, 2010. The target value of Mr. Pollema's award as of the grant date was \$1,107,692 and as of December 31, 2010 was \$80,741, in each case based on the probable outcome of the performance conditions as of such date. The actual value of each vested performance unit will vary based on (i) the ultimate value of the ICS Business relative to the baseline value of \$36 million and (ii) the number of other participants receiving similar performance units (because a fraction of the total increase in ICS Business value will fund an incentive pool that is divided among all participants based on the relative number of the performance units held by each participant at the end of the performance period). There is no specified maximum value.

**2010 Options Exercised and Stock Vested**

The following table shows restricted stock awards for our Named Executive Officers that vested during 2010. As of January 1, 2011, the only outstanding stock options were those set forth in the table *Outstanding Equity Awards at 2010 Fiscal Year End* on page 102. No stock options were exercised by our Named Executive Officers in 2010.

Name	Number of Shares Acquired on Vesting	Value Realized on Vesting <sup>(1)</sup>
Kelly D. Conway	163,533	\$ 941,577
William B. Noon	15,336	\$ 87,403
Steven C. Pollema	29,574	\$ 165,562
Christine R. Carsen	11,918	\$ 68,184

(1) Value is calculated by multiplying the number of shares vesting by the closing market price of Common Stock on the respective vesting dates of the restricted stock awards.



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**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

We are not obligated to make any cash payments to our Named Executive Officers if we terminate their employment for Cause (with respect to Messrs. Conway and Pollema) or Serious Misconduct (with respect to Mr. Noon and Ms. Carsen) or if the executive resigns other than for Good Reason (with respect to Messrs. Conway and Pollema only). In connection with a termination of the employment of either Mr. Conway or Mr. Pollema by us without Cause or a termination for Good Reason by Mr. Conway or Mr. Pollema, no payments are due unless the executive executes a general release. The agreements of Mr. Noon and Ms. Carsen do not require execution of a general release.

**Relevant Definitions**

The following terms, which are relevant to this discussion, are defined in the Named Executive Officers' employment agreements as follows:

**Cause.** A termination for Cause occurs if eLoyalty terminates Mr. Conway's or Mr. Pollema's employment for any of the following reasons:

- (i) conviction, including a plea of guilty or no contest, of any felony or any crime involving moral turpitude or dishonesty;
- (ii) fraud upon eLoyalty (or an affiliate), embezzlement, or misappropriation of corporate funds;
- (iii) willful acts of dishonesty materially harmful to eLoyalty;
- (iv) activities materially harmful to eLoyalty's reputation;
- (v) executive's willful misconduct, willful refusal to perform his or her duties, or substantial willful disregard of his or her duties; or
- (vi) material breach of the employment agreement or any other agreement with or policy of eLoyalty, causing material harm to eLoyalty, or breach of any statutory duty or common law duty owed to eLoyalty.

**Serious Misconduct.** A termination for Serious Misconduct occurs if eLoyalty terminates Mr. Noon's or Ms. Carsen's employment for any of the following reasons:

- (i) fraud, embezzlement, or misappropriation of corporate funds;
- (ii) other acts of dishonesty, conviction of a felony, or other crime involving moral turpitude;
- (iii) activities materially harmful to eLoyalty's reputation;
- (iv) willful refusal to perform or substantial disregard of the executive's assigned duties (including, but not limited to, refusal to travel or work requested hours);
- (v) any significant violation of any statutory or common law duty of loyalty to eLoyalty; or

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- (vi) any material breach or violation by the executive of any provision of the agreement or any policy of eLoyalty that eLoyalty may have in effect from time to time.

**Good Reason.** Under the employment agreements for Messrs. Conway and Pollema, an executive generally may terminate his employment for Good Reason if any of the following conditions occur:

- (i) the executive's base salary is reduced below the amount set forth in his or her agreement, unless the salaries of the three most highly paid executives (excluding the executive) are reduced proportionately;
- (ii) the executive's target bonus is reduced, unless the target bonuses of the three most highly paid executives (excluding the executive) are reduced proportionately;
- (iii) the executive is involuntarily relocated to any location outside of the metropolitan area in which his or her primary office is located;

(iv) a significant diminution in the executive's position (including offices, titles, and reporting relationships), authority, duties, or responsibilities;

(v) eLoyalty materially breaches the terms of the agreement; or

(v) eLoyalty fails to assign the agreement to a successor upon a Change in Control.

Mr. Conway's agreement provides that the failure of our board of directors to nominate Mr. Conway as a director constitutes Good Reason. His agreement also provides that a Change in Control, in and of itself, will not constitute Good Reason unless it results in a significant diminution of his position as described in clause (iv) above.

Mr. Pollema's agreement provides that the definition of Good Reason does not include the diminution of responsibilities if such diminution of responsibilities is in the ordinary course of either: (i) eLoyalty becoming, pursuant to a Change in Control, part of a larger organization in which the executive directly reports to the chief executive officer of such organization; or (ii) eLoyalty becoming, pursuant to a Change in Control, either a subsidiary or equivalent separate functional business unit of a larger business organization. The definition of Good Reason in Mr. Conway's agreement does not include such diminution of responsibilities only if he is appointed to serve as a Chief Executive Officer of the larger organization with all such accompanying authority, duties, and responsibilities.

**Change in Control.** Under the employment agreements for Messrs. Conway and Pollema, a Change in Control means:

(i) the acquisition by any individual, entity, or group of beneficial ownership of 25% or more of eLoyalty's outstanding Common Stock or voting securities;

(ii) a change in the identity of a majority of the members of our board of directors from those who constituted the board at the time eLoyalty was spun off from TSC (the Incumbent Board), counting any new director whose election was approved by a majority of the members of the Incumbent Board as a member of the Incumbent Board;

(iii) the consummation of a reorganization, merger or consolidation involving eLoyalty or a sale or other disposition of all or substantially all of eLoyalty's assets, other than in a transaction following which the beneficial owners of more than 60% of the outstanding Common Stock and voting securities prior to the transaction beneficially own 60% or more of the outstanding Common Stock and voting securities of the surviving or acquiring entity, in substantially the same relative proportion before and after the transaction; or

(iv) the consummation of a plan of complete dissolution or liquidation of eLoyalty.

For each of the employment agreements, the definition of Change in Control derives from the 1999 Plan.

**Disability.** Under the employment agreements for each of the Named Executive Officers other than Mr. Conway, Disability has the meaning provided under the terms of the Company's then-current long-term disability program. Under the employment agreements for Mr. Conway and, if no such long-term disability program is then in effect, Mr. Pollema, Disability means a permanent disability rendering the executive unable to perform his or her duties for 90 consecutive days or 180 days in any 12-month period, as determined by an independent physician appointed by our board of directors.

### **Non-Competition**

For a period of one year following a termination for any reason, the executive cannot, for himself or an agent, partner, or employee of any person, firm, or corporation:

(i) with respect to Mr. Conway, engage in the practice of providing consulting or related services for any eLoyalty client or prospect to or for whom the executive directly or indirectly performed or provided



consulting or related services, or with whom the executive had personal contact, or prospect to whom the executive submitted (or assisted or participated in any way in the submission of) a proposal, during the executive's prior two years of employment with eLoyalty;

- (ii) with respect to Mr. Pollema, perform services of the type performed by the executive during his employment with eLoyalty or any services substantially similar thereto for any eLoyalty client or prospective client to or for whom the executive directly or indirectly performed services, or prospect to whom the executive submitted (or assisted or participated in any way in the submission of) a proposal, during the executive's prior two years of employment with eLoyalty; and
- (iii) with respect to Mr. Noon and Ms. Carsen, perform services of the type performed by the executive during his or her employment with eLoyalty or any services substantially similar thereto in any country in which eLoyalty has performed services or sold products during the preceding three years, for any eLoyalty client for whom the executive performed services, or prospective eLoyalty client to whom the executive submitted (or assisted in the submission of) a proposal during the executive's prior year of employment with eLoyalty.

**Non-Solicitation**

For a period of one year following a termination for any reason, the executive cannot:

- (i) with respect to Messrs. Conway and Pollema, directly or indirectly hire, solicit, encourage, or otherwise induce or assist in the inducement away from eLoyalty any customer, client, contractor, consultant, or other person or party with whom eLoyalty has a contractual relationship, any eLoyalty client or any eLoyalty employee;
- (ii) with respect to Mr. Noon and Ms. Carsen, induce or assist in the inducement of any eLoyalty employee away from eLoyalty's employ or from the faithful discharge of such employee's contractual and fiduciary obligations to serve eLoyalty's interests with undivided loyalty, or directly or indirectly solicit any eLoyalty client to become a client of the executive or any person or entity other than eLoyalty.

**Termination for Good Reason, without Cause, or due to Death or Disability**

Assuming the employment of our Named Executive Officers were terminated (i) by Mr. Conway or Mr. Pollema for Good Reason or by us other than for Cause or Serious Misconduct or (ii) as a result of the Named Executive Officer's death or Disability, each as of January 1, 2011, the following individuals would be entitled to payments in the amounts set forth opposite his or her name in the following table. The details are described in the footnotes to the table. Also, any additional benefits payable due to a termination in connection with a Change in Control are included in the footnotes to the table.

Name	Salary	Bonus <sup>(9)</sup>	Health Benefits	Vesting <sup>(10)(11)</sup>	Total
Kelly D. Conway					
Good Reason or Without Cause <sup>(1)</sup>	\$ 637,500	\$ 515,844	\$ 30,384	\$ 1,388,000	\$ 2,571,728
Death or Disability <sup>(2)</sup>	\$ 425,000	\$ 515,844	\$ 20,256	\$ 1,868,000	\$ 2,829,100
William B. Noon					
Without Serious Misconduct <sup>(3)</sup>	\$ 100,000	\$ 0	\$ 2,556	\$ 0	\$ 102,556
Death or Disability <sup>(4)</sup>	\$ 0	\$ 0	\$ 0	\$ 156,397	\$ 156,397
Steven C. Pollema					
Good Reason or Without Cause <sup>(5)</sup>	\$ 300,000	\$ 162,500	\$ 20,256	\$ 87,456	\$ 570,212
Death or Disability <sup>(6)</sup>	\$ 300,000	\$ 162,500	\$ 20,256	\$ 143,462	\$ 626,218
Christine R. Carsen					
Without Serious Misconduct <sup>(7)</sup>	\$ 43,750	\$ 0	\$ 411	\$ 0	\$ 44,161
Death or Disability <sup>(8)</sup>	\$ 0	\$ 0	\$ 0	\$ 127,027	\$ 127,021

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- (1) Upon termination by Mr. Conway for Good Reason or by eLoyalty without Cause, Mr. Conway would be paid the following amounts as severance: a lump sum amount of \$637,500, representing 18 months of

salary; health benefits of \$1,688 per month for up to 18 months; and a bonus of \$515,844, calculated as 100% of average of his annual bonus for the preceding year and the target bonus for the current year. In addition, he would be entitled to accelerated vesting for shares of restricted stock and stock options that would have vested if he were employed for 24 months after termination, amounting to 216,875 shares of restricted stock with a value of \$1,388,000.

Upon a Change in Control occurring January 1, 2011, Mr. Conway would be entitled to the vesting of restricted stock and options that would have vested if Mr. Conway provided an additional 36 months of continuous service (whether or not he incurred a termination in connection with the Change in Control), amounting to 279,375 shares of restricted stock with a value of \$1,788,000.

- (2) Upon termination as a result of Mr. Conway's death or Disability, he (or his estate) would be paid a lump sum amount of \$425,000, representing 12 months of salary; health benefits of \$1,688 per month for 12 months; and a total bonus of \$515,844, calculated as an average of 100% of the bonus for the prior year and 100% of the target bonus for the current year. In addition, upon termination as a result of death or Disability, Mr. Conway's unvested shares of restricted stock would vest, amounting to 291,875 shares of restricted stock with a value of \$1,868,000.
- (3) Upon termination by eLoyalty without Serious Misconduct, Mr. Noon would receive, as severance: 180 days of continued salary payments, totaling \$100,000, and health benefits of \$426 per month for up to 180 days. Mr. Noon is not entitled to a severance bonus or accelerated vesting for shares of restricted stock granted during the term of his employment in this event. Mr. Noon is entitled to no severance benefits in connection with a termination by Mr. Noon for Good Reason.
- (4) Upon termination as a result of Mr. Noon's death or Disability, he is not entitled to any severance payments except that his unvested shares of restricted stock would vest, amounting to 24,437 shares of restricted stock with a value of \$156,397.
- (5) Upon termination by Mr. Pollema for Good Reason or by eLoyalty without Cause, Mr. Pollema would be paid the following amounts as severance: a lump sum of \$300,000, representing 12 months of salary; health benefits of \$1,688 per month for up to 12 months; and a bonus of \$162,500, calculated as 100% of the average of his bonus for the prior year and the target bonus for the current year. In addition, he would be entitled to accelerated vesting for shares of restricted stock that would have vested if he were employed for 12 months after termination, amounting to 13,665 shares of restricted stock with a value of \$87,456 (or 24 months after termination, if such termination occurred within six months following a Change in Control or if Mr. Pollema terminated employment for Good Reason due to eLoyalty's failure to assign the employment agreement to a successor upon a Change in Control, amounting to 20,853 shares of restricted stock with a value of \$133,459).

Upon a Change in Control or other triggering event occurring January 1, 2011, Mr. Pollema would vest in 15,000 performance units and receive 12,616 shares of stock with a value of \$80,741 under the terms of the ICS Incentive Program (whether or not he incurred a termination in connection with the Change in Control or other triggering event).

- (6) Upon termination as a result of Mr. Pollema's death or Disability, he (or his estate) would be paid a lump sum of \$300,000, representing 12 months of salary; health benefits of \$1,688 per month for 12 months; and a total bonus of \$162,500, calculated as 100% of the average of his bonus for the prior year and the target bonus for the current year. In addition, upon termination as a result of death or Disability, (i) Mr. Pollema's unvested shares of restricted stock would vest, amounting to 22,416 shares of restricted stock with a value of \$143,462, and (ii) Mr. Pollema would vest in 15,000 performance units and receive 12,616 shares of stock with a value of \$80,741 under the terms of the ICS Incentive Program.
- (7) Upon termination by eLoyalty without Serious Misconduct, Ms. Carsen would receive the following amounts as severance: 90 days of continued salary payments, totaling \$43,750; and health benefits of \$137 per month for up to 90 days. Ms. Carsen is not entitled to a severance bonus or accelerated vesting for shares of restricted stock granted during the term of her employment in this event. Ms. Carsen is entitled to no severance benefits in connection with a termination by Ms. Carsen for Good Reason.

- (8) Upon termination as a result of Ms. Carsen's death or Disability, she is not entitled to any severance payments except that Ms. Carsen's unvested shares of restricted stock would vest, amounting to 19,847 shares of restricted stock with a value of \$127,021.
- (9) Solely for purposes of calculating the amounts in the table: The bonuses for 2010 were calculated as an average of the stock bonus and the target bonus. The bonuses for 2009 were calculated as an average of the cash bonus and the target bonus. The bonuses for 2008 were calculated as an average of the amount equal to the dollar equivalent of restricted shares of Common Stock granted in 2008 and the target bonus. Bonuses paid to the current Named Executive Officers are reflected in the "Non-Equity Incentive Plan Compensation" column of the 2010 Summary Compensation Table on page 99.

These calculations are no guarantee of what the amounts would be under any other circumstances. Any of the amounts set forth above may vary, depending on the performance of eLoyalty and the executive as well as several other circumstances.

The terms of the employment agreements of Messrs. Conway and Pollema require that these bonuses are paid within seven days after termination.

- (10) For purposes of this table, shares of restricted stock were valued at the closing price on December 31, 2010 of \$6.40 for Common Stock.
- (11) Messrs. Conway and Pollema have options that would vest under the circumstances provided for in the table. For purposes of these calculations, however, the options are not included because they had exercise prices above eLoyalty's closing stock price of \$6.40 on December 31, 2010.



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**PRINCIPAL ACCOUNTING FEES AND SERVICES**

For fiscal year 2010 and 2009, fees for services provided by Grant Thornton LLP ( Grant Thornton ) were as described below. The Audit Committee has concluded that the provision of the services rendered by Grant Thornton with respect to the fees described below was compatible with maintaining Grant Thornton s independence.

***Audit Fees***

Total audit fees paid to Grant Thornton for the 2010 and 2009 fiscal years were \$403,000 and \$411,000, respectively. Of the total audit fees paid in fiscal year 2010, \$393,000 was for professional services rendered for the audits of the consolidated financial statements of eLoyalty and internal controls of eLoyalty and \$10,000 was for statutory audit work for eLoyalty affiliates in non-U.S. jurisdictions.

***Audit-Related Fees***

No audit-related fees were paid to Grant Thornton for fiscal year 2010. For fiscal year 2009, Grant Thornton was paid \$3,000 in audit-related fees for accounting consultations.

***Tax Fees***

For fiscal year 2010, Grant Thornton was paid \$123,000 in tax fees. No tax fees were paid to Grant Thornton for fiscal year 2009.

***All Other Fees***

No fees other than those described above were paid to Grant Thornton for fiscal years 2010 or 2009.

**Pre-Approval Policy**

The Audit Committee pre-approves all audit and permissible non-audit services provided to eLoyalty by Grant Thornton. Pre-approval generally is provided at a regular meeting of the Audit Committee, covers a period of at least two years, and is, at a minimum, reviewed annually. Any pre-approval is detailed as to the particular service or category of services covered and is generally subject to a specific budget. The independent auditors and management periodically report to the Audit Committee regarding the extent of services provided by Grant Thornton in accordance with this pre-approval and the fees for the services performed to-date. The Audit Committee, or its Chairman, may also pre-approve other particular services on a case-by-case basis. All services provided to eLoyalty by Grant Thornton during 2010 and 2009 were pre-approved by the Audit Committee in accordance with this policy. Specifically, the Audit Committee pre-approved Grant Thornton s provision of audit services for 2010 and 2009. In addition, at the October 2009 meeting, the Audit Committee pre-approved Grant Thornton s provision of domestic tax services for 2010 through 2012.

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee has reviewed and discussed with eLoyalty's management and Grant Thornton the audited financial statements of eLoyalty contained in eLoyalty's Annual Report on Form 10-K for the fiscal year ended January 1, 2011. The Audit Committee also has discussed with Grant Thornton the matters required to be discussed pursuant to SAS No. 61 (*Codification of Statements on Auditing Standards, Communication with Audit Committees*), as amended by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received and reviewed the written disclosures and the letter from Grant Thornton required by the applicable requirements of the Public Company Accounting Oversight Board and has discussed with Grant Thornton its independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the board that the audited financial statements be included in eLoyalty's Annual Report on Form 10-K for the fiscal year ended January 1, 2011 filed with the Securities and Exchange Commission on March 17, 2011.

John C. Staley, Chair

John T. Kohler

David B. Mullen

Michael J. Murray

**PROPOSAL #5: RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS**

Grant Thornton acted as independent public accountants for eLoyalty for 2010. The Audit Committee appointed Grant Thornton as independent public accountants for eLoyalty to audit eLoyalty's consolidated financial statements for 2011.

eLoyalty has been advised that representatives of Grant Thornton will be at the Annual Meeting and will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

**Vote Required for Ratification of Independent Public Accountants**

The ratification of the appointment of Grant Thornton as our independent public accountants will require the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote and present at the Annual Meeting.

**Recommendation of Our Board of Directors**

**THE AUDIT COMMITTEE AND THE BOARD OF DIRECTORS RECOMMEND THAT YOU VOTE FOR PROPOSAL #5, THE PROPOSAL TO APPROVE THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON AS eLOYALTY'S INDEPENDENT PUBLIC ACCOUNTANTS.**

**PROPOSAL #6: SAY ON PAY PROPOSAL**

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on July 21, 2010 (the Dodd-Frank Act ) requires that we, as a public company, include in this proxy statement a non-binding, advisory stockholder vote regarding the compensation of our Named Executive Officers as described in the Compensation Discussion and Analysis section, the compensation tables, and related tables and disclosures provided herein (commonly referred to as Say on Pay ). Therefore, pursuant to Section 14A of the Exchange Act, we are asking our stockholders to vote on the following advisory resolution:

RESOLVED, that the stockholders of eLoyalty Corporation approve the compensation of our Named Executive Officers, as described in the Compensation and Analysis section, the compensation tables, and the related tables and disclosures provided in this proxy statement (the Say on Pay Proposal ).

As discussed in the Compensation Discussion and Analysis section, the compensation tables, and related tables and disclosures provided herein, the objective of our Compensation Program is to support and enable the Company's transformation from a consulting services company to an analytics and managed services company. Our Compensation Program is designed such that cash compensation is relatively low compared to the market in order to conserve cash; rather, we emphasize restricted stock awards in order to incentivize its executives' performance and further align their interests with those of our stockholders. In general, the total compensation awarded to our executives is designed to be internally equitable and market competitive.

Your vote on the Say on Pay Proposal is advisory, and therefore is not binding on the Company, the Compensation Committee, or the board of directors. The vote will not be construed to create or imply any change to the fiduciary duties of the Company or the board of directors, or to create or imply any additional fiduciary duties for the Company or the board. Nonetheless, because the board of directors and the Compensation Committee value the opinions of our stockholders, they will carefully consider the outcome of the vote when evaluating any future actions with respect to the compensation of our Named Executive Officers.

**Vote Required to Approve the Say on Pay Proposal**

Approval of the Say on Pay Proposal will require the affirmative vote of holders of a majority of shares of eLoyalty Stock outstanding and entitled to vote and present at the Annual Meeting.

**Recommendation of Our Board of Directors**

**THE BOARD OF DIRECTORS STRONGLY SUPPORTS THE COMPANY'S EXECUTIVE COMPENSATION PROGRAM AND RECOMMENDS THAT YOU VOTE FOR PROPOSAL #6, THE SAY ON PAY PROPOSAL.**

**PROPOSAL #7: FREQUENCY VOTE ON SAY ON PAY**

The Dodd-Frank Act and Section 14A of the Exchange Act also require that we, as a public company, include in this proxy statement a non-binding, advisory stockholder vote regarding the frequency with which our stockholders will have a future advisory vote with respect to the compensation of our Named Executive Officers, as provided in the Say on Pay Proposal described above. Companies must give stockholders the choice regarding the frequency on which they will cast their advisory vote regarding the Say on Pay proposal, whether it be every year, every two years, or every three years (commonly referred to as Frequency Vote on Say on Pay ). Stockholders may also abstain from making a choice.

We are asking our stockholders to vote on whether a non-binding, advisory vote of the stockholders of eLoyalty Corporation with respect to the compensation of the Company's Named Executive Officers, as disclosed in the Company's proxy statement, shall be held at an annual meeting of stockholders every year, every two years, or every three years.

Our board of directors recommends that our stockholders cast their advisory vote on the Say on Pay proposal every three years, as this frequency would result in the Company obtaining stockholders' valuable feedback regarding executive compensation, while at the same time recognizing the Company's emphasis on long-term incentive compensation. As disclosed in our Compensation Discussion and Analysis, our executive compensation program is structured simply, with only three primary components: long-term equity incentives; base salary; and annual performance-based cash incentives. This structure has been maintained by the Company over the past several years, which has led to a stable compensation program, with minimal adjustments required on an annual basis. Furthermore, our compensation program emphasizes long-term equity incentives, which vest over a period of four years. This long vesting period is intended to incentivize our executives to enhance the long-term performance of the Company as well as long-term stockholder value. Thus, a vote every three years is consistent with our executive compensation philosophy and approach and will allow us to ensure that any changes to our compensation program are responsive to stockholders and in the Company's best interest.

Stockholders will be able to specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. The frequency alternative that receives the most votes will be the choice of stockholders. Stockholders are not voting to approve or disapprove the board's recommendation. As with your vote on the Say on Pay Proposal above, your Frequency Vote on Say on Pay is advisory, and therefore is not binding on the Company, the Compensation Committee, or our board of directors. The vote will not be construed to create or imply any change to the fiduciary duties of the Company or our board of directors, or to create or imply any additional fiduciary duties for the Company or our board. Nonetheless, because our board of directors and the Compensation Committee value the opinions of our stockholders, they will carefully consider the outcome of the vote and may ultimately decide that it is in the best interests of our stockholders to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

**Vote Required for the Frequency Vote on Say on Pay**

The Frequency Vote on Say on Pay will be determined by a plurality of the votes cast at the Annual Meeting. This means that the frequency that receives the most affirmative votes of shares outstanding and entitled to vote as of the Record Date and present in person or represented by proxy at the Annual Meeting will be the choice of stockholders.

**Recommendation of Our Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE 3 YEAR FREQUENCY ALTERNATIVE FOR THE ADVISORY SAY ON PAY VOTE ON EXECUTIVE COMPENSATION.**

### **OTHER BUSINESS**

Our board of directors does not know of any further business to be presented at the Annual Meeting. However, should any other matters arise that are properly presented and require a vote of eLoyalty stockholders, the persons named as proxies on the enclosed proxy card intend to vote on those matters in accordance with their judgment as to the best interests of eLoyalty.

### **SUBMISSION OF STOCKHOLDER PROPOSALS FOR 2012**

#### **Deadline for Inclusion in Proxy Statement**

Any stockholder proposal to be considered by eLoyalty for inclusion in the Proxy Statement and form of proxy for next year's Annual Meeting of Stockholders must be received by eLoyalty's Corporate Secretary at its principal executive offices, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045, no later than [ ], 2011, and must otherwise satisfy the requirements of applicable SEC rules.

#### **Deadline for Notice of Other Stockholder Proposals/Director Nominations**

Stockholder proposals that are not intended for inclusion in a proxy statement for an annual meeting, but that stockholders intend to introduce at an annual meeting, as well as proposed stockholder nominations for the election of directors at an annual meeting, must each comply with the advance notice procedures set forth in eLoyalty's By-Laws in order to be brought properly before that annual stockholders' meeting. In addition, with respect to any such stockholder proposals, eLoyalty may utilize discretionary authority conferred by proxy in voting thereon if, among other matters, the stockholder proponent does not give timely notice of the matter to eLoyalty in accordance with such By-Law procedures. In general, written notice of such a stockholder proposal or a director nomination must be delivered to eLoyalty's Corporate Secretary not less than 75 days or more than 100 days prior to the anniversary date of the preceding annual meeting of stockholders. With regard to next year's annual meeting of stockholders, the written notice must be received no earlier than February 9, 2012 and no later than March 5, 2012.

In addition to timing requirements, the advance notice provisions of the By-Laws contain informational content requirements that must also be met. A copy of the By-Law provisions governing these timing procedures and content requirements may be obtained by writing to the Corporate Secretary of eLoyalty at the address specified on the first page of this proxy statement.

If the presiding officer at the annual meeting of stockholders determines that business, or a nomination, was not brought before the meeting in accordance with the By-Law provisions, then such business will not be transacted or such defective nomination will not be accepted.

**WHERE YOU CAN OBTAIN ADDITIONAL INFORMATION**

The cost of soliciting proxies will be borne by eLoyalty. In addition to soliciting proxies through the mail, certain employees of eLoyalty may solicit proxies in person, by facsimile, or by telephone, without additional compensation. As is customary, eLoyalty will, upon request, reimburse brokers, banks, custodians, and other nominee holders of record for their out-of-pocket expenses of forwarding proxy materials to the beneficial owners of eLoyalty shares.

The SEC's rules permit eLoyalty to deliver a single set of proxy materials to one address shared by two or more of its stockholders. This delivery method is referred to as "householding" and can result in significant cost savings. To take advantage of this opportunity, eLoyalty may deliver only one set of proxy materials to multiple stockholders who share an address. eLoyalty agrees to deliver promptly, upon request, a separate copy of the proxy materials to any stockholder at the shared address to which a single copy of these documents was delivered. If you prefer to receive separate copies of the proxy materials, or if you currently are a stockholder who shares an address with another stockholder and would like to receive only one copy of future proxy materials for your household, please contact Christine R. Carsen, Vice President, Associate General Counsel, and Corporate Secretary, eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045 or call 847-582-7000.

Your vote is important. Please submit your proxy with voting instructions by telephone or through the Internet by following the instructions provided as soon as possible or complete the enclosed proxy card with your voting instructions and mail it in the enclosed postage-paid envelope.

By Order of the Board of Directors,

/s/ Christine R. Carsen

Christine R. Carsen, Vice President, Associate

General Counsel, and Corporate Secretary

We will furnish without charge to each person whose proxy is solicited upon the written request of such person a copy of our Annual Report on Form 10-K for the fiscal year ended January 1, 2011, as filed with the Securities and Exchange Commission on March 17, 2011, including the financial statements and financial statement schedules (upon request, exhibits thereto will be furnished subject to payment of a specified fee). Requests for copies of such report should be directed to Christine R. Carsen, Vice President, Associate General Counsel, and Corporate Secretary, eLoyalty Corporation, 150 Field Drive, Suite 250, Lake Forest, Illinois 60045.

**ACQUISITION AGREEMENT**

**by and among**

**MAGELLAN ACQUISITION SUB, LLC,**

**TELETECH HOLDINGS, INC.**

**and**

**ELOYALTY CORPORATION**

**DATED AS OF MARCH 17, 2011**



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**ACQUISITION AGREEMENT**

THIS ACQUISITION AGREEMENT is entered into as of this 17th day of March, 2011, by and among eLoyalty Corporation, a Delaware corporation (Seller), TeleTech Holdings, Inc., a Delaware corporation (Parent), and Magellan Acquisition Sub, LLC, a Colorado limited liability company (Buyer) and a wholly-owned subsidiary of Parent. Capitalized terms are defined in ARTICLE I.

**RECITALS**

WHEREAS, Seller, as conducted through Seller's Integrated Contact Solutions Business Unit (the ICS Business Segment), is engaged in the business of (i) monitoring and supporting contact centers and related business applications, (ii) providing consulting and system integration services related to Cisco Voice over Internet Protocol solutions (including related hardware and software product resale), and (iii) providing operational consulting services to enhance customer service business performance through improved process efficiencies, redesign of call flows, and improved contact center operations (the ICS Business);

WHEREAS, Seller desires to sell, and Buyer desires to purchase, the Purchased Assets, and Seller desires to assign, and Buyer desires to assume from Seller, the Assumed Liabilities, in each case, on the following terms and conditions; and

WHEREAS, concurrently with the execution of this Acquisition Agreement, Buyer and each Approving Stockholder is entering into a Voting Agreement pursuant to which such Approving Stockholder has agreed, *inter alia*, to vote in favor of the approval and adoption of this Acquisition Agreement and the Related Agreements and the transactions contemplated hereby and thereby.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants, representations, warranties, conditions, and agreements hereinafter expressed, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

**ARTICLE I**

**DEFINITIONS**

1.1 The following terms, whenever used herein, will have the following meanings for all purposes of this Acquisition Agreement:

Accounts Payable means all bona fide trade accounts payable of Seller incurred exclusively in connection with the ICS Business in the Ordinary Course accrued as of the Effective Time, excluding Intercompany Payables, up to the amounts therefor set forth on the Closing Date Statement.

Accounts Receivable means all bona fide accounts receivable and other rights to payment of Seller in respect of the ICS Business, and the full benefit of all security for any such account or right to payment, including all accounts representing amounts receivable in respect of goods sold or shipped or services rendered in connection with the ICS Business in the Ordinary Course accrued as of the Effective Time, and any claim, remedy or other right related to the foregoing.

Acquisition Agreement means this Acquisition Agreement as executed on the date hereof and as amended or supplemented in accordance with the terms hereof, including all Schedules, Disclosure Schedules and Exhibits hereto.

Acquisition Proposal has the meaning set forth in Section 6.11(g)(i).

Affiliate , with respect to any specified Person, means any Person which, directly or indirectly, controls, is controlled by, or under common control with, such specified Person and, if the Person referred to is a natural Person, any member of such Person's immediate family. The term control (including, with correlative meaning, the terms controlled by and under common control with ), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract or otherwise.

Approving Stockholder means each Person listed on Exhibit A.

Assets means all assets, properties and rights of every kind (whether tangible or intangible), including real and personal property, Contracts and Intellectual Property.

Assumed Contracts has the meaning set forth in Section 2.3(c).

Assumed Liabilities has the meaning set forth in Section 2.3.

Assumed Licenses has the meaning set forth in Section 2.1(k).

Assumed Real Property Leases has the meaning set forth in Section 2.1(c).

Assumed Taxes has the meaning set forth in Section 2.3(e).

Benefit Plan(s) means any employee benefit plan, program, policy, practice, agreement or other arrangement providing benefits to any current or former Worker, or any beneficiary or dependent thereof, whether or not written or subject to ERISA, that is sponsored, maintained, contributed to or required to be contributed to by Seller or any of its Affiliates, or for which Seller has any Liability or would reasonably be expected to have any Liability by reason of having an ERISA Affiliate, other than any Statutory Plan or any multiemployer plan within the meaning of Section 3(37) of ERISA including, without limitation, any employee benefit plan within the meaning of Section 3(3) of ERISA and any bonus, incentive, deferred compensation, vacation, retirement fund, stock purchase, stock option, equity, phantom stock, severance, employment, change of control or fringe benefit plan.

Business Day means any day which is not a Saturday, Sunday or a legal holiday in the State of Illinois or the State of Colorado.

Buyer has the meaning set forth in the preamble.

Buyer Indemnified Persons has the meaning set forth in Section 9.1.

Buyer Plans has the meaning set forth in Section 5.4.

Buyer's Accountant means PricewaterhouseCoopers LLP.

CERCLA has the meaning set forth in the definition of Environmental Law in this Section 1.1.

Closing means the consummation of the transactions contemplated by this Acquisition Agreement, as provided for in Section 2.6.

Closing Date means the date that is Seller's first month-end for accounting purposes following the date on which the conditions precedent set forth in ARTICLE VII (other than conditions which relate to actions to be taken at the Closing, but subject to the satisfaction or waiver thereof at the Closing) have occurred, have been satisfied or otherwise waived in accordance with the terms hereof.

Closing Date Managed Services Amount has the meaning set forth in Section 2.7(a).

Closing Date Statement has the meaning set forth in Section 2.7(a).

Closing Date Working Capital means the dollar value equal to the difference between (a) the dollar value of Current Assets (excluding short-term Prepaid-Cost Deferrals) minus (b) the dollar value of Current Liabilities (excluding short-term Unearned Revenue), in each case as at the close of business on the Closing Date and as set forth on the Closing Date Statement. For purposes of this Acquisition Agreement, the terms Current Assets, Prepaid-Cost Deferrals, Current Liabilities and Unearned Revenue shall have meanings correlative to the manner in which such terms are used in the ICS Business Balance Sheet. Notwithstanding the foregoing, Current Assets and Current Liabilities shall exclude all accrued items related to Taxes (including deferred Tax items) other than Taxes that will be Assumed Taxes if included on the ICS Business Closing Date Balance Sheet.

Closing Payment means Forty Million Eight Hundred Fifty Thousand U.S. Dollars (\$40,850,000).

Code means the United States Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

Confidentiality Agreement means that certain Non-Disclosure Agreement, dated as of September 21, 2010, by and between Seller and Buyer.

Continuing Business means the business operated by Seller and its Subsidiaries as of the Closing Date (but immediately after giving effect to the Closing), and any other business incidental or relating thereto, including, among other things, (a) the provision of solutions to improve the reliability of call recording, (b) the process of employing human behavioral modeling to analyze and improve customer solutions and help optimize the performance of call center agents, (c) the process of employing human behavioral modeling and analytics in the areas of fraud analytics, collections analytics, back office analytics, predictive modeling, email analytics, and student analytics, (d) the implementation and hosting of related hardware and software, and (e) the provision of related training and add-on consulting services.

Contract means any oral or written contract, agreement, lease, indenture, mortgage, deed of trust, evidence of indebtedness, binding commitment or instrument.

Covered Equipment has the meaning set forth in Section 2.1(o).

Covered Leases has the meaning set forth in Section 2.1(o).

DGCL means the Delaware General Corporation Law, as amended from time to time.

Disclosure Schedules has the meaning set forth in the preamble to ARTICLE III.

EBITDA, with respect to any given twelve month period, shall have the meaning set forth on Exhibit 1.1(a)(i) and shall be calculated in accordance with the principles, methodologies, practices and categories set forth on Exhibit 1.1(a)(i).

EDA Set-Off Election has the meaning set forth in Section 2.5(a)(ii).

EEA Set-Off Election has the meaning set forth in Section 2.5(a)(iii)(A).

Effective Time means the effective time of the Closing, which shall be deemed to be as of 11:59 p.m. Central Standard Time on the Closing Date.

Employee Withholding Documents has the meaning set forth in Section 5.1(h).

Employees means the ICS Employees and the ICS-Allocated Employees.



Encumbrances means mortgages, deeds of trust, liens, pledges, charges, claims, security interests, options, rights of first refusal, easements, rights of way, restrictive covenants or conditions and all other encumbrances.

Environmental Condition means (a) any condition at or migrating from any Leased Real Property arising out of any Release of Hazardous Materials, or (b) any condition at any third party location arising out of a Release of Hazardous Materials treated, stored, disposed, generated, used, owned or controlled by Seller (in respect of the ICS Business) or with respect to which Seller (in respect of the ICS Business) arranged for or permitted the transportation or disposal of any Hazardous Material.

Environmental Law means any or all Laws relating to pollution, the protection of health, safety, the air, surface water, groundwater or land, and/or governing the handling, use, generation, treatment, storage or disposal of Hazardous Materials, including: (a) the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), 42 U.S.C. §9601 *et seq.*; (b) the Toxic Substances Control Act, 15 U.S.C. §2601 *et seq.*; (c) the Federal Water Pollution Control Act, 33 U.S.C. §1251 *et seq.*; (d) the Federal Solid Waste Disposal Act, 42 U.S.C. 6901 *et seq.*; (e) the Federal Clean Air Act, 42 U.S.C. §7401 *et seq.*; and (f) the Resource Conservation and Recovery Act, 42 U.S.C. §6901 *et seq.*, together with all rules, regulations and orders issued thereunder or any state or foreign equivalents thereto, and each as any of the same may have been amended up to the date hereof.

Environmental Permit means any permits, approvals, consents or other authorizations by or pursuant to any Environmental Law in effect on the date hereof, or, with respect to prior time periods, as in effect during the applicable prior period.

Equipment means all capital assets, including computers, laptops, servers, tablet computers, wires, wiring, cables, connectors, machinery, equipment, furnishings, fixtures, office equipment, motor vehicles, and other supplies and spare and repair parts, stores and other tangible personal property (whether owned or leased) primarily used in connection with the ICS Business.

ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder.

ERISA Affiliate means (i) a member of any controlled group of corporations (as defined in Section 414(b) of the Code) of which Seller is or was a member, (ii) a trade or business, whether or not incorporated, that is or was under common control (within the meaning of Section 414(c) of the Code or Section 4001(b)(1) of ERISA) with Seller, (iii) a member of any affiliated service group (within the meaning of Section 414(m) of the Code) of which Seller is or was a member, or (iv) an entity that is or was required to be aggregated with Seller pursuant to Section 414(o) of the Code.

Escrow Agreement has the meaning set forth in Section 2.5(a).

Escrow Amount has the meaning set forth in Section 2.5(a).

Escrow Expiration Date has the meaning set forth in Section 9.3.

Escrow Fund has the meaning set forth in Section 2.5(a).

Estimated Deficiency Amount shall mean, where the Estimated Target Working Capital is greater than the Estimated Working Capital, the amount by which the Estimated Target Working Capital is greater than the Estimated Working Capital.

Estimated Excess Amount shall mean, where the Estimated Working Capital is greater than the Estimated Target Working Capital, the amount by which the Estimated Working Capital is greater than the Estimated Target Working Capital.

Estimated Target Working Capital means the dollar value equal to the difference between (a) the product of (i) 1.21 and (ii) the dollar value of Current Liabilities (excluding short-term Unearned Revenue) minus (b) the dollar value of Current Liabilities (excluding short-term Unearned Revenue), in each case as at Prior Month End and as set forth on the PME Statement. Notwithstanding the foregoing, Current Liabilities shall exclude all accrued items related to Taxes (including deferred Tax items) other than Taxes that will be Assumed Taxes if included on the ICS Business Closing Date Balance Sheet.

Estimated Working Capital means the dollar value equal to the difference between (a) the dollar value of Current Assets (excluding short-term Prepaid-Cost Deferrals) minus (b) the dollar value of Current Liabilities (excluding short-term Unearned Revenue), in each case as at Prior Month End and as set forth on the PME Statement. Notwithstanding the foregoing, Current Assets and Current Liabilities shall exclude all accrued items related to Taxes (including deferred Tax items) other than Taxes that will be Assumed Taxes if included on the ICS Business Closing Date Balance Sheet.

Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

Excluded Assets means all of the assets, properties, rights and interests of Seller that are set forth in Section 2.2.

Final Deficiency Amount has the meaning set forth in Section 2.7(i).

Final Excess Amount has the meaning set forth in Section 2.7(j).

Final Managed Services Amount means the Closing Date Managed Services Amount, as finally determined in accordance with Section 2.7(b) or (c), as the case may be.

Final Target Working Capital means the dollar value equal to the difference between (a) the product of (i) 1.21 and (ii) the dollar value of Current Liabilities (excluding short-term Unearned Revenue) minus (b) the dollar value of Current Liabilities (excluding short-term Unearned Revenue), in each case as at the close of business on the Closing Date and as set forth on the Closing Date Statement, as finally determined pursuant to Section 2.7. Notwithstanding the foregoing, Current Liabilities shall exclude all accrued items related to Taxes (including deferred Tax items) other than Taxes that will be Assumed Taxes if included on the ICS Business Closing Date Balance Sheet.

Financial Statements means the audited consolidated statements of income, equity and cash flows of Seller for the fiscal year ended December 26, 2009, and the audited consolidated balance sheet of Seller as of December 26, 2009, all prepared in accordance with GAAP consistently applied.

GAAP means U.S. generally accepted accounting principles.

Government Contract shall mean any Contract entered into between Seller or any of its Subsidiaries and (i) the United States government, (ii) any prime contractor to the United States government (in its capacity as such) or (iii) any subcontractor with respect to any Contract described in clauses (i) or (ii).

Governmental Authority means any United States federal, state or local, or any foreign government, governmental authority, regulatory or administrative agency, governmental commission, court or tribunal (or any department, bureau or division thereof).

Hazardous Materials means any pollutant, toxic substance, hazardous waste, hazardous material, or hazardous substance, as any of the foregoing may be defined in or with respect to which liability or standards of conduct are imposed under any Environmental Law, including petroleum, petroleum products, asbestos, asbestos containing materials, urea formaldehyde and polychlorinated biphenyls.

ICS-Allocated Employees means those individuals employed by Seller who are primarily associated with and allocated to the ICS Business and who are identified on Disclosure Schedule 3.21(d)(ii).

ICS Benefit Plan means a Benefit Plan providing benefits to any current or former Worker of the ICS Business.

ICS Business has the meaning set forth in the Recitals.

ICS Business Accounting and Process System has the meaning set forth in Section 6.14(b).

ICS Business Balance Sheet has the meaning set forth in the definition of ICS Business Segment Financial Statements contained in this Section 1.1.

ICS Business Closing Date Balance Sheet means the unaudited balance sheet of Seller with respect to the ICS Business Segment as of immediately prior to the consummation of the Closing.

ICS Business Segment has the meaning set forth in the Recitals.

ICS Business Segment Financial Statements means the unaudited balance sheet of Seller with respect to the ICS Business Segment as of January 1, 2011 (the ICS Business Balance Sheet ) and the unaudited statement of income of Seller with respect to the ICS Business Segment for the period which began on December 27, 2009 and ended January 1, 2011.

ICS Employees means those individuals employed by Seller in respect of or assigned to the ICS Business Segment and who are identified on Disclosure Schedule 3.21(d)(i).

ICS Software has the meaning set forth in Section 3.19(a).

Indemnification Basket has the meaning set forth in Section 9.6(a).

Indemnified Party has the meaning set forth in Section 9.3.

Indemnifying Party has the meaning set forth in Section 9.3.

Independent Accountant means Deloitte LLP.

Insurance Policies has the meaning set forth in Section 2.2(1).

Intellectual Property means all intellectual property or other proprietary rights of every kind, foreign or domestic, whether registered or unregistered, including all: patents and patent applications and the right to file any continuation, continuation-in-part, divisional, reissue or reexamination applications therefore; trademarks, service marks, and trade dress, trade names, brand names, fictitious names, logos, slogans, designs or other designators of origin and registrations and applications for registration therefor; internet domain names, uniform resource locators and email addresses; trade secrets, Know-How, and confidential and proprietary business or technical information (including customer and supplier lists, pricing and cost information, business and marketing plans and data); copyrights and copyrightable subject matter or protectable designs and registrations and applications for registration therefor; and all proprietary rights in formulae, processes, software programs, technology, databases, inventions and discoveries, whether or not patentable, copyrightable or otherwise subject to registration.

Intercompany Payables means payables due from Seller in connection with the ICS Business, to (a) any division or business unit of Seller other than the ICS Business Segment, or (b) any of Seller's Affiliates.

IP License means any license, sublicense, distributor agreement, covenant not-to-sue or other agreement or permission, including the right to receive royalties or any other consideration, pertaining to Intellectual Property.

Irish Entity means eLoyalty International Limited, an Irish company wholly-owned by Seller.

Irish Entity Equity has the meaning set forth in Section 2.1(n).

Irish Scheme means the Irish Entity's Group Pension Scheme administered by Hibernian Life & Pensions Limited.

IRS means the United States Internal Revenue Service.

Know-How means the Intellectual Property related to any tools, processes, or methodologies used by Seller to perform the Services.

Law means any federal, state or local, domestic or foreign, statute, law, ordinance, decree, order, injunction, rule, directive, or regulation of any government or quasi-Governmental Authority, and includes rules and regulations of any regulatory authority or self-regulatory organization compliance with which is required by Law, in effect on the date hereof, or, with respect to prior time periods, as in effect during the applicable prior period.

Leased Real Property means all real property subject to a lease pursuant to which Seller (in relation to the ICS Business) is a lessee or tenant as of the date hereof.

Legal Proceedings means any claim, action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, judicial, investigative or appellate proceeding, whether public or private, and whether formal or informal), hearing, inquiry, audit, examination, investigation, determination of appeal or assessment inquiry, hearing, litigation or prosecution commenced, whether brought, initiated, conducted, asserted or maintained by a court or Governmental Authority or any other Person.

Liabilities means all liabilities, claims, obligations, costs, expenses or damages, whether known or unknown, contingent or absolute, named or unnamed, disputed or undisputed, legal or equitable, determined or indeterminable, accrued or unaccrued, or liquidated or unliquidated.

Licenses and Permits has the meaning set forth in Section 3.14.

Local Currency means the currency of the jurisdiction in which Seller of each applicable Purchased Asset is located.

Loss or Losses means each and all of the following items to the extent actually paid or incurred: losses, assessments, damages, dues, amounts paid in settlement, defense costs, Taxes, Encumbrances, costs, expenses (including reasonable attorneys', accountants' and experts' fees and disbursements), fines, interests and penalties paid to or recovered by a third party with respect thereto, of any nature whatsoever, but excluding any special, exemplary, punitive, treble, indirect, remote, speculative or consequential damages (including internal costs, but excluding, with respect to any Assumed Contract, lost profits that are probable and reasonably foreseeable in the event of a breach of any representation of warranty in Article III or any covenant of Seller contained herein relating to such Assumed Contract, which lost profits, for avoidance of doubt, shall constitute Losses) (other than any such damages awarded to any third party against an Indemnified Party).

Managed Services Determination Date has the meaning set forth in Section 2.7(e).

Managed Services Amount means, as of any date, (i) the sum of (a) Unearned Revenue and (b) Long-Term Unearned Revenue minus (ii) the sum of (a) Prepaids Cost Deferrals and (b) Long-Term Prepaids Cost Deferrals (each of which shall be, for purposes of determining the Closing Date Managed Services Amount, as set forth on the Closing Date Statement). For purposes of this Acquisition Agreement, the terms Long-Term Unearned Revenue and Long-Term Prepaids Cost Deferrals shall have meanings correlative to the manner in which such terms are used in the ICS Business Balance Sheet.

Managed Services Transfer Amount means an amount, in U.S. dollars, equal to the Managed Services Amount as at Prior Month End.

Material Adverse Effect means any material adverse effect, circumstance or change, or any violation or other matter, if such material adverse effect, circumstance, change, violation or other matter, either individually or in the aggregate with all other effects, circumstances, changes, violations or other matters, has or could reasonably be expected to have (either before or after the Closing) a material adverse effect on the business, prospects, Assets, condition (including financial condition) or results of operations of the ICS Business Segment, taken as a whole, but excluding any effect, circumstance, change, violation or other matter to the extent directly resulting from or directly attributable to any of the following: (a) economic effects or changes that are generally applicable to the industries or markets in which Seller operates in respect of the ICS Business Segment, (b) general changes in the United States or world financial markets or general economic conditions, (c) any adverse change, event, development or effect arising from or relating to (i) any Laws or regulatory conditions issued by any Governmental Authority that does not relate only to the ICS Business Segment or (ii) any changes in GAAP or other accounting requirements or principles or interpretation thereof, (d) the announcement, pendency or consummation of the transactions contemplated by this Agreement, (e) actions or omissions of Seller or any of its Subsidiaries that are taken after the date hereof and required by this Agreement or taken with the prior written consent of Buyer, and (f) the commencement or continuation of a natural disaster, war, armed hostilities, acts of terrorism or any other local, international or national calamity, whether or not involving the United States (except, in the case of clauses (a), (b) and (f), to the extent such effect, change or occurrence disproportionately affects Seller in respect of the ICS Business Segment in a material adverse way when compared to other Persons in the same industry or market). For purposes of this Acquisition Agreement, a Material Adverse Effect relating to the financial condition or results of operations of Seller in respect of the ICS Business Segment taken as a whole shall be deemed (A) to exist or have occurred where any such effect, circumstance, change, violation or other matter, in the aggregate with all other effects, circumstances, changes, violations or other matters could reasonably be expected to result (either before or after the Closing) in (X) Losses or Liability to Buyer of \$750,000 or more in the aggregate within 12 months of the Closing or (Y) EBITDA for any twelve month period ending at the end of a calendar quarter during 2011 equaling no more than 92.5% of EBITDA for the corresponding twelve month period ended at the end of the corresponding calendar quarter during 2010, and (B) not to exist or have occurred where any such effect, circumstance, change, violation or other matter, in the aggregate with all other effects, circumstances, changes, violations or other matters could not reasonably be expected to result (either before or after the Closing) in (X) Losses or Liability to Buyer of \$750,000 or more in the aggregate within 12 months of the Closing or (Y) EBITDA for any twelve month period ending at the end of a calendar quarter during 2011 equaling no more than 92.5% of EBITDA for the corresponding twelve month period ended at the end of the corresponding calendar quarter during 2010.

Material Contracts has the meaning set forth in Section 3.13(a).

Non-U.S. Benefit Plans means all Benefit Plans other than U.S. Benefit Plans.

Notice of Claim has the meaning set forth in Section 9.3.

Notice Period has the meaning set forth in Section 6.18(c).

Off-the-Shelf Software means software owned by third parties and licensed to Seller on a non-exclusive basis and in substantially the same form offered to other non-exclusive licensees, excluding all open source software.

Order means any award, decision, injunction, judgment, writ, order, direction, summons, decree, ruling, demand, subpoena, assessment, reassessment, verdict or arbitration award entered, issued, made or rendered by any Governmental Authority or by any arbitrator, whether final, interim or interlocutory.

Ordinary Course means, with respect to Seller (in respect of the ICS Business), the ordinary course of commercial operations customarily engaged in by Seller (in respect of the ICS Business) consistent with past custom and practice (including with respect to frequency and amount).

Other Confidential Information has the meaning set forth in Section 6.8(b).

Party means any of Seller, Buyer or Parent, and Parties means all of them.

Permitted Encumbrances means, collectively, (a) Encumbrances that are disclosed on Exhibit 1.1(b), (b) liens relating to Taxes, fees, levies, duties or other governmental charges of any kind which are not yet delinquent, (c) liens for landlords, mechanics, materialmen, laborers, employees, suppliers or similar liens arising by operation of law, (d) such matters of record, imperfections of title, easements and encumbrances, if any, as do not interfere in any material respect with the ownership, use, value or marketability of the Purchased Assets or the ICS Business, (e) licenses granted to others, in each case under clauses (b) and (c) hereof, which secure payment obligations with respect to amounts not yet due and payable (or the validity of which is being contested in good faith and by appropriate Legal Proceedings), and for which reserves in the full amount necessary to satisfy the Encumbrances have been set aside, (f) Encumbrances, shortages in area or any other facts that would be disclosed by a physical inspection of the Leased Real Property, (g) present and future zoning, building codes, entitlements and other land use regulations adopted by any Governmental Authority regulating the use or occupancy of the Leased Real Property or the activities conducted thereon, provided, that the Leased Real Property and its current use does not currently violate any of the same, (h) municipal by-laws and other agreements with any Governmental Authority having jurisdiction over the Leased Real Property, provided, that the Leased Real Property and its current use does not currently violate any of the same, and (i) any Encumbrances that are released or otherwise terminated at or prior to Closing.

Person means any individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof, and a foreign equivalent of any of the foregoing or other entity.

PME Statement shall have the meaning ascribed to such term in Section 6.16.

Post-Closing Periods means all taxable periods commencing the day after the Closing Date.

Pre-Closing Periods means all taxable periods commencing on or prior to the Closing Date.

Prior Month End means close of business on the last day of Seller's fiscal month end immediately preceding the Closing Date.

Prior Month End Balance Sheet means the unaudited balance sheet of Seller with respect to the ICS Business Segment dated as of the Prior Month End.

Proxy Statement means a proxy statement relating to the Seller Stockholder Meeting, as may be amended or supplemented from time to time.

Purchase Price has the meaning set forth in Section 2.5.

Purchased Assets has the meaning set forth in Section 2.1.

Qualified Plans has the meaning set forth in Section 3.22(b).

Records has the meaning set forth in Section 6.5.

Related Agreements means (a) the Transition Services Agreement, (b) the Voting Agreements with the Approving Stockholders, and (c) the Escrow Agreement.

Release means any spilling, leaking, emitting, discharging, disposing, depositing, escaping, leaching, migration or dumping into the environment.

Representatives has the meaning set forth in Section 6.11(a).

Required Consents has the meaning set forth in Section 6.6.

Retained Liabilities means liabilities of Seller set forth in Section 2.4.

Sarbanes-Oxley Act means the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder.

SEC means the United States Securities and Exchange Commission.

Securities Act shall mean the Securities Act of 1933, as amended.

Seller has the meaning set forth in the preamble.

Seller Adverse Recommendation Change has the meaning set forth in Section 6.11(c).

Seller Adverse Recommendation Notice has the meaning set forth in Section 6.11(d).

Seller Board means the Board of Directors of Seller or any authorized committee thereof.

Seller Board Recommendation has the meaning set forth in Section 3.26.

Seller Common Stock means Seller's common stock, \$0.01 par value.

Seller Confidential Information has the meaning set forth in Section 6.8(c).

Seller Series B Stock means Seller's Series B convertible preferred stock, \$0.01 par value.

Seller Stockholder Approval means the affirmative vote of a majority of the voting power of the issued and outstanding shares of Seller Common Stock and Seller Series B Stock voting in accordance with the provisions of Seller's certificate of incorporation and by-laws as in effect on the date of such vote approving the sale of the ICS Business Segment pursuant to the terms set forth in this Acquisition Agreement and the amendment of Seller's certificate of incorporation to change Seller's corporate name.

Seller Stockholder Meeting has the meaning set forth in Section 6.3(a).

Seller SEC Reports has the meaning set forth in Section 3.7.

Seller Withdrawal Recommendation has the meaning set forth in Section 6.11(c).

Seller's Accountant means Grant Thornton LLP.

Seller's Knowledge shall mean the actual knowledge of any of the individuals set forth on Exhibit 1.1(c), after due inquiry and reasonable investigation.

Services has the meaning set forth in Section 3.15.

Set-Off Election has the meaning set forth in Section 2.5(a)(ii).

Severance Costs has the meaning set forth in Section 5.1(b)(ii).

Software means (i) software, firmware, middleware, and computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source, object, executable or binary code, and whether provided on electronic media or otherwise preinstalled on computers or other equipment, (ii) databases and compilations, including any and all libraries, data and collections of data, whether machine readable, on paper or otherwise, (iii) descriptions, flow-charts and other work product used to design, plan, organize, maintain, support or develop any of the foregoing, (iv) the technology supporting, and the contents and audiovisual displays on any web sites, (v) all documentation, including programmers' notes and source code annotations, user manuals and training materials relating to any of the foregoing, including any translations thereof, and (vi) all other works of authorship and media relating to or embodying any of the foregoing or on which any of the foregoing is recorded.

Solvent has the meaning set forth in Section 3.28.

Standard Procedure has the meaning set forth in Section 5.1(h).

Statutory Plans means retirement savings and benefit plans that Seller or any of Seller's Affiliates is required by applicable Law to participate in or contribute to in respect of an employee, officer or director of Seller or any beneficiary or dependent thereof, including plans administered pursuant to applicable health, Tax, workplace safety insurance and employment insurance legislation, but excluding any such benefit plan that is sponsored or maintained by Seller or any of Seller's Affiliates.

Subsidiary of a Person means any other Person, fifty percent (50%) or more of the voting stock (or of any other form of other voting or controlling equity interest in the case of a Person that is not a corporation) of which is beneficially owned by such Person directly or indirectly through one or more other Persons.

Superior Proposal has the meaning set forth in Section 6.11(g)(ii).

Tax or Taxes means any federal, state, provincial, local or foreign income (including income tax required to be deducted or withheld from or accounted for in respect of any payment), gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, capital gain, intangible, environmental (pursuant to Section 59A of the Code or otherwise), custom duties, capital stock, franchise, Employee's income withholding, foreign withholding, social security (or its equivalent), unemployment, disability, workers compensation, employee health, real property, personal property, sales, use, transfer, value added, goods and services, social services, registration, alternative or add-on minimum, estimated or other tax, duty, rate or other levy and any other taxes, duties, levies, charges or withholdings corresponding to, similar to, replaced by or replacing any of them, including any interest, penalties or additions to tax in respect of the foregoing, whether or not disputed.

Tax Liability shall mean any Liability with respect to Taxes.

Tax Returns means all returns, reports, estimates, declarations, claims for refund, information returns or statements relating to, or required to be filed in connection with any Taxes, including any schedule or attachment thereto, and including any amendment or supplement thereof.



Termination Expenses has the meaning set forth in Section 10.2(c)(i)(B).

Termination Fee has the meaning set forth in Section 10.2(c)(i)(A).

Third Party Acquisition Agreement has the meaning set forth in Section 6.11(a).

Third Party Software has the meaning set forth in Section 3.19(a).

Third Person has the meaning set forth in Section 9.4.

Third Person Claim has the meaning set forth in Section 9.4.

Transferred Employees means those Employees who, pursuant to Section 5.1(a), accept employment with Buyer or any of its Affiliates or whose employment transfers from Seller or an Affiliate of Seller to Buyer or any of its Affiliates by operation of Law. Employees of Seller (in respect of the ICS Business Segment) who, as of the Effective Time, are on approved leave of absence for military, workers' compensation, short or long-term disability, family illness, or parental leave shall be included.

Transition Services Agreement means an agreement in the form attached hereto as Exhibit B by and between Buyer and Seller regarding services to be provided by Seller to Buyer during the transition period immediately following the sale of the ICS Business.

UK Scheme means the Irish Entity's Group Personal Pension Scheme administered by Standard Life.

U.S. Benefit Plan means a Benefit Plan maintained in the United States.

U.S. Transferred Employees means the Transferred Employees who are Employees employed by Seller in respect of the ICS Business Segment in the United States.

Voting Agreement means each agreement, in the form attached as Exhibit C-1 or Exhibit C-2 hereto, by and between Buyer, on the one hand, and one or more Approving Stockholders, on the other (each such agreement, a Voting Agreement). For avoidance of doubt, all Approving Stockholders shall enter into Voting Agreement with Buyer.

WARN Act has the meaning set forth in Section 5.1(f).

Worker means any employee, officer, director, consultant, contingent worker, leased employee, or independent contractor of Seller or any of its Affiliates.

Working Capital Balance Sheet means the unaudited balance sheet of Seller with respect to the ICS Business Segment dated as of the close of business of the Closing Date.

## ARTICLE II

### PURCHASE AND SALE OF THE BUSINESS

2.1 Purchase and Sale of Assets. Upon the terms and subject to the conditions of this Acquisition Agreement, as of the Effective Time, Seller shall sell, assign, transfer and convey to Buyer (or such Affiliates of Buyer as Buyer may direct), and Buyer (or such Affiliates of Buyer as Buyer may direct) shall purchase, acquire and accept from Seller, all of Seller's right, title and interest to and in all of the Assets owned by Seller that are necessary for or primarily used in, or necessary for or primarily held for use in, the ICS Business, of every kind and description, wherever located, real, personal or mixed, tangible or intangible, as the same shall exist at the

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Effective Time, free and clear of all Encumbrances other than Permitted Encumbrances (the Purchased Assets ); *provided, however*, that in no event shall the Purchased Assets include any Excluded Assets or Assets to which Buyer receives the benefit under the Transition Services Agreement. Without limiting the generality of the foregoing, the Purchased Assets shall include (other than Excluded Assets) all right, title and interest in, to and under:

- (a) all Accounts Receivable;
- (b) all Pre-Paid Cost Deferrals, current and long-term, primarily relating to the Purchased Assets of the ICS Business;
- (c) all leases that are set forth on Exhibit 2.1(c) pursuant to which Seller leases Leased Real Property (the Assumed Real Property Leases );
- (d) all Equipment other than Covered Equipment, including that set forth on Exhibit 2.1(d), together with any express or implied warranty by the manufacturers, sellers or lessors of any item or component part thereof and all maintenance records and other documents relating thereto;
- (e) all rights of Seller in, to and under the Assumed Contracts;
- (f) all Assets listed on Exhibit 2.1(f);
- (g) all of Seller's rights, claims, counterclaims, credits, causes of action or rights of set-off against third parties primarily relating to the ICS Business, liquidated or unliquidated, including unliquidated rights under manufacturers' and vendors' warranties, except to the extent they relate to Excluded Assets or Retained Liabilities;
- (h) all Intellectual Property required to operate, or primarily related to, the ICS Business, including the name eLoyalty and all Intellectual Property listed on Exhibit 2.1(h) and all goodwill associated therewith;
- (i) all books, records, files and papers (whether in original or copied form), whether in hard copy or computer format, primarily relating to the ICS Business, including engineering information and records, sales and promotional literature, manuals and data, sales and purchase correspondence, lists of present and former suppliers, lists of present and former customers, personnel and employment records, as well as all books and records in respect of the ICS Business necessary for Buyer to be able to comply with all applicable requirements (including reporting requirements) of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act, as the case may be, in respect of the ICS Business;
- (j) all goodwill associated with the ICS Business and the Purchased Assets;
- (k) all rights of Seller in, to and under those Licenses and Permits set forth on Exhibit 2.1(k) (the Assumed Licenses );
- (l) (i) if there was an Estimated Deficiency Amount and Buyer has not made an EDA Set-Off Election, cash and cash equivalents in amount equal to the sum of the Managed Services Transfer Amount and the Estimated Deficiency Amount;
- (ii) if (A) there was an Estimated Excess Amount and (B) Buyer has not made an EEA Set-Off Election and (C) the Estimated Excess Amount is less than the Managed Services Transfer Amount, cash and cash equivalents in amount equal to the Managed Services Transfer Amount minus the Estimated Excess Amount;
- (m) all of Seller's right, title and interest to and in any and all insurance proceeds relating to any Purchased Assets to the extent the corresponding Liability is an Assumed Liability hereunder;
- (n) all of the outstanding shares (or comparable equity interests) of the Irish Entity, whether held by Seller or any other Person (the Irish Entity Equity );
- (o) all of Seller's right, title and interest to and in the Equipment (and all rights of Seller in, to and under the leases with respect to such Equipment pursuant to which Seller is a lessee as of the date hereof (such leases, the Covered Leases )) set forth on Exhibit 2.1(o) (such equipment, the Covered

Equipment ), together with any express or implied warranty by the manufacturers, sellers or lessors of any item or component part thereof and all maintenance records and other documents relating thereto; and

(p) all other Assets owned by Seller that are primarily used in, or are necessary for, the operation of the ICS Business (including all Assets of Seller outstanding immediately prior to the Closing and set forth on the ICS Business Closing Date Balance Sheet that are not listed in clauses (a) through and (o) above) other than the Excluded Assets or Assets to which Buyer receives the benefit under the Transition Services Agreement.

2.2 Excluded Assets. Notwithstanding any provision in this Acquisition Agreement or any other writing to the contrary, all other assets, properties, rights, licenses and businesses owned by Seller (the Excluded Assets ) shall be retained by Seller and shall be excluded from the Purchased Assets, including all of the following:

(a) cash and cash equivalents (other than: (i) cash and cash equivalents in amount equal to the sum of the Managed Services Transfer Amount and the Estimated Deficiency Amount if there was an Estimated Deficiency Amount and Buyer has not made an EDA Set-Off Election, or (ii) cash and cash equivalents in amount equal to the Managed Services Transfer Amount minus the Estimated Excess Amount if (A) there was an Estimated Excess Amount and (B) Buyer has not made an EEA Set-Off Election and (C) the Estimated Excess Amount is less than the Managed Services Transfer Amount);

(b) intercompany accounts receivable;

(c) any assets used by Seller in connection with businesses (including the Continuing Business) other than the ICS Business, *provided* that such assets are not primarily used in, or necessary for, the ICS Business;

(d) any Assets relating to the Benefit Plans of Seller;

(e) any Assets which primarily relate to or primarily correspond to a Retained Liability;

(f) all trademarks, service marks, trade names, corporate names, brand names, domain names, logos or other designations of Seller, other than those transferred pursuant to Section 2.1(h);

(g) all real property interests of Seller not set forth on Exhibit 2.1(c);

(h) the issued and outstanding shares of stock of any Subsidiary of Seller (other than the outstanding shares (or similar equity interests) of the Irish Entity);

(i) any Assets used by any of Seller's strategic business units (other than the ICS Business Segment), *provided* that such Assets are not primarily used in, or necessary for the operation of, the ICS Business;

(j) all rights of Seller in, to and under all Licenses and Permits not transferred to Buyer pursuant to Section 2.1(k);

(k) other than any and all assets part of the Purchased Assets pursuant to Section 2.1(m), any Contracts of insurance, any insurance policies held by Seller or any of its Affiliates (the Insurance Policies ), or any related prepaid Assets in respect of the ICS Business (including prepaid insurance attributable to insurance coverage provided by Seller which will not continue following the Closing Date);

(l) any marketing materials of Seller (including any photographs displayed on Seller's website, proposals, presentation materials or otherwise), but only to the extent such marketing materials do not contain any trademarks, service marks, trade names, corporate names, brand names, domain names, logos, designations or any other Intellectual Property transferred pursuant to Section 2.1(h);

(m) all rights of Seller in, to and under Contracts that are not Assumed Contracts, Assumed Real Property Leases or Covered Leases with respect to the Covered Equipment; and

(n) the Assets set forth on Exhibit 2.2(n).

2.3 Assumption of Liabilities. Upon the terms and subject to the conditions of this Acquisition Agreement, as of the Effective Time, Seller shall assign and transfer to Buyer (or such Affiliate of Buyer as Buyer may



direct), and Buyer (or such Affiliate of Buyer as Buyer may direct) shall assume and agree to discharge and perform when due the following Liabilities of Seller relating to the ICS Business (the Assumed Liabilities ); *provided, however*, that in no event shall the Assumed Liabilities include any Retained Liability:

(a) all obligations of Seller as of the Effective Time for performance after the Effective Time under the executory portion of each Covered Lease (but solely with respect to Covered Equipment), Assumed Real Property Lease and Contract listed on Exhibit 2.3(a) (the Assumed Contracts ), but not including any Liability for any breach or default (with or without notice or lapse of time) thereunder accruing during, arising out of or related to the period on or prior to the Effective Time;

(b) all Liabilities relating to Transferred Employees that are assumed by Buyer or Parent pursuant to Section 5.1 and set forth on the ICS Business Closing Date Balance Sheet;

(c) obligations associated with Unearned Revenue, current and long-term, relating solely to Assumed Contracts and that are set forth on the ICS Business Closing Date Balance Sheet;

(d) the Liabilities set forth on Exhibit 2.3(d);

(e) (i) all employment and payroll Taxes relating to the Transferred Employees that have been accrued on or before the Closing Date to the extent attributable to wages payable after the Closing Date, (ii) all real property or personal property Taxes relating to the Purchased Assets that have been accrued on or before the Closing Date but are payable after the Closing Date and (iii) all Taxes of the Irish Entity that have been accrued for periods (or portions thereof) ending on or before the Closing Date but are payable after the Closing Date; but only, in each case, to the extent such items have been included as a Liability on the ICS Business Closing Date Balance Sheet (collectively, the Assumed Taxes );

(f) all environmental Liabilities relating to the Assumed Real Property Leases (to the extent such environmental Liabilities are set forth on the ICS Business Closing Date Balance Sheet) or the conduct of the ICS Business after the Closing; and

(g) any other Liabilities of Seller outstanding immediately prior to the Closing and set forth on the ICS Business Closing Date Balance Sheet (including Accounts Payable that are not Retained Liabilities under Section 2.4(j) below and any sales or value-added Tax payable with respect to Accounts Receivable that has been accrued on the ICS Business Closing Date Balance Sheet).

2.4 Retained Liabilities. Except for the Assumed Liabilities, all other Liabilities and obligations of Seller and its Affiliates (collectively, the Retained Liabilities ) shall be retained by Seller and its Affiliates and shall not be assumed or discharged by Buyer. Without limiting the generality of the foregoing, the Retained Liabilities shall include the following:

(a) any Liability which relates to or corresponds to an Excluded Asset;

(b) except as provided in Section 5.1, any and all Liabilities related to Benefit Plans, Statutory Plans, and multiemployer plans within the meaning of Section 3(37) of ERISA, all Liabilities for which Seller may be liable by reason of having or having had an ERISA Affiliate, and other Employee matters to be retained by Seller as provided in this Acquisition Agreement;

(c) any and all Liabilities of Seller arising under this Acquisition Agreement;

(d) any and all indebtedness for money borrowed from others;

(e) except as provided in Section 2.3(f), all environmental Liabilities (including in respect of any Environmental Law);

(f) any matters disclosed or required to be disclosed on Disclosure Schedule 3.11;

(g) any and all Liabilities of Seller which otherwise arise or are asserted or incurred by reason of events, acts or transactions occurring, or the operation of the ICS Business, prior to or on the Closing Date, whether or not disclosed on the schedules hereto, that are not Assumed Liabilities hereunder;

(h) any and all Liabilities of Seller relating to, arising out of, or incurred with respect to any and all employees (and their beneficiaries) of Seller (whether or not such employees become employees of Buyer), all former employees of Seller (and their beneficiaries), and any employee Contracts of Seller or any of its Subsidiaries and Affiliates (including, but not limited to, any severance payments payable to any of Seller's employees), and employee payroll and related Taxes, other than any such Liability assumed by Parent or Buyer pursuant to and in accordance with Section 5.1 (provided that, for avoidance of doubt, the Liabilities assumed by Parent or Buyer pursuant to and in accordance with Section 5.1 shall not include Liabilities of Seller relating to, arising out of, or incurred with respect to any employee Contracts entered into by Seller with Steve Pollema, Steve Parowski, Mike McKnight, Ian Kerr or Steve Drew);

(i) other than Assumed Taxes, any and all Liabilities of Seller relating to Taxes, including, without limitation, any Taxes attributable to Seller's operation of the ICS Business, ownership of the Purchased Assets or employment of the Transferred Employees for periods (or portions thereof) ending on or before the Closing Date;

(j) Accounts Payable and any and all other Liabilities of Seller relating to, arising out of, or incurred with respect to any and all Contracts that are not Assumed Contracts or Assumed Real Property Leases;

(k) Accounts Payable and any and all other Liabilities of Seller (other than obligations of Seller as of the Effective Time for performance by Buyer after the Effective Time under the executory portion thereof with respect to Covered Equipment) relating to Covered Leases; and

(l) any and all Liabilities of Seller relating to Indebtedness of Seller or any Affiliate thereof.

Notwithstanding anything to the contrary contained herein, Seller's obligation to pay the Tax Liabilities of the Irish Entity for all purposes allocable to the periods ending (or deemed to end) on or before the Closing Date shall be treated as a Retained Liability of Seller for all purposes of this Agreement.

2.5 Consideration. The aggregate consideration that Buyer shall pay Seller for the Purchased Assets and other rights of Buyer hereunder shall be the Closing Payment, subject to adjustment as provided in Section 2.7 (the Purchase Price).

(a) The Closing Payment, as increased by any Estimated Excess Amount or as decreased by any Estimated Deficiency Amount, will be payable by Buyer to Seller in immediately available funds, and shall be paid as follows:

(i) One Million Five Hundred Thousand U.S. Dollars (\$1,500,000) (the Escrow Amount) via wire transfer of immediately available funds into an escrow account to be distributed in accordance with the terms of this Acquisition Agreement and an escrow agreement substantially in the form of Exhibit D hereto (the Escrow Agreement). The Escrow Amount, as adjusted from time to time, together with any undistributed interest earned thereon, is sometimes referred to herein as the Escrow Fund.

(ii) If there is an Estimated Deficiency Amount, an amount, via wire transfer of immediately available funds, equal to (A) the Closing Payment minus (B) the sum of (1) the Escrow Amount and (2) either (a) if so elected in writing by Buyer no later than two (2) Business Days prior to the Closing Date, an amount equal to the sum of the Managed Services Transfer Amount and the Estimated Deficiency Amount (the EDA Set-Off Election), or (b) if Buyer has not made the EDA Set-Off Election, an amount equal to zero; provided, that if Buyer has not made the EDA Set-Off Election, an amount equal to the sum of the Managed Services Transfer Amount and the Estimated Deficiency Amount shall be payable by Seller to Buyer in immediately available funds.

(iii) If there is an Estimated Excess Amount and:

(A) such amount is less than the Managed Services Transfer Amount, an amount, via wire transfer of immediately available funds, equal to (1) the Closing Payment minus (2) the sum of

(a) the Escrow Amount and (b) either (i) if so elected in writing by Buyer no later than two (2) Business Days prior to the Closing Date, an amount equal to the Managed Services Transfer Amount minus the Estimated Excess Amount (the EEA Set-Off Election ), or (ii) if Buyer has not made the EEA Set-Off Election, an amount equal to zero; provided, that if Buyer has not made the EEA Set-Off Election and the Estimated Excess Amount is less than the Managed Services Transfer Amount, an amount equal to the Managed Services Transfer Amount minus the Estimated Excess Amount will be payable by Seller to Buyer in immediately available funds, or

(B) such amount is greater than the Managed Services Transfer Amount, an amount, via wire transfer of immediately available funds, equal to (1) the sum of (x) the Closing Payment and (y) an amount equal to the Estimated Excess Amount minus the Managed Services Transfer Amount, minus (2) the Escrow Amount.

2.6 Closing. The Closing shall take place at 9:00 a.m. on the Closing Date at the offices of Neal, Gerber & Eisenberg LLP in Chicago, Illinois, or on such other date and at such other place as the Parties may agree in writing.

(a) At Closing, Seller shall deliver or cause to be delivered to Buyer:

(i) the documents and other items identified in Section 7.9, and

(ii) by wire transfer of immediately available funds, in accordance with wire transfer instructions for Buyer set forth on Exhibit 2.6, an amount, if any, equal to:

(A) the sum of the Managed Services Transfer Amount and the Estimated Deficiency Amount if there is an Estimated Deficiency Amount and Buyer has not made the EDA Set-Off Election, or

(B) the Managed Services Transfer Amount minus the Estimated Excess Amount if there is an Estimated Excess Amount that is less than the Managed Services Transfer Amount and Buyer has not made the EEA Set-Off Election.

(b) At Closing, Buyer shall deliver:

(i) the Escrow Amount in accordance with Section 2.5(a)(i) above, and

(ii) to Seller (A) the documents and other items identified in Section 8.7 and (B) the Closing Payment and, if there is an Estimated Excess Amount that exceeds the Managed Services Transfer Amount, an amount equal to the Estimated Excess Amount minus the Managed Services Transfer Amount, in each case by wire transfer of immediately available funds, in accordance with the wire transfer instructions for Seller set forth on Exhibit 2.6.

2.7 Managed Services & Working Capital Adjustments. The Purchase Price shall be adjusted as of the Closing in the following manner:

(a) As soon as practicable following the Closing Date, but in any event no later than sixty (60) days following the Closing Date, Buyer shall prepare and deliver to Seller the Working Capital Balance Sheet, together with a statement (the Closing Date Statement ), which shall: (A) set forth (1) the Managed Services Amount as of the Closing Date (the Closing Date Managed Services Amount ), (2) the Closing Date Working Capital, and (3) the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be, each prepared from Seller's books and records in respect of the ICS Business Segment and in accordance with Seller's historical accounting principles, methods, practices and categories (and, in the case of the Working Capital Balance Sheet, prepared in accordance with GAAP, consistently applied); and (B) reflect no write-up of any individual Asset of the ICS Business which was included in the ICS Business Balance Sheet and is included in the Working Capital Balance Sheet to a value greater than its value on the ICS Business Balance Sheet. Buyer and Buyer's Accountant shall make all of their work papers and other reasonably relevant documents in connection with the preparation of the Working Capital Balance Sheet and the Closing Date Statement available to Seller and Seller's Accountant, and shall make the

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persons in charge of the preparation of the Working Capital Balance Sheet and Closing Date Statement available for reasonable inquiry by Seller and Seller's Accountant.

(b) Seller shall notify Buyer in writing as soon as practicable, and in no event more than twenty (20) days, following receipt of the Working Capital Balance Sheet and the Closing Date Statement if it does not agree with the Closing Date Managed Services Amount, the Closing Date Working Capital and/or the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be, set forth thereon, in which case Buyer and Buyer's Accountant, on the one hand, and Seller and Seller's Accountant, on the other, shall use their good faith efforts during the ten (10) day period following the date Buyer received such notice from Seller to resolve any differences they may have as to the Closing Date Managed Services Amount, the Closing Date Working Capital and/or the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be. If Seller fails to notify Buyer in writing within such twenty (20) day period that it does not agree with the Closing Date Managed Services Amount, the Closing Date Working Capital and/or the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be, set forth on the Closing Date Statement, then the Closing Date Managed Services Amount, the Closing Date Working Capital and the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be, reflected therein, shall be deemed to have been accepted by Seller and shall become final and binding.

(c) If Seller disagrees with the Closing Date Managed Services Amount, the Closing Date Working Capital and/or the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be, then such written notice will identify with reasonable specificity the calculations with which Seller disagrees or Seller's other bases for such disagreement. If Seller and Buyer cannot reach agreement during the ten (10) day period, they shall submit their disagreements within ten (10) days after the expiration of such ten (10) day period to the Independent Accountant, which shall conduct such additional review as it deems necessary to resolve the specific disagreements referred to it and, based thereon, shall determine the Closing Date Managed Services Amount, the Closing Date Working Capital and/or the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be. The Independent Accountant shall act as an expert and not as an arbitrator and, in resolving the disagreements referred to it, shall review the disagreements referred to it in accordance with the principles and methodologies set forth in this Section 2.7. The review of the Independent Accountant will be restricted as to scope to address only those matters as to which Seller and Buyer have not reached agreement pursuant to the preceding sentence. The Independent Accountant's determination of the Closing Date Managed Services Amount, the Closing Date Working Capital and/or the determination of the Final Excess Amount or the Final Deficiency Amount, as the case may be, which shall be completed as promptly as practicable but in no event later than twenty (20) days following its engagement pursuant to this Section 2.7, shall be confirmed by the Independent Accountant in writing to, and shall be final and binding on, each of Seller and Buyer for all purposes.

(d) Fees, Costs and Expenses of Independent Accountant.

(i) If the Closing Date Managed Services Amount as determined by the Independent Accountant is closer to the Closing Date Managed Services Amount advocated by (i) Seller than it is to the Closing Date Managed Services Amount advocated by Buyer, then Buyer shall pay the fees, costs and expenses of the Independent Accountant for services rendered pursuant to this Section 2.7, or (ii) Buyer than it is to the Closing Date Managed Services Amount advocated by Seller, then Seller shall pay the fees, costs and expenses of the Independent Accountant for services rendered pursuant to this Section 2.7; *provided, however*, that if the Closing Date Managed Services Amount advocated by Buyer is less than 10% higher or lower than the Closing Date Managed Services Amount advocated by Seller, then Seller and Buyer shall each pay 50% of the fees, costs and expenses of the Independent Accountant for such services.

(ii) If the Closing Date Working Capital as determined by the Independent Accountant is closer to the Closing Date Working Capital advocated by (i) Seller than it is to the Closing Date Working Capital advocated by Buyer, then Buyer shall pay the fees, costs and expenses of the Independent Accountant for services rendered pursuant to this Section 2.7, or (ii) Buyer than it is to the Closing



Date Working Capital advocated by Seller, then Seller shall pay the fees, costs and expenses of the Independent Accountant for services rendered pursuant to this Section 2.7; *provided, however*, that if the Closing Date Working Capital advocated by Buyer is less than 10% higher or lower than the Closing Date Working Capital advocated by Seller, then Seller and Buyer shall each pay 50% of the fees, costs and expenses of the Independent Accountant for such services.

(iii) If both the Closing Date Managed Services Amount and the Closing Date Working Capital are disputed, then the differences between the amounts advocated by each of Buyer, on the one hand, and Seller, on the other hand, as compared to the Independent Accountant, shall be aggregated and the Party who has advocated a greater aggregate difference shall pay the fees and expenses of the Independent Accountant for the services rendered pursuant to this Section 2.7; *provided, however*, that if the aggregate amount advocated by Buyer is less than 10% higher or lower than the aggregate amount advocated by Seller, then Seller and Buyer shall each pay 50% of the fees, costs and expenses of the Independent Accountant for such services.

(e) If the Final Managed Services Amount is greater than the Managed Services Transfer Amount, then Seller shall, no later than three (3) Business Days following the date of such final determination (the Managed Services Determination Date ), pay to Buyer (or such Affiliate(s) of Buyer as Buyer may direct) an amount equal to the difference between the Final Managed Services Amount and the Managed Services Transfer Amount.

(f) If the Final Managed Services Amount is less than the Managed Services Transfer Amount, then Buyer shall, no later than three (3) Business Days following the Managed Services Determination Date, pay to Seller (or such Affiliate(s) of Seller as Seller may direct), an amount equal to the difference between the Managed Services Transfer Amount and the Final Managed Services Amount.

(g) If (i) the Closing Date Working Capital is greater than the Final Target Working Capital and (ii) (A) there was an Estimated Deficiency Amount or (B) there was an Estimated Excess Amount the amount of which is less than the amount by which the Closing Date Working Capital is greater than the Final Target Working Capital, then Buyer shall pay to Seller, no later than three (3) Business Days after the date on which the Closing Date Working Capital becomes final and binding in accordance with the terms hereof, an amount equal to (1) the amount by which the Closing Date Working Capital is greater than the Final Target Working Capital minus (2) the Estimated Excess Amount, if any, plus (3) the Estimated Deficiency Amount, if any.

(h) If (i) the Closing Date Working Capital is greater than the Final Target Working Capital and (ii) there was an Estimated Excess Amount the amount of which is greater than the amount by which the Closing Date Working Capital is greater than the Final Target Working Capital, then Seller shall pay to Buyer, no later than three (3) Business Days after the date on which the Closing Date Working Capital becomes final and binding in accordance with the terms hereof, an amount equal to (1) the Estimated Excess Amount minus (2) the amount by which the Closing Date Working Capital is greater than the Final Target Working Capital.

(i) If (i) the Final Target Working Capital is greater than the Closing Date Working Capital and (ii) (A) there was an Estimated Excess Amount or (B) there was an Estimated Deficiency Amount the amount of which is less than the amount by which the Final Target Working Capital is greater than the Closing Date Working Capital, then Seller shall pay to Buyer, no later than three (3) Business Days after the date on which the Closing Date Working Capital becomes final and binding in accordance with the terms hereof, an amount equal to (1) the amount by which the Final Target Working Capital is greater than the Closing Date Working Capital minus (2) the Estimated Deficiency Amount, if any, plus (3) the Estimated Excess Amount, if any (such amount, or the amount payable pursuant to Section 2.7(h) being referred to herein as the Final Deficiency Amount ).

(j) If (i) the Final Target Working Capital is greater than the Closing Date Working Capital and (ii) there was an Estimated Deficiency Amount the amount of which is greater than the amount by which the Final Target Working Capital is greater than the Closing Date Working Capital, then Buyer shall pay to

Seller, no later than three (3) Business Days after the date on which the Closing Date Working Capital becomes final and binding in accordance with the terms hereof, an amount equal to (1) the Estimated Deficiency Amount minus (2) the amount by which the Final Target Working Capital is greater than the Closing Date Working Capital (such amount, or the amount payable pursuant to Section 2.7(g) being referred to herein as the Final Excess Amount ).

(k) Estimated Target Working Capital, Estimated Working Capital, Final Target Working Capital and Closing Date Working Capital shall each be calculated consistent with Seller's historical accounting principles, methods, practices and categories.

## 2.8 Taxes.

(a) Seller and Buyer shall each pay or cause to be paid fifty percent (50%) of all transfer, documentary, sales, use, value-added, property, gross receipts, stamp, registration or other similar Taxes incurred in connection with the transfer and sale of the Purchased Assets as contemplated by the terms of this Acquisition Agreement, including all recording or filing fees, notarial fees and other similar costs of Closing, that may be imposed, payable, collectible or incurred. Buyer and Seller agree to obtain any certificate, including any resale clearance or bulk sales tax certificate, or other document from any Governmental Authority as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby). The costs of obtaining any such certificate shall be borne equally by Buyer and Seller. Except as otherwise provided herein, Seller shall prepare or cause to be prepared and shall timely file all necessary Tax Returns and other documentation with respect to any Taxes described in this Section 2.8(a), and, if required by applicable Law, Buyer will join in the execution of any such Tax Returns and other documentation.

(b) Seller shall prepare and file, or cause to be prepared and timely filed, (i) all Tax Returns of Seller, (ii) all Tax Returns of the Irish Entity for all taxable periods ending on or before the Closing Date; and (iii) all Tax Returns relating to the ICS Business Segment and the Purchased Assets for all taxable periods ending on or before the Closing Date.

(c) Buyer shall prepare and file, or cause to be prepared and timely filed, (i) all Tax Returns of Buyer, (ii) all Tax Returns of the Irish Entity for all taxable periods ending after the Closing Date (including without limitation all Tax Returns with respect to any period during 2011 that would be payable if the relevant Tax period ended on and included the Closing Date), and (iii) all Tax Returns relating to the ICS Business Segment and the Purchased Assets for all taxable periods ending after the Closing Date.

(d) Seller shall pay (i) its allocable share of the transfer Taxes provided for in Section 2.8(a) and (ii) all Taxes that are Retained Liabilities. Following the filing at any time after the date hereof of Tax Returns for the Irish Entity, Seller shall promptly pay Buyer an amount equal to all Taxes with respect to the Irish Entity that have accrued but were not paid before the Closing Date (including without limitation any Taxes attributable to the fiscal year ended December 31, 2010 or any Taxes attributable to any period during 2011 that would be payable if the relevant Tax period ended on and included the Closing Date) to the extent such Taxes were not included as a Liability on the ICS Business Closing Date Balance Sheet.

(e) Buyer will pay (i) its allocable share of the transfer Taxes provided in Section 2.8(a), (ii) all Post-Closing Period Taxes applicable to the ICS Business Segment or the Purchased Assets and (iii) all Assumed Taxes.

(f) All refunds for Taxes that are Retained Liabilities or Assumed Taxes (including all refunds of Taxes of the Irish Entity for a Pre-Closing Period) shall be for the sole benefit of the Seller, and all refunds for Post-Closing Period Taxes applicable to the ICS Business or the Purchased Assets shall be for the sole benefit of the Buyer. All refunds for transfer Taxes provided for in Section 2.8(a) shall be for the equal benefit of Buyer and Seller. To the extent Buyer or Seller obtains a refund that in whole (or in part) is for the benefit of the other Party, such Party shall within ten (10) days of receipt pay such amount to the other Party.

2.9 Allocation of Purchase Price.

(a) Exhibit E hereto provides the methodology that the Parties will use for purposes of determining the allocation of the Purchase Price, and any Assumed Liabilities properly taken into account, among the Purchased Assets for U.S. federal, state, local and, where applicable, foreign tax purposes.

(b) The allocation as finally determined pursuant to this Section 2.9 and Exhibit E shall be binding on Seller and Buyer for all Tax reporting purposes, and Seller and Buyer shall not take inconsistent positions with respect to, and shall each use commercially reasonable efforts to sustain, such allocation in any subsequent Tax audit or similar proceeding, and each of Seller and Buyer agrees to cooperate with the other in preparing IRS Form 8594 (to the extent required to reflect the allocation), and, upon the reasonable request of any other Party, to furnish any other Party with a copy of such form (or if the request occurs prior to filing, a draft copy of such form) within a reasonable period of the request.

2.10 Transfer of Purchased Assets and Assumed Liabilities.

(a) The entire beneficial interest in and to, and the risk of loss with respect to, the Purchased Assets and the Assumed Liabilities shall pass to Buyer when the legal title thereto shall be transferred to Buyer.

(b) Subject to Section 2.7 hereof, if the legal interest or legal title to or in any of the Purchased Assets to be sold, assigned, transferred or conveyed pursuant to this Acquisition Agreement, or any claim, right or benefit arising thereunder or resulting therefrom, cannot be sold, assigned, transferred or conveyed hereunder as of the Effective Time because any waiting or notice period has not expired or any consents or approvals required for such transfer have not been obtained or waived, then the legal interest in such Purchased Assets shall not be sold, assigned, transferred or conveyed at the Effective Time. Seller shall use commercially reasonable efforts to obtain such consents or approvals as may be necessary to complete such transfers as soon as practicable after the Closing.

(c) If any such consent or approval shall not be obtained, (i) Seller, to the maximum extent permitted by Law, shall cooperate with Buyer in any commercially reasonable arrangement designed to provide for Buyer all benefits intended to be assigned to Buyer under the relevant Assumed Real Property Leases, Covered Leases with respect to the Covered Equipment, Assumed Contracts and Assumed Licenses, including enforcement of any and all rights of Seller against the other party thereto arising out of the breach thereof by such other party or otherwise; *provided, however*, that Seller shall not be required to compromise any right, asset or benefit or provide any other consideration for the benefit of any such other party thereto; (ii) Buyer shall, at its own cost and for its own benefit, perform, to the maximum extent permitted by Law, the obligations of Seller with respect to any such Assumed Real Property Lease, Covered Lease with respect to the Covered Equipment, Assumed Contract, Assumed License or other Asset to the extent it is obtaining all benefits of any such Assumed Real Property Lease, Covered Lease with respect to the Covered Equipment, Assumed Contract, Assumed Licenses or other Asset; and (iii) Buyer shall have no obligation pursuant to Section 2.3 or otherwise with respect to any Assumed Real Property Lease, Covered Leases with respect to the Covered Equipment, Assumed Contract or Assumed License with respect to which it is not obtaining all benefits intended to be assigned to Buyer thereunder, and, notwithstanding any provision to the contrary contained herein, Seller shall indemnify the Buyer Indemnified Persons against and in respect of any and all Losses incurred, directly or indirectly, as a result of the failure to obtain any consent or approval that is listed on Exhibit 6.6 under the heading Material Contract Required Consents.

(d) Subject to Section 2.8, Seller shall bear all costs and expenses associated with the assignment to Buyer and its Affiliates of all the Purchased Assets, including Intellectual Property, and Buyer shall bear all costs and expenses associated with the recordation by Buyer of such Intellectual Property.

(e) As of the Effective Time, Buyer agrees and undertakes to assume the Assumed Liabilities and to duly and properly perform and discharge the outstanding obligations under the Assumed Liabilities.

(f) The provisions of this Section 2.10 shall not affect the right of Buyer not to consummate the transactions contemplated by this Acquisition Agreement if the condition to its obligations hereunder

contained in Section 7.4 has not been fulfilled. Nothing in this Acquisition Agreement shall be construed as an attempt to assign to Buyer any legal interest in any of the Purchased Assets or Assumed Liabilities which, as a matter of Law or by the terms of any legally binding Contract to which Seller is subject, is not assignable without the consent of any other party, unless such consent shall have been given.

2.11 Further Assurances. From and after the Closing, the Parties shall, without payment of any further consideration, do such acts and timely execute and deliver such documents and instruments as may be reasonably required to make effective the transactions contemplated hereby.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES OF SELLER

Except (a) as specifically set forth in the Schedule of Exceptions of even date herewith prepared and signed by Seller and delivered to Buyer simultaneously with the execution hereof (the Disclosure Schedules ), or (b) to the extent relating solely to the Excluded Assets, Retained Liabilities or any of the operations of Seller other than the ICS Business, Seller makes the following representations and warranties to Buyer, each of which is true and complete as of the date of this Acquisition Agreement (or, if made as of a specified date, as of such date). Seller hereby acknowledges that Buyer is entering into this Acquisition Agreement in reliance upon the truthfulness and completeness of the representations and warranties of Seller set forth in this ARTICLE III, each of which shall be deemed material to Buyer.

#### 3.1 Existence and Power; Authorization.

(a) Seller has full corporate power and authority to conduct the ICS Business as and to the extent now conducted and to own, use and lease the Purchased Assets. Seller has all requisite power and authority to execute and deliver this Acquisition Agreement and the Related Agreements to which it is a party, and, upon receiving Seller Stockholder Approval in accordance with the DGCL, this Acquisition Agreement and the Related Agreements, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby.

(b) Seller is duly incorporated, validly existing and in good standing under the DGCL. Seller is duly qualified or licensed to transact business as a foreign entity and is in good standing in each jurisdiction that requires such qualification or license for the conduct of the ICS Business, each of which is set forth on Disclosure Schedule 3.1(b), except where the failure to be so qualified, licensed or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) This Acquisition Agreement has been duly executed and delivered by Seller and constitutes a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except that such enforcement may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally, and (ii) general principles of equity. The execution and delivery of this Acquisition Agreement and, upon receiving Seller Stockholder Approval in accordance with the DGCL and this Acquisition Agreement, the consummation of the transactions contemplated hereby have been duly authorized, approved and ratified by all necessary corporate action on the part of Seller.

#### 3.2 No Conflicts; Consents.

(a) Except as set forth on Disclosure Schedule 3.2(a), neither the execution and delivery by Seller of this Acquisition Agreement or any of the Related Agreements to which Seller is a party, nor the consummation by Seller of the transactions contemplated hereby or thereby, does or will: (i) violate or conflict with any provision of the articles of incorporation or bylaws of Seller; (ii) materially violate any Law or Order to which Seller is a party or to which Seller, the ICS Business or any of the Purchased Assets or Assumed Liabilities may be subject (assuming receipt of the Seller Stockholder Approval and the

consents listed on Disclosure Schedule 3.2(b)); or (iii) other than a breach of any anti-assignment or change-in-control prohibition contained in any such Contract that is not a Material Contract, constitute a material violation or material breach of, be in conflict with in a material manner, constitute or create (with or without due notice or lapse of time or both) a material default (or give rise to any right of termination, cancellation or acceleration) of any obligation under any Assumed Contract or have any material adverse consequence with respect to Buyer's rights under or with respect to such Assumed Contract after the Closing Date.

(b) Other than the Seller Stockholder Approval, except as set forth on Disclosure Schedule 3.2(b), no material permit, consent, waiver, approval or authorization of, or declaration to or filing or registration with, any Governmental Authority are required in connection with the execution, delivery or performance of this Acquisition Agreement by Seller or the consummation by Seller of the transactions contemplated hereby.

### 3.3 Title and Condition of Assets: Sufficiency.

(a) Seller has, and, subject to Section 2.10, Buyer shall receive at Closing, good and marketable title to, or valid leasehold or similar interests in, all of the Purchased Assets, in each case free and clear of all Encumbrances other than Permitted Encumbrances. The Purchased Assets have been maintained in the Ordinary Course, and are in good operating condition and repair (subject to normal wear and tear). Except as set forth on Disclosure Schedule 3.3(a), and except for Excluded Assets, the Purchased Assets include all assets reflected on the ICS Business Balance Sheet, other than those disposed of in compliance with Section 3.9 or in accordance with Section 6.1.

(b) Except for the Excluded Assets or as set forth on Disclosure Schedule 3.3(b), as of the Effective Time, the Purchased Assets constitute all the assets, tangible and intangible, primarily used or necessary to conduct the ICS Business as presently conducted, and include all of the operating assets, Intellectual Property rights and contracts primarily used or necessary to conduct the ICS Business. For the avoidance of doubt, notwithstanding any disclosures made pursuant to the representations and warranties of this ARTICLE III, Seller agrees that all Encumbrances other than Permitted Encumbrances shall be discharged or released in full at or prior to Closing.

### 3.4 Equipment.

(a) Set forth on Part 1 of Disclosure Schedule 3.4(a) is a true and correct list of all Equipment material or otherwise necessary to the operation of the ICS Business. Other than the Covered Leases with respect to the Covered Equipment, there are no leases with respect to the Equipment pursuant to which Seller is a lessee as of the date hereof. Part 2 of Disclosure Schedule 3.4(a) sets forth a list of facilities from which the ICS Business operates and the categories of Equipment within each facility that will be included in the Purchased Assets or excluded from the Purchased Assets, as appropriate.

(b) Except as set forth on Disclosure Schedule 3.4(b) Seller has, and Buyer shall receive at Closing (in relation to the ICS Business), good and marketable title to the Equipment.

3.5 Accounts Receivable. The Accounts Receivable (a) arose from bona fide sales actually made or Services actually performed or products actually sold or resold by Seller in the Ordinary Course and are payable in the Ordinary Course on terms consistent with Seller's past practices, (b) are legal, valid and binding obligations of the respective debtors enforceable in accordance with their terms (except as the enforceability thereof may be limited by any applicable bankruptcy, reorganization, insolvency or other laws affecting creditors' rights generally or by general principles of equity), (c) to Seller's Knowledge, are not subject to any valid set-off or counterclaim by the debtor, (d) do not represent obligations for goods sold on consignment, on approval or on a sale-or-return basis or subject to any other repurchase or return arrangement, (e) except as set forth on Disclosure Schedule 3.5, to Seller's Knowledge, are collectible in the Ordinary Course in the aggregate recorded amounts thereof, net of any applicable reserve reflected on the Closing Date Statement, (f) are not owed by any Affiliate of Seller, and (g) are not the subject of any Legal Proceedings brought by or on behalf of Seller. Seller has not received any notice from any account debtor regarding any dispute over any of the Accounts Receivable. None of

the Accounts Receivable constitutes duplicate billings of other Accounts Receivable. There are no security arrangements or collateral securing the repayment or other satisfaction of the Accounts Receivable.

3.6 Financial Statements. Attached as Part 1 of Disclosure Schedule 3.6 are the Financial Statements and the ICS Business Segment Financial Statements. Except as described in Part 2 of Disclosure Schedule 3.6, (a) the Financial Statements of Seller (i) present fairly, in all material respects, the financial position and results of operations of Seller at the dates and for the periods indicated, and (ii) were prepared, in accordance with GAAP, consistently applied, from and consistent with the books and records of Seller and are accurate and complete in all material respects; and (b) the ICS Business Segment Financial Statements (i) present fairly, in all material respects, the financial position and results of operations of the ICS Business Segment at the dates and for the periods indicated, and (ii) were prepared, in accordance with GAAP, consistently applied, from and consistent with the books and records of Seller and the ICS Business Segment and are accurate and complete in all material respects.

3.7 Seller SEC Reports. Since January 1, 2009, Seller has filed or furnished on a timely basis all forms, reports and documents with the SEC that have been required to be filed or furnished by it under applicable Law (all such forms, reports and documents, together with all exhibits and schedules thereto, filed or furnished since such time, including after the date hereof, the Seller SEC Reports ), except for the failure to file or furnish such Seller SEC Reports that would not reasonably be expected to have a Material Adverse Effect. Each Seller SEC Report complied as of its filing or furnishing date, or as of its last date of amendment, in all material respects as to form with the applicable requirements of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act, as the case may be, each as in effect on the date such Seller SEC Report was filed or furnished. True and correct copies of all Seller SEC Reports filed or furnished prior to the date hereof have been furnished to Buyer or are publicly available in the Electronic Data Gathering, Analysis and Retrieval (EDGAR) database of the SEC. As of its filing or furnishing date (or, if amended or superseded by a filing prior to the date of this Acquisition Agreement, on the date of such amended or superseded filing or furnishing), each Seller SEC Report did not contain any untrue statement of a material fact or omit to state any material fact necessary to be stated in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. None of Seller's subsidiaries are required to file any forms, reports or other documents with the SEC. As of the date hereof, there are no material outstanding or unresolved comments received from the SEC with respect to any of Seller SEC Reports. Except as set forth on Disclosure Schedule 3.7, since January 1, 2009 there have been no significant deficiencies or material weaknesses in the design or operation of Seller's internal control over financial reporting in respect of the ICS Business.

3.8 Taxes. Except as set forth on Disclosure Schedule 3.8:

(a) Each of the Irish Entity and Seller, with respect to the ICS Business, Transferred Employees and Purchased Assets, has filed all Tax Returns required to be filed by it in a timely manner (taking into account all extensions of due dates), and all such Tax Returns are accurate, complete and correct as to Taxes payable with respect to the Irish Entity, the ICS Business, Transferred Employees or Purchased Assets. All Taxes due and owing by the Irish Entity or Seller, with respect to the Irish Entity, the ICS Business, Transferred Employees and Purchased Assets, have been duly and timely paid other than Taxes which are not yet due or which, if due, are not delinquent or are being contested in good faith by appropriate proceedings or have not been finally determined, and for which, in each case, adequate reserves have been established on the ICS Business Balance Sheet. Disclosure Schedule 3.8(a) sets forth a list of (i) any extension of time within which to file such Tax Return (other than Tax Returns relating to Taxes that are Retained Liabilities) and (ii) all Taxes (other than Taxes that are Retained Liabilities) currently being contested in good faith by appropriate proceedings.

(b) In the past four (4) years, with respect to the Irish Entity, the ICS Business or the Purchased Assets, no written claim has ever been made by a Governmental Authority in a jurisdiction where neither Seller nor the Irish Entity has filed a Tax Return that Seller or the Irish Entity is or may be subject to taxation by that jurisdiction.

(c) There are no Tax examinations or audits of, nor any Tax-related Legal Proceeding against, Seller or the Irish Entity that have been asserted or threatened by any Governmental Authority or that are pending or being conducted currently relating to the Irish Entity, the ICS Business, the Purchased Assets or the Transferred Employees.

(d) In the past four (4) years, neither Seller nor the Irish Entity has received, with respect to the Irish Entity, the ICS Business or the Purchased Assets, from any Governmental Authority any (i) written notice indicating an intent to open an audit with respect to any material Tax matter, (ii) written request for information related to material Tax matters, or (iii) written notice of deficiency or proposed adjustment for any material amount of Tax proposed, asserted, or assessed by any Government Authority against it.

(e) Except for the Permitted Encumbrances, there are no Encumbrances for Taxes upon the Irish Entity, the ICS Business or any of the Purchased Assets.

(f) In the past four (4) years, neither Seller nor the Irish Entity has received any written ruling of a taxing authority with respect to Taxes relating to the Irish Entity, the ICS Business or the Purchased Assets, or any other written and legally binding Contract with a Governmental Authority with respect to Taxes relating to the Irish Entity, the ICS Business or the Purchased Assets.

(g) Each of Seller and the Irish Entity has complied (and until the Closing Date will comply) with all applicable Laws, rules, and regulations in connection with the payment and withholding of Taxes relating to the Irish Entity, the ICS Business, the Purchased Assets or the Transferred Employees and has, within the time and in the manner prescribed by Law, withheld from amounts paid or owing to any shareholder, employee, creditor, independent contractor, or other third party and paid over to the proper Governmental Authorities all required amounts.

(h) Neither Seller nor the Irish Entity has executed any outstanding waivers, extensions of time or comparable consents regarding the application of the statute of limitations for any Taxes or Tax Returns (and no extensions have been executed on its behalf) relating to the Irish Entity, the ICS Business, the Purchased Assets or the Transferred Employees.

(i) Buyer is not assuming under this Acquisition Agreement any obligations to make any payments in connection with or related to the transactions contemplated by this Acquisition Agreement that are nondeductible under Section 280G of the Code.

The representations and warranties in this [Section 3.8](#) and [Section 3.22](#) represent the sole and exclusive representations regarding Taxes, including compliance with Tax laws, the payment of Taxes, and accruals for Taxes on any financial statement or books and records.

3.9 [Events Subsequent to ICS Business Balance Sheet](#). Since September 25, 2010, except as reflected in the ICS Business Segment Financial Statements and set forth on [Disclosure Schedule 3.9](#), in connection with the ICS Business Segment:

(a) no third party has accelerated, terminated, made modifications to, or canceled any Material Contract to which Seller is a party;

(b) Seller has not experienced any damage, destruction or loss (whether or not covered by insurance) to any Purchased Assets that is, individually or in the aggregate, material to the operations of Seller in respect of the ICS Business Segment;

(c) there has not been any material strike, work stoppage or slowdown;

(d) there has not been, other than in the Ordinary Course, any sale, lease, transfer or other disposition by Seller of, or mortgages or pledges of or the imposition of any Encumbrance other than Permitted Encumbrances on, the Purchased Assets;

(e) Seller has not taken any action that if taken after the date hereof would constitute a violation of [Section 6.1](#);

(f) Seller has not committed to do any of the foregoing except as contemplated by this Acquisition Agreement or as agreed to in writing by Buyer;

(g) Seller has remained at all times a Cisco Gold Certified Partner and does not know of any reason why such Cisco Gold Certified Partner designation may be lost; and

(h) there has not been a Material Adverse Effect.

3.10 Undisclosed Liabilities. Except (i) as disclosed, reflected or reserved against in the ICS Business Balance Sheet, or (ii) as disclosed in Disclosure Schedule 3.10, there are no material Liabilities against, relating to or affecting the ICS Business (including with respect to the Irish Entity), other than Liabilities incurred in the Ordinary Course after the date of the ICS Business Balance Sheet.

3.11 Litigation. Except as set forth on Disclosure Schedule 3.11, there are no Legal Proceedings pending or, to Seller's Knowledge, threatened against Seller or any of the Purchased Assets involving the payment of an amount in excess of \$25,000 or seeking injunctive relief. Seller (with respect to the ICS Business Segment) is not, and the Purchased Assets are not, subject to any Order.

3.12 Real Property. Disclosure Schedule 3.12 sets forth the addresses of the Leased Real Property and a true and complete list (including the date and name of the parties thereto) of all Assumed Real Property Leases. Seller has delivered or made available to Buyer a true and complete copy of each Assumed Real Property Lease and of any subordination and/or non-disturbance Contracts presently in effect and related thereto. Seller (in relation to the ICS Business) has a valid leasehold interest in the Assumed Real Property Leases, free and clear of all Encumbrances, except Permitted Encumbrances to the extent such Permitted Encumbrances do not materially interfere with the current use of the Assumed Real Property Leases. With respect to the Assumed Real Property Leases, except as set forth on Disclosure Schedule 3.12, neither Seller nor, to Seller's Knowledge, any other party to any Assumed Real Property Lease, is in default in any material respect under any such lease and, to Seller's Knowledge, no event has occurred or circumstance exists which, with the delivery of notice, the passage of time or both, would constitute such default, or permit the termination of, or acceleration of rent under, such lease.

3.13 Material Contracts.

(a) Except for the Assumed Real Property Leases listed on Disclosure Schedule 2.1(c), the Covered Leases, and any Contract included in the Excluded Assets, Disclosure Schedule 3.13(a) sets forth a complete and correct list of each of the following Contracts (true and complete copies of all such Contracts or if none, reasonably complete and accurate written descriptions of which, together with all amendments and supplements thereto, have been delivered or made available to Buyer prior to the execution of this Acquisition Agreement) to which Seller (in respect of the ICS Business) or the Irish Entity is a party as of the date hereof (collectively with the Assumed Real Property Leases and the Covered Leases, the Material Contracts):

(i) each open purchase order issued by Seller in relation to the ICS Business for which there is not a contemporaneously executed statement of work or other Contract for an amount in excess of \$50,000;

(ii) all Contracts involving the performance of Services or the delivery of goods by Seller (in respect of the ICS Business): (A) that, in the aggregate, accounted for at least 75% of all revenue of Seller (in respect of the ICS Business) during fiscal year 2010 (listed in decreasing order of revenue, beginning with the Contract that accounted for most of Seller's revenue (in respect of the ICS Business) during fiscal year 2010); or (B) executed by Seller since January 1, 2011;

(iii) any Contract (other than Contracts referenced in Section 3.13(a)(iv) below) involving performance of Services or delivery of goods to Seller at any time during fiscal year 2010 or fiscal year 2011 in relation to the ICS Business in respect of which payments in excess of \$50,000 were or are reasonably anticipated to be paid;



(iv) any Contract involving the subcontracting by Seller of the performance of Services or delivery of goods at any time during fiscal year 2010 or fiscal year 2011 or at any time after the date hereof in relation to the ICS Business in respect of which payments in excess of \$75,000 were or are reasonably anticipated to be paid;

(v) any Contract relating to the ICS Business that was **not** entered into in the Ordinary Course and that involves expenditures or receipts of Seller at any time during the past twelve (12) months or at any time after the date hereof in excess of \$50,000;

(vi) each Contract pursuant to which Seller (in respect of the ICS Business) is bound, and Buyer after the Closing Date will be bound, by non-competition, non-solicitation or confidentiality obligations, other than Contracts entered into by Seller in the Ordinary Course or compliance with which would not be reasonably expected to have a material impact on the operation of the ICS Business as currently conducted or after the Closing;

(vii) each Contract containing non-competition or non-solicitation obligations for the benefit of Seller (in respect of the ICS Business), other than any Contract entered into by Seller in the Ordinary Course or under which the consequences of a breach by any party thereto of the non-competition or non-solicitation obligations contained therein for the benefit of Seller could not reasonably be expected to have, individually or in the aggregate, a material impact on Buyer or any of its assets, including the Purchased Assets, after the Closing;

(viii) any Contract, other than Contracts entered into by Seller in the Ordinary Course, pursuant to which Seller (in respect of the ICS Business): (A) uses any Intellectual Property of any other Person (other than Off-the-Shelf Software), (B) incorporates any Intellectual Property of any other Person in any of its products or Services, (C) granted or agreed to grant any other Person the right to use any Intellectual Property, (D) developed or had developed any Intellectual Property, or (E) assigned or agreed to assign ownership of any Intellectual Property;

(ix) any distributor Contract, reseller Contract, manufacturer's representative Contract, or any consultant, sales representative, franchise, development broker or sales agent Contract (other than any Contracts with Seller's employees), in each case relating to the ICS Business pursuant to which Services have been performed at any time during the past twelve (12) months or will be performed at any time after the date hereof and requiring payment by either party of more than \$75,000 annually;

(x) any bailment, consignment or other similar arrangement, including as may relate to Equipment or other assets of any customer, supplier or third party and relating to the ICS Business;

(xi) any Contract for the purchase of goods or Services:

(A) involving payment by Seller (in respect of the ICS Business) of amounts over the remaining life of such Contract reasonably anticipated by Seller to exceed \$75,000 in the aggregate, or

(B) pursuant to which Seller (in respect of the ICS Business) has agreed to purchase all of its requirements for the goods and/or Services in question or which contain minimum volume or dollar guarantees or commitments or which otherwise limit the purchasing or selling relationship of Seller (in respect of the ICS Business) or any customer licensee or lessee thereof;

(xii) any Contract requiring capital expenditures by Seller (in respect of the ICS Business) in excess of \$50,000;

(xiii) any stand-alone (A