

**PRESS RELEASE**

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## eLoyalty Announces Fourth Quarter 2009 Results

LAKE FOREST, IL, February 10, 2010 – eLoyalty Corporation (**Nasdaq: ELOY**), a leading Integrated Contact Solutions and Behavioral Analytics™ services company, today announced financial results for the fourth quarter ended December 26, 2009.

For the fourth quarter of 2009, total revenue was \$24.0 million and the net loss was \$2.8 million. The net loss available to common shareholders was \$0.23 per share. eLoyalty realized “Adjusted Earnings<sup>1</sup>” income of \$0.3 million for the fourth quarter of 2009. Adjusted Earnings is a non-GAAP measure. For a reconciliation of Adjusted Earnings to operating loss, see the accompanying schedule.

The following is a summary of revenue by major component:

(000's)	Three Months Ended			Twelve Months Ended		
	12/26/2009	12/27/2008	% Change	12/26/2009	12/27/2008	% Change
<b>Revenue:</b>						
Managed Services	\$ 14,426	\$ 11,374	27%	\$ 49,864	\$ 42,094	18%
Consulting Services	5,672	8,653	-34%	29,998	35,702	-16%
<b>Services Revenue</b>	<b>20,098</b>	<b>20,027</b>	<b>0%</b>	<b>79,862</b>	<b>77,796</b>	<b>3%</b>
Product	2,933	3,926	-25%	17,780	9,777	82%
<b>Net Revenue</b>	<b>23,031</b>	<b>23,953</b>	<b>-4%</b>	<b>97,642</b>	<b>87,573</b>	<b>11%</b>
Reimbursed expenses	975	1,137		3,971	3,624	
<b>Total Revenue</b>	<b>\$ 24,006</b>	<b>\$ 25,090</b>	<b>-4%</b>	<b>\$ 101,613</b>	<b>\$ 91,197</b>	<b>11%</b>

### Q4 2009 Highlights

- Grew Managed Services revenues 14% sequentially to a record \$14.4 million
- Achieved 37% sequential growth in Behavioral Analytics™ Service Subscriptions
- Realized record ICS Managed Services revenues
- Improved Adjusted Earnings<sup>1</sup> \$143 thousand sequentially

### 2009 Highlights

- Grew Managed Services revenues 18%
- Increased Behavioral Analytics™ Service Subscriptions 58%
- Improved GAAP results \$11.0 million
- Increased Managed Services Backlog<sup>2</sup> 19%
- Generated \$2.0 million in Total Cash

### First Quarter 2010 Guidance

eLoyalty currently expects its First Quarter 2010 Services revenues will be approximately \$18.0 million.

eLoyalty provides guidance for Services revenue only. Product revenue from the sale of third-party software and hardware can fluctuate substantially between periods and is not a primary focus of the Company’s business.



## Conference Call Information

eLoyalty management will host a conference call at 5:00 p.m. ET on Wednesday, February 10, 2010. A webcast of the conference call and slide presentation will be available live via the Internet at the Investor Relations section of eLoyalty's web site at <http://www.loyalty.com/investor/> where this press release, as well as other financial information that will be discussed on that call, is also available. For those who cannot access the live broadcast, or the continued availability on eLoyalty's website, a replay of the conference call will also be available beginning approximately two hours after the live call is completed until February 23, 2010 by dialing (800) 642-1687 or, for international callers, (706) 645-9291 and entering conference ID number 50889138.

## About eLoyalty

eLoyalty enables its customers to achieve breakthrough results with revolutionary analytics and implementation of advanced VoIP applications. eLoyalty's principal offerings include the Behavioral Analytics™ Service and Integrated Contact Solutions (ICS).

## Safe Harbor Statement

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding anticipated financial results and other matters that are not strictly historical in nature. These forward-looking statements are based on current management expectations, forecasts and assumptions, and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. The risks, uncertainties and other factors that might cause such a difference include those described under "Forward-Looking Statements" and "Risk Factors" in eLoyalty's Form 10-K, Form 10-Q and other filings with the U.S. Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. They reflect opinions, assumptions and estimates only as of the date they are made, and eLoyalty Corporation undertakes no obligation to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or circumstances or otherwise.

- 1 eLoyalty presents Adjusted Earnings, a non-GAAP measure that represents cash earnings performance, excluding the impact of non-cash expenses and expense reduction activities, because management believes that Adjusted Earnings provide investors with a better understanding of the results of eLoyalty's operations. Management believes that Adjusted Earnings reflect eLoyalty's resources available to invest in its business and strengthen its balance sheet. In addition, expense reduction activities can vary significantly between periods on the basis of factors that management does not believe reflect current-period operating performance. Although similar adjustments for expense reduction activities may be recorded in future periods, the size



and frequency of these adjustments cannot be predicted. The Adjusted Earnings measure should be considered in addition to, not as a substitute for or superior to, operating income, cash flows or other measures of financial performance prepared in accordance with GAAP.

- 2 eLoyalty uses the term "backlog" to reflect the estimated future amount of Managed services revenue related to its Managed services contracts. The value of these contracts is based on anticipated usage volumes over the anticipated term of the agreement. The anticipated term of the agreement is based on the contractually agreed fixed term of the contract, plus agreed upon, but optional, extension periods. Anticipated volumes may be greater or less than anticipated. In addition, these contracts typically are cancellable without cause based on the customer making a substantial early termination payment or forfeiture of prepaid contract amounts. The reported backlog is expected to be recognized as follows: \$37.4m in 2010; \$23.9m in 2011; \$16.2m in 2012; \$10.2m in 2013 and thereafter.

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

	<u>For the</u> <u>Three Months Ended</u>		<u>For the</u> <u>Twelve Months Ended</u>	
	<u>December 26,</u> <u>2009</u>	<u>December 27,</u> <u>2008</u>	<u>December 26,</u> <u>2009</u>	<u>December 27,</u> <u>2008</u>
Revenue:				
Services .....	\$ 20,098	\$ 20,027	\$ 79,862	\$ 77,796
Product .....	<u>2,933</u>	<u>3,926</u>	<u>17,780</u>	<u>9,777</u>
Revenue before reimbursed expenses (net revenue)	23,031	23,953	97,642	87,573
Reimbursed expenses .....	<u>975</u>	<u>1,137</u>	<u>3,971</u>	<u>3,624</u>
Total revenue .....	<u>24,006</u>	<u>25,090</u>	<u>101,613</u>	<u>91,197</u>
Operating expenses:				
Cost of services .....	12,319	13,015	50,346	51,613
Cost of product .....	<u>2,344</u>	<u>3,080</u>	<u>14,814</u>	<u>7,945</u>
Cost of revenue before reimbursed expenses .....	14,663	16,095	65,160	59,558
Reimbursed expenses .....	<u>975</u>	<u>1,137</u>	<u>3,971</u>	<u>3,624</u>
Total cost of revenue, exclusive of depreciation and amortization shown below: .....	15,638	17,232	69,131	63,182
Selling, general and administrative .....	9,650	9,870	37,259	43,155
Severance and related costs .....	313	497	1,341	1,635
Depreciation .....	1,055	927	4,242	3,845
Amortization of intangibles .....	<u>37</u>	<u>109</u>	<u>223</u>	<u>340</u>
Total operating expenses .....	<u>26,693</u>	<u>28,635</u>	<u>112,196</u>	<u>112,157</u>
Operating loss .....	(2,687)	(3,545)	(10,583)	(20,960)
Interest and other (expense) income, net .....	<u>(40)</u>	<u>83</u>	<u>53</u>	<u>70</u>
Loss from continuing operations before income taxes ..	(2,727)	(3,462)	(10,530)	(20,890)
Income tax (provision) benefit .....	<u>(28)</u>	<u>61</u>	<u>(44)</u>	<u>(15)</u>
Loss from continuing operations .....	(2,755)	(3,401)	(10,574)	(20,905)
Loss on discontinued operations .....	<u>(46)</u>	<u>(748)</u>	<u>(46)</u>	<u>(748)</u>
Net loss .....	(2,801)	(4,149)	(10,620)	(21,653)
Dividends related to Series B convertible preferred stock	<u>(323)</u>	<u>(323)</u>	<u>(1,292)</u>	<u>(1,296)</u>
Net loss available to common stockholders .....	<u>\$ (3,124)</u>	<u>\$ (4,472)</u>	<u>\$ (11,912)</u>	<u>\$ (22,949)</u>
Per common share:				
Basic loss from continuing operations .....	<u>\$ (0.21)</u>	<u>\$ (0.27)</u>	<u>\$ (0.80)</u>	<u>\$ (2.02)</u>
Basic loss from discontinued operations .....	<u>\$ —</u>	<u>\$ (0.06)</u>	<u>\$ —</u>	<u>\$ (0.07)</u>
Basic net loss per common share .....	<u>\$ (0.23)</u>	<u>\$ (0.35)</u>	<u>\$ (0.90)</u>	<u>\$ (2.21)</u>
Per common share:				
Diluted loss from continuing operations .....	<u>\$ (0.21)</u>	<u>\$ (0.27)</u>	<u>\$ (0.80)</u>	<u>\$ (2.02)</u>
Diluted loss from discontinued operations .....	<u>\$ —</u>	<u>\$ (0.06)</u>	<u>\$ —</u>	<u>\$ (0.07)</u>
Diluted net loss per common share .....	<u>\$ (0.23)</u>	<u>\$ (0.35)</u>	<u>\$ (0.90)</u>	<u>\$ (2.21)</u>
Shares used to calculate basic net loss per share .....	<u>13,365</u>	<u>12,772</u>	<u>13,255</u>	<u>10,365</u>
Shares used to calculate diluted net loss per share .....	<u>13,365</u>	<u>12,772</u>	<u>13,255</u>	<u>10,365</u>
Stock-based compensation, primarily restricted stock, is included in individual line items above:				
Cost of services .....	\$ 85	\$ 663	\$ 504	\$ 3,345
Selling, general and administrative .....	1,531	2,191	5,793	11,335
Severance and related costs .....	—	—	248	103



**eLoyalty Corporation**  
**CONSOLIDATED BALANCE SHEETS**  
 (Unaudited and in thousands, except share and per share data)

	<u>December 26, 2009</u>	<u>December 27, 2008</u>
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents .....	\$ 28,982	\$ 27,064
Restricted cash .....	3,745	3,655
Receivables, (net of allowances of \$151 and \$107) .....	9,313	10,005
Prepaid expenses .....	10,126	7,783
Other current assets .....	<u>944</u>	<u>1,251</u>
Total current assets .....	53,110	49,758
Equipment and leasehold improvements, net .....	6,194	6,424
Goodwill .....	2,643	2,643
Intangibles, net .....	476	611
Other long-term assets .....	<u>8,180</u>	<u>4,787</u>
Total assets .....	<u>\$ 70,603</u>	<u>\$ 64,223</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Current Liabilities:		
Accounts payable .....	\$ 3,634	\$ 3,904
Accrued compensation and related costs .....	5,762	4,994
Unearned revenue .....	20,436	11,525
Capital leases .....	1,590	1,311
Other current liabilities .....	<u>3,477</u>	<u>3,336</u>
Total current liabilities .....	34,899	25,070
Long-term unearned revenue .....	9,526	5,274
Capital leases .....	1,430	2,280
Other long-term liabilities .....	<u>275</u>	<u>292</u>
Total liabilities .....	<u>46,130</u>	<u>32,916</u>
Redeemable Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and designated; 3,616,169 and 3,619,537 shares issued and outstanding with a liquidation preference of \$19,733 and \$19,107 at December 26, 2009 and December 27, 2008, respectively .....	18,442	18,460
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 35,000,000 shares authorized; none issued and outstanding .....	—	—
Common stock, \$0.01 par value; 50,000,000 shares authorized; 14,871,521 and 14,152,702 shares issued at December 26, 2009 and December 27, 2008; and 14,220,279 and 13,661,746 outstanding at December 26, 2009 and December 27, 2008, respectively .....	149	142
Additional paid-in capital .....	203,627	198,853
Accumulated deficit .....	(190,821)	(180,201)
Treasury stock, at cost, 651,242 and 490,956 shares at December 26, 2009 and December 27, 2008, respectively .....	(3,295)	(2,457)
Accumulated other comprehensive loss .....	<u>(3,629)</u>	<u>(3,490)</u>
Total stockholders' equity .....	<u>6,031</u>	<u>12,847</u>
Total liabilities and stockholders' equity .....	<u>\$ 70,603</u>	<u>\$ 64,223</u>



**eLoyalty Corporation**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 (Unaudited and in thousands)

	<b>For the Twelve Months Ended</b>	
	<b>December 26, 2009</b>	<b>December 27, 2008</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss.....	\$ (10,620)	\$ (21,653)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	4,465	4,185
Stock-based compensation .....	6,297	14,680
Loss on discontinued operations .....	46	748
Provision for uncollectible amounts .....	82	18
Severance and related costs .....	270	293
Deferred income taxes .....	7	(2)
Changes in assets and liabilities:		
Receivables .....	668	1,140
Prepaid expenses .....	(6,395)	1,305
Other assets .....	(60)	(523)
Accounts payable .....	(273)	919
Accrued compensation and related costs .....	737	(296)
Unearned revenue .....	13,145	(2,362)
Other liabilities .....	<u>(626)</u>	<u>112</u>
Net cash provided by (used in) operating activities .....	<u>7,743</u>	<u>(1,436)</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures and other .....	(3,327)	(698)
Sale of short-term investments .....	<u>337</u>	<u>—</u>
Net cash used in investing activities.....	<u>(2,990)</u>	<u>(698)</u>
<b>Cash Flows from Financing Activities:</b>		
Principal payments under capital lease obligations .....	(1,384)	(748)
Acquisition of treasury stock .....	(838)	(3,741)
Payment of Series B dividends .....	(649)	(1,317)
Increase in restricted cash .....	(90)	(1,200)
Proceeds from stock compensation and employee stock purchase plans, net.....	141	343
Proceeds from rights offering, net .....	<u>—</u>	<u>14,845</u>
Net cash (used in) provided by financing activities .....	<u>(2,820)</u>	<u>8,182</u>
Effect of exchange rate changes on cash and cash equivalents .....	<u>(15)</u>	<u>(396)</u>
Increase in cash and cash equivalents.....	1,918	5,652
Cash and cash equivalents, beginning of period .....	<u>27,064</u>	<u>21,412</u>
Cash and cash equivalents, end of period .....	<u>\$ 28,982</u>	<u>\$ 27,064</u>
<b>Non-Cash Investing and Financing Transactions:</b>		
Capital lease obligations incurred .....	\$ 869	\$ 2,429
Capital equipment purchased on credit .....	869	2,429
Change in net unrealized security loss .....	(108)	(343)
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest paid.....	(356)	(536)

**eLoyalty Corporation**  
**CALCULATION OF ADJUSTED EARNINGS MEASURE**  
**(Unaudited and in thousands)**

	<u>For the</u> <u>Three Months Ended</u>		<u>For the</u> <u>Twelve Months Ended</u>	
	<u>December 26,</u> <u>2009</u>	<u>December 27,</u> <u>2008</u>	<u>December 26,</u> <u>2009</u>	<u>December 27,</u> <u>2008</u>
GAAP — Operating loss .....	\$ (2,687)	\$ (3,545)	\$ (10,583)	\$ (20,960)
<u>Add back (reduce) the effect of:</u>				
Stock-based compensation .....	1,616	2,854	6,297	14,680
Severance and related costs .....	313	497	1,341	1,635
Depreciation and amortization .....	<u>1,092</u>	<u>1,036</u>	<u>4,465</u>	<u>4,185</u>
Adjusted earnings measure — income (loss).....	<u>\$ 334</u>	<u>\$ 842</u>	<u>\$ 1,520</u>	<u>\$ (460)</u>

