ELOYALTY CORP
Form S-3/A
November 13, 2001

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As filed with the Securities and Exchange Commission on November 13, 2001

Registration No. 333-70078

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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eLoyalty Corporation

(Exact name of registrant as specified in its charter)

Delaware **36-4304577** *(State or other jurisdiction of incorporation or organization)* *(I.R.S. Employer Identification No.)*

150 Field Drive, Suite 250

Lake Forest, Illinois 60045
(847) 582-7000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Kelly D. Conway

President and Chief Executive Officer
eLoyalty Corporation
150 Field Drive, Suite 250
Lake Forest, Illinois 60045
(847) 582-7000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Robert S. Wert
Vice President and General Counsel
eLoyalty Corporation
150 Field Drive, Suite 250
Lake Forest, Illinois 60045
(847) 582-7000 **Bruce F. Perce**
Mayer, Brown & Platt
190 South LaSalle Street
Chicago, Illinois 60603-3441
(312) 782-0600

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

We hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until we file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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Subject to Completion, dated November 13, 2001

PROSPECTUS

7% Series B Convertible Preferred Stock

Issuable Upon Exercise of Subscription Rights

We are distributing rights to purchase shares of 7% Series B convertible preferred stock on a pro rata basis to all holders of record of our common stock on October 8, 2001. Each share of preferred stock will accrue dividends at a rate of 7% per annum and will be convertible into one share of our common stock beginning six months after the closing of the rights offering.

We are also selling shares of Series B preferred stock at the same price to two of our existing stockholders in a concurrent private placement of up to $25.0 million. The investors in the private placement will not exercise their rights in the rights offering.

You have been granted one right for each share of common stock you held on the record date. If you exercise your rights, the number of preferred shares that you will be eligible to purchase will be determined at the closing of the rights offering. You will be able to maintain up to your approximate ownership percentage in eLoyalty after taking into account the rights offering and the private placement.

Each right entitles you to subscribe for, at your option, $1.60, $1.00 or $0.50 of preferred stock. The purchase price per share of preferred stock will be the lesser of $0.51 and 90% of the average of the last sale price of our common stock over the twenty trading days through and including the fourth trading day prior to the closing date of this rights offering, subject to adjustment for a proposed one-for-ten reverse split of our common stock. We will make a public announcement of the purchase price following the close of trading on the fourth trading day prior to the closing date of the rights offering. Our common stock is traded on the Nasdaq National Market under the symbol ELOY . On November 12, 2001, the last sale price of our common stock was $0.51 per share.

You may exercise some or all of your rights, or you may choose not to exercise any of your rights. However, for each right you exercise you must own at least one pre-split share of our common stock on the closing date.

You may not increase your ownership percentage through the exercise of rights. As a result, the maximum number of shares that you may purchase may be less than the amount you subscribe for, in which case the subscription agent will return the unused portion of your subscription payment, plus interest accruing after the closing date, promptly following the closing of the rights offering.

You must exercise your rights before they expire at 5:00 p.m. New York City time on December 19, 2001, unless we extend the offering, by completing a rights certificate and delivering it with payment of the subscription price to the subscription agent.

You may not sell or transfer your rights. In addition, the preferred stock may not be transferred until one year after the closing of the rights offering. We do not intend to list the rights or the preferred stock on any securities exchange or include them in any automated quotation system.

The exercise of rights involves substantial risk. Before exercising your rights you should read the discussion of material risks under Risk Factors beginning on page 20.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Purchase Price	Proceeds to eLoyalty(1)
Per share of preferred stock(2)	$0.51	$0.51
Total(3)	$61,991,057	$61,991,057

(1) Before deducting expenses payable by us, estimated to be approximately $1,000,000.

(2) The purchase price per share will be the lesser of $0.51 and 90% of the average of the last sale price of our common stock over the twenty trading days through and including the fourth trading day prior to the closing date of the rights offering, subject to adjustment for a proposed one-for-ten reverse split of our common stock.

(3) Assuming all of the rights are exercised for $1.60 of preferred stock per right. The proceeds to us will be less if less than all of the rights are exercised or if rights are exercised for less than $1.60 of preferred stock per right.

The date of this prospectus is , 2001

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DOCUMENTS INCORPORATED BY REFERENCE

The Securities and Exchange Commission allows us to incorporate by reference certain documents, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus, except to the extent that this prospectus updates or supersedes the information. We incorporate by reference the documents listed below which we have previously filed with the SEC:

1. our Annual Report on Form 10-K for the fiscal year ended December 30, 2000, including the portions incorporated by reference from our proxy statement in connection with our 2001 annual meeting of stockholders;

2. our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2001, June 30, 2001 and September 29, 2001;

3. our Current Report on Form 8-K filed on September 25, 2001; and

4. the description of our common stock contained in our Registration Statement on Form 8-A, including any amendments or reports filed for the purpose of updating this description.

We also incorporate by reference the information contained in all other documents we file with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and prior to the completion of the rights offering. The information will be considered part of this prospectus from the date the document is filed and will supplement or amend the information contained in this prospectus.

We will provide you, at no charge, a copy of the documents we incorporate by reference in this prospectus. **To obtain timely delivery, requests for copies should be made no later than December 12, 2001 (five business days before the scheduled expiration of the rights offering).**

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To request a copy of any or all of these documents, you should write or telephone us at the following address and telephone number:

eLoyalty Corporation

150 Field Drive, Suite 250
Lake Forest, Illinois 60045
Attn: Investor Relations
(847) 582-7000

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934. The Exchange Act file number for our SEC filings is 0-27975. Our SEC filings made electronically through the SEC s EDGAR system are available to the public at the SEC s web site at http://www.sec.gov. You may also read and copy any document we file with the SEC at the SEC public reference room at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information regarding the operation of the SEC s public reference room by calling the SEC at 1-800-SEC-0330.

We have filed with the SEC a Registration Statement on Form S-3 under the Securities Act of 1933, and the rules and regulations promulgated thereunder, with respect to this rights offering. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement and the attached exhibits and schedules. The statements contained in this prospectus as to the contents of any contract, agreement or other document that is filed as an exhibit to the registration statement are not necessarily complete. Accordingly, each such statement is qualified in all respects by reference to the full text of such contract, agreement or document filed as an exhibit to the registration statement or otherwise filed with the SEC.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell or a solicitation of an offer to buy any securities in any state or other jurisdiction in which the offer or solicitation is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date of this prospectus.

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QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

The information in this prospectus assumes a purchase price of $0.51 per share of preferred stock in the rights offering and private placement and gives effect to the issuance of approximately 5.7 million shares of common stock in exchange for outstanding employee stock options in connection with a recently completed exchange offer. It does not give effect to a proposed one-for-ten reverse split of our common stock that we expect to occur shortly before closing. We have made other assumptions as well which are described under Prospectus Summary Other Information.

What is a rights offering?

A rights offering is a distribution of rights on a pro rata basis to all of our stockholders. We are distributing one right for each share of our common stock you held at the close of business on October 8, 2001, the record date for the rights offering.

As a result of the tax restrictions described below, the investors in the private placement cannot exercise their rights. In addition, as a result of these restrictions rights issued in respect of restricted stock issued to some of our officers and employees that has not vested prior to the closing date cannot be exercised. As a result, the information in this prospectus regarding the amount and percentage of rights exercised is based on the amount and percentage of rights that are eligible to be exercised and excludes rights that cannot be exercised.

What is a right?

Each right entitles you to subscribe to purchase shares of Series B convertible preferred stock. To exercise your rights, you must specify the maximum dollar amount of preferred stock you wish to purchase per right, which may be either $1.60, $1.00 or $0.50. For each right you exercise, you agree to purchase the number of shares of preferred stock equal to the amount that you subscribe for per right divided by the purchase price per share of preferred stock. Due to the tax restrictions described below, the maximum number of shares that you may purchase may be less than the amount you subscribe for, in which case the subscription agent will return the unused portion of your subscription payment, plus interest accruing after the closing date, promptly following the closing of the rights offering.

The purchase price per share of preferred stock will be the lesser of $0.51 and 90% of the average of the last sale price of our common stock over the twenty trading days through and including the fourth trading day prior to the closing of the rights offering, as adjusted to reflect the proposed one-for-ten reverse split of our common stock. Assuming the reverse split is effected as proposed, the purchase price per share of preferred stock will be the lesser of $5.10 and 90% of the average price of the common stock on a pre-split basis multiplied by ten. We will make a public announcement of the purchase price promptly following the close of trading on the fourth trading day prior to the closing date of the rights offering.

The rights are not transferrable, which means that only you may exercise them. You may not sell, give away or otherwise transfer your rights to anyone else.

If I wish to exercise my rights, do I have to exercise all of my rights?

No. You may exercise some or all of your rights. However, the dollar amount of preferred stock you subscribe for per right must be the same for all of the rights you exercise.

If I wish to exercise my rights, how much preferred stock should I subscribe for per right?

If you wish to be certain to maintain your approximate ownership percentage, you should exercise all of your rights for $1.60 per right, which will allow you to maintain your approximate ownership percentage even if all of the other rights are exercised. If you acquired additional shares of our common stock after the record date for the rights offering, you will not receive rights for those shares and, as a result, you will not be able to maintain your approximate ownership percentage with respect to those shares. If you

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exercise your rights for $1.00 or $0.50 per right, your ownership percentage may decrease depending on how many other stockholders exercise their rights.

If you wish to invest less than the maximum of $1.60 for each right you own, you generally will be able to purchase more preferred stock if you exercise all of your rights for a lower subscription amount than if you exercise fewer of your rights at a higher subscription amount. For example, you generally will be able to purchase more preferred stock if you exercise all of your rights for $0.50 than if you exercise half of your rights for $1.00.

Do I have to own common stock after the record date to participate in the rights offering?

Yes. Due to the tax restrictions described below, you may not increase your ownership percentage in eLoyalty through the rights offering. Therefore, on the closing date of the rights offering you must own at least one pre-split share of our common stock for each right you have exercised. If the one-for-ten reverse split of our common stock is effected prior to the closing date as proposed, you must own one tenth of a share of our common stock on the closing date for each right you have exercised. In the rights certificate, you will be asked to confirm that you will meet this requirement on the closing date. If you fail to meet this requirement, we have the right to rescind your purchase of the preferred shares in the rights offering.

What if I sell shares of common stock after the record date?

You are receiving one right for each share of common stock you held on the record date. If you sell shares of common stock after the record date, the number of rights that you may exercise will be reduced unless you acquire additional shares prior to the closing of the rights offering. On the closing date, you must hold at least one pre-split share of common stock for each right you have exercised.

Why is eLoyalty offering the rights?

We are offering the rights to raise capital and to allow our stockholders to maintain their approximate percentage ownership interest in eLoyalty. We have entered into an agreement with several funds managed by Technology Crossover Ventures and Sutter Hill Ventures to issue up to $25.0 million in Series B convertible preferred stock in a private placement. Our board of directors has determined that it is appropriate to allow our other stockholders to maintain their approximate percentage ownership in eLoyalty if they so desire by offering them the right to purchase shares of Series B convertible preferred stock at the same price as in the private placement.

What is the preferred stock?

The Series B convertible preferred stock is a new series of preferred stock that our board of directors has authorized in connection with the private placement and the rights offering. Each share of preferred stock will accrue dividends at a rate of 7% per annum, will be entitled to a preference upon liquidation and will be convertible into one share of our common stock beginning six months after the closing date of the rights offering, subject to adjustment for stock splits, stock dividends and similar actions. The preferred stock may not be transferred until one year after the closing date, subject to limited exceptions.

Are there limits on the amount eLoyalty can raise in the private placement or the rights offering?

Yes. For our 100% spin-off from Technology Solutions Company (TSC) in February 2000 to remain tax free to TSC, no person or persons may acquire, directly or indirectly, 50% or more of our stock, measured by voting power or value, as part of a plan that includes the spin-off. Under applicable tax laws, there is a rebuttable presumption that any acquisitions of our voting stock within two years before or after the spin-off are part of such a plan. Although we do not believe that the issuance of the preferred stock in connection with the private placement and the rights offering should be treated as part of such a plan, we have structured the private placement and the rights offering in a way that we believe will enable our spin-off to remain tax-free to TSC even if the issuances were treated as part of such a plan.

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As a result of these tax restrictions, we have structured the private placement so that the maximum amount of preferred stock that we can issue in the private placement, without issuing any additional shares in the rights offering, is approximately 22.2 million shares, which would result in a maximum of $11.3 million in proceeds. However, if we issue shares in the rights offering, we will be able to issue additional shares in the private placement because the shares issued in the rights offering would reduce the ownership percentage of the investors in the private placement. We would be able to issue the maximum of $25.0 million of preferred stock in the private placement if we issue $16.5 million to $33.8 million or more of preferred stock in the rights offering, depending on the number of rights that are exercised and the dollar amount of preferred stock subscribed for per right.

Because of these tax restrictions, we have structured the rights offering to limit the number of shares that you may purchase upon exercise of your rights.

How many shares of preferred stock may I purchase?

The maximum number of shares that you may purchase in the rights offering is limited to the number of shares that will allow you to maintain, but not increase, your approximate ownership percentage in eLoyalty immediately prior to the private placement and the rights offering, but excluding shares of our common stock acquired after the record date for the rights offering. As a result, the maximum number of shares that you may purchase will depend on the number of shares issued in the private placement and the number of shares issued to other stockholders who exercise their rights.

To exercise your rights, you must specify the maximum dollar amount of preferred stock you wish to subscribe for per right. You may subscribe for:

$1.60 of preferred stock per right, in which case you must send the subscription agent a payment equal to $1.60 multiplied by the total number of rights you wish to exercise;

$1.00 of preferred stock per right, in which case you must send the subscription agent a payment equal to $1.00 multiplied by the total number of rights you wish to exercise; or

$0.50 of preferred stock per right, in which case you must send the subscription agent payment equal to $0.50 multiplied by the total number of rights you wish to exercise.

If you subscribe for $1.60 of preferred stock per right, your ownership percentage of eLoyalty following the private placement and the rights offering will be approximately the same as your ownership percentage immediately prior to the private placement and the rights offering, even if all of the other rights are exercised. If you subscribe for $1.00 or $0.50 per right, your ownership percentage may decrease depending on the total proceeds we receive from the rights offering and the private placement. For example, if you subscribe for $1.00 of preferred stock per right, your ownership percentage will decrease if the total proceeds from the rights offering and the private placement are more than $57.4 million. If you subscribe for $0.50 per right, your ownership percentage will decrease if the total proceeds are more than $28.6 million.

You may not increase your ownership percentage through the exercise of rights. As a result, the maximum amount of preferred stock that you may purchase may be less than the amount you subscribe for, in which case the subscription agent will return the unused portion of your subscription payment promptly following the closing of the rights offering, plus interest accruing after the closing date of the rights offering. For example, if you subscribe for $1.60 per right and the total proceeds from the rights offering and the private placement are $57.4 million, the unused portion of your subscription payment that would be returned to you would be $0.60 per right, plus any accrued interest.

The number of shares you will receive will be equal to the amount of your subscription payment that is accepted divided by the purchase price per share of preferred stock. We will not issue fractional shares. If the exercise of your rights would result in your receipt of fractional shares, the number of shares issued to you will be rounded down to the nearest whole share.

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How did eLoyalty determine the purchase price?

The purchase price per share of preferred stock was the result of arms length negotiations between us and the investors in the private placement. The maximum price per share of $0.51 is equal to 90% of the average of the last sale price of our common stock over the twenty trading days prior to September 5, 2001, the date on which we reached agreement in principle on the material terms of the private placement. Our directors who are affiliated with Technology Crossover Ventures, Jay C. Hoag, and Sutter Hill Ventures, Tench Coxe, did not participate in certain key parts of the board of directors deliberations regarding the private placement. They also abstained from voting when the board of directors voted to approve the purchase price and the other terms of the private placement and the amendment to our certificate of incorporation to increase our authorized capital stock, which were unanimously approved by the other directors.

How do I exercise my rights?

You must properly complete the enclosed rights certificate and deliver it, along with an amount equal to either $1.60, $1.00 or $0.50 multiplied by each right you wish to exercise, to the subscription agent before 5:00 p.m., New York City time, on December 19, 2001.

The subscription agent will hold the subscription payments in an escrow account that is separate from eLoyalty s accounts. After the closing, the subscription agent will mail to you a certificate for the shares of preferred stock you purchased. If you subscribe for more shares than you are eligible to purchase, the subscription agent will also return the unused subscription amount promptly following the closing of the rights offering, plus interest accruing after the closing date of the rights offering.

Must I pay the subscription price in cash?

All stockholders granted rights who wish to participate in the rights offering must timely pay the subscription price by wire transfer, certified or cashier s check drawn on a U.S. bank, U.S. postal money order or personal check that clears before the expiration time of the rights offering.

What if a broker, bank, trust company or other nominee is the record holder of my shares?

If you wish to exercise your rights, please promptly contact the broker, bank, trust company or other nominee holding your shares. Your broker or other nominee holder is the record holder of the shares you own and must exercise the rights on your behalf for shares you wish to purchase. The broker, bank or other nominee has been requested to contact you for instructions on exercising your rights.

How soon must I act?

The rights expire at 5:00 p.m., New York City time, on December 19, 2001. The subscription agent must actually receive all required documents and payments before that time and date. Rights not exercised by the expiration date will be null and void.

We will make a public announcement of the purchase price per share of the preferred stock to be issued in the rights offering promptly following the close of trading on the fourth trading day prior to the closing date of the rights offering. If you intend to wait to exercise your rights until the purchase price is announced, you must carefully review the procedures described in this prospectus to ensure that your subscription payment and all required documents are received by the subscription agent before the expiration time.

After I exercise my rights, can I change my mind?

No. Once you send in your rights certificate and payment, you cannot revoke the exercise of your rights, even if you later learn information about us that you consider to be unfavorable. You should not exercise your rights unless you are certain that you wish to purchase preferred stock.

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Is the rights offering subject to any conditions?

Yes. The closing of the rights offering is conditioned on the closing of the private placement. We have called a special meeting of stockholders to be held on December 18, 2001 at which we will ask stockholders to approve, among other matters, the issuance of the shares in the private placement, and amendments to our certificate of incorporation to increase the number of shares of common stock and preferred stock that we are authorized to issue and to effect a one-for-ten reverse split of our common stock. We will not complete the rights offering or the private placement unless stockholders approve each of those proposals and the amendments to our certificate of incorporation are effective.

The private placement is subject to a number of other conditions to closing, including that all of the representations and warranties we made in the share purchase agreement for the private placement are true in all material respects, that our business has not suffered a material adverse change and that we have received an opinion of counsel to the effect that the private placement and rights offering will not cause the distribution of our stock by TSC in February 2000 to be taxable under Section 355(e) of the Internal Revenue Code of 1986, as amended.

Can I purchase additional shares of preferred stock beyond those that I have the right to purchase?

No. You can only exercise the rights that you are granted in the rights offering. If other stockholders do not exercise their rights, neither you nor anyone else will have the right to exercise them.

Can I transfer my rights?

No. Your rights are not transferrable. Only you may exercise them.

Can I transfer the shares of preferred stock?

The preferred stock may not be transferred until one year from the date it is issued to you, except for transfers:

- in connection with a consolidation or merger of eLoyalty with or into any other corporation or other entity or person, or any other corporate reorganization, in which our stockholders immediately prior to such transaction own less than 50% of our voting power immediately after such transaction, or any transaction or series of related transactions to which we are a direct contracting party in which in excess of 50% of our voting power is transferred or in connection with a sale, lease or other disposition of all or substantially all of our assets;
- in connection with a distribution by a partnership or limited liability company to its affiliates or current or former partners or members; or
- by will or by the laws of intestate succession.

Is the preferred stock convertible into our common stock?

Yes. The Series B convertible preferred stock will be convertible into shares of common stock at your option beginning six months after the closing of the rights offering, at a rate of one share of common stock for each share of preferred stock. The number of shares of common stock that we will issue upon conversion of the preferred stock will be adjusted if we split our stock or pay dividends in shares of stock or take similar actions, unless we take similar actions with respect to the preferred stock.

The preferred stock will also convert automatically into shares of common stock at the same conversion rate if at any time beginning six months after the closing the last sale price of our common stock is at least five times the original purchase price per share of the preferred stock for 30 consecutive trading days and, in connection with the shares of preferred stock issued in the private placement, the registration statement we have agreed to file with respect to those shares is effective.

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How will the proposed reverse split of the common stock affect the preferred stock?

We intend to effect a one-for-ten reverse split of our common stock shortly before the closing of the rights offering, subject to the approval of the holders of our common stock at the special meeting of stockholders to be held on December 18, 2001. We are effecting the reverse stock split (1) to reduce the number of our shares that will be outstanding after giving effect to the private placement and the rights offering to allow us to rationalize our resulting equity capital structure, (2) to enhance the acceptability and marketability of our common stock to the financial community and the investing public, and (3) to attempt to increase the per share market price of our common stock above the $1.00 minimum bid level required to maintain our Nasdaq National Market listing.

If the reverse split is effected:

- each right will continue to be exercisable for $1.60, $1.00 or $0.50 of preferred stock per right;
- the purchase price and the liquidation preference per share of preferred stock will be the lesser of (1) $5.10 per share, and (2) 90% of the average of the last sale price of our common stock on a pre-split basis over the twenty trading days through and including the fourth trading day prior to the closing date of this rights offering multiplied by ten; and
- each share of preferred stock initially will be convertible into one share of post-split common stock, subject to adjustment for future stock splits, stock dividends and similar actions.

Is exercising my rights risky?

The exercise of your rights involves risks. Exercising your rights means buying shares of our preferred stock, and should be considered as carefully as you would consider other equity investments. Among other things, you should carefully consider the risks described under the heading Risk Factors beginning on page 20.

Has eLoyalty s board of directors made a recommendation regarding the rights offering?

Our board of directors has determined that it is appropriate to allow our other stockholders to maintain their approximate percentage ownership in eLoyalty if they so desire by offering them the right to purchase shares of Series B convertible preferred stock at the same price as in the private placement. However, the decision whether to exercise your rights must be made by you based on your evaluation of our business and the terms of the offering. Our board of directors does not make any recommendation to you about whether you should exercise your rights.

What fees or charges apply if I exercise my rights?

We are not charging any fees or sales commissions to issue rights to you or to issue shares to you if you exercise your rights. If you exercise your rights through a broker or other holder of your shares, you are responsible for paying any fees that person may charge.

When will I receive my new shares of preferred stock?

If you purchase shares of preferred stock through the rights offering, you will receive certificates representing those shares as soon as practicable after December 19, 2001. Because the shares of preferred stock will be subject to restrictions on transfer for one year from the date they are issued, the shares will be issued in certificated form and will bear a legend referring to the restrictions on transfer. We do not intend to issue shares in book-entry form through a depositary. Subject to state securities laws and regulations, we have the discretion to delay distribution of any shares of preferred stock you may have elected to purchase by exercise of your rights in order to comply with state securities laws.

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What are the U.S. federal income tax consequences of exercising my rights?

The receipt and exercise of your rights will not be taxable under U.S. federal income tax laws. You should, however, seek specific tax advice from your personal tax advisor in light of your personal tax situation and as to the applicability and effect of any other tax laws. See Material U.S. Federal Income Tax Consequences.

What happens if I choose not to exercise my rights?

You are not required to exercise your rights or otherwise take any action in response to this rights offering. If you do not exercise your rights and the rights offering is completed, the number of shares of our common stock you own will not change (except as a result of the proposed one-for-ten reverse stock split) but your percentage ownership of our total outstanding voting stock will decrease. Your net book value per share will also decrease. Your percentage ownership may also decrease and you may suffer a decrease in your net book value per share if you exercise your rights for less than $1.60 per right, or if you exercise less than all of your rights.

How many shares of common stock and preferred stock of eLoyalty will be outstanding after the private placement and the rights offering?

The number of shares of preferred stock of eLoyalty outstanding after the private placement and the rights offering depends on the number of shares purchased in the private placement and the number of shares issued in the rights offering. If all of the stockholders who are eligible to exercise their rights exercise their rights for the maximum amount, there will be approximately 170,570,700 shares of preferred stock outstanding (or approximately 17,057,070 as adjusted for the one-for-ten reverse split of the common stock), assuming a purchase price of $0.51 per share. There will be approximately 57,351,231 shares of common stock outstanding (or approximately 5,735,123 shares as adjusted for the one-for-ten reverse split of the common stock), after giving effect to the issuance of approximately 5,700,000 shares in connection with an offer we made to our officers and employees to exchange some of their outstanding options for common stock, and assuming we do not issue any other shares of our common stock after the date of this prospectus. Each share of preferred stock will be convertible into one share of common stock beginning six months after the closing of the rights offering, subject to adjustment for stock splits, stock dividends and similar actions.

What effect will the private placement and the rights offering have on the ownership percentage of Technology Crossover Ventures and Sutter Hill Ventures?

We expect the percentage ownership of Technology Crossover Ventures and Sutter Hill Ventures in our company to increase as a result of the private placement. If Technology Crossover Ventures and Sutter Hill Ventures purchase the maximum number of shares they could purchase in the private placement without any exercise of rights, the ownership percentage of Technology Crossover Ventures would increase from approximately 13.0% to approximately 26.1%, and the ownership percentage of Sutter Hill Ventures would increase from approximately 3.7% to approximately 13.8%, in each case after giving effect to the issuance of approximately 5.7 million shares in connection with the offer we made to our officers and employees to exchange options for common stock. As a result of the tax restrictions described above, we have structured the private placement and the rights offering to limit the aggregate ownership percentage of Technology Crossover Ventures and Sutter Hill Ventures and their affiliates to a maximum of 47.0% of the voting power or value of our outstanding stock.

How much money will eLoyalty receive from the private placement and the rights offering?

The amount of money we will raise from the private placement and the rights offering depends on the number of rights exercised for $1.60, $1.00 and $0.50. If every stockholder that is eligible to exercise rights exercises their rights for $1.60 per right, the maximum proceeds from the private placement and the rights offering will be approximately $87.0 million. It is unlikely that all eligible stockholders will exercise their rights. The table on page 45 shows the proceeds that we would receive assuming various levels of participation in the rights offering.

Can eLoyalty cancel the rights offering?

Yes. Our board of directors will cancel the rights offering if stockholders do not approve the private placement, if the private placement does not otherwise close by February 1, 2002 or if we and the investors in the private placement agree to terminate the share purchase agreement. If we cancel the rights offering, we will promptly refund any money received from stockholders, without interest.

What if I have more questions?

If you have more questions about the rights offering or need additional copies of the rights offering documents, please contact the information agent, MacKenzie Partners, Inc., at (800) 322-2885.

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PROSPECTUS SUMMARY

This summary highlights the information contained elsewhere in or incorporated by reference into this prospectus. Because this is only a summary, it does not contain all of the information that you should consider before deciding whether to exercise your rights. For a more complete understanding of this rights offering, the preferred stock, the common stock and our company, we encourage you to read this entire prospectus, including the information under the heading Risk Factors, and the documents to which we refer you under the heading Documents Incorporated by Reference.

eLoyalty

We are a leading management consulting and systems integration company focused exclusively on customer relationship management (CRM). We deliver a broad range of services throughout North America, Europe and Australia including strategy and measurement, program management, customer service operations, technology enablement, change management and on-going technical managed services. The combination of methodologies and technical expertise enables eLoyalty to deliver the tangible economic benefits of customer loyalty for our Fortune 1000 clients. Since our inception in 1994 as a business unit of Technology Solutions Company (TSC), we have developed management consulting and technology capabilities in an effort to lead the development of, and stay at the forefront of, the CRM market, with the specific focus on incorporating new technologies into CRM solutions.

We were incorporated in Delaware in May 1999 as a wholly-owned subsidiary of TSC in anticipation of a spin-off from TSC. In February 2000, TSC transferred the businesses of its eLoyalty division to the recently-formed Delaware corporation and declared a dividend, payable to TSC stockholders, based upon a ratio of one share of our common stock for every one share of TSC common stock held. Effective February 15, 2000, the shares of our common stock were distributed to TSC s stockholders and eLoyalty became a separate, publicly traded company.

Our executive offices are located at 150 Field Drive, Suite 250, Lake Forest, Illinois 60045, and our telephone number at that address is (847) 582-7000.

Recent Developments

Although the current business environment remains challenging, we have experienced some stabilization in our North American sales expectations. We have won several engagements with new clients and sold additional project work to certain existing clients within the pharmaceutical, healthcare and automotive industries.

As of the date of this prospectus, we have not experienced any material financial impact on current client commitments as a result of the terrorist attacks in the United States on September 11, 2001. However, it is too early to assess the impact, if any, of these events and any responsive actions on our future business outlook.

We have completed a substantial reorganization of our North American business. Under the new organization, all field personnel will be in one of two areas:

- Demand groups focusing on revenue generation and the management of client relationships; and
- Delivery groups fulfilling client engagements and expanding our methodologies and capabilities.

We expect that the reorganization will increase our focus on clients by enabling demand executives to concentrate on client relationship activities, improve our operational effectiveness and efficiency by aligning billable consultants around core skills and enhance the quality of the work we deliver to our clients.

In addition, we have made several improvements to our business operating processes. These process improvements have led to improved cash collections, reduced non-billable expenses and improved focus on utilization management during the third quarter 2001.

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We took cost reduction actions in July and September 2001 which resulted in a third quarter special charge of $7.1 million. We have announced additional cost reduction actions planned for the fourth quarter 2001, including headcount reductions. We currently estimate that these planned cost reduction actions will result in an estimated $3.0 million to $4.0 million special charge in the fourth quarter 2001. We expect that these fourth quarter actions and the actions taken in September 2001 will result in quarterly pre-tax savings of approximately $8 million to be fully realized in the first quarter of 2002.

Private Placement

We have entered into a share purchase agreement with two of our existing stockholders, Technology Crossover Ventures and Sutter Hill Ventures, to issue up to $25.0 million in Series B convertible preferred stock in a private placement that will close concurrently with the rights offering. Technology Crossover Ventures, which currently owns 7,430,440 shares, or approximately 13.0%, of our common stock, has agreed to purchase up to $15 million of preferred stock, and Sutter Hill Ventures, which together with certain related entities currently owns 2,123,004 shares, or approximately 3.7%, of our common stock has agreed to purchase up to $10 million of preferred stock. The foregoing percentages give effect to the issuance of approximately 5,700,000 shares in connection with an offer we made to our officers and employees to exchange options for common stock.

The closing of the private placement is conditioned upon stockholder approval of the private placement and other conditions, including that all of the representations and warranties we made in the share purchase agreement are true in all material respects, that our business has not suffered a material adverse change and that we have received an opinion of counsel to the effect that the private placement and rights offering will not cause the distribution of our stock by TSC in February 2000 to be taxable under Section 355(e) of the Internal Revenue Code of 1986, as amended. The closing of the private placement is also conditioned upon the closing of the rights offering and approval by our stockholders and consummation by us of certain changes to our authorized capital and a one-for-ten reverse stock split.

As a result of tax law requirements relating to our tax free spin-off from TSC, the maximum amount of preferred stock that we can issue in the private placement, without issuing any additional shares in the rights offering, is approximately 22.2 million shares, which would result in a maximum of $11.3 million in proceeds. However, if we issue shares in the rights offering, we will be able to issue additional shares in the private placement because the shares issued in the rights offering would reduce the ownership percentage of the investors in the private placement. We would be able to issue the maximum of $25.0 million of preferred stock in the private placement if we issue $16.5 million to $33.8 million or more of preferred stock in the rights offering, depending on the number of rights that are exercised and the dollar amount of preferred stock subscribed for per right.

One of our directors, Jay C. Hoag, is a managing member of the general partner of entities affiliated with Technology Crossover Ventures, and another director, Tench Coxe, is a managing director of the general partner of Sutter Hill Ventures. Because of their interest in the private placement, Messrs. Hoag and Coxe did not participate in certain key parts of the board of directors deliberations regarding the private placement. They also abstained from voting when the board of directors voted to approve the purchase price and the other terms of the private placement and the amendment to our certificate of incorporation to increase our authorized capital stock, which were unanimously approved by the other directors.

We have also agreed to use our reasonable best efforts to register the shares of common stock issuable upon conversion of the preferred stock issued in the private placement within 180 days after the closing date.

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Special Meeting of Stockholders

We have called a special meeting of stockholders to be held on December 18, 2001 at which we will ask stockholders to approve:

- the issuance of the preferred stock in the private placement;
- an amendment to our certificate of incorporation to increase the number of shares of common stock and preferred stock that we are authorized to issue; and
- an amendment to our certificate of incorporation to effect a one-for-ten reverse split of our common stock and reduce our authorized common stock to reflect the reverse split.

Approval of the private placement will require the affirmative vote of both (1) a majority of our outstanding shares of common stock present or represented by proxy at the special meeting and entitled to vote, and (2) a majority of our outstanding shares of common stock present or represented by proxy at the special meeting and entitled to vote, excluding votes cast by the investors in the private placement and their affiliates. Approval of the amendment to our certificate of incorporation and the reverse stock split each require the affirmative vote of a majority of our outstanding shares of common stock entitled to vote at the special meeting. We will not complete the rights offering unless stockholders approve the issuance of preferred stock in the private placement and the amendments to our certificate of incorporation to increase our authorized capital and effect the reverse stock split.

Other Information

We are issuing one right for each outstanding share of our common stock as of the record date for the rights offering. However, under the terms of the share purchase agreement governing the private placement, the investors in the private placement cannot exercise their rights. In addition, rights issued in respect of restricted stock held by our officers and employees that has not vested prior to the closing date cannot be exercised. As a result, the information in this prospectus regarding the amount and percentage of rights exercised is based on the amount and percentage of rights that are eligible to be exercised and excludes rights that cannot be exercised.

Unless otherwise indicated, the information in this prospectus:

- assumes a purchase price of $0.51 per share of preferred stock in the rights offering and the private placement (the second table on page 46 illustrates the impact of a lower purchase price on the proceeds to us from the rights offering and private placement);
- assumes a value of our common stock of at least 83.3% of the value of the preferred stock (or a value of $0.43 per share of common stock assuming a preferred stock purchase price of $0.51), which would result in the value of the preferred stock for purposes of the tax restrictions being no more than 120% of the value of the common stock; and
- gives effect to the issuance of approximately 5.7 million shares of common stock in connection with an offer we made to our officers and employees to exchange some of their outstanding options for shares of restricted stock that vest over a five-year period or, in the case of non-U.S. employees, shares of common stock to be issued over a five-year period.

In addition, the information in this prospectus has been presented without giving effect to the proposed one-for-ten reverse split of our common stock. If stockholders approve the reverse split, we intend to effect it prior to the closing of the private placement and the rights offering. If the reverse split is effected:

- each right will continue to be exercisable for $1.60, $1.00 or $0.50 of preferred stock per right;
- the purchase price and the liquidation preference per share of preferred stock will be the lesser of (1) $5.10 per share, and (2) 90% of the average of the last sale price of our common stock on a pre-split basis over the twenty trading days through and including the fourth trading day prior to the closing date of this rights offering, multiplied by ten; and

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each share of preferred stock initially will be convertible into one share of post-split common stock, subject to adjustment for future stock splits, stock dividends and similar actions.

The Rights Offering

Rights granted	We have granted to each person who was a record holder of our common stock on the record date one right to purchase shares of Series B convertible preferred stock for each share of common stock then held. To exercise your rights, you must deliver a rights certificate along with payment of the applicable subscription price.
Securities offered	We are offering shares of 7% Series B convertible preferred stock, which is a new class of preferred stock.
Exercise some or all of your rights	You may exercise some or all of your rights, or you may choose not to exercise any of your rights.
Number of shares that may be purchased and subscription price	The maximum number of shares that you may purchase in the rights offering is limited to the number of shares that will allow you to maintain, but not increase, your approximate ownership percentage in eLoyalty immediately prior to the private placement and the rights offering, excluding shares of our common stock acquired after the record date for the rights offering. As a result, the maximum number of shares that you may purchase will depend on the number of shares issued in the private placement and the number of shares issued to other stockholders who exercise their rights. To exercise your rights, you must specify the maximum dollar amount of preferred stock you wish to subscribe for per right. You may subscribe for: $1.60 of preferred stock per right, in which case you must send the subscription agent a payment equal to $1.60 multiplied by the number of rights you have exercised; $1.00 of preferred stock per right, in which case you must send the subscription agent a payment equal to $1.00 multiplied by the number of rights you have exercised; or $0.50 of preferred stock per right, in which case you must send the subscription agent a payment equal to $0.50 multiplied by the number of rights you have exercised. If the maximum amount of preferred stock that you may purchase is less than the amount you subscribe for, the subscription agent will return the unused portion of your subscription payment promptly following the closing of the rights offering, plus interest accruing after the closing date of the rights offering. We will not issue fractional shares. If the exercise of your rights would result in your receipt of fractional shares, the number of shares issued to you will be rounded down to the nearest whole share.

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Purchase price of preferred stock	The purchase price per share of preferred stock is the lesser of $0.51 and 90% of the average of the last sale price of our common stock on a pre-split basis over the twenty trading days through and including the fourth trading day prior to the closing of the rights offering, as adjusted to reflect the proposed one-for-ten reverse split of the common stock. If the reverse split is effected as proposed, the purchase price per share of preferred stock will be the lesser of $5.10 and 90% of the average price of the common stock described above on a pre-split basis multiplied by ten. We will make a public announcement of the purchase price promptly following the close of trading on the fourth trading day prior to the closing date of the rights offering.
Basis for purchase price	The purchase price per share of preferred stock was the result of arms length negotiations between us and the investors in the private placement.
Record date	October 8, 2001
Requirement to hold shares on closing date	On the closing date of the rights offering, you must hold at least one pre-split share of our common stock for each right you have exercised. In the rights certificate, you will be asked to confirm that you will meet this requirement on the closing date.
Expiration date and time	The rights expire at 5:00 p.m., New York City time, on December 19, 2001, unless we extend it.
Reasons for the rights offering	We are offering the rights to raise capital and allow our stockholders to maintain their approximate percentage ownership interest in eLoyalty, after giving effect to the private placement and the rights offering.
Use of proceeds	We intend to use the proceeds of the private placement and the rights offering for general corporate purposes.
Conditions to the rights offering	The rights offering is conditioned upon the closing of the private placement. The private placement is conditioned on stockholder approval and other conditions.
No Board recommendation	Our board of directors makes no recommendation to stockholders regarding the exercise of rights under this offering. Stockholders who exercise any rights risk investment loss on new money invested. We refer you to the section entitled Risk Factors.
Transferability of rights	The rights are not transferable.
No revocation	If you exercise any rights, you are not allowed to revoke or change your exercise or request a refund of monies paid.
Subscription agent	Mellon Bank, N.A.
Information agent	MacKenzie Partners, Inc.
Procedure for exercising rights	To exercise rights, you must complete the enclosed rights certificate and deliver it, along with a payment of the applicable

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	subscription price, to the subscription agent prior to the expiration date.
	You may deliver the documents and payments by mail, hand delivery or commercial courier. If regular mail is used for this purpose, we recommend using insured, registered mail. You may also deliver documents by facsimile and payments by wire transfer.
Nominee accounts	If you wish to exercise your rights and purchase shares in this rights offering and your shares of common stock are held by a broker, bank, trust company or other nominee, you should promptly contact those record holders and request them to exercise the rights on your behalf.
	You are responsible for the payment of any fees that brokers or other persons holding your shares may charge in connection with the exercise of your rights and the purchase of your shares.
Shares of common stock outstanding	51,651,231 shares outstanding on November 7, 2001 (or approximately 5,165,123 shares after giving effect to the proposed reverse stock split), before giving effect to the issuance of approximately 5,700,000 shares of common stock in exchange for outstanding employee stock options.
Shares of preferred stock to be outstanding after the private placement and the rights offering	170,570,700 shares of preferred stock outstanding, assuming the exercise of all of the rights for $1.60 per right and a purchase price of $0.51 per share (or approximately 17,057,070 shares after giving effect to the proposed reverse split of our common stock).
U.S. federal income tax consequences	For U.S. federal income tax purposes, a stockholder will not recognize taxable income upon the receipt or exercise of rights. See Material U.S. Federal Income Tax Consequences.
	We urge you to consult your own tax adviser concerning the tax consequences of this rights offering under your own tax situation.
	This prospectus does not summarize tax consequences arising under state, local or foreign tax laws, or any tax laws relating to special tax circumstances or particular types of taxpayers.
Stock certificates	We will deliver stock certificates representing shares of preferred stock purchased upon exercise of your rights as soon as practicable after the closing of the rights offering. The certificates will contain a legend referring to the restrictions on transfer of the preferred stock.
Transfer, paying and conversion agent	Mellon Investor Services LLC (an affiliate of Mellon Bank, N.A.) will act as transfer, paying and conversion agent for the preferred stock.

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Withdrawal, amendment and extension	We may withdraw, amend or extend the rights offering at any time prior to the expiration date. If we withdraw the rights offering, we will return all funds received in the rights offering without interest to those persons who exercised their rights and subscribed for shares in the rights offering.
Reverse stock split	We intend to effect a one-for-ten reverse split of our common stock shortly before the closing of the rights offering, subject to the approval of the holders of our common stock.
	If we effect the reverse stock split as currently proposed, each right will continue to be exercisable for $1.60, $1.00 or $0.50 of preferred stock per right, but the purchase price and liquidation preference per preferred share will be the lesser of (1) $5.10 per share, and (2) 90% of the average of the last sale price of our common stock on a pre-split basis over the twenty trading days through and including the fourth trading day prior to the closing date of this rights offering, multiplied by ten.
Terms of the 7% Series B Convertible Preferred Stock:	
Restrictions on transfer of preferred stock	The shares of preferred stock that you purchase upon exercise of your rights may not be transferred until one year after the closing date of the rights offering, subject to limited exceptions.
Dividends	Dividends will accrue at a rate of 7% per year on the original purchase price of the preferred stock. We will pay the dividends, if declared by our board of directors, on January 1 and July 1 of each year, beginning July 1, 2002.
Optional conversion	The preferred stock will be convertible into shares of common stock at your option beginning six months after the closing of the rights offering.
Automatic conversion	The preferred stock will convert automatically into shares of common stock if at any time beginning six months after the closing date of the rights offering the last sale price of our common stock is at least five times the original purchase price per share of the preferred stock for 30 consecutive trading days and, in connection with the shares of preferred stock issued in the private placement, the registration statement we have agreed to file with respect to those shares is effective.
Conversion ratio	The preferred stock will be convertible into shares of common stock initially at a rate of one share of common stock for each share of preferred stock. The number of shares of common stock that we will issue upon conversion of the preferred stock will be adjusted if we split our stock or pay dividends in shares of stock or take similar actions, unless we take similar actions with respect to the preferred stock.
Liquidation preference of preferred stock	Upon our liquidation, the holders of the preferred stock would be entitled to receive an amount equal to the original purchase price

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of the preferred stock, plus accrued but unpaid dividends, before any payments are made to the holders of our common stock. After that amount has been paid, the holders of the preferred stock also would participate on an as-converted basis with the holders of the common stock in our remaining assets.

Upon a consolidation or merger of eLoyalty with or into any other corporation or other entity or person, or any other corporate reorganization, in which our stockholders immediately prior to such transaction own less than 50% of our voting power immediately after such transaction, or any transaction or series of related transactions to which we are a direct contracting party in which in excess of 50% of our voting power is transferred, or upon a sale, lease or other disposition of all or substantially all of our assets, the holders of the preferred stock would be entitled to the amounts described in the preceding paragraph unless the holders of the common stock, assuming the conversion of all of the preferred stock into common stock, would receive an amount equal to four times the original purchase price of the preferred stock, in which case the holders of the preferred stock would receive the amount that they would be entitled to if they had converted their preferred stock into common stock immediately prior to the transaction.

Voting rights

The holders of the preferred stock will vote together with the holders of the common stock as a single class, and each share of preferred stock will be entitled to a number of votes equal to the number of shares of common stock that it is convertible into, determined without regard to the limitation on conversion during the first six months after issuance.

In addition, the affirmative vote of the holders of a majority of the outstanding preferred stock, voting as a separate class, will be required to take any of the following actions:

the authorization, creation or issuance of any class or series of stock or other securities convertible into or exercisable for equity securities having rights, preferences or privileges that are equal or superior to the rights, preferences or privileges of the Series B convertible preferred stock;

any increase or decrease in the authorized number of shares of Series B convertible preferred stock; or

any amendment, waiver, alteration or repeal of any provision of our certificate of incorporation or our bylaws in a way that adversely affects the rights, preferences or privileges of the Series B convertible preferred stock.

Also, until six months after the closing date of the private placement and the rights offering, the affirmative vote of the holders of at least 85% of the outstanding preferred stock present in person or by proxy and entitled to vote at a meeting held for this purpose shall be required prior to a consolidation or merger of eLoyalty with or into any other corporation or other entity or person, or any other corporate reorganization, in which our

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	stockholders immediately prior to such transaction own less than 50% of our voting power immediately after such transaction, or any transaction or series of related transactions to which we are a direct contracting party in which in excess of 50% of our voting power is transferred, or a sale, lease or other disposition of all or substantially all of our assets.
Redemption	The Series B convertible preferred stock does not have a stated redemption feature. However, upon a consolidation or merger of eLoyalty with or into any other corporation or other entity or person, or any other corporate reorganization, in which our stockholders immediately prior to such transaction own less than 50% of our voting power immediately after such transaction, or any transaction or series of related transactions to which we are a direct contracting party in which in excess of 50% of our voting power is transferred, or a sale, lease or other disposition of all or substantially all of our assets, the holders of the preferred stock would be entitled to their liquidation preference after the payment of which the preferred stock would be retired.

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Summary Financial Data

The following table summarizes our financial data. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements and notes thereto, which are incorporated by reference from our Annual Report on Form 10-K for the year ended December 30, 2000 and from our Quarterly Report on Form 10-Q for the quarter ended September 29, 2001. The statements of operations data for the years ended December 30, 2000 and December 31, 1999, for the seven month period ended December 31, 1998 and for the years ended May 31, 1998, 1997, 1996, and the balance sheet data as of December 30, 2000, December 31, 1999 and 1998, and May 31, 1998 and 1997, below are derived from our audited financial statements. The statements of operations data for the nine month periods ended September 29, 2001 and September 30, 2000, the year ended December 31, 1998, and the seven month period ended December 31, 1997, and the balance sheet data as of September 29, 2001 and May 31, 1996 are derived from unaudited financial statements. In the opinion of management, the unaudited financial statements referred to above reflect all adjustments, consisting of normal adjustments, necessary to present fairly eLoyalty s results of operations for the nine month periods ended September 29, 2001 and September 30, 2000, the year ended December 31, 1998, and the seven month period ended December 31, 1997, and the balance sheet data as of September 29, 2001 and May 31, 1996.

The financial information for periods prior to February 15, 2000 reflect eLoyalty s results of operations and financial position as it operated within TSC, and the financial information for periods subsequent to February 15, 2000 reflect eLoyalty s results of operations and financial position as it operated as a separate, stand-alone publicly traded company. The financial information for periods prior to February 15, 2000 may not necessarily reflect what the financial position and results of operations of eLoyalty would have been had eLoyalty operated as a separate, stand-alone publicly traded entity during such periods.

Statements of Operations Data:

	For the Nine Month Periods Ended September		For the Years Ended December			For the Seven Month Periods Ended December		For the Years Ended May		
	2001	**2000**	**2000**	**1999**	**1998**	**1998**	**1997**	**1998**	**1997**	**1996**
	(unaudited)				(unaudited)		(unaudited)			
	(in thousands, except share and per share data)									
Revenues	$107,681	$153,957	$211,603							