

ELOYALTY CORP
Form DEF 14A
April 08, 2008
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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 Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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eLOYALTY CORPORATION

(Exact name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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150 Field Drive, Suite 250

Lake Forest, Illinois 60045

April 11, 2008

Dear eLoyalty Stockholder:

On behalf of the Board of Directors and management of eLoyalty Corporation, I cordially invite you to attend the 2008 Annual Meeting of eLoyalty's stockholders. The Annual Meeting will be held at 9:00 a.m. Central time on Thursday, May 15, 2008 at the La Quinta Inn & Suites, 2000 S. Lakeside Drive, Bannockburn, IL 60015.

At this year's Annual Meeting, the agenda includes the proposed election of two current Class III Directors, the approval of an amendment and restatement of the eLoyalty Corporation 1999 Stock Incentive Plan and the ratification of eLoyalty's independent public accountants for 2008. 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.

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,

Kelly D. Conway

President and Chief Executive Officer

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eLOYALTY CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 15, 2008

The Annual Meeting of eLoyalty's stockholders will be held at 9:00 a.m. Central time on Thursday, May 15, 2008, at the LaQuinta Inn & Suites, 2000 S. Lakeside Drive, Bannockburn, IL 60015 for the following purposes:

1. To elect two Class III Directors to serve for an ensuing term of three years;
2. To approve the amendment and restatement of the eLoyalty Corporation 1999 Stock Incentive Plan to, among other things, increase the number of shares available for issuance under the Plan by 1,500,000 shares;
3. To ratify Grant Thornton LLP as eLoyalty's independent public accountants for 2008; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

These items are more fully described in the following pages of the Proxy Statement.

The record date for the Annual Meeting was the close of business on March 28, 2008. Only stockholders of record as of that time and date will be entitled to notice of, and to 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.

Your vote is important. Stockholders are urged to submit a proxy with their voting instructions as promptly as possible, whether or not they intend to attend the meeting in person. Record holders of eLoyalty shares as of the record date may submit their proxies with voting instructions by using a toll-free telephone number (within the U.S. or Canada) or the Internet. Instructions for using these convenient services are set forth on the enclosed proxy card. Of course, you also may submit a proxy containing your voting instructions by completing, signing, dating and returning the enclosed proxy card in the enclosed postage-paid reply envelope.

By Order of the Board of Directors,

Steven H. Shapiro

Vice President, General Counsel and Corporate Secretary

Lake Forest, Illinois

April 11, 2008

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eLoyalty Corporation
150 Field Drive, Suite 250
Lake Forest, Illinois 60045

PROXY STATEMENT

FOR

2008 ANNUAL MEETING OF STOCKHOLDERS

PROXY AND VOTING INFORMATION

The Board of Directors (the **Board**) of eLoyalty Corporation (**eLoyalty** or the **Company**) is soliciting your proxy for use at the 2008 Annual Meeting of Stockholders of eLoyalty and any postponements or adjournments thereof (the **Annual Meeting**). These proxy materials, together with a copy of eLoyalty's Annual Report, are first being mailed to eLoyalty stockholders beginning on or about April 11, 2008.

Who May Vote. 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 28, 2008 (the **Record Date**) may vote at the Annual Meeting. On that date, 13,807,716 shares of eLoyalty Stock, comprising 10,176,169 shares of Common Stock and 3,631,547 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.

How to Vote. 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 and follow the instructions on the proxy card.

By Telephone: Call 1-800-690-6903 on a touch-tone telephone from anywhere within the United States or Canada and follow the instructions on the proxy card.

By Mail: Complete, sign and mail the proxy card in the enclosed envelope.

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 shown on the enclosed proxy card before your proxy will be accepted. In addition to the instructions that appear on the enclosed proxy card, step-by-step instructions will be provided by recorded telephone message or at the designated Web site on the Internet. Once you have indicated how you want to vote in accordance with those instructions, you will receive confirmation that your proxy has been successfully submitted by telephone or through the Internet.

If you hold your shares of eLoyalty Stock in **street name** through a broker, nominee, fiduciary or other custodian, you should check the voting form used by that firm to determine whether you may vote by telephone or through the Internet. If so, use the different toll-free telephone number and Web site address provided on that firm's voting form for its beneficial owners.

How Proxies Work. Giving your proxy means that you authorize the persons named as proxies to vote your shares at the Annual Meeting in the manner you direct. If you sign and return a proxy card without indicating your voting instructions, the proxies named on the proxy card will vote your shares **FOR** the election of the nominees for director shown under **Director Election** on the following pages, **FOR** approval of the amendment and restatement of the 1999 Stock Incentive Plan and **FOR** ratification of Grant Thornton LLP as eLoyalty's independent public accountants for 2008.

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Revocation of Proxies. You may revoke your proxy at any time before the voting at the Annual Meeting by any of the following methods:

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

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;

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.

Quorum. In order to conduct the business of the Annual Meeting, eLoyalty must have a quorum. A quorum requires the presence, in person or by proxy, of a majority of the 13,807,716 shares of eLoyalty Stock outstanding on the Record Date. Proxies that are submitted by brokers as holders of record and that do not indicate a vote for some of the proposals, because the brokers have not received instructions from their customers or other beneficial owners on how to vote on those proposals and do not have discretionary voting authority, are called broker non-votes. We count abstentions, votes withheld with respect to the election of the director nominees and broker non-votes as present at the Annual Meeting for the purpose of determining a quorum.

Required Votes. The nominees for director will be elected by a plurality of the votes cast at the Annual Meeting. This means that the nominees who receive the greatest number of votes will be elected as directors. Broker non-votes and instructions to withhold authority to vote for a nominee are not counted for this purpose and will not affect the outcome of the election. eLoyalty's organizational documents do not provide for cumulative voting for directors. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked ABSTAIN with respect to any such matter will not be voted, although it will be counted for purpose of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote on such items. Broker non-votes will not be voted on such other items but will be counted in determining whether there is a quorum with respect to such items. Under Delaware law, dissenters' rights are not available to holders of eLoyalty Stock in connection with Proposals 1, 2 and 3.

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PROPOSAL 1: DIRECTOR ELECTION

General

The business and affairs of eLoyalty are managed under the direction of the Board. The Board has responsibility for establishing broad corporate policies relating to the overall performance of eLoyalty, rather than day-to-day operating details.

The Board is divided into three classes, 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. Two directors, Kelly D. Conway and Michael J. Murray, have been nominated by the independent members of the Board to stand at the Annual Meeting for election to a three-year term expiring at the 2011 annual meeting of stockholders. If for any reason either Mr. Conway or Mr. Murray becomes unable or is unwilling to serve at the time of the meeting, the persons named as proxies in the enclosed proxy card will have discretionary authority to vote for a substitute nominee and would vote for the substitute nominee selected by the independent members of the Board. It is not anticipated that either Mr. Conway or Mr. Murray will be unavailable for election.

The following sets forth information regarding the nominees for election as directors at this Annual Meeting and each director continuing in office, including his age, present principal occupation, other business experience during at least the last five years, directorships in other publicly held companies and period of service as a Director of eLoyalty.

Nominees for Election as Class III Directors at this Annual Meeting (to a three-year term expiring at the 2011 Annual Meeting):

Kelly D. Conway, age 51, 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). 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.

Michael J. Murray, age 63, 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.

THE eLOYALTY BOARD RECOMMENDS A VOTE FOR THE ELECTION OF KELLY D. CONWAY AND MICHAEL J. MURRAY.

Class I Directors whose Present Terms Continue until the 2009 Annual Meeting:

Tench Coxe, age 50, is a managing director of the general partner of Sutter Hill Ventures, a California limited partnership (Sutter Hill), 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 the Board since February 2000.

John T. Kohler, age 61, is the former President and Chief Executive Officer of TSC, which included eLoyalty as a division prior to its spin-off in February 2000. 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. Mr. Kohler has been a director of eLoyalty since May 1999.

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Class II Directors whose Present Terms Continue until the 2010 Annual Meeting:

Henry J. Feinberg, age 55, is a venture partner of Technology Crossover Ventures (TCV), a venture capital firm located in Palo Alto, California. Since 2000, Mr. Feinberg has served in various roles with TCV, including venture partner and general partner. He has been a director of eLoyalty since May 2007.

John C. Staley, age 66, 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 a Director of Hospira, Inc., as well as various private companies. Mr. Staley has been a director of eLoyalty since August 2002.

Board Processes and Committees

General

The Board held five meetings during the fiscal year ended December 29, 2007. During this period, each of the incumbent directors attended 75% or more of the aggregate number of meetings of the Board and of the Board committees on which he served that were held. The Board met in executive session four times in 2007. eLoyalty does not have a specific policy regarding Board members' attendance at its annual stockholders meetings. The 2007 Annual Meeting was attended by two directors, Mr. Conway and Mr. Murray.

The Board has determined that five of its six directors Messrs. Coxe, Feinberg, Kohler, Murray and Staley are independent under the listing standards of The NASDAQ Stock Market LLC (Nasdaq). The Board determined that Mr. Conway is not independent because he is eLoyalty's President and Chief Executive Officer.

The Board has two standing committees to assist it in the discharge of its responsibilities: an Audit Committee and a Compensation Committee. Although the Board does not have a nominating or similar committee, 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 independent directors.

Audit Committee

The Audit Committee is currently composed of Mr. Staley, as Chairman, and Messrs. Coxe, Murray and Kohler. The Audit Committee met nine times during fiscal 2007. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of eLoyalty's 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 eLoyalty. 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 eLoyalty's 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 6. The Audit Committee operates under a written charter, the current version of which was adopted by the Board in March 2004. The Audit Committee reviews and reassesses the adequacy of this Charter annually. The Audit Committee Charter is available on eLoyalty's website, www.loyalty.com. A report of the Audit Committee appears on page 17 of this Proxy Statement.

The Board has determined that each member of the Audit Committee meets the enhanced independence requirements applicable to Audit Committee members under both Nasdaq listing standards and the Sarbanes-Oxley Act of 2002 and the related Securities and Exchange Commission (SEC) rules. Under the SEC rules, a person is not qualified to serve on an audit committee if he or she is an affiliate of the relevant company. The SEC rules create a safe harbor, whereby a person will not be deemed to be an affiliate of a company if he or she does not beneficially own more than 10% of any class of voting equity securities of that company. Mr. Coxe is

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considered the beneficial owner of 17.5% of eLoyalty's Common Stock and 29.6% of eLoyalty's Series B Stock (representing 14.3% of eLoyalty's voting power, in the aggregate) by virtue of his position as a managing director of the general partner of Sutter Hill. Although Mr. Coxe does not qualify for the safe harbor created by the SEC rules, based on all of the facts and circumstances, the Board has determined that he is not an affiliate of eLoyalty.

The Board has determined that each of Messrs. Kohler 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 the remaining members of the Audit Committee meet the financial literacy requirements of Nasdaq.

Compensation Committee

The Compensation Committee, whose current members are Mr. Coxe, as Chairman, Mr. Feinberg and Mr. Kohler, met five times during fiscal 2007. The Compensation Committee reviews and acts with respect to stock incentive and other employee benefit plans, and approves or makes recommendations to the Board with respect to the salary and annual incentive compensation of, and stock awards for, executive officers of eLoyalty. The Board has determined that each member of the Compensation Committee is independent for purposes of Nasdaq listing standards. The Compensation Committee does not operate under a written charter. A report of the Compensation Committee appears later in this Proxy Statement on page 30.

The Compensation Committee has not engaged a compensation consultant. Compensation for senior executives is determined by the Compensation Committee after analyzing the performance of eLoyalty and the applicable executive, based on recommendations of eLoyalty management.

Director Nominations

Responsibility. The Board 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 independent directors then in office (the Nominating Directors) in accordance with the rules of Nasdaq. Under this standing resolution, the Nominating Directors are responsible for: (1) reviewing and, as applicable, recommending to the full Board possible candidates for membership on the Board, and assisting in attracting qualified candidates to fill vacant or newly created directorships; (2) reviewing and recommending to the full Board a management 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; and (3) reviewing the function and composition of the several 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 which 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. The Board 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. The Board's standing resolution is available on eLoyalty's website at www.loyalty.com.

Stockholder Nominees. The Nominating Directors will consider properly submitted stockholder nominations for candidates for membership on the Board 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 time frame and to the address specified under Submission of Stockholder Proposals for 2009 on page 41.

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Director Qualifications. In discharging its responsibilities to nominate candidates for election to the Board, the Nominating Directors have not specified any minimum qualifications for serving on the Board. However, the Nominating Directors endeavor to evaluate, propose and approve candidates with 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 the Board is composed of individuals who have experience relevant to the needs of eLoyalty and who have the highest professional and personal ethics, consistent with eLoyalty's 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.

Identifying and Evaluating Nominees for Directors. 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 the Board, 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. All properly submitted recommendations will be aggregated and considered by the Nominating Directors.

Communications with the Board

Anyone who has a concern about eLoyalty's conduct, or about eLoyalty's accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Board, the Audit Committee or directors who are not employees of eLoyalty or any of its subsidiaries (Non-Employee Directors). All such concerns related to audit or accounting matters will be forwarded to the Audit Committee Chair for his review, as well as to eLoyalty's General Counsel or 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 General Counsel 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 General Counsel or his designee. The status of all outstanding concerns addressed to the Board, the Non-Employee Directors or the Audit Committee will be reported to the Board on a quarterly basis. The Board or any committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed 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 the Board, the Non-Employee Directors or the Audit Committee may do so by writing to eLoyalty's General Counsel at 150 Field Drive, Suite 250, Lake Forest, Illinois 60045. The General Counsel will forward any communications as directed by the stockholder. eLoyalty maintains a separate, internal system for the receipt of communications from employees.

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, the independent Board members will review the propriety of, and approve or disapprove, such transaction.

There were no transactions, relationships or arrangements proposed during 2007 that would constitute related person transactions under item 404 of Regulation S-K under the Securities Act of 1933, as amended.

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The following table summarizes compensation that eLoyalty's Non-Employee Directors earned for services during 2007 as members of its Board.

Name	Fees Earned or		Total
	Paid in Cash	Option Awards ⁽¹⁾	
Tench Coxe	\$ 28,500	\$ 68,184	\$ 96,684
Henry J. Feinberg	\$ 4,000	\$ 15,406	\$ 19,406
John T. Kohler	\$ 26,500	\$ 68,184	\$ 94,684
Michael J. Murray	\$ 20,000	\$ 68,184	\$ 88,184
John C. Staley	\$ 24,000	\$ 68,184	\$ 92,184

- (1) Valuation based on the dollar amount of option grants recognized for financial statement reporting purposes pursuant to FAS 123(R) with respect to 2007. 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 December 29, 2007 under eLoyalty Corporation Condensed Financial Statements Notes to Financial Statements Note Fifteen Stock-Based Compensation. The aggregate option awards outstanding for each person in the table above as of December 29, 2007 are:

Name	Outstanding Options	
	Vested	Unvested
Tench Coxe	62,200	2,500
Henry J. Feinberg	625	49,375
John T. Kohler	96,759	2,500
Michael J. Murray	77,058	2,500
John C. Staley	41,998	2,500

The grant date fair value of the options granted to each of eLoyalty's Non-Employee Directors (other than Mr. Feinberg) on May 18, 2007 was \$61,775. The grant date fair value of the options granted to Mr. Feinberg on May 17, 2007 was \$61,358 and on November 15, 2007 was \$309,983.

Summary of Director Compensation

During eLoyalty's fiscal year ended December 29, 2007, Non-Employee Directors each received \$1,500 for their attendance at each meeting of the Board, \$2,000 per Audit Committee meeting attended and \$500 for each Compensation Committee meeting attended (each of which was held in tandem with a meeting of the Board). For Compensation Committee meetings that were held apart from a Board meeting, each Compensation Committee member received \$1,000 per meeting attended. eLoyalty also reimburses directors for their travel-related expenses incurred in attending meetings of the Board and its committees.

At its February 2008 meeting, eLoyalty's directors agreed to be paid their 2008 meeting fees in shares of unrestricted stock. The number of such shares will be determined by converting the amount of fees payable to each director for each meeting into shares of Common Stock by using the closing price of Common Stock on the date of the grants, plus an additional grant of 5% of shares of unrestricted stock (to partly offset the lack of liquidity for receiving stock in exchange for part of their cash compensation, they received an additional grant of 5% of unrestricted stock).

In addition to meeting attendance fees, Non-Employee Directors are eligible to receive automatic grants of stock options under the eLoyalty Corporation 1999 Stock Incentive Plan (the 1999 Stock Incentive Plan). The 1999 Stock Incentive Plan 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

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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. Vesting occurs ratably over a period of 48 months from the end of the month following the grant date with respect to each Initial Grant. Traditionally, vesting for each Annual Grant occurred over 12 months from the end of the month following the grant date with respect to each Annual Grant. For each Annual Grant made in 2008, however, vesting will occur evenly over 48 months, commencing with a vesting of 25% of such Annual Grant on February 28, 2009 and 6.25% of such Annual Grant on each quarterly vesting date thereafter.

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PROPOSAL 2: AMENDMENT AND RESTATEMENT OF THE 1999 STOCK INCENTIVE PLAN

Description of the Proposal

You are being asked to vote on a proposal to approve the amendment and restatement of the 1999 Stock Incentive Plan. Subject to stockholder approval, on February 13, 2008, the Board approved an amendment to the 1999 Stock Incentive Plan that: (i) increases the maximum number of shares of Common Stock that may be issued under the Plan by 1,500,000, from 4,886,097 to 6,386,097; (ii) updates the effective date of the 1999 Stock Incentive Plan to the date that stockholders approve the amendment and restatement proposed in this Proposal 2, which will extend the term of the 1999 Stock Incentive Plan to 10 years from the time of the updated effective date; (iii) adds restricted stock units (RSUs) and performance units as available awards under the 1999 Stock Incentive Plan; (iv) includes additional performance measures that may be used in connection with awards designed to qualify for the performance-based exception from the tax deductibility limitation of Section 162(m) of the Internal Revenue Code; (v) increases to 500,000 from 30,000 the maximum number of shares of Common Stock or share equivalent units, with respect to which options, stock appreciation rights (SARs), stock awards, RSUs, performance share awards, performance units or a combination thereof, that may be granted to any person during any fiscal year; (vi) increases to \$2,000,000 from \$250,000 the maximum fair market value of the shares subject to a stock award or performance shares, or share equivalent units subject to RSUs, that may be granted to a covered employee for purposes of Section 162(m) of the Internal Revenue Code; (vii) formalizes the Company's practice of automatically awarding 50,000 options to Non-Employee Directors on the date of their election to the Board; (viii) formalizes the Company's practice of automatically granting 5,000 options to Non-Employee Directors annually; (ix) adds a section that allows participants to defer receipt of awards that would otherwise be due under the 1999 Stock Incentive Plan in accordance with Section 409A of the Internal Revenue Code; (x) amends various provisions of the 1999 Stock Incentive Plan to comply with Section 409A of the Internal Revenue Code; (xi) adds definitions of Cause and Disability to be used as default definitions in award agreements entered into pursuant to the 1999 Stock Incentive Plan; and (xii) adds a provision providing that each participant waives any right to a jury trial with respect to any claim or cause of action arising under the 1999 Stock Incentive Plan.

Approval of an amendment to the 1999 Stock Incentive Plan requires the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote. If the amendment is approved by stockholders, the Company plans to register the offer and sale of the 1,500,000 additional shares of Common Stock on a registration statement on Form S-8.

Principal Provisions of the 1999 Stock Incentive Plan

The following summary of the 1999 Stock Incentive Plan is not a complete description of all of the provisions of the Plan and is qualified in its entirety by reference to the full text of the proposed amended and restated 1999 Stock Incentive Plan, which is attached hereto as Annex A.

General. The purposes of the 1999 Stock Incentive Plan are to: (i) align the interests of the Company's stockholders and the recipients of awards under the Plan by increasing the proprietary interest of such recipients in the Company's growth and success; (ii) advance the interests of the Company by attracting and retaining directors, officers, other key employees, consultants, independent contractors, and agents; and (iii) motivate such persons to act in the long-term best interests of the Company's stockholders. The 1999 Stock Incentive Plan permits awards of nonqualified stock options, incentive stock options, SARs, restricted stock, bonus stock, RSUs, performance shares and performance units. In addition, participants in the 1999 Stock Incentive Plan may be provided an opportunity to defer awards under the Plan.

Term of 1999 Stock Incentive Plan. The 1999 Stock Incentive Plan will terminate ten years after its effective date, unless terminated earlier by the Board. The amended effective date of the 1999 Stock Incentive Plan will be the date of approval by the Company's stockholders of the amendment described in this Proposal 2.

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Shares Subject to 1999 Stock Incentive Plan. If approved by stockholders, the maximum number of shares that may be issued or transferred to participants under the 1999 Stock Incentive Plan will be increased by 1,500,000, from 4,886,097 to 6,386,097, including a total of: (i) 3,113,341 shares that became available on the first day of fiscal years 2000-2008 pursuant to the automatic increase feature contained in the 1999 Stock Incentive Plan; (ii) 738,756 shares made available pursuant to the options granted in connection with the spin-off by TSC of all of its common stock; (iii) 500,000 shares that became available pursuant to an amendment to the 1999 Stock Incentive Plan that was approved by the Company's stockholders at the Company's 2002 annual meeting of stockholders; and (iv) 534,000 shares initially available for issuance under the 1999 Stock Incentive Plan. As of the first day of each fiscal year of the Company, the total number of shares of Common Stock available for all grants under the 1999 Stock Incentive Plan, other than incentive stock options, automatically increases by an amount equal to five percent of the number of shares of Common Stock then outstanding. The closing price of the Common Stock on the Nasdaq Global Market on March 28, 2008 was \$8.04.

Administration. The 1999 Stock Incentive Plan is currently administered by the Compensation Committee of the Board.

Eligibility. Participants in the 1999 Stock Incentive Plan consist of those directors (including Non-Employee Directors), officers, other key employees, consultants, independent contractors and agents of the Company and its subsidiaries, as the Compensation Committee selects from time to time. A subsidiary is generally defined as any corporation or entity, other than the Company, in an unbroken chain of corporations or other entities beginning with the Company if each of the corporations, or other entities other than the last corporation or entity in the unbroken chain, owns 50% or more of the voting stock in one of the other corporations in such chain.

The Compensation Committee has the authority to select, from among the persons eligible for awards, the individuals to whom awards will be granted and the type and amount of each award. During 2007, however, the only employees that were granted stock options were four of the named executives, covering 200,000 shares under the 1999 Stock Incentive Plan. In addition, during 2007, 138 employees were granted restricted stock awards covering 494,167 shares under the 1999 Stock Incentive Plan, including restricted stock awards covering 67,847 shares granted to five executive officers.

Limitations. Section 162(m) of the Internal Revenue Code places limits on the deductibility for federal income tax purposes of compensation paid to certain executive officers. To ensure that the Company can deduct the compensation income associated with stock compensation awards granted to its officers, the 1999 Stock Incentive Plan provides that the maximum number of shares and share equivalent units that may be granted during any fiscal year to any one participant under all types of Plan awards is 500,000. In addition, the maximum number of shares that may be issued through options intended to be incentive stock options during the entire life of the 1999 Stock Incentive Plan is 1,034,000.

Terms and Conditions of Options. Each option will be evidenced by an award agreement. The Compensation Committee determines the exercise price of an option at the time it is granted, but that exercise price must equal at least 100% of the fair market value of Common Stock at the time the option is granted. Fair market value is generally the closing transaction price of a share of Common Stock as reported by Nasdaq on the date that such value is being determined, or, if there are no reported transactions for such date, on the next preceding date that transactions are reported.

Exercise of Options. An option vests and becomes exercisable according to the terms specified in the award agreement that covers the option. The Compensation Committee may establish performance measures that must be satisfied as a condition to the grant of an option or to the exercisability of all or a portion of an option. The Compensation Committee will determine whether an option will become exercisable in cumulative or non-cumulative installments and in part or in full at any time. Whether and under what circumstances an option may be exercised after the 1999 Stock Incentive Plan participant's death, retirement, disability or other termination of employment are specified in the award agreement. The agreement also specifies the means of

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payment that will be permitted. Among the forms of payment that may be permitted under the 1999 Stock Incentive Plan are cash, surrender of shares the optionee has held for at least six months, in cash by a broker-dealer acceptable to the Company to whom the optionee has submitted an irrevocable notice of exercise, any combination of the foregoing, or, if applicable, by surrendering to the Company any tandem SARs that are cancelled by reason of the exercise of the option.

Stock Appreciation Rights. The Compensation Committee may grant freestanding SARs, tandem SARs, and/or any combination of these forms of SARs under the 1999 Stock Incentive Plan. The award agreement relating to a SAR will specify whether the SAR is a tandem SAR or a freestanding SAR. The number of SARs subject to an award will be determined by the Compensation Committee. The grant price of a freestanding SAR will be determined by the Compensation Committee. The grant price of a tandem SAR will equal the exercise price of the related option. The agreement relating to an award of SARs will specify whether the award may be settled in shares of Common Stock, cash, or a combination thereof. A tandem SAR may be exercised only as to the shares for which its related option is then exercisable. The Compensation Committee may establish performance measures that must be satisfied as a condition to the grant of a SAR or to the exercisability of all or a portion of a SAR. The Compensation Committee will determine whether a SAR may be exercised in cumulative or non-cumulative installments and in part or in full at any time.

Restricted Stock, Bonus Stock, and Restricted Stock Units. The Compensation Committee may grant awards of restricted stock, bonus stock, and RSUs under the 1999 Stock Incentive Plan. The agreement relating to a stock award will specify whether the stock award is a restricted stock award or bonus stock award. A bonus stock award is an award of shares of Common Stock that is not subject to a restriction period or performance measures. The number of shares of Common Stock subject to a stock award, the number of share equivalent units subject to RSUs, and the performance measures (if any) and restriction period applicable to a restricted stock award or RSUs will be determined by the Compensation Committee. The agreement relating to a restricted stock award or RSUs will generally provide for the vesting of the shares or share equivalent units upon: (i) achievement of specified performance measures during a restriction period; or (ii) continuous service to the Company during the specified restriction period. Unless otherwise set forth in an agreement relating to a restricted stock award, the holder of such award will generally have all rights as a stockholder of the Company, including voting rights, the right to receive dividends and the right to participate in any capital adjustment applicable to all holders of Common Stock. Participants awarded RSUs will be credited with regular cash dividends or dividend equivalents paid with respect to those share equivalent units.

Performance Shares and Performance Units. The Compensation Committee may grant awards of performance shares and performance units under the 1999 Stock Incentive Plan. The number of performance shares or share equivalent units subject to such awards and the performance measures and performance period applicable to such awards will be determined by the Compensation Committee. The agreement relating to an award of performance shares or performance units will generally provide for the vesting of such awards if specified performance measures are met during the specified performance period. The agreement will also specify whether such awards may be settled in shares of Common Stock, cash, or a combination thereof and may specify whether the holder will be entitled to receive, on a current or deferred basis, dividend equivalents.

Employment or Service Termination. All of the terms relating to the vesting, exercise, cancellation or other disposition of awards granted under the 1999 Stock Incentive Plan upon the holder's termination of employment or service to the Company, whether because of disability, retirement, death, or other termination, will generally be determined by the Compensation Committee. This determination will generally be made at the time of the grant of the award and will be specified in the applicable award agreement.

Automatic Option Grants to Non-Employee Directors. An initial non-statutory option to purchase 50,000 shares of Common Stock will be granted automatically to each new Non-Employee Director on the date he or she first becomes a Non-Employee Director. Each Non-Employee Director will also automatically receive an annual grant of an option to purchase 5,000 shares of Common Stock on the day after each annual stockholders meeting.

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Each initial option grant becomes exercisable in 48 equal monthly installments, beginning with the last day of the calendar month following the month in which the option is granted. Each annual option grant becomes exercisable in 12 equal monthly installments, beginning with the last day of the calendar month following the month in which the option is granted, except for the options to be awarded in 2008. See Summary of Director Compensation on page 7. All Non-Employee Directors' options expire ten years after they are granted.

If a Non-Employee Director ceases to be a director by reason of death, then each of his or her automatic options will become fully exercisable, and remain exercisable for one year after the date of death or, if earlier, until the expiration of the option. If a Non-Employee Director ceases to be a director by reason of disability, then each of his or her automatic options will become fully exercisable, and remain exercisable for five years after the date such holder ceased to be a director or, if earlier, until the expiration of the option. If a Non-Employee Director ceases to be a director through retirement from the Board or for any reason other than death or disability, then each of his or her automatic options will be exercisable only to the extent the option was exercisable on the date of termination of service as a director, and may thereafter be exercised for five years after the date such holder ceased to be a director or, if earlier, until the expiration of the option.

Transferability of Plan Awards. Unless otherwise specified in an award agreement, no award will be transferable other than by will, the laws of descent and distribution, or pursuant to beneficiary designation procedures approved by the Company. In general, except as provided in the preceding sentence, no award may be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment, or similar process.

Amendment, Modification and Termination. The Board may amend the 1999 Stock Incentive Plan as it deems advisable, subject to any requirement of stockholder approval required by applicable law, rule, or regulation, including Section 162(m) and Section 422 of the Internal Revenue Code. Stockholder approval will be required for any amendment that would: (i) increase the maximum number of shares of Common Stock available under the Plan; (ii) effect any change inconsistent with Section 422 of the Internal Revenue Code; or (iii) extend the term of the 1999 Stock Incentive Plan. No amendment may impair the rights of a holder of an outstanding award without the consent of the holder. The Board may terminate the 1999 Stock Incentive Plan. Termination of the 1999 Stock Incentive Plan may not affect the terms or conditions of any award granted prior to termination.

In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a regular cash dividend, the Compensation Committee will appropriately adjust: (i) the number and class of securities available under the 1999 Stock Incentive Plan; (ii) the number and class of securities subject to each outstanding option or SAR and the purchase price per security; (iii) the number of securities subject to each option to be granted to Non-Employee Directors; (iv) the terms of each outstanding SAR or RSU; (v) the number and class of securities subject to each outstanding stock award; and (vi) the terms of each outstanding award of performance shares or performance units, or any other applicable award. The decision of the Compensation Committee regarding any such adjustment is final, binding, and conclusive.

Change in Control. If a change in control, as defined in the 1999 Stock Incentive Plan, occurs, the Board may, but will not be required to, make adjustments to outstanding awards as it deems appropriate, including electing that each outstanding award will be surrendered to the Company, and that each such award will be cancelled immediately by the Company, with the holder to receive, within a specified period of time from the occurrence of the change in control, a cash payment from the Company. In the event of a change in control in which options are cancelled, each tandem SAR related to a cancelled option will be surrendered by the holder and cancelled simultaneously with the cancellation of the related option. In the event of a change in control, the Board may, but will not be required to, substitute for each share of Common Stock available under the 1999 Stock Incentive Plan, whether or not then subject to an outstanding award, the number and class of shares into

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which each outstanding share of Common Stock will be converted pursuant to such change in control. In the event of any such substitution, the purchase price per share in the case of an option and the base price in the case of a SAR will be appropriately adjusted by the Compensation Committee.

Deferrals and Section 409A of the Internal Revenue Code. The Compensation Committee may permit or require a participant to defer receipt of cash or shares of Common Stock that would otherwise be due to the participant under the 1999 Stock Incentive Plan or otherwise create a deferred compensation arrangement (as defined in Section 409A of the Internal Revenue Code) in accordance with the terms of the 1999 Stock Incentive Plan. The deferral of an award under the Plan or compensation otherwise payable to the participant will be set forth in the terms of a deferral agreement or as elected by the participant pursuant to such rules and procedures as the Compensation Committee may establish. Any such initial deferral election by a participant will designate a time and form of payment and will be made at such time as required by and in accordance with Section 409A. Any deferred compensation arrangement created under the 1999 Stock Incentive Plan will be distributed at such times as provided in an award agreement or a separate election form and in accordance with Section 409A. No distribution of a deferral will be made pursuant to the 1999 Stock Incentive Plan if the Compensation Committee determines that a distribution would: (i) violate applicable law; (ii) be nondeductible pursuant to Section 162(m) of the Internal Revenue Code; or (iii) jeopardize the Company's ability to continue as a going concern. In any such case, a distribution will be made at the earliest date at which the Compensation Committee determines such distribution would not trigger clause (i), (ii) or (iii) above. All awards under the 1999 Stock Incentive Plan are intended either: (i) to be exempt from Section 409A; or (ii) to comply with Section 409A, and will be administered in a manner consistent with that intent.

Summary of Federal Income Tax Consequences of Participating in the 1999 Stock Incentive Plan

The following is a general description of the United States federal income tax consequences to participants and the Company relating to SARs, options, RSUs and other awards that may be granted under the 1999 Stock Incentive Plan. The Plan is not qualified under Section 401(a) of the Internal Revenue Code. This discussion only applies to U.S. citizens and/or residents and does not purport to cover all tax consequences relating to SARs, options, RSUs and other awards.

Stock Appreciation Rights. A participant generally will not recognize income, and the Company will not be entitled to a deduction from income, at the time of grant of a SAR. When the SAR is exercised, the participant will recognize ordinary income equal to the difference between the aggregate grant price and the fair market value, as of the date the SAR is exercised, of Common Stock. The participant's tax basis in shares acquired upon exercise of a stock-settled SAR will equal the amount recognized by the participant as ordinary income. The Company will generally be entitled to a federal income tax deduction, in the tax year in which the SAR is exercised, equal to the ordinary income recognized by the participant as described above. If the participant holds shares acquired through exercise of a stock-settled SAR for more than one year after the exercise of the SAR, the capital gain or loss realized upon the sale of those shares will be a long-term capital gain or loss. The participant's holding period for shares acquired upon the exercise of a stock-settled SAR will begin on the date of exercise.

Nonqualified Stock Options. A participant generally will not recognize income, and the Company will not be entitled to a deduction from income, at the time of grant of a nonqualified stock option. When the option is exercised, the participant will recognize ordinary income equal to the difference, if any, between the aggregate exercise price paid and the fair market value, as of the date the option is exercised, of the shares received. The participant's tax basis in shares acquired upon exercise will equal the exercise price paid plus the amount recognized by the participant as ordinary income. The Company will generally be entitled to a federal income tax deduction, in the tax year in which the option is exercised, equal to the ordinary income recognized by the participant as described above. If the participant holds shares acquired through exercise of a nonqualified stock option for more than one year after the exercise of the option, the capital gain or loss realized upon the sale of those shares will be a long-term capital gain or loss. The participant's holding period for shares acquired upon the exercise of an option will begin on the date of exercise.

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Incentive Stock Options. A participant generally will not recognize income, and the Company will not be entitled to a deduction from income, at the time of grant of an incentive stock option. If the option is exercised during employment, or within three months thereafter (or one year in the case of a permanently and totally disabled employee), the participant will generally not recognize any income and the Company will not be entitled to a deduction. However, the excess of the fair market value of the shares on the date of exercise over the option price generally is included in computing the participant's alternative minimum taxable income.

Generally, if the participant disposes of shares acquired by exercise of an incentive stock option within either two years after the date of grant or one year after the date of exercise, the participant will recognize ordinary income, and the Company will be entitled to a deduction, equal to the excess of the fair market value of the shares on the date of exercise over the option price (limited generally to the gain on the sale). The balance of any gain or loss will be treated as a capital gain or loss to the participant. If shares are disposed of after the two-year and one-year periods described above expire, the Company will not be entitled to any deduction, and the entire gain or loss for the participant will be treated as a long-term capital gain or loss.

Restricted Stock Units. RSUs generally are subject to tax at the time of payment and the Company generally will have a corresponding deduction when the participant recognizes income.

Other Awards. The current federal income tax consequences of other awards authorized under the 1999 Stock Incentive Plan are generally in accordance with the following:

Restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value of shares over the purchase price (if any) only at the time the restrictions lapse (unless the participant elects to accelerate recognition as of the date of grant); and

Performance shares, performance units and dividend equivalents generally are subject to tax at the time of payment. In each of the foregoing cases, the Company will generally have (at the time the participant recognizes income) a corresponding deduction.

Compliance with Section 409A of the Internal Revenue Code

The American Jobs Creation Act of 2004, enacted on October 22, 2004, revised the federal income tax law applicable to certain types of awards that may be granted under the 1999 Stock Incentive Plan. To the extent applicable, it is intended that the 1999 Stock Incentive Plan and any grants made under the 1999 Stock Incentive Plan comply with the provisions of Section 409A of the Internal Revenue Code. The Company intends to administer the 1999 Stock Incentive Plan and any grants made thereunder in a manner consistent with the requirements of Section 409A, and to make such amendments (including retroactive amendments) to the 1999 Stock Incentive Plan and any other grants made thereunder as required by Section 409A on a timely basis. Any reference to Section 409A will also include any proposed temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of Treasury or the Internal Revenue Service.

Table of Contents**Equity Compensation Plan Information**

The following table shows, as of December 29, 2007, information regarding outstanding awards under all compensation plans of the Company (including individual compensation arrangements) under which equity securities of the Company may be delivered:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights⁽¹⁾	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance⁽¹⁾⁽²⁾
Equity compensation plans approved by security holders	731,801	\$ 22.14	143,489 ⁽³⁾
Equity compensation plans not approved by security holders	12,362	\$ 40.77	51,737
Total⁽⁴⁾	744,163	\$ 22.45	195,226

- (1) Reflects number of shares of Common Stock.
- (2) All of the securities available for future issuance listed herein may be issued other than upon the exercise of an option, warrant or similar right. All of these shares are available for award in the form of restricted stock, bonus stock, performance shares or similar awards under the Company's applicable equity compensation plans.
- (3) The Company's plan that has been approved by its stockholders is the 1999 Stock Incentive Plan. This Plan includes an automatic increase feature whereby, as of the first day of each fiscal year, the number of shares available for awards, other than incentive stock options, automatically increases by an amount equal to five percent (5%) of the number of shares of common stock then outstanding.
- (4) Does not include: (i) shares of restricted common stock held by employees, of which 878,048 shares were issued and outstanding as of December 29, 2007, which are included in the amount of issued and outstanding shares; or (ii) 114,455 shares of common stock issuable pursuant to installment stock awards granted to employees, which (subject to specified conditions) will be issued in the future in consideration of the employees' services to the Company.

New Plan Benefits

The Compensation Committee has discretion to determine the type, terms, conditions, and recipients of awards granted under the 1999 Stock Incentive Plan. Accordingly, it is not possible to determine the amount of the awards that will be received by any director, officer, other key employee, consultant, independent contractor or agent of the Company under the 1999 Stock Incentive Plan if the amendment and restatement is approved.

Required Vote and Board Recommendation

The affirmative vote of the holders of a majority of eLoyalty Stock entitled to vote on the proposal who are present at the Annual Meeting in person or by proxy and are voted for or against the proposal is required to approve the Amendment and Restatement of the 1999 Stock Incentive Plan.

THE eLOYALTY BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE THE AMENDMENT AND RESTATEMENT OF THE 1999 STOCK INCENTIVE PLAN.

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**PROPOSAL 3: RATIFICATION OF
INDEPENDENT PUBLIC ACCOUNTANTS**

General

Grant Thornton LLP (Grant Thornton) acted as independent public accountants for eLoyalty for 2007. The Audit Committee appointed Grant Thornton as independent public accountants for eLoyalty to audit eLoyalty s consolidated financial statements for the year ending December 29, 2007.

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.

Principal Accounting Fees and Services

For fiscal 2007 and 2006, fees for services provided by 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 for the 2007 fiscal year were \$424,000 paid to Grant Thornton and \$405,000 paid for 2006. Of the total audit fees paid in fiscal year 2007, \$409,000 of fees was for professional services rendered for the audits of the consolidated financial statements of eLoyalty and internal controls of eLoyalty and \$15,000 of fees was for statutory audit work for eLoyalty affiliates in non-U.S. jurisdictions.

Audit-Related Fees

Audit-related fees for accounting consultations and Sarbanes-Oxley Section 404 advisory services were \$12,000 for fiscal year 2007 and \$16,000 for fiscal year 2006.

Tax Fees

No tax fees were paid to Grant Thornton for fiscal year 2007 or 2006.

All Other Fees

No fees other than those described above were paid to Grant Thornton for fiscal year 2007 or 2006, respectively.

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 and covers a several-year period 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 2007 and 2006 were pre-approved by the Audit Committee in accordance with this policy. Specifically, at various meetings held in 2007 and 2006, the Audit Committee approved Grant Thornton s provision of audit services for 2007 and 2006.

THE eLOYALTY BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE THE RATIFICATION OF GRANT THORNTON AS eLOYALTY s INDEPENDENT PUBLIC ACCOUNTANTS FOR 2008.

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REPORT OF THE AUDIT COMMITTEE

Audit Committee Composition and Activities

The Audit Committee, which comprises four independent directors, operates under a written Audit Committee Charter.

The composition of the Audit Committee complies with the current listing standards of Nasdaq. The Board has determined that each member of the Audit Committee meets the enhanced independence requirements applicable to audit committee members under both Nasdaq listing standards and the Sarbanes-Oxley Act of 2002 and related SEC rules. Under the SEC rules, a person is not qualified to serve on an audit committee if he or she is an affiliate of the relevant company. The SEC rules create a safe harbor whereby a person will not be deemed to be an affiliate of a company if he or she does not beneficially own more than 10% of any class of voting equity securities of that company. Mr. Coxe is considered the beneficial owner of 17.5% of eLoyalty's Common Stock and 29.6% of eLoyalty's Series B Stock (representing 14.3% of eLoyalty's voting power, in the aggregate) by virtue of his position as a managing director of the general partner of Sutter Hill. Although Mr. Coxe does not qualify for the safe harbor created by the SEC rules, based on all of the facts and circumstances, the Board has determined that he is not an affiliate of eLoyalty.

Report

The Audit Committee has furnished the following report:

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 December 29, 2007. 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*) and SAS No. 90 (*Audit Committee Communications*).

The Audit Committee has received and reviewed the written disclosures and the letter from Grant Thornton required by Independence Standards Board Standard No. 1, entitled *Independence Discussions with Audit Committee*, 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 December 29, 2007 filed with the Securities and Exchange Commission on March 12, 2008.

John C. Staley, Chair

Tench Coxe

John T. Kohler

Michael J. Murray

OTHER BUSINESS

The Board 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.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Beneficial Ownership Information****Common Stock**

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 Securities Exchange Act of 1934) as of March 15, 2008, 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 six named executive officers of eLoyalty named in the Summary Compensation Table appearing later in this Proxy Statement; (iii) each of the directors of eLoyalty; and (iv) all 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⁽¹⁾⁽²⁾	Percent of Outstanding Common Stock⁽¹⁾⁽²⁾	Percent of Total Voting Power⁽¹⁾
Jay C. Hoag, Richard H. Kimball and various entities affiliated with Technology Crossover Ventures c/o Technology Crossover Ventures 528 Ramona Street Palo Alto, CA 94301	2,808,038 ⁽³⁾	23.3%	20.3%
Henry J. Feinberg and TCIV IV, L.P., an entity affiliated with Technology Crossover Ventures c/o Technology Crossover Ventures 528 Ramona Street Palo Alto, CA 94301	2,227,180 ⁽⁴⁾⁽⁵⁾	19.1%	16.1%
S Squared Technology, LLC 515 Madison Avenue New York, NY 10022	853,143 ⁽⁶⁾	8.4%	6.2%
John A. Murphy and various entities affiliated with Alydar Partners, LLC 222 Berkeley Street, 17 th Floor Boston, MA 02116	900,000 ⁽⁷⁾	8.9%	6.5%
Peninsula Capital Management, LP and Scott Bedford 235 Pine Street, Suite 1600 San Francisco, CA 94104	1,529,647 ⁽⁸⁾	15.0%	11.0%
Tench Coxe and various entities affiliated with Sutter Hill Ventures c/o Sutter Hill Ventures 755 Pagemill Road, Suite A200 Palo Alto, CA 94301	1,966,643 ⁽⁹⁾	17.5%	14.3%
Kelly D. Conway	620,902	6.1%	4.5%
John T. Kohler	117,322	1.2%	*
Michael J. Murray	279,534	2.7%	2.0%
John C. Staley	65,539	*	*
Christopher Min			
Karen Bolton	73,139	*	*
Christopher J. Danson	156,603 ⁽¹⁰⁾	1.5%	1.1%
Steven C. Pollema	177,380	1.7%	1.3%
Steven H. Shapiro	52,272	*	*
All directors and executive officers as a group (11 individuals)	5,736,514	44.8%	41.6%

* Less than 1 percent.

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- (1) Includes shares of Common Stock that may be acquired within 60 days after March 15, 2008 through the exercise of stock options outstanding as of such date, as follows: Mr. Coxe, 64,283 shares; Mr. Kohler, 98,842 shares; Mr. Feinberg, 5,833 shares; Mr. Murray, 79,141 shares; Mr. Staley, 44,081 shares; Mr. Conway, 31,250 shares; Mr. Min, 0 shares; Ms. Bolton, 14,500 shares; Mr. Danson, 12,635 shares (135 shares that may be acquired by Mr. Danson's spouse); Mr. Pollema, 26,250 shares; Mr. Shapiro, 0 shares; and all directors and executive officers as a group, 376,815 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 March 15, 2008 through exercise of the conversion feature associated with the shares of eLoyalty Series B Stock held by such person or group, in the amounts reflected for such person or group in the table entitled "Series B Stock" 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) 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., 719,076 shares held by TCV IV, L.P., and 26,992 shares held by TCV IV Strategic Partners, L.P. The share amounts in this footnote do not include any shares of Series B Stock, although any Common Stock ownership percentage gives effect to the conversion of any Series B Stock held. Jay C. Hoag ("Hoag") and Richard H. Kimball ("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.
- (4) Includes 598 shares of Common Stock and 5,833 options to purchase Common Stock held by the Henry J. Feinberg Trust dated 3/28/97 (the "Trust"). Mr. Feinberg is the sole trustee of the Trust and has the sole power to dispose of and direct the disposition of the shares owned by the Trust, the shares of Common Stock received upon exercise of the option held by the Trust and the sole power to direct the vote of the shares of Common Stock received upon exercise of the options held by the Trust. Mr. Feinberg disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (5) Includes 719,076 shares held by TCV IV, L.P. (see footnote 3 above). Mr. Feinberg is an assignee of TCM IV and has an economic interest in TCM IV. Mr. Feinberg has a pecuniary interest in the shares held by TCV IV, L.P. but does not have voting or dispositive power over the shares held by TCV IV, L.P. and, as such, disclaims beneficial ownership of such shares to the extent of his pecuniary interest therein. The share amount in this footnote does not include any shares of Series B Stock, although any Common Stock ownership percentage gives effect to the conversion of any Series B Stock held.
- (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 January 17, 2008 with respect to Common Stock beneficially owned as of December 31, 2007. Based on the information contained therein, S Squared Technology Corp. beneficially owns and has sole voting and investment power with respect to 853,143 shares, including 78,813 shares beneficially owned by S Squared Capital II Management, LLC, 135,078 shares beneficially owned by S Squared Technology Partners, L.P. and 639,252 shares beneficially owned by S Squared Technology, LLC.
- (7) This information, which is not within the direct knowledge of eLoyalty, has been derived from a Schedule 13G filed with the SEC on February 19, 2008 with respect to Common Stock beneficially owned as of December 31, 2007. Based on the information contained therein, John A. Murphy shares voting and investment power with respect to 900,000 shares (8.9% of the Common Stock). Mr. Murphy is managing

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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 262,269 shares and 900,000 shares, respectively, of the Common Stock. Alydar Capital, LLC is the general partner of Alysheba Fund, L.P. (which owns and has sole voting and investment power with respect to 10,130 shares of the Common Stock) and Alysheba QP Fund, L.P. (which owns and has sole voting and investment power with respect to 252,139 shares of the Common Stock). Alydar Partners, LLC is the investment manager of Alysheba Fund, L.P., Alysheba QP Fund, L.P., and Alysheba Fund Limited (which owns and has sole voting and investment power with respect to 637,731 shares of the Common Stock). Mr. Murphy disclaims beneficial ownership of all such shares.

- (8) This information, which is not within the direct knowledge of eLoyalty, has been derived from a Schedule 13G filed with the SEC on January 3, 2008 with respect to Common Stock beneficially owned as of December 24, 2007. Based on the information contained therein, Peninsula Capital Management, LP and its affiliates, Scott Bedford and Peninsula Master Fund, Ltd., beneficially own and share voting and investment power with respect to 1,000,894 shares and 528,753 shares, respectively.
- (9) Mr. Coxe is a managing director of the general partner of each of Sutter Hill Ventures, Sutter Hill Entrepreneurs Fund (AI), L.P., and Sutter Hill Entrepreneurs Fund (QP), L.P., which hold of record 721,144 shares (14.9% of the Common Stock, after giving effect to the conversion of the Series B Stock held), 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. This amount also includes 64,283 options to purchase Common Stock held by Mr. Coxe; 77,360 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 7,953 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 in such limited partnerships and trust. The share amounts in this footnote do not include any shares of Series B Stock, although the Common Stock ownership percentage gives effect to the conversion of any Series B Stock held.
- (10) Includes 897 shares of Common Stock (including 429 shares that may be acquired upon conversion of Series B Stock) held of record by Mr. Danson's spouse. Mr. Danson disclaims beneficial ownership of such shares.

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To eLoyalty's knowledge, the following table sets forth information regarding beneficial ownership of eLoyalty Series B Stock (as beneficial ownership is determined for purposes of Rule 13d-3 under the Securities Exchange Act of 1934) as of March 15, 2008, except as otherwise indicated, by: (i) each person or group that beneficially owns more than 5% of the outstanding shares of eLoyalty Series B Stock; (ii) each of the six named executive officers of eLoyalty named in the Summary Compensation Table appearing later in this Proxy Statement; (iii) each of the directors of eLoyalty; and (iv) all 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 "Common Stock," 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 c/o Technology Crossover Ventures 528 Ramona Street Palo Alto, CA 94301	1,872,805 ⁽¹⁾	51.6%
Henry J. Feinberg and TCV IV, L.P., an entity affiliated with Technology Crossover Ventures c/o Technology Crossover Ventures 528 Ramona Street Palo Alto, CA 94301	1,501,673 ⁽²⁾	41.4%
Tench Coxe and various entities affiliated with Sutter Hill Ventures c/o Sutter Hill Ventures 755 Pagemill Road, Suite A200 Palo Alto, CA 94301	1,075,203 ⁽³⁾	29.6%
Kelly D. Conway	3,862	*
John T. Kohler	16,057	*
Michael J. Murray	23,243	*
John C. Staley		
Christopher Min		
Karen Bolton		
Christopher J. Danson	2,356 ⁽⁴⁾	*
Steven C. Pollema	132	*
Steven H. Shapiro		
All directors and executive officers as a group (11 individuals)	2,622,526	72.2%

* Less than 1 percent.

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- (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 as of March 28, 2008 are as follows: TCV III (GP), 2,285 shares; TCV III, L.P., 10,852 shares; TCV III (Q), L.P., 288,422 shares (8.0% of the outstanding Series B Stock); TCV III Strategic Partners, L.P., 13,057 shares; TCV IV, L.P., 1,501,673 shares (41.4% of the outstanding Series B Stock); and TCV IV Strategic Partners, L.P., 56,516 shares (1.6% of the outstanding Series B Stock).
- (2) Mr. Feinberg is an assignee of TCV IV, L.P. As a result, he may be deemed to have sole investment power and shared voting power over all shares of Series B Stock held by TCV IV, L.P. All of the shares of Series B Stock shown in the preceding table as beneficially owned by Mr. Feinberg are held of record by the TCV IV, L.P. (See footnote 1 above). Mr. Feinberg disclaims beneficial ownership of such securities, except to the extent of their respective pecuniary interests therein.
- (3) Sutter Hill Ventures, Sutter Hill Entrepreneurs Fund (AI), L.P., and Sutter Hill Entrepreneurs Fund (QP), L.P. hold of record 938,952 shares (25.9% of the outstanding Series B Stock), 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 eLoyalty Series B Stock held as of record by such partnerships. Also includes 104,979 shares (2.9% of the outstanding Series B Stock) 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 in such limited partnerships and trust.
- (4) Includes 429 shares of Series B Stock held of record by Mr. Danson's spouse. Mr. Danson disclaims beneficial ownership of such shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires eLoyalty's directors and executive officers, as well as any persons who beneficially own more than 10% of 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 2007 with respect to persons who were subject to Section 16(a) reporting obligations during such period were filed on a timely basis, except that: one Form 4 for one transaction was filed late for Messrs. Conway, Danson, Pollema and Shapiro and Ms. Bolton; one Form 4 was filed late for Mr. Pollema; and Mr. Coxe filed a Form 4 late for shares of eLoyalty shares that were contributed by certain members of his family to a family limited partnership.

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COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion describes the material elements of compensation paid to each of eLoyalty's named executive officers during 2007. eLoyalty's named executive officers for 2007 consisted of:

Kelly D. Conway, President and Chief Executive Officer

Christopher Min, Vice President and Chief Financial Officer (hired in December 2007);

Steven C. Pollema, Vice President, Integrated Contact Solutions/CRM BU, and previous Chief Financial Officer;

Karen Bolton, Vice President;

Christopher J. Danson, Vice President, Delivery; and

Steven H. Shapiro, Vice President, General Counsel and Corporate Secretary.

The Compensation Committee of eLoyalty's Board oversees eLoyalty's executive compensation programs. The Compensation Committee approves or presents recommendations to the Board with respect to the compensation of eLoyalty's executive officers. In addition, the Compensation Committee administers eLoyalty's stock-based incentive plans and establishes and reviews general policies relating to compensation and benefits of all eLoyalty employees. None of the Directors that serve on the Compensation Committee are officers or employees of eLoyalty.

Executive Summary

eLoyalty's compensation philosophy is to create an equity ownership culture by granting options and shares of restricted stock to its named executive officers. This approach enabled eLoyalty to attract and retain key personnel who were instrumental to the Company surviving the collapse of the information technology services market in 2002 and then to develop and expand its two primary business units Behavioral Analytics™ and Integrated Contact Solutions.

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The philosophy of providing equity grants, while limiting salary increases and cash bonuses, is illustrated by the following table that lists the salary, cash bonuses and shares of restricted stock granted to the named executive officers (calculated at the fair market value of such shares on the date of grant) since 2002:

Name	Fiscal Year	Salary	Cash Bonus ⁽¹⁾⁽²⁾	Restricted Stock Grants
Kelly D. Conway	2007	\$ 480,000	0	\$ 400,017
	2006	\$ 480,000	0	\$ 995,400
	2005	\$ 480,000	0	\$ 181,516
	2004	\$ 480,000	0	\$ 710,000
	2003	\$ 480,000	0	0
	2002	\$ 480,000	0	\$ 1,313,273
Christopher Min	2007	\$ 17,708		
(Joined eLoyalty on December 3, 2007)			(Annual base salary of \$ 250,000)	0
Steven C. Pollema	2007	\$ 300,000	0	\$ 170,003
	2006	\$ 300,000	0	\$ 482,351
	2005	\$ 300,000	0	\$ 73,500
	2004	\$ 300,000	0	\$ 391,566
	2003	\$ 300,000	0	0
	2002	\$ 300,000	0	\$ 392,738
Karen Bolton	2007	\$ 300,000	0	\$ 220,005
	2006	\$ 300,000	0	\$ 862,680
	2005	\$ 300,000	0	\$ 232,304
	2004	\$ 300,000	0	0
	2003	\$ 275,000	0	\$ 180,412
	2002	\$ 259,047	0	\$ 186,000
Christopher J. Danson	2007	\$ 300,000	0	\$ 250,011
	2006	\$ 300,000	0	\$ 862,680
	2005	\$ 300,000	0	\$ 73,500
	2004	\$ 300,000	0	\$ 192,834
	2003	\$ 280,000	0	\$ 178,738
	2002	\$ 260,000	0	\$ 78,148
Steven H. Shapiro	2007	\$ 285,000	\$ 85,000 ⁽³⁾	0
(Joined eLoyalty on April 24, 2006)	2006	\$ 195,938	0	\$ 753,450

For information regarding the total beneficial ownership of eLoyalty's securities by its named executive officers, please see Security Ownership of Certain Beneficial Owners and Management Beneficial Ownership Information beginning on page 18.

(1) In 2008, eLoyalty paid bonuses for 2007 performance in the following amounts to the following named executive officers in the form of restricted shares: Mr. Conway (\$260,000); Mr. Pollema (\$130,000); Ms. Bolton (\$91,000); Mr. Danson (\$156,000); and Mr. Shapiro (\$78,000). These bonuses were paid in grants of restricted stock vesting over two years (See 2008 Executive Compensation.)

(2)

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In 2007, eLoyalty paid bonuses for 2006 performance in the following amounts to the following named executive officers in the form of restricted shares: Mr. Conway (\$400,000); Mr. Pollema (\$170,000); Ms. Bolton (\$220,000); and Mr. Danson (\$250,000). These bonuses were paid in grants of restricted stock vesting over two years.

- (3) Paid pursuant to his employment agreement. See Employment Agreements on page 35.

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Compensation Program

History of eLoyalty's Compensation Program

2002-2006 Developments. Early in 2002, after the collapse of the IT Services market, eLoyalty launched a series of initiatives to stabilize and re-launch the Company. One initiative was to implement a restricted stock program for all of its key executives.

Between 2002 and 2006, eLoyalty paid no cash bonuses and granted only limited salary increases to the named executive officers to preserve cash to launch eLoyalty's then new service lines (CIPCC and Behavioral Analytics). In order to attract and retain key personnel, and to create an equity ownership culture, eLoyalty used restricted stock as the principal element of its executive compensation program.

In November 2006, to further encourage the development of an equity ownership culture and to continue to free up cash to invest in its emerging service lines, eLoyalty implemented the Salary Replacement Program to replace 20% to 25% of the named executives' salaries in exchange for grants of unrestricted stock.

2007 Developments. In February 2007, based on increasing traction and business momentum in its primary service lines, eLoyalty implemented additional modifications to its executive compensation framework as follows:

To recognize its significant achievements and progress in 2006, eLoyalty initiated a program of granting shares of restricted stock in lieu of cash bonuses;

To further align executive and shareholder interests, eLoyalty began granting stock options, instead of restricted stock, for long term incentives for its named executive officers;

eLoyalty also reinforced its equity ownership culture by re-introducing its Employee Stock Purchase Plan in 2007 to all of its employees and by expanding the Salary Replacement Program in October 2007 to include a broader range of employees; and

As part of the changes to the Salary Replacement Program in October 2007, eLoyalty increased the stock portion of the salaries of eLoyalty's executives covered by the Salary Replacement Program to a range of 25% to 30%.

2008 Developments. In late 2007, eLoyalty restructured itself into two business units Behavioral Analytics™ and Integrated Contact Solutions in order to streamline its operations and tighten its focus on these business units. In February 2008, eLoyalty took the following actions in order to further focus its management and all of its employees on eLoyalty's continued growth and to allocate cash for continued investment in these two newly created business units:

Further expanded the Salary Replacement Program so that the cash salaries of eLoyalty's named executive officers would be reduced by a range of 32.5% to 37.5% in exchange for grants of shares of eLoyalty stock (to partly offset the lack of liquidity for receiving stock in exchange for part of their cash compensation, they received an additional grant of 5% of unrestricted stock);

Acted to pay commissions, merit bonuses and the majority of its salary increases in the form of shares of unrestricted stock;

Made a supplemental grant of approximately 220,000 shares of restricted stock to its named executive officers and certain other Vice Presidents from shares forfeited by eLoyalty Vice Presidents whose positions were eliminated as a result of eLoyalty's restructuring; and

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Agreed to pay its Directors meeting fees in the form of shares of unrestricted stock (to partly offset the lack of liquidity for receiving stock in exchange for part of their cash compensation, they received an additional grant of 5% of unrestricted stock).

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Overview

Current Compensation Program. The principal framework for eLoyalty's named executive officers is the eLoyalty Vice President and Executive Compensation Program. Based on this program, executives are assigned to a tier upon hiring, and such assignments are re-evaluated from time to time based on performance, level of responsibility, experience level and other factors. Each compensation tier provides for a target annual cash compensation, including both base salary and an annual bonus, and a target amount of restricted stock. The target bonuses for the named executive officers are: 110% of base salary for Mr. Conway; \$150,000 for Mr. Min; 100% of base salary for Mr. Pollema, Ms. Bolton and Mr. Danson; and \$120,000 for Mr. Shapiro. The target equity amount is typically awarded upon assignment or promotion to a tier in the form of restricted shares that vest over a four-year period. The Compensation Committee periodically reviews the tiers and target amounts based on market conditions and other competitive factors. The eLoyalty Vice President and Executive Compensation Program also provides for additional equity grants at the discretion of the Compensation Committee.

Competitive Market. 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 its compensation program based on its senior level recruiting activity.

Compensation Process. For each of eLoyalty's named executive officers, the Compensation Committee reviews and approves all elements of compensation, 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.

Elements of Compensation

The principal elements of eLoyalty's executive compensation program are base salary, annual incentives and long-term equity incentives in the form of shares of restricted stock and stock options as well as post-termination severance and acceleration of vesting and stock options and shares of restricted stock for certain named executive officers upon termination and/or a change of control. eLoyalty's other benefits and perquisites consist of life and health insurance and a qualified 401(k) savings plan. eLoyalty's philosophy is to position the aggregate of these elements at a level that will retain existing executives and attract new ones. These elements are described in more detail below.

Base Salaries

Overview. eLoyalty believes that base salaries should be established based on the competitive marketplace for the specific responsibilities of the position as well as the experience, knowledge and demonstrated performance of the individual.

Base salaries for named executive officers were not increased during 2007, as eLoyalty believes that over time a higher percentage of total compensation should be shifted to performance-based programs.

Salary Replacement Program. In November 2006, eLoyalty announced the 2006-2007 Salary Replacement Program. As a result of this program, the cash salaries of eLoyalty's executives were first reduced by a range of 20% to 25% in exchange for grants of unrestricted stock. This program was implemented to generate short-term cash savings, motivate the creation of stockholder value and continue to encourage eLoyalty's ownership culture. The program was amended in October 2007 to provide for the cash salaries of eLoyalty's executives to be reduced by a range of 25% to 30% in exchange for grants of unrestricted stock and amended again in February 2008. Under the current terms of the Salary Replacement Program, the cash salaries of eLoyalty's executives are reduced by a range of 32.5% to 37.5% in exchange for grants of unrestricted stock. These executives, however, will receive an additional grant of 5% of base pay to partly offset the lack of liquidity of receiving stock in exchange for cash.

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Bonuses

Annual Bonuses. In recognition of eLoyalty's continuing need to invest resources in the development of its business, any bonuses paid to its named executive officers are in the form of grants of restricted stock rather than cash.

The amount of shares of restricted stock granted to any executive are based on three factors: (1) eLoyalty's performance against its goals; (2) target compensation of each such executive; and (3) his or her individual performance for the relevant fiscal year.

The Chief Executive Officer and the Board set out the following primary goals for eLoyalty in 2007:

Services revenue growth

Income Statement performance

Behavioral Analytics customer growth

CIPCC revenues

In addition, the Chief Executive Officer and Board agreed to the following secondary goals in 2007 (goals that are important, but less critical than the primary goals): Managed Services Backlog growth; development of the Client Services and Business Development Teams; enhancement of functionality of Behavioral AnalyticsTM; and development of eLoyalty's infrastructure.

Each quarter in fiscal 2007, the Chief Executive Officer evaluated eLoyalty's performance for that quarter against quarterly and annual goals. The Compensation Committee then reviewed the Chief Executive Officer's quarterly evaluation of eLoyalty's performance at each regularly scheduled Compensation Committee meeting.

At the end of fiscal 2007, the Chief Executive Officer and the Compensation Committee reviewed these quarterly evaluations as well as eLoyalty's performance against its annual goals and determined that eLoyalty had attained approximately 65% of its goals. Based on this review, the dollar value of a bonus pool for executives was established. The dollar amount of this pool was converted into an amount of shares to be issued to eLoyalty executives, based on eLoyalty's closing share price of \$10.54 on February 19, 2008 (the date that these bonus shares were issued to eLoyalty's executives).

The number of shares issued to any participant in the Vice President and Executive Compensation Program was based on his or her performance for 2007. To determine that, each executive is evaluated on his or her performance for the applicable year and ranked in 1 of 4 quartiles (with 1 being the highest quartile), and then assigned a rank as high or low within each quartile. This percentage of the target bonus achieved by the participant, based on his or her quartile, multiplied by the target bonus for his or her tier determines his or her bonus payout. The Chief Executive Officer's performance was independently reviewed by the Compensation Committee.

The awards made under the Vice President and Executive Compensation Program were: Mr. Conway (2nd quartile low; 65% payout; 24,668 shares of stock); Mr. Pollema (2nd quartile low; 65% payout; 12,334 shares); Ms. Bolton (3rd quartile low; 46% payout; 8,634 shares); Mr. Danson (2nd quartile high; 78% payout; 14,801 shares); and Mr. Shapiro (2nd quartile low; 65% payout; 7,400 shares). Half of the shares of these stock grants were granted on February 19, 2008 and vested on February 29, 2008 and the other half of these awards will be granted in February 2010 and will vest on February 28, 2010.

For more information on these grants, see "2008 Executive Compensation Bonus Shares" on page 30.

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Long-Term Equity Incentives

The goal of eLoyalty's long-term, equity-based incentive awards is to retain key executives, attract new executives and align the interests of executive officers with stockholders.

From 2002 to 2006, these long-term equity incentives were awarded in the form of restricted stock. Beginning in 2007 and continuing in 2008, eLoyalty also granted stock options as a long-term equity incentive to its senior executives. The 2008 grants were as follows: Mr. Conway (100,000); Mr. Pollema (35,000); Ms. Bolton (15,000); Mr. Danson (35,000) and Mr. Shapiro (10,000). The options were granted on February 19, 2008, and the strike price is \$10.54, eLoyalty's closing stock price on the date of the grants. The options will vest over four years as follows: 25% will vest on February 28, 2009 and 6.25% will vest on each quarterly vesting date thereafter.

Executive Benefits

eLoyalty provides the opportunity for its named executive officers and other executives to receive general health and welfare benefits in order to remain competitive in the general marketplace for executive talent. Each executive shares in the cost of these benefits and the amounts contributed ranged from \$4,272 to \$10,272 in 2007.

Change of Control and Severance Benefits

eLoyalty provides the opportunity for certain of its named executive officers to be protected under the severance and change of control provisions contained in their employment agreements. The Company provides this opportunity to attract and retain an appropriate caliber of talent for the position. eLoyalty believes that its severance and change of control provisions for the named executive officers are comparable to those of executive at similarly situated companies and are summarized in Potential Payments upon Termination or Change of Control on page 38.

Stock Plans

eLoyalty administers two stock Plans, the 1999 Stock Incentive Plan and the 2000 Stock Incentive Plan.

1999 Stock Incentive Plan

For a discussion of the 1999 Stock Incentive Plan, please see Proposal 2 Amendment and Restatement of 1999 Stock Incentive Plan on page 9.

2000 Stock Incentive Plan

The 2000 Stock Incentive Plan, which is similar to the 1999 Plan, was adopted May 12, 2000 and was amended and restated as of September 24, 2001. This Plan is administered by the Compensation Committee, but the full Board retains the right to administer the Plan in all respects. The 2000 Stock Incentive Plan will automatically terminate on September 23, 2011. The maximum percentage of shares with respect to which awards may be granted under the Plan to officers and to other Section 16 employees, is 20% of the total number of shares available for awards under the Plan, as adjusted. As of January 1, 2008, there were 51,737 shares available for issuance or delivery under this Plan.

The 2000 Stock Incentive Plan allows for limited awards to eligible employees, consultants and independent contractors, including only non-qualified stock options and stock awards, (both restricted stock and bonus stock). Non-Employee Directors are not eligible for awards under this 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.

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Pension Benefits

eLoyalty does not sponsor any qualified or non-qualified defined benefit plans.

Non-Qualified Deferred Compensation

eLoyalty does not maintain any non-qualified defined contribution or deferred compensation plans.

2008 Executive Compensation

eLoyalty's named executive officers received three types of equity grants in 2008 for 2007 performance: (1) bonus shares; (2) options; and (3) supplemental shares of restricted stock. Because these equity grants were granted in 2008, eLoyalty incurred no expense for those shares or options in 2007. As a result, these grants are not reflected in the Summary Compensation Table or any other tables in this Proxy Statement and are summarized here.

Bonus Shares. As detailed above, eLoyalty's named executive officers received bonuses in the form of shares of restricted stock based upon eLoyalty's performance in 2007. The amounts paid to each named executive officer depended on eLoyalty's attainment of 65% of its corporate goals and then each executive's quartile ranking, depending upon his or her individual performance. The percentage payout to these executives ranged from 46% to 78% of base salary. The bonus amounts ranged from \$78,000 to \$260,000.

The grants made under the Vice President and Executive Compensation Program were: Mr. Conway (2nd quartile low; 65% payout; 24,668 shares of stock); Mr. Pollema (2nd quartile low; 65% payout; 12,334 shares); Ms. Bolton (3rd quartile low; 46% payout; 8,634 shares); Mr. Danson (2nd quartile high; 78% payout; 14,801 shares); and Mr. Shapiro (2nd quartile low; 65% payout; 7,400 shares). Half of the shares of these stock awards were granted on February 19, 2008 and vested on February 29, 2008 and the other half of these awards will be granted in February 2010 and will vest on February 28, 2010.

Options. In accordance with the 2007 changes to eLoyalty's Vice President and Executive Compensation Program, each of its named executive officers received the following option grants in 2008: Mr. Conway (100,000); Mr. Pollema (35,000); Ms. Bolton (15,000); Mr. Danson (35,000) and Mr. Shapiro (10,000). The options were granted on February 19, 2008, and the strike price is \$10.54, eLoyalty's closing stock price on the date of the grants. The options will vest over four years as follows: 25% will vest on February 28, 2009 and 6.25% will vest on each quarterly vesting date thereafter.

Supplemental Shares of Restricted Stock. eLoyalty's named executives, as well as certain other Vice Presidents, received additional shares of restricted stock. As a result of the restructuring late in 2007, eLoyalty eliminated approximately 40 positions. Many of these employees had been granted shares of restricted stock that had not vested. In order to retain and incentivize its remaining named executive officers and other Vice Presidents, the Compensation Committee decided to make a supplemental grant to them of approximately 220,000 shares of restricted stock.

In connection with this grant, the named executive officers received the following amounts on February 19, 2008: Mr. Conway (30,000); Mr. Pollema (15,000); Ms. Bolton (7,500); Mr. Danson (15,000) and Mr. Shapiro (7,500). These shares will vest over four years as follows: 25% will vest on February 28, 2009 and 6.25% will vest on each quarterly vesting date thereafter.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis that appears in eLoyalty's 2008 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 2008 Notice of Annual Meeting and Proxy Statement for filing with the SEC.

Tench Coxe, Chair

Henry J. Feinberg

John T. Kohler

Table of Contents**EXECUTIVE COMPENSATION****2007 SUMMARY COMPENSATION TABLE⁽¹⁾**

Name and Principal Position	Year	Salary ⁽⁵⁾	Bonus	Stock Awards ⁽⁶⁾	Option Awards	All Other Compensation ⁽⁷⁾	Total
Kelly D. Conway President and Chief Executive Officer	2007	\$ 482,066	\$ 0	\$ 766,770	\$ 292,760	\$ 6,750	\$ 1,548,346
	2006	\$ 480,000	\$ 0	\$ 632,501		\$ 6,600	\$ 1,119,101
Christopher Min ⁽²⁾ Vice President and Chief Financial Officer	2007	\$ 17,708	\$ 0	\$ 0		\$ 0	\$ 17,708
Steven C. Pollema ⁽³⁾ Vice President, Integrated Contact Solutions/ CRM Business Unit	2007	\$ 301,315	\$ 0	\$ 345,344	\$ 58,552	\$ 6,750	\$ 711,961
	2006	\$ 300,000	\$ 0	\$ 232,481		\$ 6,600	\$ 539,081
Karen Bolton Vice President	2007	\$ 301,315	\$ 0	\$ 440,324	\$ 117,104	\$ 252,454 ⁽⁸⁾	\$ 1,111,197
	2006	\$ 300,000	\$ 0	\$ 226,758		\$ 186,582 ⁽⁸⁾	\$ 713,340
Christopher J. Danson Vice President, Delivery	2007	\$ 301,315	\$ 0	\$ 466,481	\$ 117,104	\$ 6,750	\$ 891,650
	2006	\$ 300,000	\$ 0	\$ 229,166		\$ 6,600	\$ 535,766
Steven H. Shapiro ⁽⁴⁾ Vice President, General Counsel and Corporate Secretary	2007	\$ 286,251	\$ 85,000	\$ 229,608		\$ 5,813	\$ 606,672
	2006	\$ 195,938	\$ 0	\$ 78,918		\$ 5,878	\$ 280,734

- (1) For a description of the employment agreements entered into between eLoyalty and each of the named executive officers, see Employment Agreements on page 35.
- (2) Joined eLoyalty as Vice President and Chief Financial Officer on December 3, 2007.
- (3) Served as Chief Financial Officer until December 3, 2007.
- (4) Joined eLoyalty on April 24, 2006.
- (5) In connection with the Salary Replacement Program, the named executive officers were granted part of their salary in the form of shares of Common Stock. This column includes the value of shares granted to the named executives in lieu of salary through the end of the applicable year. As reported above, base salaries accounted for approximately 31% of total compensation for Mr. Conway and 36% on average for the other named executive officers who worked at eLoyalty for all of 2007.
- (6) This column shows the amount recognized as expense in eLoyalty's financial statements in 2007 and 2006, respectively, under FAS 123(R) as a result of the vesting in 2007 and 2006 of restricted or installment stock awards granted to the named executive officers between 2003 and 2007. In accordance with FAS 123(R), the amount of such expense is based on the market value of stock on the approval date of the grant.
- (7) Reflects employer contributions to an eLoyalty qualified defined contribution plan.
- (8) Reflects amounts paid by eLoyalty to compensate Ms. Bolton for costs associated with her status as an Australian expatriate and the costs of maintaining residences in both the United States and Australia totaling \$ 245,704 in 2007 and \$179,982 in 2006, including \$95,804 and \$95,804 for housing in each of 2007 and 2006, respectively, \$67,724 and \$32,781 in travel expenses relating to trips to Australia in 2007 and 2006, respectively, and \$82,176 and \$51,397 in additional taxes in 2007 and 2006, respectively, incurred arising from such status and the foregoing compensation items.

Table of Contents**2007 GRANTS OF PLAN-BASED AWARDS⁽¹⁾**

The following table summarizes stock awards made to eLoyalty's named executive officers under eLoyalty's 1999 Stock Incentive Plan in 2007, which constituted all of the stock awards made to such executives under any eLoyalty plan in 2007.

Name	Grant Date	Approval Date	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Grant Date Fair Value of Stock Awards ⁽²⁾	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value of Stock and Option Awards
Kelly D. Conway	11/09/07	10/31/07	2,407				
	8/10/07	8/03/07	1,862				
	5/11/07	5/03/07	1,204				
	2/20/07	2/14/07		100,000		\$ 21.95	\$ 1,171,000
	2/20/07	2/14/07	18,224		\$ 400,017		
	2/16/07	2/14/07	1,337				
Christopher Min							
Steven C. Pollema	11/09/07	10/31/07	1,255				
	8/10/07	8/03/07	931				
	5/11/07	5/03/07	602				
	2/20/07	2/14/07		20,000		\$ 21.95	\$ 234,200
	2/20/07	2/14/07	7,745		\$ 170,003		
	2/16/07	2/14/07	669				
Karen Bolton	11/09/07	10/31/07	1,255				
	8/10/07	8/03/07	931				
	5/11/07	5/03/07	602				
	2/20/07	2/14/07		40,000		\$ 21.95	\$ 468,400
	2/20/07	2/14/07	10,023		\$ 220,005		
	2/16/07	2/14/07	669				
Christopher J. Danson	11/09/07	10/31/07	1,255				
	8/10/07	8/03/07	931				
	5/11/07	5/03/07	602				
	2/20/07	2/14/07		40,000		\$ 21.95	\$ 468,400
	2/20/07	2/14/07	11,390		\$ 250,011		
	2/16/07	2/14/07	669				
Steven H. Shapiro	11/09/07	10/31/07	1,192				
	8/10/07	8/03/07	884				
	5/11/07	5/03/07	572				
	2/16/07	2/14/07	636				

(1) In accordance with eLoyalty practice, all grants were approved by the Compensation Committee. One-half of the shares of restricted stock granted on February 20, 2007 vested on February 28, 2007 and the remaining half will vest on February 28, 2009.

The remaining shares granted were fully vested upon grant in lieu of salary. As a result, no value is assigned to the award as additional compensation. For more information regarding these awards, see footnote 5 to the 2007 Summary Compensation Table on page 31.

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The restricted stock and installment stock include a feature whereby eLoyalty may withhold shares from vesting or the award, as applicable (which is generally treated as a sale of those shares back to eLoyalty at fair market value) in certain cases to satisfy tax withholding obligations related to the grantee. Restrictions on restricted stock grants generally vest in 20 equal quarterly installments over the five-year period following the grant date. Awards of installment stock generally provide for issuance of the stock in 20 equal quarterly installments over the 5-year period following the award date.

In the event dividends are paid to owners of Common Stock, dividends would be paid on the restricted shares, but not the installment stock, in the same amount and at the same time as paid to other owners of Common Stock.

- (2) Valuation assumptions are found under eLoyalty Corporation Consolidated Financial Statements Notes to Consolidated Financial Statements Note Fifteen Stock-Based Compensation in eLoyalty s Form 10-K for the fiscal year ended December 29, 2007.

Table of Contents**OUTSTANDING EQUITY AWARDS AT 2007 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 December 29, 2007. These amounts do not include the options or shares of stock granted at the February 2008 Board Meeting. For information regarding the total beneficial ownership of eLoyalty securities by its named executive officers, please see Security Ownership of Certain Beneficial Owners and Management Beneficial Ownership Information beginning on page 18.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested ⁽¹⁾ (\$)
Kelly D. Conway	25,000	75,000	\$ 21.95	2/20/2017	123,881 ⁽²⁾	\$ 1,558,423
Christopher Min						
Steven C. Pollema	5,000	15,000	\$ 21.95	2/20/2017	48,635 ⁽³⁾	\$ 611,828
	20,000	0	\$ 20.10	6/01/2011		
Karen Bolton	10,000	30,000	\$ 21.95	2/20/2017	79,329 ⁽⁴⁾	\$ 997,959
	2,000	0	\$ 17.50	4/02/2011		
Christopher J. Danson	10,000	30,000	\$ 21.95	2/20/2017	75,151 ⁽⁵⁾	\$ 945,400
Steven H. Shapiro					39,000 ⁽⁶⁾	\$ 490,620

- (1) Market value is calculated based on the number of shares multiplied by the closing market price of Common Stock on December 28, 2007 which was \$12.58 per share.
- (2) Comprised of the following:
 Initial grant of 12,500 on April 2, 2001; vesting 260 per month; vested in full;
 Initial grant of 300,836 on November 7, 2002; vesting 15,046 per quarter; vested in full;
 Initial grant of 62,500 on May 31, 2004; vesting 3,125 per quarter; 18,750 remaining unvested;
 Initial grant of 62,500 on November 30, 2004; vesting 3,125 per quarter; 25,000 remaining unvested;
 Initial grant of 37,044 on May 31, 2005; vesting 1,852 per quarter; 18,519 remaining unvested;
 Initial grant of 75,000 on May 31, 2006; vesting 3,750 per quarter; 52,500 remaining unvested; and
 Initial grant of 18,224 on February 20, 2007; vesting 9,112 on February 28, 2009; 9,112 remaining unvested.
- (3) Comprised of the following:
 Initial grant of 59,960 on February 28, 2002; vesting 2,998 per quarter; vested in full;
 Initial grant of 59,690 on April 1, 2004; vesting 2,985 per quarter; 11,938 remaining unvested;
 Initial grant of 15,000 on May 31, 2005; vesting 750 per quarter; 7,500 remaining unvested;
 Initial grant of 35,000 on May 31, 2006; vesting 1,750 per quarter; 24,500 remaining unvested;
 Initial grant of 1,100 on August 31, 2006; vesting 55 per quarter; 825 remaining unvested; and
 Initial grant of 7,745 on February 20, 2007; vesting 3,872 on February 28, 2009; 3,872 remaining unvested.
- (4) Comprised of the following:
 Initial grant of 28,397 on February 28, 2002; vesting approximately 1,426 per quarter; vested in full;
 Initial grant of 51,095 on May 31, 2003; vesting 2,555 per quarter; 5,114 remaining unvested;
 Initial grant of 2,000 on November 30, 2003; vesting 100 per quarter; vested in full;
 Initial grant of 47,409 on May 31, 2005; vesting 2,370 per quarter; 23,704 remaining unvested;
 Initial grant of 65,000 on May 31, 2006; vesting 3,250 per quarter; 45,500 remaining unvested; and
 Initial grant of 10,023 on February 20, 2007; vesting 5,011 on February 28, 2009; 5,011 remaining unvested.

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- (5) Comprised of the following:
- Initial grant of 2,000 on April 2, 2001; vesting 42 per quarter; vested in full;
 - Initial grant of 11,931 on February 28, 2002; vesting 597 per quarter; vested in full;
 - Initial grant of 51,095 on May 31, 2003; vesting 2,555 per quarter; 5,114 remaining unvested;
 - Initial grant of 1,535 on November 30, 2003; vesting 80 per quarter; vested in full;
 - Initial grant of 32,409 on August 31, 2004; vesting 1,620 per quarter; 11,342 remaining unvested;
 - Initial grant of 15,000 on May 31, 2005; vesting 750 per quarter; 7,500 remaining unvested;
 - Initial grant of 65,000 on May 31, 2006; vesting 3,250 per quarter; 45,500 remaining unvested; and
 - Initial grant of 11,390 on February 20, 2007; vesting 5,695 on February 28, 2009; 5,695 remaining unvested.
- (6) Comprised of the following:
- Initial grant of 50,000 on May 31, 2006; 10,000 vested on May 31, 2007; vesting 2,500 per quarter; 35,000 remaining unvested; and
 - Initial grant of 5,000 on November 30, 2006; vesting 250 per quarter; 4,000 remaining unvested.