

LIVEPERSON INC  
Form 10-Q  
May 10, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-30141

LIVEPERSON, INC.  
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-3861628  
(IRS Employer Identification No.)

462 SEVENTH AVENUE, 3RD FLOOR  
NEW YORK, NEW YORK  
(Address of Principal Executive Offices)

10018  
(Zip Code)

(212) 609-4200  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 4, 2010, there were 50,882,136 shares of the issuer's common stock outstanding.

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FORWARD-LOOKING STATEMENTS

STATEMENTS IN THIS REPORT ABOUT LIVEPERSON, INC. THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS BASED ON OUR CURRENT EXPECTATIONS, ASSUMPTIONS, ESTIMATES AND PROJECTIONS ABOUT LIVEPERSON AND OUR INDUSTRY. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL FUTURE EVENTS OR RESULTS TO DIFFER MATERIALLY FROM SUCH STATEMENTS. ANY SUCH FORWARD-LOOKING STATEMENTS ARE MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. IT IS ROUTINE FOR OUR INTERNAL PROJECTIONS AND EXPECTATIONS TO CHANGE AS THE YEAR OR EACH QUARTER IN THE YEAR PROGRESS, AND THEREFORE IT SHOULD BE CLEARLY UNDERSTOOD THAT THE INTERNAL PROJECTIONS AND BELIEFS UPON WHICH WE BASE OUR EXPECTATIONS MAY CHANGE PRIOR TO THE END OF EACH QUARTER OR THE YEAR. ALTHOUGH THESE EXPECTATIONS MAY CHANGE, WE ARE UNDER NO OBLIGATION TO INFORM YOU IF THEY DO. OUR COMPANY POLICY IS GENERALLY TO PROVIDE OUR EXPECTATIONS ONLY ONCE PER QUARTER, AND NOT TO UPDATE THAT INFORMATION UNTIL THE NEXT QUARTER. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN THE PROJECTIONS OR FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED IN PART II, ITEM 1A, "RISK FACTORS."

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LIVEPERSON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	March 31, 2010 (Unaudited)	December 31, 2009 (Note 1(B))
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,835	\$ 45,572
Accounts receivable, net of allowance for doubtful accounts of \$395 as of March 31, 2010 and December 31, 2009, respectively	12,615	10,265
Prepaid expenses and other current assets	3,189	3,661
Deferred tax assets, net	1,252	1,460
<b>Total current assets</b>	<b>67,891</b>	<b>60,958</b>
Property and equipment, net	10,132	9,551
Intangibles, net	2,432	2,821
Goodwill	23,920	23,920
Deferred tax assets, net	4,992	4,777
Deferred implementation costs, net of current	135	136
Security deposits	491	326
Other assets	1,948	1,792
<b>Total assets</b>	<b>\$ 111,941</b>	<b>\$ 104,281</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,688	\$ 5,375
Accrued expenses	7,914	10,895
Deferred revenue	5,360	4,692
<b>Total current liabilities</b>	<b>18,962</b>	<b>20,962</b>
Deferred revenue, net of current	533	506
Other liabilities	1,833	1,676
<b>Total liabilities</b>	<b>21,328</b>	<b>23,144</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value per share; 5,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2010 and December 31, 2009	—	—
Common stock, \$.001 par value per share; 100,000,000 shares authorized, 50,848,136 shares issued and outstanding at March 31, 2010 and 49,435,682 shares issued and outstanding at December 31, 2009	51	49
Additional paid-in capital	198,056	190,692
Accumulated deficit	(107,296)	(109,432)
Accumulated other comprehensive loss	(198)	(172)
<b>Total stockholders' equity</b>	<b>90,613</b>	<b>81,137</b>

Total liabilities and stockholders' equity	\$	111,941	\$	104,281
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SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS.

## LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
UNAUDITED

	Three Months Ended March 31,	
	2010	2009
Revenue	\$ 25,308	\$ 19,919
Operating expenses:		
Cost of revenue	6,632	4,285
Product development	3,606	2,701
Sales and marketing	7,690	6,504
General and administrative	3,792	3,521
Amortization of intangibles	83	272
Total operating expenses	21,803	17,283
Income from operations	3,505	2,636
Other (expense) income:		
Financial expense	(49)	(119)
Interest income	23	34
Total other (expense) income, net	(26)	(85)
Income before provision for income taxes	3,479	2,551
Provision for income taxes	1,343	1,280
Net income	\$ 2,136	\$ 1,271
Basic net income per common share	\$ 0.04	\$ 0.03
Diluted net income per common share	\$ 0.04	\$ 0.03
Weighted average shares outstanding used in basic net income per common share calculation	49,838,491	47,468,781
Weighted average shares outstanding used in diluted net income per common share calculation	52,193,862	48,031,054

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS.

## LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
UNAUDITED

	Three Months Ended March 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,136	\$ 1,271
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Stock-based compensation expense	1,087	1,161
Depreciation	1,053	801
Amortization of intangibles	389	579
Deferred income taxes	(6)	324
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Accounts receivable	(2,350)	(1,557)
Prepaid expenses and other current assets	466	137
Deferred implementation costs	—	13
Security deposits	(166)	18
Accounts payable	(740)	497
Accrued expenses	(2,969)	(1,307)
Deferred revenue	695	896
Net cash (used in) provided by operating activities	(405)	2,833
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, including capitalized software	(578)	(469)
Acquisition of Proficient	—	(81)
Net cash used in investing activities	(578)	(550)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock	—	(28)
Excess tax benefit from the exercise of employee stock options	3	159
Proceeds from issuance of common stock in connection with the exercise of options	6,275	121
Net cash provided by financing activities	6,278	252
Effect of foreign exchange rate changes on cash and cash equivalents	(32)	(26)
Net increase in cash and cash equivalents	5,263	2,509
Cash and cash equivalents at the beginning of the period	45,572	25,500
Cash and cash equivalents at the end of the period	\$ 50,835	\$ 28,009

## Supplemental disclosure of non-cash investing activities:

Cash flows from investing for the three months ended March 31, 2010 does not include the purchase of approximately \$1,315 of capitalized equipment related to the Company's collocation facility as the corresponding invoices are included in accounts payable at March 31, 2010, and therefore did not have an impact on cash flows for the period.



Cash flows from investing for the three months ended March 31, 2009 does not include the purchases of approximately \$258 of capitalized equipment related to the Company's collocation facility as the corresponding invoices are included in accounts payable at March 31, 2009, and therefore did not have an impact on cash flows for the period.

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS.

LIVEPERSON, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(A) SUMMARY OF OPERATIONS

LivePerson, Inc. (the “Company” or “LivePerson”) was incorporated in the State of Delaware in 1995. The Company commenced operations in 1996. LivePerson provides online engagement solutions that facilitate real-time assistance and expert advice.

The Company’s primary revenue source is from the sale of the LivePerson services to businesses of all sizes. The Company also facilitates online transactions between independent service providers (“Experts”) who provide online advice to individual consumers (“Users”). Headquartered in New York City, the Company’s product development staff, help desk, and online sales support are located in Israel. The Company also maintains sales and professional services offices in Atlanta and the United Kingdom.

(B) UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 are unaudited. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the consolidated financial position of LivePerson as of March 31, 2010, and the consolidated results of operations and cash flows for the interim periods ended March 31, 2010 and 2009. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results of operations for any interim period are not necessarily indicative of the results of operations for any other future interim period or for a full fiscal year. The condensed consolidated balance sheet at December 31, 2009 has been derived from audited consolidated financial statements at that date.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2009, included in the Company’s Annual Report on Form 10-K filed with the SEC on March 11, 2010.

(C) REVENUE RECOGNITION

The majority of the Company’s revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Because the Company provides its application as a service, the Company follows the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 605-10-S99, “Revenue Recognition” and ASC 605-25, “Revenue Recognition with Multiple-Element Arrangements.” The Company charges a monthly fee, which varies by service and client usage. The majority of the Company’s larger clients also pay a professional services fee related to implementation. The Company defers these implementation fees and associated direct costs and recognizes them ratably over the expected term of the client relationship upon

commencement of the hosting services. The Company may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services.

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The Company also sells certain of the LivePerson services directly via Internet download. These services are marketed as LivePerson Pro and LivePerson Contact Center for small and mid-sized businesses (“SMBs”), and are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce the Company’s collection risk, subject to the merchant bank’s right to hold back cash pending settlement of the transactions. Sales of LivePerson Pro and LivePerson Contact Center may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales.

The Company recognizes monthly service revenue based upon the fee charged for the LivePerson services, provided that there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable. The Company’s service agreements typically have twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days’ notice without penalty. When professional service fees provide added value to the customer on a standalone basis, the Company recognizes professional service fees upon completion and customer acceptance because they have established objective and reliable evidence of the fair value of the undelivered hosting services. If a professional services arrangement does not qualify for separate accounting, the Company recognizes the fees, and the related labor costs, ratably over a period of 48 months, representing the Company’s current estimate of the term of the client relationship.

For revenue generated from online transactions between Experts and Users, the Company recognizes revenue net of the expert fees in accordance with ASC 605-45, “Principal Agent Considerations,” due to the fact that the Company performs as an agent without risk of loss for collection. The Company collects a fee from the consumer and retains a portion of the fee, and then remits the balance to the Expert. Revenue from these transactions is recognized when there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable.

#### (D) STOCK-BASED COMPENSATION

The Company follows FASB ASC 718-10, “Stock Compensation,” which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. ASC 718-10 requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized.

ASC 718-10 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s Consolidated Statements of Income. Stock-based compensation recognized in the Company’s Consolidated Statement of Income for the three months ended March 31, 2010 and 2009 includes compensation expense for share-based awards granted prior to, but not fully vested as of January 1, 2006 based on the grant date fair value estimated in accordance with ASC 718-10 as well as compensation expense for share-based awards granted subsequent to January 1, 2006 in accordance with ASC 718-10. The Company currently uses the Black-Scholes option pricing model to determine grant date fair value.

The following table summarizes stock-based compensation expense related to employee stock options under ASC 718-10 included in Company's Statement of Income for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31,	
	2010	2009
Cost of revenue	\$ 214	\$ 159
Product development expense	335	302
Sales and marketing expense	280	308
General and administrative expense	258	392
Total stock based compensation included in operating expenses	\$ 1,087	\$ 1,161

The per share weighted average fair value of stock options granted and assumed during the three months ended March 31, 2010 and 2009 was \$3.33 and \$1.05, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended March 31,	
	2010	2009
Dividend yield	0.0%	0.0%
Risk-free interest rate	3.61% - 3.80%	2.8% - 3.1%
Expected life (in years)	5.0	5.0
Historical volatility	60.3% - 60.5%	68.1% - 68.2%

During 1998, the Company established the Stock Option and Restricted Stock Purchase Plan (the "1998 Plan"). Under the 1998 Plan, the Board of Directors could issue incentive stock options or nonqualified stock options to purchase up to 5,850,000 shares of common stock. The 2000 Stock Incentive Plan (the "2000 Plan") succeeded the 1998 Plan. Under the 2000 Plan, the options which had been outstanding under the 1998 Plan were incorporated in the 2000 Plan increasing the number of shares available for issuance under the plan by approximately 4,150,000, thereby reserving for issuance 10,000,000 shares of common stock in the aggregate.

The Company established the 2009 Stock Incentive Plan (the "2009 Plan") as a successor to the 2000 Plan. Under the 2009 Plan, the options which had been outstanding under the 2000 Plan were incorporated into the 2009 Plan and the Company increased the number of shares available for issuance under the plan by 6,000,000, thereby reserving for issuance 19,567,744 shares of common stock in the aggregate. Options to acquire common stock granted thereunder have ten-year terms. As of March 31, 2010, approximately 16,444,000 shares of common stock were reserved for issuance under the 2009 Plan (taking into account all option exercises through March 31, 2010). As of March 31, 2010, there was approximately \$8,119 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost, as of March 31, 2010, is expected to be recognized over a weighted average period of approximately 2.0 years.

A summary of the Company's stock option activity and weighted average exercise prices follows:

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2009	8,711,808	\$ 3.82
Options granted	737,000	6.10
Options exercised	(1,389,954)	4.54
Options cancelled	(145,200)	4.19
Options outstanding at March 31, 2010	7,913,654	3.90
Options exercisable at March 31, 2010	3,829,318	\$ 3.83

The total intrinsic value of stock options exercised during the period ended March 31, 2010 was approximately \$4,202. The total intrinsic value of options exercisable at March 31, 2010 was approximately \$14,261. The total intrinsic value of options expected to vest at March 31, 2010 is approximately \$15,142.

A summary of the status of the Company's nonvested shares as of December 31, 2009, and changes during the three months ended March 31, 2010 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested Shares at December 31, 2009	4,247,893	\$ 2.13
Granted	737,000	3.33
Vested	(776,231)	2.42
Cancelled	(124,326)	2.37
Nonvested Shares at March 31, 2010	4,084,336	\$ 2.29

#### (E) BASIC AND DILUTED NET INCOME PER SHARE

The Company calculates earnings per share ("EPS") in accordance with the provisions of ASC 260-10 and the guidance of SEC Staff Accounting Bulletin ("SAB") No. 98. Under ASC 260-10, basic EPS excludes dilution for common stock equivalents and is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. All options, warrants or other potentially dilutive instruments issued for nominal consideration are required to be included in the calculation of basic and diluted net income attributable to common stockholders. Diluted EPS is calculated using the treasury stock method and reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock.

Diluted net income per common share for the three months ended March 31, 2010 includes the effect of options to purchase 6,372,395 shares of common stock with a weighted average exercise price of \$3.34. Diluted net income per common share for the three months ended March 31, 2009 includes the effect of options to purchase 911,138 shares of common stock with a weighted average exercise price of \$1.12.

A reconciliation of shares used in calculating basic and diluted earnings per share follows:

	Three Months Ended March 31,	
	2010	2009
Basic	49,838,491	47,468,781
Effect of assumed exercised options	2,355,371	562,273
Diluted	52,193,862	48,031,054

#### (F) SEGMENT REPORTING

The Company accounts for its segment information in accordance with the provisions of ASC 280-10, "Segment Reporting." ASC 280-10 establishes annual and interim reporting standards for operating segments of a company. ASC 280-10 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas based on the Company's internal accounting methods. Due to the acquisition of Kasamba Inc. in October 2007, the Company is organized into two operating segments for purposes of making operating decisions and assessing performance. The Business segment supports and manages real-time online interactions - chat, voice/click-to-call, email and self-service/knowledgebase and sells its products and services to global corporations of all sizes. The Consumer segment facilitates online transactions between Experts and Users and sells its services to consumers. Both segments currently generate their revenue primarily in the U.S. The chief operating decision-makers evaluate performance, make operating decisions, and allocate resources based on the operating income of each segment. The reporting segments follow the same accounting policies used in the preparation of the Company's consolidated financial statements and are described in the summary of significant accounting policies. The Company allocates cost of revenue, sales and marketing and amortization of purchased intangibles to the segments, but it does not allocate product development, general and administrative and income taxes because management does not use this information to measure performance of the operating segments. There are currently no intersegment sales.

Summarized financial information by segment for the quarter ended March 31, 2010, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows:

	Consolidated	Corporate	Business	Consumer
<b>Revenue:</b>				
Hosted services — Business	\$ 20,913	\$ —	\$ 20,913	\$ —
Hosted services — Consumer	3,458	—	—	3,458
Professional services	937	—	937	—
Total revenue	25,308	—	21,850	3,458
Cost of revenue	6,632	—	5,684	948
Sales and marketing	7,690	—	6,028	1,662
Amortization of intangibles	83	—	11	72
Unallocated corporate expenses	7,398	7,398	—	—
Operating income (loss)	\$ 3,505	\$ (7,398)	\$ 10,127	\$ 776

Summarized financial information by segment for the quarter ended March 31, 2009, based on the Company's internal financial reporting system utilized by the Company's chief operating decision makers, follows:

	Consolidated	Corporate	Business	Consumer
<b>Revenue:</b>				
Hosted services — Business	\$ 16,716	\$ —	\$ 16,716	\$ —
Hosted services — Consumer	2,528	—	—	2,528
Professional services	675	—	675	—
<b>Total revenue</b>	<b>19,919</b>	<b>—</b>	<b>17,391</b>	<b>2,528</b>
Cost of revenue	4,285	—	3,426	859
Sales and marketing	6,504	—	4,904	1,600
Amortization of intangibles	272	—	200	72
Unallocated corporate expenses	6,222	6,222	—	—
Operating income (loss)	\$ 2,636	\$ (6,222)	\$ 8,861	\$ (3)

Revenues attributable to domestic and foreign operations follows:

	March 31,	
	2010	2009
United States	\$ 19,305	\$ 14,937
United Kingdom	3,318	2,073
Other countries	2,685	2,909
Total revenue	\$ 25,308	\$ 19,919

Long-lived assets by geographic region follows:

	March 31, 2010		December 31, 2009	
United States	\$ 30,464	\$ 29,508		
Israel	13,586	13,815		
Total long-lived assets	\$ 44,050	\$ 43,323		

#### (G) GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the quarter ended March 31, 2010 are as follows:

	Total	Business	Consumer
Balance as of December 31, 2009	\$ 23,920	\$ 15,896	\$ 8,024
Adjustments to goodwill:			
Contingent earnout payments	—	—	—
Balance as of March 31, 2010	\$ 23,920	\$ 15,896	\$ 8,024



The changes in the carrying amount of goodwill for the year ended December 31, 2009 are as follows:

	Total	Business	Consumer
Balance as of December 31, 2008	\$ 24,388	\$ 15,798	\$ 8,590
Adjustments to goodwill:			
Contingent earnout payments	98	98	—
Settlement of pre-acquisition contingency	(566)	—	(566)
Balance as of December 31, 2009	\$ 23,920	\$ 15,896	\$ 8,024

Intangible assets are summarized as follows (see Note 3):

#### Acquired Intangible Assets

	Gross Carrying Amount	As of March 31, 2010 Weighted Average Amortization Period	Accumulated Amortization
Amortizing intangible assets:			
Technology	\$ 5,410	3.8 years	\$ 3,569
Customer contracts	2,400	3.0 years	2,400
Trade names	630	3.0 years	525
Non-compete agreements	410	1.2 years	410
Patents	475	11.0 years	29
Other	235	3.0 years	195
Total	\$ 9,560		\$ 7,128

	Gross Carrying Amount	As of December 31, 2009 Weighted Average Amortization Period	Accumulated Amortization
Amortizing intangible assets:			
Technology	\$ 5,410	3.8 years	\$ 3,262
Customer contracts	2,400	3.0 years	2,400
Trade names	630	3.0 years	473
Non-compete agreements	410	1.2 years	410
Patents	475	11.0 years	18
Other	235	3.0 years	176
Total	\$ 9,560		\$ 6,739

Amortization expense is calculated on a straight-line basis over the estimated useful life of the asset. Aggregate amortization expense for intangible assets was \$389 and \$579 for the three months ended March 31, 2010 and 2009, respectively. For the three months ended March 31, 2010 and 2009, a portion of this amortization is included in cost of revenue. Estimated amortization expense for the next five years is: \$1,098 in 2010, \$964 in 2011, \$43 in 2012, \$43 in 2013, \$43 in 2014 and \$241 thereafter.



**(H) RECENTLY ISSUED FASB ACCOUNTING STANDARDS UPDATES**

In January 2010, the FASB published FASB Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements. This update requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB’s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require: (a) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (b) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures: for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities and should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. As ASU 2010-06 relates specifically to disclosures, it will not have an impact on the Company’s consolidated financial statements.

In October 2009, FASB Accounting Standards Update 2009-13 addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this update amends the criteria in Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor’s multiple-deliverable revenue arrangements. FASB Accounting Standards Update 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

**(2) BALANCE SHEET COMPONENTS****Property and Equipment**

Property and equipment is summarized as follows:

	March 31, 2010	December 31, 2009
Computer equipment and software	\$ 18,653	\$ 17,045
Furniture, equipment and building improvements	837	811
	19,490	17,856
Less accumulated depreciation	9,358	8,305
<b>Total</b>	<b>\$ 10,132</b>	<b>\$ 9,551</b>

**Accrued Expenses**

Accrued expenses consist of the following:

	March 31, 2010	December 31, 2009
Payroll and other employee related costs	\$ 4,410	\$ 7,557
Professional services, consulting and other vendor fees	2,390	2,370
Sales commissions	461	608
Other	653	360
<b>Total</b>	<b>\$ 7,914</b>	<b>\$ 10,895</b>

(3) ASSET ACQUISITIONS

Proficient Systems

On July 18, 2006, the Company acquired Proficient Systems, Inc. (“Proficient”), a provider of hosted proactive chat solutions that help companies generate revenue on their web sites. This transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of Proficient were included in the Company’s consolidated results of operations from the date of acquisition. The acquisition added several U.K. based financial services clients and provided an innovative product marketing team.. During the twelve months ended December 31, 2009, the Company incurred additional costs related to the earn-out litigation in the amount of \$98, resulting in an increase in goodwill.

Based on the achievement of certain revenue targets as of March 31, 2007, LivePerson was contingently required to issue up to an additional 2,050,000 shares of common stock. Based on these targets, the Company issued 1,127,985 shares of common stock valued at \$8,894, based on the quoted market price of the Company’s common stock on the date the contingency was resolved, and made a cash payment of \$20 related to this contingency. At March 31, 2007, the value of these shares has been allocated to goodwill with a corresponding increase in equity. All 1,127,985 shares are included in the weighted average shares outstanding used in basic and diluted net income per common share as of March 31, 2007. In accordance with the purchase agreement, the earn-out consideration is subject to review by Proficient’s Shareholders’ Representative. On July 31, 2007, the Company was served with a complaint filed in the United States District Court for the Southern District of New York by the Shareholders’ Representative of Proficient. The complaint filed by the Shareholders’ Representative sought certain documentation relating to calculation of the earn-out consideration, and demands payment of damages on the grounds that substantially all of the remaining contingently issuable earn-out shares should have been paid. The Company believes the claims are without merit, intends to vigorously defend against this lawsuit, and does not currently expect that the calculation of the total shares issued will differ significantly from the amount issued to date.

Kasamba Inc.

On October 3, 2007, the Company acquired Kasamba Inc. (“Kasamba”), an online provider of live expert advice delivered to consumers via real-time chat. This transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of Kasamba were included in the Company’s consolidated results of operations from October 3, 2007. During the twelve months ended December 31, 2009, the Company settled a pre-acquisition contingency resulting in a \$566 decrease in goodwill.

#### (4) FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted ASC 820-10, Fair Value Measurements, for financial assets and liabilities. This ASC defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The ASC indicates, among other things, that a fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The Company adopted the provisions of ASC 820-10 with respect to its non-financial assets and liabilities during the first quarter of fiscal 2009. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a hierarchy for observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. The Company uses an income approach and inputs that constitute level 3. During the third quarter of each year, the Company evaluates goodwill and indefinite-lived intangibles for impairment at the reporting unit level. The Company uses a combination of discounted cash flows, prior transactions and quoted price methods to determine the fair market value of the reporting unit. This measurement is classified based on level 3 input.

#### (5) COMMITMENTS AND CONTINGENCIES

The Company leases facilities and certain equipment under agreements accounted for as operating leases. These leases generally require the Company to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the three months ended March 31, 2010 and 2009 was approximately \$1,428 and \$1,041, respectively.

#### Employee Benefit Plans

The Company has a 401(k) defined contribution plan covering all eligible employees. The Company provides for employer matching contributions equal to 50% of employee contributions, up to the lesser of 5% of eligible compensation or \$6,000. Matching contributions are deposited in to the employees 401(k) account and are subject to 5 year graded vesting. Salaries and related expenses include \$139 and \$108 of employer matching contributions for the three months ended March 31, 2010 and 2009, respectively.

#### (6) LEGAL MATTERS

On July 31, 2007, the Company was served with a complaint filed in the United States District Court for the Southern District of New York by the Shareholders' Representative of Proficient Systems, Inc. In connection with the July 2006 acquisition of Proficient, the Company was contingently required to issue up to 2,050,000 shares of common stock based on the terms of an earn-out provision in the merger agreement. In accordance with the terms of the earn-out provision, the Company issued 1,127,985 shares of LivePerson common stock in the second quarter of 2007 to the former shareholders of Proficient. The complaint filed by the Shareholders' Representative sought certain documentation relating to calculation of the earn-out consideration, and demands payment of damages on the grounds that substantially all of the remaining contingently issuable earn-out shares should have been paid. The Company believes the claims are without merit, intends to vigorously defend against this lawsuit, and does not currently expect that the calculation of the total shares issued will differ significantly from the amount issued to date.

On May 15, 2009, the Company filed a complaint in the United States District Court for the Southern District of New York against InstantService, Inc. ("InstantService") asserting claims that InstantService infringes the U.S. Patent Nos. 6,519,628 and 7,526,439 owned by the Company. The Company is seeking damages for infringement and an injunction against future infringement of its patents. On June 2, 2009, the Company filed a first amended complaint

seeking a declaratory judgment that a patent purportedly owned by InstantService, U.S. Patent No. 6,915,336, is invalid and not infringed by the Company's products. On July 10, 2009, InstantService filed a motion to dismiss one of four causes of action. A hearing on the motion was held on March 22, 2010 at which the Court denied InstantService's motion to dismiss. InstantService filed an answer to the Company's first amended complaint on April 5, 2010, and asserted counterclaims against the Company. On April 29, 2010, the Company filed its reply to InstantService's counterclaims. This case is in the early stages and discovery is ongoing. The Company intends to vigorously pursue its claims and to vigorously defend against InstantService's counterclaims.



The Company is not currently party to any other legal proceedings. From time to time, the Company may be subject to various claims and legal actions arising in the ordinary course of business.

(7) SUBSEQUENT EVENT

On April 13, 2010, the Company acquired all of the outstanding shares of NuConomy Ltd., an Israeli-based, development-stage company focused on web analytics, in exchange for aggregate consideration of \$800 cash.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

GENERAL

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. We base these estimates on our historical experience, future expectations and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for our judgments that may not be readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates and assumptions relate to estimates of the carrying amount of goodwill, intangibles, stock based-compensation, valuation allowances for deferred income taxes, accounts receivable, the expected term of a client relationship, accruals and other factors. We evaluate these estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions, and any differences could be material.

Overview

LivePerson provides online engagement solutions that facilitate real-time assistance and expert advice. Connecting businesses and independent experts with individual consumers seeking help on the Web, our hosted software platform creates more relevant, compelling and personalized online experiences. We were incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998.

We are organized into two operating segments. The Business segment facilitates real-time online interactions — chat, voice/click-to-call, email and self-service/knowledgebase for global corporations of all sizes. The Consumer segment facilitates online transactions between independent experts and individual consumers.

In order to sustain growth in these segments, our strategy is to expand our position as the leading provider of online engagement solutions that facilitate real-time assistance and expert advice. To accomplish this, we are focused on the following current initiatives:

- Upgrading our technology. We are increasing the level of automation used to deploy our services within the business segment enabling faster, more efficient deployment and expansion. We are also investing in data reporting tools that will enable our customers to analyze their online businesses at a more detailed level and with greater reporting flexibility. We are implementing a new billing platform for the consumer segment that will allow greater fee structure flexibility in how we charge consumers.

- Expanding our international presence. We are increasing our investment in large international markets primarily in Western Europe where we can leverage our brand recognition and potentially expand our client base.

- Reorganizing and expanding our sales organization to improve operating efficiencies. We recently restructured our sales force with a single head of sales to leverage symmetries between our direct sales force and the sales force for small and mid-sized businesses (“SMB”). In addition, we created a middle-market sales team to target companies that have growing contact centers and moderate website traffic. With a targeted product offering and dedicated sales team, we can more effectively serve this area of the market.

## FIRST QUARTER 2010

Highlights of the first quarter 2010 compared to the first quarter 2009 are as follows:

- Revenue increased 27% to \$25.3 million from \$19.9 million.
- Gross profit margin decreased to 74% from 78%.
- Operating expenses increased to \$21.8 million from \$17.3 million.
- Net income increased 68% to \$2.1 million from \$1.3 million.

The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating the reported consolidated financial results include the following:

## REVENUE RECOGNITION

The majority of our revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Because we provide our application as a service, we follow the provisions of ASC 605-10-S99, “Revenue Recognition” and 605-25, “Revenue Recognition with Multiple-Element Arrangements.” We charge a monthly fee, which varies by service and client usage. The majority of our larger clients also pay a professional services fee related to implementation. We defer these implementation fees and associated direct costs and recognize them ratably over the expected term of the client relationship upon commencement of the hosting services. We may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services.

We also sell certain of the LivePerson services directly via Internet download. These services are marketed as LivePerson Pro and LivePerson Contact Center for small and mid-sized businesses (“SMBs”), and are paid for almost exclusively by credit card. Credit card payments accelerate cash flow and reduce our collection risk, subject to the merchant bank’s right to hold back cash pending settlement of the transactions. Sales of LivePerson Pro and LivePerson Contact Center may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales.

We recognize monthly service revenue based upon the fee charged for the LivePerson services, provided that there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable. Our service agreements typically have twelve month terms and are terminable or may terminate upon 30 to 90 days’ notice without penalty. When professional service fees provide added value to the customer on a standalone basis, we recognize professional service fees upon completion and customer acceptance because we have established objective and reliable evidence of the fair value of the undelivered hosting services. If a professional services arrangement does not qualify for separate accounting, we recognize the fees, and the related labor costs, ratably over a period of 48 months, representing our current estimate of the term of the client relationship.

For revenue generated from online transactions between Experts and Users, we recognize revenue net of expert fees in accordance with ASC 605-45, "Principal Agent Considerations," due to the fact that we perform as an agent without risk of loss for collection. We collect a fee from the consumer and retain a portion of the fee, and then remit the balance to the expert. Revenue from these transactions is recognized when there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable.

## STOCK-BASED COMPENSATION

We follow ASC 718-10, "Stock Compensation," which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. ASC 718-10 is a revision to SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. ASC 718-10 requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized.

We adopted ASC 718-10 using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of our fiscal year. Our Consolidated Financial Statements as of and for the years ended December 31, 2009, 2008, 2007 and 2006 reflect the impact of ASC 718-10. In accordance with the modified prospective transition method, our Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of ASC 718-10.

ASC 718-10 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Consolidated Statements of Income. Stock-based compensation recognized in our Consolidated Statement of Income for the periods ended March 31, 2010 and 2009 includes compensation expense for share-based awards granted prior to, but not fully vested as of January 1, 2006 based on the grant date fair value estimated in accordance with ASC 718-10 as well as compensation expense for share-based awards granted subsequent to January 1, 2006 in accordance with ASC 718-10. We currently use the Black-Scholes option pricing model to determine grant date fair value.

As of March 31, 2010, there was approximately \$8.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 2.0 years.

## ACCOUNTS RECEIVABLE

Our customers are located primarily in the United States. We perform ongoing credit evaluations of our customers' financial condition (except for customers who purchase the LivePerson services by credit card via Internet download) and have established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information that we believe to be reasonable, although they may change in the future. If there is a deterioration of a customer's credit worthiness or actual write-offs are higher than our historical experience, our estimates of recoverability for these receivables could be adversely affected. Our concentration of credit risk is limited due to our large number of customers. No single customer accounted for or exceeded 10% of our total revenue in the three months ended March 31, 2010 and 2009. One customer accounted for approximately 19% of accounts receivable as of March 31, 2010. One customer accounted for approximately 12% of accounts receivable at December 31, 2009. There was no change in our allowance for doubtful accounts in the three months ended March 31, 2010.

## GOODWILL

In accordance with ASC 350-10, "Goodwill and Other Intangible Assets," goodwill and indefinite-lived intangible assets are not amortized, but reviewed for impairment upon the occurrence of events or changes in circumstances that would reduce the fair value below its carrying amount. Goodwill is required to be tested for impairment at least

annually. Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. To assist in the process of determining goodwill impairment, we will obtain appraisals from an independent valuation firm. In addition to the use of an independent valuation firm, we will perform internal valuation analyses and consider other market information that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables.

## IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with ASC 360-10, “Accounting for the Impairment or Disposal of Long-lived Assets,” long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying value or the fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

## USE OF ESTIMATES

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of goodwill, intangibles, stock-based compensation, valuation allowances for deferred income tax assets, accounts receivable, the expected term of a client relationship, accruals and other factors. Actual results could differ from those estimates.

## RECENTLY ISSUED FASB ACCOUNTING STANDARDS UPDATES

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and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. FASB Accounting Standards Update 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. We are currently assessing the impact of this update on our consolidated financial statements.

## REVENUE

The majority of our revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. We charge a monthly fee, which varies by service and client usage. The majority of our larger clients also pay a professional services fee related to implementation. A large proportion of our revenue from new clients comes from large corporations. These companies typically have more significant implementation requirements and more stringent data security standards. Such clients also have more sophisticated data analysis and performance reporting requirements, and are likely to engage our professional services organization to provide such analysis and reporting on a recurring basis.



Revenue from our Business segment accounted for 86% and 87% of total revenue for the three months ended March 31, 2010 and 2009, respectively. Revenue attributable to our monthly hosted Business services accounted for 96% of total Business revenue for the three months ended March 31, 2010 and 2009. Our service agreements typically have twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days' notice without penalty. Given the time required to schedule training for our clients' operators and our clients' resource constraints, we have historically experienced a lag between signing a client contract and recognizing revenue from that client. This lag has recently ranged from 30 to 90 days.

Revenue from our Consumer segment is generated from online transactions between Experts and Users and is recognized net of expert fees and accounted for approximately 14% and 13% of total revenue for the three months ended March 31, 2010 and 2009, respectively.

We also have entered into contractual arrangements that complement our direct sales force and online sales efforts. These are primarily with Web hosting and call center service companies, pursuant to which LivePerson is paid a commission based on revenue generated by these service companies from our referrals. To date, revenue from such commissions has not been material.

#### OPERATING EXPENSES

Our cost of revenue consists of:

- compensation costs relating to employees who provide customer support and implementation services to our clients;
  - compensation costs relating to our network support staff;
  - depreciation of certain hardware and software;
  - allocated occupancy costs and related overhead;
- the cost of supporting our infrastructure, including expenses related to server leases, infrastructure support costs and Internet connectivity;
- the credit card fees and related payment processing costs associated with the consumer and SMB services; and
  - amortization of certain intangibles.

Our product development expenses consist primarily of compensation and related expenses for product development personnel, allocated occupancy costs and related overhead, outsourced labor and expenses for testing new versions of our software. Product development expenses are charged to operations as incurred.

Our sales and marketing expenses consist of compensation and related expenses for sales personnel and marketing personnel, online marketing, allocated occupancy costs and related overhead, advertising, sales commissions, public relations, promotional materials, travel expenses and trade show exhibit expenses.

Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, legal and human resources personnel, allocated occupancy costs and related overhead, professional fees, provision for doubtful accounts and other general corporate expenses.



During the three months ended March 31, 2010, we did not increase our allowance for doubtful accounts. During 2009, we increased our allowance for doubtful accounts by \$68,000 to approximately \$408,000, principally due to an increase in accounts receivable as a result of increased sales and to the fact that a larger proportion of receivables are due from larger corporate clients that typically have longer payment cycles, and we wrote off approximately \$13,000 of previously reserved accounts, leaving a net allowance for doubtful accounts of \$395,000. We base our allowance for doubtful accounts on specifically identified credit risks of customers, historical trends and other information that we believe to be reasonable. We adjust our allowance for doubtful accounts when accounts previously reserved have been collected.

#### NON-CASH COMPENSATION EXPENSE

The net non-cash compensation amounts for the three months ended March 31, 2010 and 2009 consist of:

	Three Months Ended March 31,	
	2010	2009
Stock-based compensation expense related to ASC 718-10	\$ 1,087	\$ 1,161
Total	\$ 1,087	\$ 1,161

#### RESULTS OF OPERATIONS

The Company is organized into two operating segments. The Business segment facilitates real-time online interactions — chat, voice/click-to-call, email and self-service/knowledgebase for global corporations of all sizes. The Consumer segment facilitates online transactions between independent experts and individual users.

#### COMPARISON OF THREE MONTHS ENDED MARCH 31, 2010 AND 2009

**Revenue - Business.** Revenue increased by 26% to \$21.8 million in the three months ended March 31, 2010, from \$17.4 million in the comparable period in 2009. This increase is primarily attributable to increased revenue from existing clients in the amount of approximately \$2.4 million and, to a lesser extent, to revenue from new clients in the amount of approximately \$1.7 million, net of cancellations and to professional services revenue of approximately \$262,000. Our revenue growth has traditionally been driven by a mix of revenue from both newly added clients and expansion from existing clients.

**Revenue – Consumer.** Revenue increased by 37% to \$3.5 million in the three months ended March 31, 2010, from \$2.5 million in the comparable period in 2009. The increase is primarily attributable to an increase in gross revenue as a result of higher rates charged by experts.

**Cost of Revenue - Business.** Cost of revenue consists of compensation costs relating to employees who provide customer service to our clients, compensation costs relating to our network support staff, the cost of supporting our server and network infrastructure, and allocated occupancy costs and related overhead. Cost of revenue increased by 66% to \$5.7 million in the three months ended March 31, 2010, from \$3.4 million in the comparable period in 2009. This increase is primarily attributable to costs related to additional account management and network operations personnel and to increased compensation costs for existing personnel as a result of the U.S. dollar depreciating against the New Israeli Shekel, in the amount of approximately \$1.3 million and to increased expenses for primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$933,000 as a result of increased revenue.

Cost of Revenue - Consumer. Cost of revenue consists of compensation costs relating to employees who provide customer service to Experts and Users, compensation costs relating to our network support staff, the cost of supporting our server and network infrastructure, credit card and transaction processing fees and related costs, and allocated occupancy costs and related overhead. Cost of revenue increased by 10% to \$948,000 in the three months ended March 31, 2010, from \$859,000 in the comparable period in 2009. The increase is primarily attributable to an increase in credit card and transaction processing fees of approximately \$45,000, an increase in costs related to additional customer service and network support personnel of approximately \$26,000 and costs of supporting our server and network infrastructure in the amount of approximately \$16,000.

**Product Development.** Our product development expenses consist primarily of compensation and related expenses for product development personnel as well as allocated occupancy costs and related overhead. Product development costs increased by 34% to \$3.6 million in the three months ended March 31, 2010, from \$2.7 million in the comparable period in 2009. This increase is primarily attributable to an increase in compensation costs related to product development personnel in the amount of approximately \$756,000 and allocated occupancy costs and related overhead in the amount of approximately \$103,000.

**Sales and Marketing – Business.** Our sales and marketing expenses consist of compensation and related expenses for sales and marketing personnel, as well as advertising, public relations and trade show exhibit expenses. Sales and marketing expenses increased by 23% to \$6.0 million in the three months ended March 31, 2010, from \$4.9 million in the comparable period in 2009. This increase is primarily attributable to an increase in costs related to additional sales and marketing personnel of approximately \$1.1 million. This increase relates to our continued efforts to enhance our brand recognition and increase sales lead activity.

**Sales and Marketing — Consumer.** Our sales and marketing expenses consist of compensation and related expenses for marketing personnel, as well as online promotion, public relations and trade show exhibit expenses. Sales and marketing expenses increased by 4% to \$1.7 million in the three months ended March 31, 2010, from \$1.6 million in the comparable period in 2009. This increase is due primarily to an increase in spending related to online promotion of approximately \$125,000, partially offset by a decrease in compensation and related expenses for sales and marketing personnel of approximately \$58,000. This increase relates to our continued efforts to enhance our brand recognition and increase sales lead activity.

**General and Administrative.** Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, legal, human resources and administrative personnel. General and administrative expenses increased by 8% to \$3.8 million in the three months ended March 31, 2010, from \$3.5 million in the comparable period in 2009. This increase is primarily attributable to increases in recruiting and other professional fees of approximately \$276,000.

**Amortization of Intangibles.** Amortization expense was \$83,000 and \$272,000 in the three months ended March 31, 2010 and 2009, respectively and relates primarily to acquisition costs recorded as a result of our acquisition of Kasamba in October 2007 and Proficient in July 2006. This decrease is attributable to the fact that the intangible assets related to the Proficient acquisition were fully amortized in 2009. Additional amortization expense in the amount of \$306 and \$307 is included in cost of revenue for the three months ended March 31, 2010 and 2009, respectively. Amortization expense is expected to be approximately \$1.5 million in the year ended December 31, 2010.

**Other (Expense) Income.** Financial expense was \$49,000 and \$119,000 in the three months ended March 31, 2010 and 2009, respectively, and relates to unfavorable currency rate movements related to our Israeli operations. Interest income was \$23,000 and \$34,000 in the three months ended March 31, 2010 and 2009, respectively, and consists of interest earned on cash and cash equivalents generated by the receipt of proceeds from our initial public offering in 2000 and preferred stock issuances in 2000 and 1999 and, to a lesser extent, cash provided by operating activities. This decrease is primarily attributable to decreases in short-term interest rates.

**Provision for Income Taxes.** Our effective tax rate was 39% and 50% for the three months ended March 31, 2010 and 2009, respectively, resulting in a provision for income taxes of \$1.3 million for the three months ended March 31, 2010 and 2009.

**Net Income.** We had net income of \$2.1 million and \$1.3 million in the three months ended March 31, 2010 and 2009, respectively. Revenue increased by \$5.4 million, while operating expenses increased by \$4.5 million, contributing to a

net increase in income from operations of approximately \$868,000.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2010, we had approximately \$50.8 million in cash and cash equivalents, an increase of approximately \$5.2 million from December 31, 2009.

Net cash used in operating activities was \$405,000 for the three months ended March 31, 2010 and consisted primarily of net income and non-cash expenses offset by an increase in accounts receivable and a decrease in accounts payable and accrued expenses. Net cash provided by operating activities was \$2.8 million for the three months ended March 31, 2009 and consisted primarily of a net income and non-cash expenses partially offset by an increase in accounts receivable and a decrease in accrued expenses.

Net cash used in investing activities was \$578,000 and \$550,000 in the three months ended March 31, 2010 and 2009, respectively, and was due primarily to the purchase of fixed assets.

Net cash provided by financing activities was \$6.3 million for the three months ended March 31, 2010 and consisted primarily of the proceeds from the issuance of common stock in connection with the exercise of stock options by employees. Net cash provided by financing activities was \$252,000 for the three months ended March 31, 2009 and consisted primarily of the proceeds from the issuance of common stock in connection with the exercise of stock options by employees and the excess tax benefit from the exercise of employee stock options partially offset by the repurchase of common stock.

We have incurred significant expenses to develop our technology and services, to hire employees in our customer service, sales, marketing and administration departments, and for the amortization of intangible assets, as well as non-cash compensation costs. Historically, we incurred significant quarterly net losses from inception through June 30, 2003, significant negative cash flows from operations in our quarterly periods from inception through December 31, 2002 and negative cash flows from operations of \$124,000 in the three month period ended March 31, 2004. As of March 31, 2010, we had an accumulated deficit of approximately \$107.3 million. These losses were funded primarily through the issuance of common stock in our initial public offering and, prior to the initial public offering, the issuance of convertible preferred stock.

We anticipate that our current cash and cash equivalents will be sufficient to satisfy our working capital and capital requirements for at least the next 12 months. However, we cannot assure you that we will not require additional funds prior to such time, and we would then seek to sell additional equity or debt securities through public financings, or seek alternative sources of financing. We cannot assure you that additional funding will be available on favorable terms, when needed, if at all. If we are unable to obtain any necessary additional financing, we may be required to further reduce the scope of our planned sales and marketing and product development efforts, which could materially adversely affect our business, financial condition and operating results. In addition, we may require additional funds in order to fund more rapid expansion, to develop new or enhanced services or products or to invest in complementary businesses, technologies, services or products.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We do not have any special purposes entities, and other than operating leases, which are described below; we do not engage in off-balance sheet financing arrangements.

We lease facilities and certain equipment under agreements accounted for as operating leases. These leases generally require us to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the three months ended March 31, 2010 and 2009 was approximately \$1.4 million and \$1.0 million, respectively.

As of March 31, 2010, our principal commitments were approximately \$17.7 million under various operating leases, of which approximately \$4.4 million is due in 2010. We do not currently expect that our principal commitments for the year ending December 31, 2010 will exceed \$7.0 million in the aggregate. Our capital expenditures are not currently expected to exceed \$7.0 million in 2010.

Our contractual obligations at March 31, 2010 are summarized as follows:

Contractual Obligations	Total	Payments due by period (in thousands)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$ 17,738	\$ 4,375	\$ 7,074	\$ 3,718	\$ 2,571
Total	\$ 17,738	\$ 4,375	\$ 7,074	\$ 3,718	\$ 2,571

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Currency Rate Fluctuations

As a result of the expanded scope of our Israeli operations, our currency rate fluctuation risk associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel (“NIS”) has increased. During the three months ended March 31, 2010, the U.S. dollar depreciated against the NIS which had a negative impact on our results of operations and financial condition when compared to the same period in 2009. During the three month period ended March 31, 2010, expenses generated by our Israeli operations totaled \$8.9 million. We do not currently hedge our foreign currency risk exposure. We actively monitor the movement of the U.S. dollar against the NIS and U.K. pound and have considered the use of financial instruments, including but not limited to derivative financial instruments, which could mitigate such risk. If we determine that our risk of exposure materially exceeds the potential cost of derivative financial instruments, we may in the future enter in to these types of investments. The functional currency of our wholly-owned Israeli subsidiaries, LivePerson Ltd. (formerly HumanClick Ltd.) and Kasamba Ltd., is the U.S. dollar and the functional currency of our operations in the United Kingdom is the U.K. pound.

### Collection Risk

Our accounts receivable are subject, in the normal course of business, to collection risks. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of collection risks. We did not increase our allowance for doubtful accounts in the three months ended March 31, 2010. During 2009, we increased our allowance for doubtful accounts by \$68,000 to approximately \$408,000, principally due to an increase in accounts receivable as a result of increased sales and to the fact that a larger proportion of receivables are due from larger corporate clients that typically have longer payment cycles, and we wrote off approximately \$13,000 of previously reserved accounts, leaving a net allowance for doubtful accounts of \$395,000.





## Interest Rate Risk

Our investments consist of cash and cash equivalents. Therefore, changes in the market's interest rates do not affect in any material respect the value of the investments as recorded by us.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2010 to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2010 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, have been detected.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On July 31, 2007, we were served with a complaint filed in the United States District Court for the Southern District of New York by the Shareholders' Representative of Proficient Systems, Inc. In connection with the July 2006 acquisition of Proficient, we were contingently required to issue up to 2,050,000 shares of common stock based on the terms of an earn-out provision in the merger agreement. In accordance with the terms of the earn-out provision, we issued 1,127,985 shares of LivePerson common stock in the second quarter of 2007 to the former shareholders of Proficient. The complaint filed by the Shareholders' Representative sought certain documentation relating to calculation of the earn-out consideration, and demands payment of damages on the grounds that substantially all of the remaining contingently issuable earn-out shares should have been paid. We believe the claims are without merit, intend to vigorously defend against this lawsuit, and do not currently expect that the calculation of the total shares issued will differ significantly from the amount issued to date.

On May 15, 2009, we filed a complaint in the United States District Court for the Southern District of New York against InstantService, Inc. ("InstantService") asserting claims that InstantService infringes the U.S. Patent Nos. 6,519,628 and 7,526,439 owned by us. We are seeking damages for infringement and an injunction against future infringement of our patents. On June 2, 2009, we filed a first amended complaint seeking a declaratory judgment that a patent purportedly owned by InstantService, U.S. Patent No. 6,915,336, is invalid and not infringed by our products. On July 10, 2009, InstantService filed a motion to dismiss one of four causes of action. A hearing on the motion was held on March 22, 2010 at which the Court denied InstantService's motion to dismiss. InstantService filed an answer to our first amended complaint on April 5, 2010, and asserted counterclaims against us. On April 29, 2010, we filed our reply to InstantService's counterclaims. This case is in the early stages and discovery is ongoing. We intend to vigorously pursue our claims and to vigorously defend against InstantService's counterclaims.

We are not currently party to any other legal proceedings. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

### ITEM 1A. RISK FACTORS

Risks that could have a material and adverse impact on our business, results of operations and financial condition include the following: potential fluctuations in our quarterly and annual results; the adverse effect that the global recession may have on our business; competition in the real-time sales, marketing, customer service and online engagement solutions market; risks related to the operational integration of acquisitions; risks related to new regulatory or other legal requirements that could materially impact our business; risks related to our international operations, particularly our operations in Israel, and the civil and political unrest in that region; impairments to goodwill that result in significant charges to earnings; volatility of the value of certain currencies in relation to the U.S. dollar, particularly the New Israeli Shekel, U.K. pound and Euro; continued use by our clients of the LivePerson services and their purchase of additional services; responding to rapid technological change and changing client preferences; technology systems beyond our control and technology-related defects that could disrupt the LivePerson services; privacy concerns relating to the Internet that could result in new legislation or negative public perception; risks related to the regulation or possible misappropriation of personal information; legal liability and/or negative publicity for the services provided to consumers via our technology platforms; and risks related to protecting our intellectual property rights or potential infringement of the intellectual property rights of third parties. This list is intended to identify only certain of the principal factors that could have a material and adverse impact on our business, results of operations and financial condition. A more detailed description of each of these and other important risk factors can be found under the caption "Risk Factors" in our most recent Annual Report on Form 10-K, filed on March 11, 2010.

There are no material changes to the risk factors described in the Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 5, 2009, our Board of Directors approved an extension of our existing stock repurchase program through March 31, 2010. The program, originally announced in February 2007 and first extended on March 10, 2008, was due to expire March 31, 2009.

Under the stock repurchase program, we were authorized to repurchase shares of our common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by our Board of Directors depending upon prevailing market conditions and other corporate considerations, up to an aggregate purchase price of \$8.0 million. As of March 31, 2010, \$3.9 million remained available for purchases under the program. Our Board of Directors did not extend the program beyond March 31, 2010.

The following table summarizes repurchases of our common stock under our stock repurchase program during the quarter ended March 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Approximate Dollar Value of Shares that	
			Announced Plans or Programs	May Yet Be Purchased Under the Plans or Programs
1/1/2010 – 1/31/2010	—	\$—	—	\$3,946,000
2/1/2010 – 2/28/2010	—	—	—	3,946,000
3/1/2010 – 3/31/2010	—	—	—	3,946,000
Total	—	\$—	—	\$3,946,000

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

- 31.1 Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIVEPERSON, INC.  
(Registrant)

Date: May 10, 2010

By: /s/ ROBERT P. LOCASCIO  
Name: Robert P. LoCascio  
Title: Chief Executive Officer (duly authorized officer)

Date: May 10, 2010

By: /s/ TIMOTHY E. BIXBY  
Name: Timothy E. Bixby  
Title: President and Chief Financial Officer  
(principal financial and accounting officer)

EXHIBIT INDEX

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