LIVEPERSON INC
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2007

or

o 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: 0-30141

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

DELAWARE	**13-3861628**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
462 SEVENTH AVENUE NEW YORK, NEW YORK	**10018**
(Address of Principal Executive Offices)	(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 x No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of November 1, 2007, there were 47,333,765 shares of the issuer's common stock outstanding.

LIVEPERSON, INC.
SEPTEMBER 30, 2007
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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. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

LIVEPERSON, INC.

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

	September 30, 2007 (Unaudited)	December 31, 2006 (Note 1(B))
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,164	$ 21,729
Accounts receivable, net of allowances for doubtful accounts of $179 and $105 as of September 30, 2007 and December 31, 2006, respectively	5,790	4,269
Prepaid expenses and other current assets	1,290	1,317
Deferred tax assets, net	75	—
Total current assets	37,319	27,315
Property and equipment, net	1,153	1,124
Prepaid acquisition costs	650	—
Intangibles, net	1,662	2,640
Goodwill	18,653	9,673
Deferred tax assets, net	4,927	1,580
Security deposits	286	299
Other assets	860	684
Total assets	$ 65,510	$ 43,315
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 926	$ 813
Accrued expenses	5,336	3,754
Deferred revenue	4,079	3,256
Deferred tax liabilities, net	—	259
Total current liabilities	10,341	8,082
Other liabilities	860	684
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value per share; 5,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2007 and December 31, 2006	—	—
Common stock, $.001 par value per share; 100,000,000 shares authorized 43,120,239 shares issued and outstanding at September 30, 2007 and 41,078,156 shares issued and outstanding at December 31, 2006	43	41
Additional paid-in capital	150,041	133,693
Accumulated deficit	(95,762)	(99,179)
Accumulated other comprehensive loss	(13)	(6)
Total stockholders' equity	54,309	34,549
Total liabilities and stockholders' equity	$ 65,510	$ 43,315

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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	$ 12,823	$ 8,881	$ 35,453	$ 23,174
Operating expenses:				
Cost of revenue	3,305	2,142	9,199	5,246
Product development	2,169	1,381	6,033	3,280
Sales and marketing	3,556	3,104	10,470	8,605
General and administrative	2,274	1,750	6,353	4,689
Amortization of intangibles	242	447	725	911
Total operating expenses	11,546	8,824	32,780	22,731
Income from operations	1,277	57	2,673	443
Other income:				
Interest income	309	200	744	514
Net income	$ 1,586	$ 257	$ 3,417	$ 957
Basic net income per common share	$ 0.04	$ 0.01	$ 0.08	$ 0.02
Diluted net income per common share	$ 0.03	$ 0.01	$ 0.07	$ 0.02
Weighted average shares outstanding used in basic net income per common share calculation	43,080,475	40,547,309	42,469,631	39,242,174
Weighted average shares outstanding used in diluted net income per common share calculation	46,328,876	43,854,202	45,942,436	42,981,377

Net income for the three and nine months ended September 30, 2007 includes stock-based compensation expense related to the adoption of SFAS No. 123(R) in the amount of $930 and $2,642, respectively. Net income for the three and nine months ended September 30, 2006 includes stock-based compensation expense related to the adoption of SFAS No. 123(R) in the amount of and $557 and $1,580, respectively. See note 1(D).

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
UNAUDITED

	Nine Months Ended September 30,	
	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,417	$ 957
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	2,642	1,580
Depreciation	585	340
Loss on disposal of fixed assets	—	111
Amortization of intangibles	978	911
Deferred taxes	(3,521)	—
Provision for doubtful accounts, net	74	30
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Accounts receivable	(1,595)	(1,646)
Prepaid expenses and other current assets	27	(349)
Security deposits	13	(37)
Accounts payable	90	15
Accrued expenses	1,048	(235)
Deferred revenue	823	541
Net cash provided by operating activities	4,581	2,218
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, including capitalized software	(614)	(434)
Prepaid acquisition costs	(122)	—
Acquisition of Proficient	(218)	382
Acquisition of intangible asset	—	(233)
Net cash used in investing activities	(954)	(285)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Excess tax benefit from the exercise of employee stock options	3,302	—
Proceeds from issuance of common stock in connection with the exercise of options	1,513	745
Net cash provided by financing activities	4,815	745
Effect of foreign exchange rate changes on cash and cash equivalents	(7)	(9)
Net increase in cash and cash equivalents	8,435	2,669
Cash and cash equivalents at the beginning of the period	21,729	17,117
Cash and cash equivalents at the end of the period	$ 30,164	$ 19,786

Supplemental disclosure of non-cash investing activities:

During the nine months ended September 30, 2007, the Company incurred approximately $650 of acquisition costs related to its acquisition of Kasamba, Inc., of this amount, $527 is included in accrued expenses at September 30,

2007.

During the nine months ended September 30, 2007, the Company issued 1,129,571 shares of common stock, valued at $8,901, in connection with the acquisition of Proficient Systems, Inc. on July 18, 2006.

During the nine months ended September 30, 2007, the Company reduced the amount of accrued restructuring costs related to the Proficient acquisition in the amount of approximately $130, net.

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 helps to maximize the business impact of the online channel as a provider of hosted software that enables customers to proactively assist their online visitors. The Company's proprietary tools and methodology have been proven to increase sales, customer satisfaction and loyalty while reducing customer service costs.

The Company's fully-integrated multi-channel communications platform, Timpani, facilitates real-time sales, marketing and customer service. The Company's technology supports and manages key online interactions — via chat, voice, email and self-service/knowledgebase — in a cost-effective and secure environment.

The Company's primary revenue source is from the sale of the LivePerson services under the brand names Timpani and LivePerson, which is conducted within one operating segment. 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 satellite sales offices in Atlanta and the United Kingdom.

(B) UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 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 September 30, 2007, and the consolidated results of operations and cash flows for the interim periods ended September 30, 2007 and 2006. 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, 2006 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, 2006, included in the Company's Annual Report on Form 10-K filed with the SEC on March 19, 2007.

(C) REVENUE RECOGNITION

Because the Company provides its application as a service, the Company follows the provisions of SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". 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 may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services.

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 are terminable upon 30 to 90 days' notice without penalty. When professional service fees provide added value to the customer on a standalone basis and there is objective and reliable evidence of the fair value of each deliverable, the Company recognizes professional service fees upon completion and customer acceptance of key milestones within each of the professional services engagements. 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 36 months, representing the Company's current estimate of the term of the client relationship.

(D) STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," 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. SFAS No. 123(R) 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. SFAS No. 123(R) 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.

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year. The Company's Consolidated Financial Statements as of and for the three and nine months ended September 30, 2007 and 2006 reflect the impact of SFAS No. 123(R). In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

SFAS No. 123(R) 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 and nine months ended September 30, 2007 and 2006 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 SFAS No. 123 as well as compensation expense for share-based awards granted subsequent to January 1, 2006 in accordance with SFAS No. 123(R). 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 SFAS No. 123(R) included in Company's Statement of Income for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of revenue	$ 105	$ 78	$ 314	$ 161
Product development expense	317	142	858	372
Sales and marketing expense	245	197	749	492
General and administrative expense	263	140	721	555
Total stock based compensation included in operating expenses	$ 930	$ 557	$ 2,642	$ 1,580

The per share weighted average fair value of stock options granted during the three months ended September 30, 2007 was $3.28. 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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.8%-5.3%	4.8%	4.7%-5.3%	4.8%
Expected life (in years)	4.2	4.0	4.2	4.0
Historical volatility	73.0%-73.4%	78.0%	73.0%-75.7%	78.0%-80.0%

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

	Options	Weighted Average Exercise Price
Options outstanding at December 31, 2006	8,015,504	$ 2.78
Options granted	2,301,100	$ 5.97
Options exercised	(847,598)	$ 1.73
Options cancelled	(488,950)	$ 5.30
Options outstanding September 30, 2007	8,980,056	$ 3.55
Options exercisable at September 30, 2007	4,722,083	$ 2.34

The total intrinsic value of stock options exercised during the nine month period ended September 30, 2007 was approximately $4,492. The total intrinsic value of options exercisable at September 30, 2007 was approximately $18,303. The total intrinsic value of options expected to vest is approximately $5,640.

A summary of the status of the Company's nonvested shares as of December 31, 2006, and changes during the nine months ended September 30, 2007 is as follows:

	Shares	Weighted Average Grant-

		Date Fair Value
Nonvested Shares at January 1, 2007	3,260,750	$ 3.81
Granted	2,301,100	$ 3.61
Vested	(846,366)	$ 2.34
Cancelled	(457,511)	$ 3.20
Nonvested Shares at September 30, 2007	4,257,973	$ 3.07

As of September 30, 2007, there was $9,895 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 2.4 years.

(E) BASIC AND DILUTED NET INCOME PER SHARE

The Company calculates earnings per share in accordance with the provisions of SFAS No. 128, “Earnings Per Share (“EPS”),” and the guidance of the SEC Staff Accounting Bulletin No. 98. Under SFAS No. 128, 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 and nine months ended September 30, 2007 includes the effect of options to purchase 5,339,331 and 5,772,956 shares, respectively, of common stock with a weighted average exercise price of $2.05 and $2.22, respectively, and warrants to purchase 121,750 shares of common stock with a weighted average exercise price of $2.01. Diluted net income per common share for the three and nine months ended September 30, 2007 does not include the effect of options to purchase 3,640,725 and 3,207,100 shares, respectively, of common stock. Diluted net income per common share for the three and nine months ended September 30, 2006 includes the effect of options to purchase 6,119,046 and 6,239,046 shares, respectively, of common stock with a weighted average exercise price of $1.86 and $1.90, respectively, and warrants to purchase 188,250 shares of common stock with a weighted average exercise price of $1.56. Diluted net income per common share for the three and nine months ended September 30, 2006 does not include the effect of options to purchase 2,008,125 and 1,888,125 shares, respectively, of common stock.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Basic	43,080,475	40,547,309	42,469,631	39,242,174
Effect of assumed exercised options/warrants	3,248,401	3,306,893	3,472,805	3,739,203
Diluted	46,328,876	43,854,202	45,942,436	42,981,377

(F) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows entities the option to measure at fair value eligible financial instruments that are not currently measured at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 159 will have a material effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 will have a material

effect on the Company’s consolidated financial statements.

In July 2006, FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109,” was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN No. 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted FIN No. 48 on January 1, 2007 and as of that date, believes that there are no uncertain tax positions that fail to meet the more likely than not recognition threshold under FIN No. 48. The Company includes interest accrued on the underpayment of income taxes in interest expense and penalties, if any, related to unrecognized tax benefits in general and administrative expenses.

The Company files a consolidated U.S. federal income tax return as well as income tax returns in several state jurisdictions, of which New York is the most significant. The statute of limitations has expired for tax years prior to 2003. In 2006, the Internal Revenue Service completed an examination of the Company's federal returns for the 2004 taxable year.

(2) BALANCE SHEET COMPONENTS

Property and equipment is summarized as follows:

	September 30, 2007 (Unaudited)	December 31, 2006
Computer equipment and software	$ 3,326	$ 2,794
Furniture, equipment and building improvements	459	393
	3,785	3,187
Less accumulated depreciation	2,632	2,063
Total	$ 1,153	$ 1,124

Accrued expenses consist of the following:

	September 30, 2007 (Unaudited)	December 31, 2006
Employee compensation and related costs	$ 3,040	$ 2,455
Professional services and other vendor fees	1,455	432
Foreign income taxes	217	—
Sales commissions	277	440
Restructuring (see note 3)	93	317
Rent	88	53
Other	166	57
Total	$ 5,336	$ 3,754

(3) ASSET ACQUISITIONS

Base Europe

On June 30, 2006, the Company acquired the customer list of Base Europe, a former reseller of its services. The purchase price was $233. The agreement gives the Company the exclusive right to exploit a specific list of deal referrals from Base Europe. The entire purchase price is being amortized ratably over a period of 24 months. The net acquisition costs of $87 and $175 are included in "Assets - Intangibles, net" on the Company's September 30, 2007 and December 31, 2006 balance sheets, respectively.

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 purchase price was $10,445, which included the issuance of 1,960,711 shares of the Company's common stock valued at $9,929, based on the quoted market price of the Company's common stock for the three days before and after the date of the announcement, a cash payment of $3 and acquisition costs of approximately $513. The acquisition added several U.K. based financial services clients and provided an innovative product marketing team. All 1,960,711 shares are included in the weighted average shares outstanding used in basic and diluted net income per common share as of the acquisition date. Of the total purchase price, $413 was allocated to the net book values of the acquired assets and assumed liabilities. The historical carrying amounts of such assets and liabilities approximated their fair values. The purchase price in excess of the fair value of the net book values of the acquired assets and assumed liabilities was allocated to goodwill and intangible assets. The intangible assets are being amortized over their expected period of benefit. During the nine months ended September 30, 2007, the Company reduced accrued severance costs in the amount of $122 and reduced accrued restructuring costs related to contract terminations in the net amount of $7. The Company incurred additional costs in the amount of $195, resulting in a net increase in goodwill of approximately $66 in the nine months ended September 30, 2007.

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 1,129,571 shares of common stock valued at $8,901, 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 $13 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 1,129,571 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 seeks certain documentation relating to calculation of the earn-out consideration, and seeks payment of substantially all of the remaining contingently issuable earn-out shares. The Company believes the claims are without merit, intends to vigorously defend against this lawsuit, and does not currently expect that the total shares issued will differ significantly from the amount issued to date.

The Company has initiated a restructuring plan to eliminate redundant facilities, personnel and service providers in connection with the Proficient acquisition. These costs were recognized as liabilities in connection with the acquisition and have been recorded as an increase in goodwill as of the acquisition date.

The balance of the accrued restructuring liability as of September 30, 2007 is as follows:

	Balance as of January 1, 2007	Provision for the nine months ended September 30, 2007	Net utilization during the nine months ended September 30, 2007	Balance as of September 30, 2007
Severance	$ 168	$ —	$ (168)	$ —
Contract terminations	149	67	(123)	93
Total	$ 317	$ 67	$ (291)	$ 93

Included in the net utilization of $291 during the nine months ended September 30, 2007 is a reduction in accrued contract terminations and accrued severance in the amounts of approximately $102 and $95 respectively.

The balance of the accrued restructuring liability as of December 31, 2006 is as follows:

	Balance as of January 1, 2006	Provision for the year ended December 31, 2006	Net utilization during the year ended December 31, 2006	Balance as of December 31, 2006
Severance	$ —	$ 741	$ (573)	$ 168
Contract terminations	—	170	(21)	149
Total	$ —	$ 911	$ (594)	$ 317

The components of the intangible assets are as follows:

	Weighted Average Useful Life (months)	Amount
Customer relationships	36	$ 2,400
Technology	18	500
Non-compete agreements	24	100
		$ 3,000

The net intangible asset of $1,575 and $2,465 are included in “Assets - Intangibles, net” on the Company’s September 30, 2007 and December 31, 2006 balance sheets, respectively.

(4) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are expected to become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company's use of its federal net operating loss ("NOL") carryforwards may be limited if the Company has experienced an ownership change, as defined in Section 382. The Company completed its previously disclosed Section 382 analysis during 2004 and determined that an ownership change had occurred as of December 7, 2001. As a result, there is a material limitation on the Company's use of its federal NOL carryforwards. As of December 31, 2006 and 2005, the Company had approximately $8,169 and $7,955, respectively, of federal NOL carryforwards available to offset future taxable income after considering the Section 382 limitation. In addition, as a result of the acquisition of Proficient Systems, Inc. in 2006, the Company has added an additional $21,343 of federal NOL. These NOL carryforwards are also subject to Section 382 limitation. The Company has not yet performed a Section 382 analysis for Proficient to determine the limitations on the NOL as a result of the ownership change. These carryforwards expire in various years through 2023.

In order to fully realize the deferred tax assets, inclusive of the NOL acquired in the Proficient acquisition, the Company will need to generate future taxable income of approximately $22,000 prior to 2023. If the entire deferred tax asset at December 31, 2006 is realized, approximately $2,703 will be allocated to Additional paid-in capital and approximately $8,964 will be allocated to Goodwill with the remainder reducing income tax expense. At December 31, 2006, based on a three-year forecast, management determined that it is more likely than not that the Company would realize a portion of the benefits of these deductible differences. Accordingly, the Company reduced its valuation allowance and recorded a deferred tax benefit in the amount of $2,356 for the year ended December 31, 2006. In addition, excess tax deductions resulting from stock option exercises reduced the Company's taxes payable by $2,042 in 2006. The related tax benefit has been recorded as an increase in Additional paid-in capital. At March 31, 2007, June 30, 2007, and September 30, 2007 management determined that it is more likely than not that the Company would realize an additional portion of the benefits of these deductible differences and further reduced its valuation allowance and recorded a deferred tax benefit in the amount of $905, $931 and $1,473, respectively, resulting in net income tax expense of $0 for the three and nine months ended September 30, 2007. Management will continue to assess the remaining valuation allowance. To the extent it is determined that the valuation allowance is no longer required with respect to certain deferred tax assets, the tax benefit, if any, of such deferred tax assets will be recognized in the future.

(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 and nine months ended September 30, 2007 was approximately $390 and $1,165, respectively. Rental expense for operating leases for the three and nine months ended September 30, 2006 was approximately $306 and $665, respectively.

(6) LEGAL MATTERS

In May 2006, a former employee filed a complaint in the Supreme Court of New York State against the Company and two of its executive officers containing claims related to improper termination of employment. The claim seeks damages of approximately $50,000. The Company believes the claims are without merit, and intends to vigorously defend against such claims. However, the Company cannot assure you that its defenses will be successful and, if they are not, that its ultimate liability in connection with these claims will not have a material adverse effect on its results of operations, financial condition or cash flows. The Company has not accrued for this contingency as of December 31, 2006 or September 30, 2007, because the amount of loss, if any, cannot be reasonably estimated at this time. The Company carries appropriate levels of insurance for employment related claims but cannot guarantee that any damages arising from this claim will be covered by this policy.

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. ("Proficient"). 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 1,129,571 shares in the second quarter of 2007 to the shareholders of Proficient. The complaint filed by the Shareholders' Representative seeks certain documentation relating to calculation of the earn-out consideration, and seeks payment of substantially all of the remaining contingently issuable earn-out shares. The Company believes the claims are without merit, intends to vigorously defend against this lawsuit, and does not currently expect that the total shares issued will differ significantly from the amount issued to date.

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 October 3, 2007, the Company completed its acquisition of Kasamba, Inc. (“Kasamba”), pursuant to a definitive Agreement and Plan of Merger. The Company acquired all of Kasamba’s outstanding capital stock from Kasamba’s shareholders in exchange for an aggregate consideration of $9,000 in cash and 4,130,776 shares of LivePerson common stock issued at the closing of the transaction, subject to certain adjustments. The Company will also assume outstanding options to purchase approximately 623,825 shares of common stock as part of the transaction.

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 unaudited condensed 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 collectibility of 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.

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

LivePerson is a provider of online conversion solutions. Our hosted software enables companies to identify and proactively engage online visitors—increasing sales, satisfaction and loyalty while reducing service costs.

LivePerson's fully-integrated multi-channel communications platform, Timpani, facilitates real-time sales, marketing and customer service. Our technology supports and manages key online interactions—via chat, voice, email and self-service/knowledgebase — in a cost-effective and secure environment.

Because we provide our application as a service, we follow the provisions of SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." We charge a monthly fee, which varies by service and client usage. The majority of our larger clients also pay us a professional services fee related to implementation. We may also charge professional service fees related to additional training, business consulting and analysis in support of the LivePerson services. The proportion of our new clients that are large corporations is increasing. These companies typically have more significant implementation requirements and more stringent data security standards. As a result, our professional services revenue has begun to increase. Such clients also have more sophisticated data analysis and performance reporting requirements, and are more likely to engage our professional services organization to provide such analysis and reporting on a recurring basis. As a result, it is likely that a greater proportion of our future revenue will be generated from such ongoing professional services work.

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 upon 30 to 90 days' notice without penalty. When professional service fees provide added value to the customer on a standalone basis and there is objective and reliable evidence of the fair value of each deliverable, the Company recognizes professional service fees upon completion and customer acceptance of key milestones within each professional services engagement. 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 36 months, representing the Company's current estimate of the term of the client relationship.

STOCK-BASED COMPENSATION

On January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," 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. SFAS No. 123(R) 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. SFAS No. 123(R) 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 SFAS No. 123(R) 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 three and nine months ended September 30, 2007 and 2006 reflect the impact of SFAS No. 123(R). 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 SFAS No. 123(R).

SFAS No. 123(R) 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 three and nine months ended September 30, 2007 and 2006 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 SFAS No. 123 as well as compensation expense for share-based awards granted subsequent to January 1, 2006 in accordance with SFAS No. 123(R). We currently use the Black-Scholes option pricing model to determine grant date fair value.

As of September 30, 2007, there was approximately $9.9 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 2.4 years.

ACCOUNTS RECEIVABLE

Our customers are primarily concentrated 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 the large number of customers. No single customer accounted for or exceeded 10% of our total revenue in the three and nine months ended September 30, 2007 and 2006. One customer accounted for approximately 15% of accounts receivable at September 30, 2007. No single customer accounted for or exceeded 10% of accounts receivable at December 31, 2006. We increased our allowance for doubtful accounts by $74,000 in the nine months ended September 30, 2007. This increase was 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 practices. In addition, the increase was attributed to additional reserves related to two customers.

GOODWILL

In accordance with SFAS No. 142, “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.

As of July 31, 2007, the Company completed a goodwill impairment test by comparing the fair value of goodwill with its carrying value and did not recognize impairment.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS No. 144, “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 generally accepted accounting principles 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 ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 allows entities the option to measure at fair value eligible financial instruments

that are not currently measured at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 159 will have a material effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 will have a material effect on the Company’s consolidated financial statements.

In July 2006, FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109,” was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN No. 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We adopted FIN No. 48 on January 1, 2007 and as of that date, we believe that there are no uncertain tax positions that fail to meet the more likely than not recognition threshold under FIN No. 48. We include interest accrued on the underpayment of income taxes in interest expense and penalties, if any, related to unrecognized tax benefits in general and administrative expenses.

We file a consolidated U.S. federal income tax return as well as income tax returns in several state jurisdictions, of which New York is the most significant. The statute of limitations has expired for tax years prior to 2003. In 2006, the Internal Revenue Service completed an examination of our federal returns for the 2004 taxable year.

OVERVIEW

LivePerson helps to maximize the business impact of the online channel as a provider of hosted software that enables customers to proactively assist their online visitors. Our proprietary tools and methodology have been proven to increase sales, customer satisfaction and loyalty while reducing customer service costs.

Our fully-integrated multi-channel communications platform, Timpani, facilitates real-time sales, marketing and customer service. Our technology supports and manages key online interactions — via chat, voice, email and self-service/knowledgebase — in a cost-effective and secure environment.

We were incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced initially in November 1998.

In July 2002, we acquired all of the existing customer contracts of NewChannel, Inc. and associated rights. The purchase price was based, in part, on projected revenue from each of the former NewChannel clients at the time of their successful conversion to the LivePerson software platform. The total acquisition costs were approximately $1.4 million. The total acquisition cost has been allocated to customer contracts and was amortized ratably over a period of 18 months, representing the then expected term of the client relationships. As of December 31, 2003, the total purchase had been completely amortized.

In December 2003, we acquired certain identifiable assets of Island Data Corporation. The purchase price was based on projected revenue from the acquired customer contracts at the time of their assignment to us. We paid approximately $370,000 in cash, and issued 370,894 shares of our common stock, in connection with the acquisition. The total acquisition costs were approximately $2.1 million. Of the total purchase price, we have allocated approximately $65,000 to non-compete agreements which was amortized over a period of 24 months, representing the terms of the agreements. The remainder of the purchase price has been allocated to customer contracts and was amortized over a period of 36 months, representing our current estimate of the term of the acquired client relationships. As of December 31, 2006, the total purchase had been completely amortized.

In January 2004, we filed a registration statement with the Securities and Exchange Commission to register the resale of up to 500,000 shares of our common stock by Island Data. Our registration of the resale of the shares was required by our agreement with Island Data. The shares registered for resale on the registration statement, but not actually issued to Island Data pursuant to the agreement, were deregistered. We did not receive any proceeds from the sale of

the shares of common stock covered by the Island Data registration statement.

In January 2004, we filed a shelf registration statement with the Securities and Exchange Commission relating to 4,000,000 shares of our common stock that we may issue from time to time. We have no immediate plans to offer or sell any shares under this shelf registration. We presently intend to use the net proceeds from any sale of the registered shares for general corporate purposes and working capital. We would announce the terms of any issuance in a filing with the Securities and Exchange Commission at the time we offer or sell the shares.

In July 2004, we acquired certain identifiable assets of FaceTime Communications, Inc. The transaction transferred certain existing customer contracts of FaceTime to us. The purchase price was based in part on future revenue generated by us from the former FaceTime client base. The total acquisition costs were approximately $394,000. The total acquisition cost was amortized ratably over a period of 24 months, representing our estimate of the term of the acquired client relationships. As of December 31, 2006, the total purchase had been completely amortized.

On June 30, 2006, we acquired the customer list of Base Europe, a former reseller of our services. The purchase price was $233,000. The agreement gives us the exclusive right to exploit a specific list of deal referrals from Base Europe. The entire purchase price will be amortized ratably over a period of 24 months. The net acquisition costs of $87,000 and $175,000 are included in “Assets - Intangibles, net” on our September 30, 2007 and December 31, 2006 balance sheets, respectively.

On July 18, 2006, we acquired Proficient Systems, Inc., a provider of hosted proactive chat solutions that help companies generate revenue on their websites. Under the terms of the agreement, we acquired all of the outstanding capital stock of Proficient in exchange for 2 million shares of LivePerson common stock paid at closing, and up to an additional 2.05 million shares based on the achievement of certain revenue targets as of March 31, 2007. Based on these targets, we issued approximately 1.1 million additional shares valued at $8.9 million. At March 31, 2007, the value of these shares has been allocated to Goodwill and we have included these shares in the weighted average shares outstanding used in basic and diluted net income per share.

In August 2006, we filed a registration statement with the Securities and Exchange Commission that included the registration of the resale of up to 4,050,000 shares of our common stock by the former shareholders of Proficient Systems, Inc. Our registration of the resale of the shares by the Proficient Systems shareholders was required by our agreement with Proficient Systems. The shares registered for resale on the registration statement, but not actually issued to Proficient Systems shareholders pursuant to the agreement, are expected to be deregistered. We will not receive any proceeds from the sale of the shares of common stock covered by the August 2006 registration statement.

On June 25, 2007, we executed a definitive agreement to acquire Kasamba, Inc., a Delaware corporation with operations in Tel Aviv, Israel that provides live expert advice delivered online via real-time chat to consumers. Under the terms of the agreement, we acquired the outstanding common stock of Kasamba and assumed all of its outstanding options for total consideration of approximately $40 million, comprised of $9 million in cash and approximately $31 million in stock. The transaction closed on October 3, 2007.

REVENUE

Our clients pay us 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. The proportion of our new clients that are large corporations is increasing. These companies typically have more significant implementation requirements and more stringent data security standards. As a result, our professional services revenue has begun to increase. Such clients also have more sophisticated data analysis and performance reporting requirements, and are more likely to engage our professional services organization to provide such analysis and reporting on a recurring basis. As a result, it is likely that a greater proportion of our future revenue will be generated from such ongoing professional services work.

Revenue attributable to our monthly service fee accounted for 95% and 96% of total LivePerson services revenue for the three and nine months ended September 30, 2007 respectively, and 97% and 95% of revenue attributable to our monthly service fee in the three and nine months ended September 30, 2006, respectively. We recognize monthly service fees as services are delivered provided 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 upon 30 to 90 days' notice without penalty. Professional service fees consist of additional training and business consulting and analysis provided to customers, both at the initial launch and over the term of the contract. When professional service fees provide added value to the customer on a standalone basis and there is objective reliable evidence of the fair value of each deliverable, we recognize professional service fees upon completion and customer acceptance of key milestones within the professional services engagement. 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 36 months, representing the Company's current estimate of the term of the client relationship. 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 120 days.

We also sell certain of the LivePerson services directly via Internet download. These services are marketed as LivePerson Pro and LivePerson Contact Center for 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 which is typically required for traditional direct sales. We recognize monthly service fees from the sale of LivePerson Pro and LivePerson Contact Center during the month in which services are provided. There is no lag for sales generated via Internet download, because our services are immediately available and fully functional upon download.

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 has principally been associated with the LivePerson services and has consisted of:

- compensation costs relating to employees who provide customer support and implementation services to our clients;
- compensation costs relating to our network support staff;
- allocated occupancy costs and related overhead; and
- the cost of supporting our infrastructure, including expenses related to server leases, infrastructure support costs and Internet connectivity, as well as depreciation of certain hardware and software.

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, allocated occupancy costs and related overhead, advertising, sales commissions, marketing programs, public relations, promotional materials, travel expenses and trade show exhibit expenses.

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

During the nine months ended September 30, 2007, we increased our allowance for doubtful accounts by $74,000 to approximately $179,000, 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 practices. In addition, the increase was attributed to additional reserves related to two customers. During 2006, we increased our allowance for doubtful accounts by $38,000 to approximately $105,000, principally due to an increase in accounts receivable as a result of increased sales. 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 and nine months ended September 30, 2007 and 2006 consist of:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Stock-based compensation expense related to SFAS No. 123(R)	$ 930	$ 557	$ 2,642	$ 1,580
Total	$ 930	$ 557	$ 2,642	$ 1,580

RESULTS OF OPERATIONS

Due to our acquisition of Proficient in July 2006, certain identifiable assets of FaceTime in July 2004, our acquisition of certain identifiable assets of Island Data in December 2003, and our limited operating history, we believe that comparisons of our operating results for the three and nine months ended September 30, 2007 and 2006 with each other, or with those of prior periods, are not meaningful and that our historical operating results should not be relied upon as indicative of future performance.

COMPARISON OF THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Revenue. Total revenue increased by 44% and 53% to $12.8 million and $35.5 million in the three and nine months ended September 30, 2007, respectively, from $8.9 million and $23.2 million in the comparable periods in 2006. This increase is primarily attributable to increased revenue from existing clients in the amount of $2.7 million and $8.4 million and to revenue from new clients of approximately $1.3 million and $4.1 million, respectively. The increase is also attributable to an increase in professional services in the amount of $373,000 and $629,000, respectively.

Cost of Revenue. 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 infrastructure, including expenses related to server leases and Internet connectivity, as well as depreciation of certain hardware and software, and allocated occupancy costs and related overhead. Cost of revenue increased by 54% and 75% to $3.3 million and $9.2 million in the three and nine months ended September 30, 2007, respectively, from $2.1 million and $5.2 in the comparable periods in 2006. This increase is primarily attributable to costs related to increased spending for primary and backup server facilities of approximately $759,000 and $1.7 million, respectively and to additional account management and network operations personnel to support increased client activity from existing clients and the addition of new clients in the amount of approximately $244,000 and $1.3 million, respectively. As a result, our

gross margin in the three and nine months ended September 30, 2007 decreased to 74% and 74%, respectively, as compared to 76% and 77% in the three and nine months ended September 30, 2006, respectively. The proportion of our new clients that are large corporations is increasing. These companies typically have more significant implementation requirements and more stringent data security standards. As a result, we have invested additional resources to support this change in the customer base and in anticipation of a continuation of this trend, which has increased our cost of revenue and decreased our gross margin.

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 57% and 84% to $2.2 million and $6.0 million in the three and nine months ended September 30, 2007, respectively, from $1.4 million and $3.3 million in the comparable periods in 2006. This increase is primarily attributable to costs related to additional product development personnel to support the continuing development of our product line as we broaden the range of services we offer to include a fully integrated, multi-channel software platform and for the nine months ended September 30, 2007, to our acquisition of Proficient in July 2006, in the amount of approximately $343,000 and $1.7 million, respectively. The increase is also attributable to an increase in stock-based compensation associated with the adoption of SFAS No. 123(R) in the amount of $175,000 and $486,000, respectively.

Sales and Marketing. 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 15% and 22% to $3.6 million and $10.5 million in the three and nine months ended September 30, 2007, respectively, from $3.1 million and $8.6 million in the comparable periods in 2006. This increase is primarily attributable to an increase in costs related to additional sales and marketing personnel of approximately $388,000 and $1.7 million, and to a lesser extent, to an increase in stock-based compensation associated with the adoption of SFAS No. 123(R) in the amount of $48,000 and $257,000, respectively. These increases were partially offset by a decrease in professional service fees as the result of our 2006 re-branding efforts in the amount of $45,000 and $169,000, respectively.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related expenses for executive, accounting, human resources and administrative personnel. General and administrative expenses increased by 30% and 35% to $2.3 million and $6.4 million in the three and nine months ended September 30, 2007, respectively, from $1.8 million and $4.7 million in the comparable periods in 2006. This increase is primarily attributable to increases in compensation and related expenses in the amount of $208,000 and $632,000, respectively, and to an increase in professional services and recruitment costs in the amount of $133,000 in the three months ended September 30, 2007. The increase in the nine months ended September 30, 2007 is also related to an increase in rent and occupancy costs related to new leases for our New York and Israeli offices in the amount of $239,000 and to increases in professional services and recruitment costs in the amount of $215,000. These increases are also attributable to an increase in stock-based compensation associated with the adoption of SFAS No. 123(R) in the amount of $122,000 and $166,000, respectively.

Amortization of Intangibles. Amortization expense was $242,000 and $725,000 in the three and nine months ended September 30, 2007 compared to $447,000 and $911,000 in the comparable periods in 2006, respectively. Amortization expense in 2007 relates primarily to acquisition costs recorded as a result of our acquisition of Proficient in July 2006. Amortization expense in 2006 relates to acquisition costs recorded as a result of our acquisition of certain identifiable assets of Island Data, FaceTime, and Proficient in December 2003, July 2004, and July 2006, respectively.

Other Income. Interest income was $309,000 and $744,000 in the three and nine months ended September 30, 2007 compared to $200,000 and $514,000 in the comparable periods in 2006, 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, to a lesser extent, cash provided by operating activities. This increase is primarily attributable to increases in short-term interest rates and larger balances in interest bearing accounts as a result of generating positive cash flows from operations.

Provision for Income Taxes. Income tax expense was $0 and $0 in the three and nine months ended September 30, 2007 and 2006. In the three and nine months ended September 30, 2007 and 2006, we reduced our valuation allowance against deferred tax assets resulting in an effective tax rate of zero.

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Net Income. We had net income of $1.6 million and $3.4 million in the three and nine months ended September 30, 2007 compared to $257,000 and $957,000 for the comparable periods in 2006.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, we had approximately $30.2 million in cash and cash equivalents, an increase of $8.4 million from December 31, 2006. This increase is primarily attributable to net cash provided by operating activities and, to a lesser extent, to the excess tax benefit from the exercise of employee stock options, offset in part by net cash used in investing activities. We regularly invest excess funds in short-term money market funds.

Net cash provided by operating activities was $4.6 million for the nine months ended September 30, 2007 and consisted primarily of net income and non-cash expenses related to the adoption of SFAS No. 123(R) and to the amortization of intangibles and an increase in accrued expenses, partially offset by increases in deferred taxes and, accounts receivable. Net cash provided by operating activities was $2.2 million for the nine months ended September 30, 2006 and consisted primarily of net income and non-cash expenses related to the adoption of SFAS No. 123(R) and to the amortization of intangibles and an increase in deferred revenue, partially offset by increases in accounts receivable, prepaid expenses and accrued expenses.

Net cash used in investing activities was $1.0 million for the nine months ended September 30, 2007 and was due primarily to the purchase of fixed assets and the payment of acquisition costs. Net cash used in investing activities was $285,000 for the nine months ended September 30, 2006 and was due primarily to the purchase of fixed assets, and to a lesser extent, to the acquisition of certain intangible assets offset by cash acquired in the Proficient acquisition.

Net cash provided by financing activities was $4.8 million for the nine months ended September 30, 2007 and consisted of the excess tax benefit from the exercise of employee stock options and proceeds from the issuance of common stock in connection with the exercise of stock options by employees. Net cash provided by financing activities was $745,000 for the nine months ended September 30, 2006 and consisted of proceeds from the issuance of common stock in connection with the exercise of stock options by employees.

We have incurred significant costs 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 September 30, 2007, we had an accumulated deficit of approximately $95.8 million. These losses have been 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.

On June 25, 2007, we executed a definitive agreement to acquire Kasamba, Inc., a Delaware corporation with operations in Tel Aviv, Israel that provides live expert advice delivered online via real-time chat to consumers. Under

the terms of the agreement, we acquired the outstanding common stock of Kasamba and assumed all of its outstanding options for total consideration of approximately $40 million, comprised of $9 million in cash and approximately $31 million in stock. The transaction closed on October 3, 2007.

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 and nine months ended September 30, 2007 was approximately $390,000 and $1.2 million, respectively, and approximately $306,000 and $666,000 for the three and nine months ended September 30, 2006, respectively.

As of September 30, 2007, our principal commitments were approximately $4.2 million under various operating leases, of which approximately $387,000 is due in 2007. We do not currently expect that our principal commitments for the year ending December 31, 2007 will exceed $2.0 million in the aggregate. Our capital expenditures are not currently expected to exceed $3.0 million in 2007. Our contractual obligations at September 30, 2007 are summarized as follows:

	Payments due by period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Operating leases	$ 4,229	$ 1,528	$ 2,201	$ 500	$ —
Total	$ 4,229	$ 1,528	$ 2,201	$ 500	$ —

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency Rate Fluctuations

Through September 30, 2007, our results of operations, financial condition and cash flows have not been materially affected by changes in the relative values of non-U.S. currencies to the U.S. dollar. The functional currency of our wholly-owned Israeli subsidiary, HumanClick Ltd., is the U.S. dollar and the functional currency of our operations in the United Kingdom is the U.K. pound (sterling). We do not use derivative financial instruments to limit our foreign currency risk exposure.

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 increased our allowance for doubtful accounts in the nine months ended September 30, 2007 by $74,000 to approximately $179,000. This increase was 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 practices. In addition, the increase was attributed to additional reserves related to two customers. During 2006, we increased our allowance for doubtful accounts by $38,000 to approximately $105,000, principally due to an increase in accounts receivable as a result of increased sales.

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.

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ITEM 4. 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 September 30, 2007. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2007 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.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2007 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In May 2006, a former employee filed a complaint in the Supreme Court of New York State against us and two of our executive officers containing claims related to improper termination of employment. The claim seeks damages of approximately $50 million. We believe the claims are without merit, and intend to vigorously defend against such claims. However, we cannot assure you that our defenses will be successful and, if they are not, that our ultimate liability in connection with these claims will not have a material adverse effect on our results of operations, financial condition or cash flows. We have not accrued for this contingency as of December 31, 2006 or September 30, 2007, because the amount of loss, if any, cannot be reasonably estimated at this time. We carry appropriate levels of insurance for employment related claims but we cannot guarantee that any damages arising from this claim will be covered by this policy.

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. ("Proficient"). 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 1,129,571 shares in the second quarter of 2007 to the shareholders of Proficient. The complaint filed by the Shareholders' Representative seeks certain documentation relating to calculation of the earn-out consideration, and seeks payment of substantially all of the remaining contingently issuable earn-out shares. The Company believes the claims are without merit, intends to vigorously defend against this lawsuit, and does not currently expect that the total shares issued will differ significantly from the amount issued to date.

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: our history of losses; potential fluctuations in our quarterly and annual results; responding to rapid technological change and changing client preferences; competition in the real-time sales, marketing and customer service solutions market; continued use by our clients of the LivePerson services and their purchase of

additional services; technology systems beyond our control and technology-related issues or defects that could disrupt or compromise the LivePerson services; our ability to license necessary third party software for use in our products and services or successfully integrate third party software; risks related to adverse business conditions experienced by our clients; our dependence on key employees; competition for qualified personnel; the impact of new accounting rules, including the requirement to expense stock options; the possible unavailability of financing as and if needed; risks related to the operational integration of acquisitions; potential goodwill impairments; risks related to our international operations, particularly our operations in Israel, and the civil and political unrest in that region; risks related to protecting our intellectual property rights or potential infringement of the intellectual property rights of third parties; our dependence on the continued use of the Internet as a medium for commerce and the viability of the infrastructure of the Internet; and risks related to the regulation or possible misappropriation of personal information. 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 19, 2007.

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

ITEM 2. PURCHASES OF EQUITY SECURITIES BY THE ISSUER

Our share repurchase program, announced on February 8, 2007, allows us to repurchase up to $8.0 million in shares of our common stock, if and when the Company's Board of Directors determines it is in the best interest of stockholders to do so. As of September 30, 2007, we had not repurchased any shares under this program. Repurchases under the program, if any, would be completed no later than the end of the first quarter of 2008 when the program is scheduled to expire by its terms.

The following table summarizes repurchases of our common stock under our stock repurchase program during the quarter ended September 30, 2007:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (d)
7/1/2007 – 7/31/2007	—	—	—$	8,000,000
8/1/2007 – 8/31/2007	—	—	—$	8,000,000
9/1/2007 – 9/30/2007	—	—	—$	8,000,000
Total	—	—	—$	8,000,000

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: November 9, 2007	By:	/s/ ROBERT P. LOCASCIO
	Name:	Robert P. LoCascio
	Title:	Chief Executive Officer (duly authorized officer)
Date: November 9, 2007	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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