LIVEPERSON INC
Form 10-Q
May 10, 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 MARCH 31, 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 May 9, 2007, there were 42,978,479 shares of the issuer's common stock outstanding.

LIVEPERSON, INC.
MARCH 31, 2007
FORM 10-Q
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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)

		March 31, 2007 (Unaudited)		December 31, 2006 (Note 1(B))
ASSETS				
Current assets:				
Cash and cash equivalents	$	23,888	$	21,729
Accounts receivable, net of allowances for doubtful accounts of $125 and $105 as of March 31, 2007 and December 31, 2006, respectively		4,857		4,269
Prepaid expenses and other current assets		1,185		1,317
Total current assets		29,930		27,315
Property and equipment, net		1,343		1,124
Intangibles, net		2,315		2,640
Goodwill		18,509		9,673
Deferred tax assets, net		2,518		1,580
Security deposits		284		299
Other assets		704		684
Total assets	$	55,603	$	43,315
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	766	$	813
Accrued expenses		2,899		3,754
Deferred revenue		3,939		3,256
Deferred tax liabilities, net		168		259
Total current liabilities		7,772		8,082
Other liabilities		704		684
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, 2007 and December 31, 2006		—		—
Common stock, $.001 par value per share; 100,000,000 shares authorized, 42,928,944 shares issued and outstanding at March 31, 2007 and 41,078,156 shares issued and outstanding at December 31, 2006		43		41
Additional paid-in capital		145,356		133,693
Accumulated deficit		(98,261)		(99,179)
Accumulated other comprehensive loss		(11)		(6)
Total stockholders' equity		47,127		34,549
Total liabilities and stockholders' equity	$	55,603	$	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 March 31,	
	2007	**2006**
Revenue	$ 10,969	$ 6,877
Operating expenses:		
Cost of revenue	2,789	1,462
Product development	1,820	880
Sales and marketing	3,402	2,646
General and administrative	2,020	1,501
Amortization of intangibles	242	232
Total operating expenses	10,273	6,721
Income from operations	696	156
Other income:		
Interest income	222	143
Net income	$ 918	$ 299
Basic net income per common share	$ 0.02	$ 0.01
Diluted net income per common share	$ 0.02	$ 0.01
Weighted average shares outstanding used in basic net income per common share calculation	41,297,515	38,253,681
Weighted average shares outstanding used in diluted net income per common share calculation	44,761,279	40,504,248

Net income for the three months ended March 31, 2007 and 2006 includes stock-based compensation expense related to the adoption of SFAS No. 123(R) in the amount of $815 and $583, 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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 918	$ 299
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	815	583
Depreciation	208	62
Amortization of intangibles	325	232
Deferred income taxes	(1,029)	—
Provision for doubtful accounts	20	—
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Accounts receivable	(608)	(89)
Prepaid expenses and other current assets	132	31
Security deposits	15	(8)
Accounts payable	(47)	104
Accrued expenses	(753)	(62)
Deferred revenue	684	224
Net cash provided by operating activities	680	1,376
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, including capitalized software	(427)	(55)
Acquisition of Proficient	(15)	
Net cash used in investing activities	(442)	(55)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Excess tax benefit from the exercise of employee stock options	907	—
Proceeds from issuance of common stock in connection with the exercise of options	1,020	686
Net cash provided by financing activities	1,927	686
Effect of foreign exchange rate changes on cash and cash equivalents	(6)	(3)
Net increase in cash and cash equivalents	2,159	2,004
Cash and cash equivalents at the beginning of the period	21,729	17,117
Cash and cash equivalents at the end of the period	$ 23,888	$ 19,121

Supplemental disclosure of non-cash investing activities:

During the three months ended March 31, 2007, the Company issued 1,129,571 shares of common stock, valued at $8,923, in connection with the acquisition of Proficient Systems, Inc. on July 18, 2006.

During the three months ended March 31, 2007, the Company reduced the amount of accrued restructuring costs related to the Proficient acquisition in the amount of approximately $102.

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 March 31, 2007 and for the three months ended March 31, 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 March 31, 2007, and the consolidated results of operations and cash flows for the interim periods ended March 31, 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 ratably over the estimated life of the customer relationship. Professional services to date have not been significant.

(D) STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted 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 months ended March 31, 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 months ended March 31, 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 months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	**2006**
Cost of revenue	$ 95	$ 44
Product development expense	255	127
Sales and marketing expense	248	183
General and administrative expense	217	229
Total stock based compensation included in operating expenses	$ 815	$ 583

The per share weighted average fair value of stock options granted during the three months ended March 31, 2007 and 2006 was $3.59 and $3.25, 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,	
	2007	**2006**
Dividend yield	0.0%	0.0%
Risk-free interest rate	4.9%	4.8%
Expected life (in years)	4.2	4.0
Historical volatility	75.7%	80.0%

Prior to the adoption of SFAS No. 123(R) on January 1, 2006, the Company applied the intrinsic value-based method of accounting prescribed by APB Opinion No. 25 and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation: An Interpretation of APB Opinion No. 25" (issued in March 2000), to account for its fixed plan stock options. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (an amendment to SFAS No. 123), established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As permitted by the accounting standards, the Company had elected to continue to apply the intrinsic value-based method of accounting described above, and had adopted the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148. The Company amortized deferred compensation on a graded vesting methodology in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Award Plans."

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 Company established a successor to the 1998 Plan, the 2000 Stock Incentive Plan (the "2000 Plan"). Under the 2000 Plan, the options which had been outstanding under the 1998 Plan were incorporated into the 2000 Plan and the Company increased 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. Options to acquire common stock granted thereunder have ten-year terms. Pursuant to the provisions of the 2000 Plan, the number of shares of common stock available for issuance thereunder automatically increases on the first trading day in each calendar year by an amount equal to three percent (3%) of the total number of shares of the Company's common stock outstanding on the last trading day of the immediately preceding calendar year, but in no event shall such annual increase exceed 1,500,000 shares. As of March 31, 2007, approximately 12,303,000 shares of common stock were reserved for issuance under

the 2000 Plan (taking into account all option exercises through March 31, 2007).

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	1,955,100	$ 5.92
Options exercised	(687,698)	$ 1.45
Options cancelled	(156,550)	$ 4.78
Options outstanding at March 31, 2007	9,126,356	$ 3.51
Options exercisable at March 31, 2007	4,412,430	$ 2.27

The total intrinsic value of stock options exercised during the period ended March 31, 2007 was approximately $3,800. The total intrinsic value of options exercisable at March 31, 2007 was approximately $26,900. The total intrinsic value of options expected to vest is approximately $23,100.

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

	Shares	Weighted Average Grant-Date Fair Value
Nonvested Shares at January 1, 2007	3,260,750	$ 3.81
Granted	1,955,100	$ 3.59
Vested	(336,563)	$ 2.31
Cancelled	(165,361)	$ 3.00
Nonvested Shares at March 31, 2007	4,713,926	$ 2.98

As of March 31, 2007, there was $11,300 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 2.1 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 months ended March 31, 2007 includes the effect of options to purchase 5,971,506 shares of common stock with a weighted average exercise price of $2.22 and warrants to purchase 137,500 shares of common stock with a weighted average exercise price of $1.86. Diluted net income per common share for the three months ended March 31, 2007 does not include the effect of options to purchase 3,154,850 shares of common stock. Diluted net income per common share for the three months ended March 31, 2006 includes the effect of options to purchase 7,613,244 shares of common stock with a weighted average exercise price of $2.07 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 months ended March 31, 2006 does not include the effect of options to purchase 321,625 shares of common stock.

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

	Three Months Ended March 31,	
	2007	**2006**
Basic	41,297,515	38,253,681
Effect of assumed exercised options and warrants	3,463,764	2,250,567
Diluted	44,761,279	40,504,248

(F) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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:

	March 31, 2007 (Unaudited)	December 31, 2006
Computer equipment and software	$ 3,167	$ 2,794
Furniture, equipment and building improvements	432	393
	3,599	3,187
Less accumulated depreciation	2,256	2,063
Total	$ 1,343	$ 1,124

Accrued expenses consist of the following:

	March 31, 2007 (Unaudited)	December 31, 2006
Payroll and related costs	$ 1,884	$ 2,455
Professional services and consulting fees	366	432
Foreign income taxes	200	—

Sales commissions		134		440
Restructuring (see note 3)		149		317
Rent		71		8
Other		95		102
Total	$	2,899	$	3,754

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(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 will amortized ratably over a period of 24 months. The net acquisition costs of $146 and $175 are included in "Assets - Intangibles, net" on the Company's March 31, 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 which are being amortized over their expected period of benefit. During the three months ended March 31, 2007, the Company reduced the amount of accrued restructuring costs related to contract terminations in the amount of $102 and incurred additional costs in the amount of $15 resulting in a net decrease in goodwill of approximately $87.

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 1,129,571shares of common stock valued at $8,923, 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, but the Company does not expect that the total shares issued will differ significantly from the amounts included herein.

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 March 31, 2007 is as follows:

	Balance as of January 1, 2007	Provision for the three months ended March 31, 2007	Net utilization during the three months ended March 31, 2007	Balance as of March 31, 2007

Severance	$	168	$	—$	(66)	$	102
Contract terminations		149		—	(102)		47
Total	$	317	$	—$	(168)	$	149

Included in the net utilization of $168 during the three months ended March 31, 2007 is a reduction in accrued contract terminations in the amount of approximately $102.

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 listed in the above table 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 $2,170 and $2,465 are included in “Assets - Intangibles, net” on the Company’s March 31, 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, 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 $904,000 resulting in net income tax expense of $0 for the three months ended March 31, 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 months ended March 31, 2007 and 2006 was approximately $399 and $172, 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 March 31, 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.

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.

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 ratably over the estimated life of the customer relationship. Professional services to date have not been significant.

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 months ended March 31, 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 months ended March 31, 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 March 31, 2007, there was approximately $11.3 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 2.1 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 months ended March 31, 2007 and 2006. No single customer accounted for or exceeded 10% of accounts receivable at March 31, 2007 or December 31, 2006. We increased our allowance for doubtful accounts by $20,000 in the three months ended March 31, 2007. This increase was 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 practices.

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.

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 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.

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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 $146,000

and $175,000 are included in “Assets - Intangibles, net” on our March 31, 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.

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 96%, and 93% of total LivePerson services revenue for the three months ended March 31, 2007 and 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, we recognize the fees ratably over the estimated life of the customer. 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.

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 three months ended March 31, 2007, we increased our allowance for doubtful accounts by $20,000 to approximately $125,000, 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 practices. 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 months ended March 31, 2007 and 2006 consist of:

	Three Months Ended March 31,			
	2007		**2006**	
Stock-based compensation expense related to SFAS No. 123(R)	$	815	$	583
Total	$	815	$	583

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 months ended March 31, 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 MONTHS ENDED MARCH 31, 2007 AND 2006

Revenue. Total revenue increased by 60% to $11.0 million in the three months ended March 31, 2007, from $6.9 million in the comparable period in 2006. This increase is primarily attributable to revenue from new clients, including Proficient clients, of approximately $2.7 million, and, to a lesser extent, to increased revenue from existing clients in the amount of approximately $1.4 million.

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 91% to $2.8 million in the three months ended March 31, 2007, from $1.5 million in the comparable period in 2006. This increase is primarily attributable to costs related to additional account management and network operations personnel to support increased client activity from existing clients, the addition of new clients and the Proficient acquisition in the amount of approximately $533,000 and to increased expenses for primary and backup server facilities of approximately $408,000. 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 $52,000. As a result, our gross margin in the three months ended March 31, 2007 decreased to 75% as compared to 79% in the three months ended March 31, 2006. Though our cost of revenue increased materially in the three months ended March 31, 2007, a significant portion of this impact was driven by the Proficient acquisition. This impact on gross margin is expected to decrease somewhat as we continue to integrate Proficient. 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 107% to $1.8 million in the three months ended March 31, 2007, from $880,000 in the comparable period 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 to the Proficient acquisition in the amount of approximately $762,000. The increase is also attributable to an increase stock-based compensation associated with the adoption of SFAS No. 123(R) in the amount of $128,000. Though our product development costs increased materially in the three months ended March 31, 2007, a significant portion of this impact was driven by the Proficient acquisition.

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 29% to $3.4 million in the three months ended March 31, 2007, from $2.6 million in the comparable period in 2006. This increase is primarily attributable to an increase in costs related to additional sales and marketing personnel of approximately $642,000 related to our continued efforts to enhance our brand recognition and increase sales lead activity as well as the Proficient acquisition. 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 $64,000.

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 35% to $2.0 million in the three months ended March 31, 2007, from $1.5 million in the comparable period in 2006. This increase is primarily attributable to increases in compensation and related expenses in the amount of $139,000 and to an increase in rent and occupancy costs related to new leases for our New York and Israeli offices in the amount of $145,000 and, to a lesser extent, to increases in professional services in the amount of approximately $63,000.

Amortization of Intangibles. Amortization expense was $242,000 and $232,000 in the three months ended March 31, 2007 and 2006, respectively. Amortization expense in 2007 relates 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 and FaceTime in December 2003 and July 2004, respectively.

Other Income. Interest income was $222,000 and $143,000 in the three months ended March 31, 2007 and 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 months ended March 31, 2007 and 2006, respectively. In the three months ended March 31, 2007 and 2006, we reduced our valuation allowance against deferred tax assets resulting in an effective tax rate of zero.

Net Income. We had net income of $918,000 in the three months ended March 31, 2007 compared to $299,000 for the comparable period in 2006. Revenue increased by $4.1 million while operating expenses increased by $3.6 million, including an increase in stock-based compensation expense of $232,000 related to the adoption of SFAS No. 123(R).

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2007, we had approximately $23.9 million in cash and cash equivalents, an increase of approximately $2.2 million from December 31, 2006. This increase is primarily attributable to proceeds from the issuance of common stock in connection with the exercise of stock options by employees and, to a lesser extent, to net cash provided by operating activities 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 $680,000 for the three months ended March 31, 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 deferred revenue, partially offset by an increase in accounts receivable and a decrease in accrued expenses. Net cash provided by operating activities was $1.4 million for the three months ended March 31, 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 an increase in accounts receivable and a decrease in accrued expenses.

Net cash used in investing activities was $442,000 and $55,000 in the three months ended March 31, 2007 and 2006, respectively, and was due primarily to the purchase of fixed assets.

Net cash provided by financing activities was $1.9 million and $686,000 for the three months ended March 31, 2007 and 2006, respectively, and consisted of 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.

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 March 31, 2007, we had an accumulated deficit of approximately $98.3 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.

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, 2007 and 2006 was approximately $399,000 and $172,000, respectively.

As of March 31, 2007, our principal commitments were approximately $4.7 million under various operating leases, of which approximately $1.1 million 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 $1.0 million in 2007. Our contractual obligations at March 31, 2007 are summarized as follows:

	Payments due by period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$ 4,719	$ 1,129	$ 3,257	$ 333	$ —
Total	$ 4,719	$ 1,129	$ 3,257	$ 333	$ —

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currency Rate Fluctuations

Through March 31, 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 three months ended March 31, 2007 by $20,000 to approximately $125,000 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 practices. 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.

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 March 31, 2007. 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, 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 March 31, 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 March 31, 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.

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. As of March 31, 2007, we had not repurchased any shares under this program. It is expected that repurchases, if any, would be completed no later than the end of the first quarter of 2008.

The following table summarizes repurchases of our common stock under our stock repurchase program during the quarter ended March 31, 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)
1/1/2007 - 1/31/2007	—	—	—	$ 8,000,000
2/1/2007 - 2/28/2007	—	—	—	$ 8,000,000
3/1/2007 - 3/31/2007	—	—	—	$ 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: May 10, 2007

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio
Title: Chief Executive Officer (duly authorized officer)

Date: May 10, 2007

By: /s/ TIMOTHY E. BIXBY

Name: Timothy E. Bixby
Title: President, Chief Financial Officer and Secretary (principal financial and accounting officer)

EXHIBIT INDEX

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