

LIVEPERSON INC  
Form 10-Q  
August 06, 2010

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

FORM 10-Q

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

For the quarterly period ended JUNE 30, 2010

or

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

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

Commission file number: 000-30141

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

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-3861628  
(IRS Employer Identification No.)

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

10018  
(Zip Code)

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

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

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

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

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Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of August 2, 2010, there were 51,027,989 shares of the issuer's common stock outstanding.

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LIVEPERSON, INC.  
JUNE 30, 2010  
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. FINANCIAL STATEMENTS

## LIVEPERSON, INC.

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

	June 30, 2010 (Unaudited)	December 31, 2009 (Note1(B))
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,839	\$ 45,572
Accounts receivable, net of allowance for doubtful accounts of \$410 as of June 30, 2010 and \$395 as of December 31, 2009	12,629	10,265
Prepaid expenses and other current assets	3,845	3,661
Deferred tax assets, net	1,052	1,460
Total current assets	70,365	60,958
Property and equipment, net	11,558	9,551
Intangibles, net	2,832	2,821
Goodwill	23,920	23,920
Deferred tax assets, net	5,226	4,777
Deferred implementation costs, net of current	153	136
Security deposits	475	326
Other assets	1,794	1,792
Total assets	\$ 116,323	\$ 104,281
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,044	\$ 5,375
Accrued expenses	8,286	10,895
Deferred revenue	4,770	4,692
Total current liabilities	20,100	20,962
Deferred revenue, net of current	629	506
Other liabilities	1,679	1,676
Total liabilities	22,408	23,144
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value per share; 5,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2010 and December 31, 2009	—	—
Common stock, \$.001 par value per share; 100,000,000 shares authorized, 51,005,403 shares issued and outstanding at June 30, 2010 and 49,435,682 shares issued and outstanding at December 31, 2009	51	49
Additional paid-in capital	199,743	190,692
Accumulated deficit	(105,680)	(109,432)

Accumulated other comprehensive loss	(199)	(172)
Total stockholders' equity	93,915	81,137
Total liabilities and stockholders' equity	\$ 116,323	\$ 104,281

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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 26,398	\$ 20,541	\$ 51,706	\$ 40,460
Operating expenses:				
Cost of revenue	7,178	5,228	13,810	9,513
Product development	3,908	3,138	7,514	5,839
Sales and marketing	8,452	6,908	16,142	13,412
General and administrative	4,175	3,157	7,967	6,679
Amortization of intangibles	83	272	166	544
Total operating expenses	23,796	18,703	45,599	35,987
Income from operations	2,602	1,838	6,107	4,473
Other (expense) income:				
Financial (expense) income	(41)	23	(90)	(96)
Interest income	30	21	53	56
Total other (expense) income, net	(11)	44	(37)	(40)
Income before provision for income taxes	2,591	1,882	6,070	4,433
Provision for income taxes	975	748	2,318	2,028
Net income	\$ 1,616	\$ 1,134	\$ 3,752	\$ 2,405
Basic net income per common share	\$ 0.03	\$ 0.02	\$ 0.07	\$ 0.05
Diluted net income per common share	\$ 0.03	\$ 0.02	\$ 0.07	\$ 0.05
Weighted average shares outstanding used in basic net income per common share calculation	50,921,609	47,611,657	50,383,042	47,540,614
Weighted average shares outstanding used in diluted net income per common share calculation	53,416,706	48,650,478	52,803,871	48,301,914

SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS.

## LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
UNAUDITED

	Six Months Ended June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,752	\$ 2,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	2,173	2,279
Depreciation	2,335	1,627
Amortization of intangibles	778	1,158
Deferred income taxes	(42)	297
Provision for doubtful accounts	15	—
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Accounts receivable	(2,379)	(250)
Prepaid expenses and other current assets	(199)	(2)
Deferred implementation costs	(17)	—
Security deposits	(150)	26
Accounts payable	(312)	278
Accrued expenses	(2,594)	541
Deferred revenue	201	220
Net cash provided by operating activities	3,561	8,579
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, including capitalized software	(2,339)	(3,259)
Acquisition of NuConomy, net of cash acquired	(789)	—
Acquisition of Proficient	—	(81)
Net cash used in investing activities	(3,128)	(3,340)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock	—	(28)
Excess tax benefit from the exercise of employee stock options	34	305
Proceeds from issuance of common stock in connection with the exercise of options	6,846	267
Net cash provided by financing activities	6,880	544
Effect of foreign exchange rate changes on cash and cash equivalents	(46)	(16)
Net increase in cash and cash equivalents	7,267	5,767
Cash and cash equivalents at the beginning of the period	45,572	25,500
Cash and cash equivalents at the end of the period	\$ 52,839	\$ 31,267

## Supplemental disclosure of non-cash investing activities:

Cash flows from investing for the six months ended June 30, 2010 does not include the purchases of approximately \$1,578 of capitalized equipment related to the Company's colocation facility as the corresponding invoices are included in accounts payable at June 30, 2010, and therefore did not have an impact on cash flows for the period.





Cash flows from investing for the six months ended June 30, 2009 does not include the purchases of approximately \$65 of capitalized equipment related to the Company's colocation facility as the corresponding invoices are included in accounts payable at June 30, 2009, and therefore did not have an impact on cash flows for the period.

During the six months ended June 30, 2009, the Company settled a pre-acquisition contingency resulting in a decrease in accrued expenses in the amount of \$566.

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”) provides online engagement solutions that facilitate real-time assistance and expert advice. Connecting businesses and independent service providers with individual consumers seeking help on the Web, their hosted software platform creates more relevant, compelling and personalized online experiences. The Company was incorporated in 1995 and commenced operations in 1996.

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

(B) UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 are unaudited. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the consolidated financial position of LivePerson as of June 30, 2010, and the consolidated results of operations and cash flows for the interim periods ended June 30, 2010 and 2009. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results of operations for any interim period are not necessarily indicative of the results of operations for any other future interim period or for a full fiscal year. The condensed consolidated balance sheet at December 31, 2009 has been derived from audited consolidated financial statements at that date.

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

(C) REVENUE RECOGNITION

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

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

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 obligat