

LIVEPERSON INC  
Form 10-Q  
August 07, 2015

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, 2015

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.)

475 Tenth Avenue, 5th Floor

New York, New York

(Address of Principal Executive Offices)

(212) 609-4200

(Registrant's Telephone Number, Including Area Code)

10018

(Zip 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).

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 ✓

On July 27, 2015, 57,163,021 shares of the registrant's common stock were outstanding.

LIVEPERSON, INC.  
 June 30, 2015  
 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 PROGRESSES, 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)

(UNAUDITED)

|  | June 30,<br>2015 | December 31,<br>2014<br>(Note 1) |
|--|------------------|----------------------------------|
| <b>ASSETS</b>  |                  |                                  |
| <b>CURRENT ASSETS:</b>   |                  |                                  |
| Cash and cash equivalents  | \$37,039         | \$49,372                         |
| Cash held as collateral for foreign exchange forward contracts   | 5,464            | —                                |
| Accounts receivable, net of allowance for doubtful accounts of \$2,009 and \$1,275 as of June 30, 2015 and December 31, 2014, respectively | 32,257           | 31,382                           |
| Prepaid expenses and other current assets  | 14,632           | 10,374                           |
| Deferred tax assets, net   | 1,805            | 2,575                            |
| Total current assets   | 91,197           | 93,703                           |
| Property and equipment, net  | 22,921           | 19,583                           |
| Intangibles, net   | 28,762           | 32,620                           |
| Goodwill   | 80,358           | 80,848                           |
| Deferred tax assets, net   | 12,647           | 10,762                           |
| Other assets   | 2,317            | 2,301                            |
| Total assets   | \$238,202        | \$239,817                        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                                  |
| <b>CURRENT LIABILITIES:</b>  |                  |                                  |
| Accounts payable   | \$11,385         | \$8,985                          |
| Accrued expenses and other current liabilities   | 32,509           | 37,772                           |
| Deferred revenue   | 12,345           | 11,992                           |
| Total current liabilities  | 56,239           | 58,749                           |
| Other liabilities  | 739              | 731                              |
| Total liabilities  | 56,978           | 59,480                           |
| Commitments and contingencies (See Note 10)  |                  |                                  |
| <b>STOCKHOLDERS' EQUITY (See Note 11):</b>   |                  |                                  |
| Common stock   | 58               | 57                               |
| Additional paid-in capital   | 281,273          | 274,046                          |
| Treasury stock   | (1               | ) (1                             |
| Accumulated deficit  | (100,039         | ) (92,627                        |
| Accumulated other comprehensive loss   | (67              | ) (1,138                         |
| Total stockholders' equity   | 181,224          | 180,337                          |
| Total liabilities and stockholders' equity   | \$238,202        | \$239,817                        |

See Notes to Condensed Consolidated Financial Statements (unaudited).

LIVEPERSON, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)  
(UNAUDITED)

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2015                           | 2014       | 2015                         | 2014       |
| Revenue   | \$59,334                       | \$51,087   | \$119,104                    | \$98,915   |
| Costs and expenses <sup>(1) (2)</sup>                       |                                |            |                              |            |
| Cost of revenue <sup>(3)</sup>                              | 17,887                         | 13,161     | 34,141                       | 24,896     |
| Sales and marketing   | 24,382                         | 20,077     | 48,676                       | 38,472     |
| General and administrative                                  | 10,471                         | 9,788      | 20,636                       | 19,286     |
| Product development   | 10,109                         | 9,336      | 19,909                       | 18,287     |
| Restructuring costs   | 2,988                          | —          | 2,988                        | —          |
| Amortization of purchased intangibles                       | 1,178                          | 206        | 2,490                        | 396        |
| Total costs and expenses                                    | 67,015                         | 52,568     | 128,840                      | 101,337    |
| Loss from operations  | (7,681                         | ) (1,481   | ) (9,736                     | ) (2,422   |
| Other income (expense)                                      | 229                            | 45         | (2                           | ) (38      |
| Loss before benefit from income taxes                       | (7,452                         | ) (1,436   | ) (9,738                     | ) (2,460   |
| Benefit from income taxes                                   | (2,098                         | ) (224     | ) (2,326                     | ) (454     |
| Net loss  | \$(5,354                       | ) \$(1,212 | ) \$(7,412                   | ) \$(2,006 |
| Net loss per share of common stock:                         |                                |            |                              |            |
| Basic   | \$(0.09                        | ) \$(0.02  | ) \$(0.13                    | ) \$(0.04  |
| Diluted   | \$(0.09                        | ) \$(0.02  | ) \$(0.13                    | ) \$(0.04  |
| Weighted-average shares used to compute net loss per share: |                                |            |                              |            |
| Basic   | 56,491,989                     | 54,189,722 | 56,392,240                   | 54,766,811 |
| Diluted   | 56,491,989                     | 54,189,722 | 56,392,240                   | 54,766,811 |

(1) Amounts include stock-based compensation expense, as follows:

|                            |       |       |       |       |
|----------------------------|-------|-------|-------|-------|
| Cost of revenue            | \$476 | \$484 | \$804 | \$844 |
| Sales and marketing        | 937   | 923   | 1,532 | 1,737 |
| General and administrative | 746   | 869   | 1,678 | 1,712 |
| Product development        | 953   | 931   | 1,892 | 1,611 |

(2) Amounts include depreciation expense, as follows:

|                            |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| Cost of revenue            | \$2,323 | \$1,646 | \$4,225 | \$3,044 |
| Sales and marketing        | 314     | 201     | 565     | 408     |
| General and administrative | 236     | 214     | 473     | 414     |
| Product development        | 209     | 172     | 397     | 349     |

(3) Amounts include amortization of purchased intangibles, as follows:

|                 |       |       |         |         |
|-----------------|-------|-------|---------|---------|
| Cost of revenue | \$839 | \$869 | \$1,679 | \$1,737 |
|-----------------|-------|-------|---------|---------|

See Notes to Condensed Consolidated Financial Statements (unaudited).



LIVEPERSON, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
 (IN THOUSANDS)  
 (UNAUDITED)

|   | Three Months Ended |             | Six Months Ended |             |   |
|---|--------------------|-------------|------------------|-------------|---|
|   | June 30,           |             | June 30,         |             |   |
|   | 2015               | 2014        | 2015             | 2014        |   |
| Net loss                                | \$ (5,354          | ) \$ (1,212 | ) \$ (7,412      | ) \$ (2,006 | ) |
| Foreign currency translation adjustment | 2,060              | 298         | 1,071            | 438         |   |
| Comprehensive loss                      | \$ (3,294          | ) \$ (914   | ) \$ (6,341      | ) \$ (1,568 | ) |

See Notes to Condensed Consolidated Financial Statements (unaudited).

## LIVEPERSON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

|   | Six Months Ended |            |
|---|------------------|------------|
|   | June 30,         |            |
|   | 2015             | 2014       |
| <b>OPERATING ACTIVITIES:</b>  |                  |            |
| Net loss  | \$(7,412         | ) \$(2,006 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                  |            |
| Stock-based compensation expense  | 5,906            | 5,904      |
| Depreciation  | 5,660            | 4,215      |
| Amortization of purchased intangibles   | 4,169            | 2,133      |
| Deferred income taxes and other non-cash tax items  | (1,114           | ) (658     |
| Provision for doubtful accounts, net  | 1,037            | 979        |
| Changes in operating assets and liabilities:  |                  |            |
| Accounts receivable   | (1,913           | ) (5,230   |
| Prepaid expenses and other current assets   | (2,902           | ) (4,599   |
| Other assets  | (16              | ) 394      |
| Accounts payable  | 1,817            | (1,700     |
| Accrued expenses and other current liabilities  | (5,516           | ) (287     |
| Deferred revenue  | 351              | (1,926     |
| Other liabilities   | 263              | (365       |
| Net cash provided by (used in) operating activities                                       | 330              | (3,146     |
| <b>INVESTING ACTIVITIES:</b>  |                  |            |
| Purchases of property and equipment, including capitalized software                       | (8,442           | ) (4,322   |
| Cash held as collateral for foreign exchange forward contracts                            | (5,464           | ) —        |
| Investment in technology licenses   | —                | (3,174     |
| Payments for acquisitions and intangible assets, net of cash acquired                     | (150             | ) (2,452   |
| Net cash used in investing activities   | (14,056          | ) (9,948   |
| <b>FINANCING ACTIVITIES:</b>  |                  |            |
| Excess tax benefit from the exercise of employee stock options                            | 757              | —          |
| Proceeds from issuance of common stock in connection with the exercise of options         | 3,105            | 3,922      |
| Repurchase of common stock  | (2,534           | ) (12,163  |
| Net cash provided by (used in) financing activities                                       | 1,328            | (8,241     |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>               | 65               | 663        |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>  | (12,333          | ) (20,672  |
| CASH AND CASH EQUIVALENTS - Beginning of the period                                       | 49,372           | 91,906     |
| CASH AND CASH EQUIVALENTS - End of the period   | \$37,039         | \$71,234   |
| <b>SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW INFORMATION:</b>                            |                  |            |
| Cash paid for income taxes  | \$1,122          | \$1,843    |



SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND  
FINANCING ACTIVITIES:

|  |       |         |
|--|-------|---------|
| Purchase of property and equipment recorded in accounts payable                  | \$580 | \$407   |
| Contingent earn-out in connection with acquisitions recorded in accrued expenses | \$—   | \$1,810 |
| Acquisition costs recorded in accrued expenses                                   | \$—   | \$250   |

See Notes to Condensed Consolidated Financial Statements (unaudited).

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LIVEPERSON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

#### 1. Description of Business and Basis of Presentation

LivePerson, Inc. (the “Company” or “LivePerson”) was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. In April 2000, the Company completed an initial public offering and is currently traded on the Nasdaq Global Select Market and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City with offices in Amsterdam, Atlanta, Berlin, London, Mannheim, Melbourne, Milan, Ra'anana, Reading (UK), San Francisco and Tokyo.

LivePerson provides online engagement solutions offering a cloud-based platform which enables businesses to proactively connect with consumers through chat, voice and content delivery, across multiple channels and screens, including websites, social media, tablets and mobile devices. The Company’s engagements are driven by insights derived from a broad set of consumer and business data, including historical, behavioral, operational, and third party data. Each engagement is based on proprietary analytics and a real-time understanding of consumer needs and business objectives. The Company’s products, coupled with its domain knowledge and industry expertise, have been proven to maximize the effectiveness of the online channel — by increasing sales, as well as consumer satisfaction and loyalty ratings for its customers, while also enabling its customers to reduce consumer service costs.

LivePerson monitors and analyzes valuable online consumer behavioral data on behalf of its customers. Spanning the breadth of an online visitor session, starting from an initial keyword search through actions on their customer’s website, and even into a shopping cart and an executed sale, this data enables the Company to develop unique insights into consumer behavior during specific transactions within a customer’s user base.

The Company’s primary revenue source is from the sale of LivePerson services to businesses of all sizes. The Company also offers an online marketplace that connects independent service providers (“Experts”) who provide information and knowledge for a fee via real-time chat with individual consumers (“Users”).

#### Basis of Presentation

The accompanying condensed consolidated financial statements as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 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, 2015, and the consolidated results of operations, comprehensive loss and cash flows for the interim periods ended June 30, 2015 and 2014. 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, 2014 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 in the United States (“GAAP”) 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, 2014, included in the Company’s Annual Report on Form 10-K filed with the SEC on March 12, 2015.

#### Principles of Consolidation

The condensed consolidated financial statements include the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

#### Use of Estimates

The preparation of the Company’s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information

available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management's estimates.

### Recently Issued Accounting Standards

On February 18, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-02, Consolidation: Amendments to the Consolidation Analysis (“ASU 2015-02”), which affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The standard amends the consolidation requirements in ASC 810. ASU 2015-02 is effective for fiscal periods beginning after December 15, 2015 for public companies, and early adoption is permitted. The Company does not expect to early adopt ASU 2015-02, which will be effective for its fiscal year ending December 31, 2016. The Company does not believe the standard will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes most existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company will adopt this guidance at the beginning of its first quarter of fiscal year 2017. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

### 2. 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 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 type of service, the level of customer usage and website traffic, and in some cases, the number of orders placed via the Company's online engagement solutions.

For certain of the Company's larger customers, the Company may provide call center labor through an arrangement with one or more of several qualified vendors. For most of these customers, the Company passes the fee it incurs with the labor provider and its fee for the hosted services through to its customers in the form of a fixed fee for each order placed via the Company's online engagement solutions. For these Pay for Performance (“PFP”) arrangements, in accordance with ASC 605-45, “Principal Agent Considerations,” the Company records revenue for transactions in which it acts as an agent on a net basis, and revenue for transactions in which it acts as a principal on a gross basis.

The Company also sells certain of the LivePerson services directly via Internet download. These services are marketed as LiveEngage for small to medium-sized businesses, 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 LiveEngage may occur with or without the assistance of an online sales representative, rather than through face-to-face or telephone contact that is typically required for traditional direct sales.

The Company recognizes monthly service revenue based upon the fee charged for the LivePerson services, provided that there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable. The Company's service agreements typically have twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days' notice without penalty. When professional service fees add value to the customer on a standalone basis, the Company recognizes professional service fees upon completion and customer acceptance. The Company establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) best estimated selling price. If a professional services arrangement does not qualify for separate accounting, the Company recognizes the fees, and the related labor costs, ratably over the

contracted period.

For revenue from the Company's Consumer segment generated from online transactions between Experts and Users, the Company recognizes revenue net of the Expert fees in accordance with ASC 605-45, "Principal Agent Considerations," due primarily to the fact that the Expert is the primary obligor. Additionally, the Company performs as an agent without any risk of loss for collection, and is not involved in selecting the Expert or establishing the Expert's fee. The Company collects a fee from the User and retains a portion of the fee, and then remits the balance to the Expert. Revenue from these transactions is recognized when there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed and determinable.

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### 3. Net Loss Per Share

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

Diluted net loss per common share for the three and six months ended June 30, 2015 does not include the effect of options to purchase 10,102,158 shares of common stock, as the effect of their inclusion is anti-dilutive. Diluted net loss per common share for the three and six months ended June 30, 2014 does not include the effect of options to purchase 11,434,227 shares of common stock, as the effect of their inclusion is anti-dilutive.

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

|                                     | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|-------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                     | 2015                           | 2014       | 2015                         | 2014       |
| Basic                               | 56,491,989                     | 54,189,722 | 56,392,240                   | 54,766,811 |
| Effect of assumed exercised options | —                              | —          | —                            | —          |
| Diluted                             | 56,491,989                     | 54,189,722 | 56,392,240                   | 54,766,811 |

### 4. Segment Information

The Company accounts for its segment information in accordance with the provisions of ASC 280-10, “Segment Reporting.” ASC 280-10 establishes annual and interim reporting standards for operating segments of a company. ASC 280-10 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas based on the company’s internal accounting methods. The Company is organized into two operating segments for purposes of making operating decisions and assessing performance. The Business segment facilitates real-time online interactions – chat, voice and content delivery across multiple channels and screens for global corporations of all sizes. The Consumer segment facilitates online transactions between Experts and Users and sells its services to consumers. Both segments currently generate their revenue primarily in the United States. The chief operating decision maker, who is the chief executive officer, evaluates performance, makes operating decisions, and allocates resources based on the operating income of each segment. The reporting segments follow the same accounting policies used in the preparation of the Company’s condensed consolidated financial statements which are described in the summary of significant accounting policies. The Company allocates cost of revenue, sales and marketing and amortization of purchased intangibles to the segments, but it does not allocate product development expenses, general and administrative expenses, restructuring costs and income tax expense because management does not use this information to measure performance of the operating segments. There are currently no inter-segment sales.

Summarized financial information by segment for the three months ended June 30, 2015, based on the Company’s internal financial reporting system utilized by the Company’s chief operating decision maker, follows (amounts in thousands):

|                                       | Business | Consumer | Corporate | Consolidated |
|---------------------------------------|----------|----------|-----------|--------------|
| Revenue:                              |          |          |           |              |
| Hosted services – Business            | \$50,197 | \$—      | \$—       | \$50,197     |
| Hosted services – Consumer            | —        | 3,862    | —         | 3,862        |
| Professional services                 | 5,275    | —        | —         | 5,275        |
| Total revenue                         | 55,472   | 3,862    | —         | 59,334       |
| Cost of revenue                       | 17,271   | 616      | —         | 17,887       |
| Sales and marketing                   | 22,617   | 1,765    | —         | 24,382       |
| Amortization of purchased intangibles | 1,178    | —        | —         | 1,178        |

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|                                |          |         |             |            |
|--------------------------------|----------|---------|-------------|------------|
| Unallocated corporate expenses | —        | —       | 23,568      | 23,568     |
| Operating income (loss)        | \$14,406 | \$1,481 | \$(23,568 ) | \$(7,681 ) |

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Summarized financial information by segment for the three months ended June 30, 2014, based on the Company's internal financial reporting system utilized by the Company's chief operating decision maker, follows (amounts in thousands):

|                                       | Business | Consumer | Corporate   | Consolidated |
|---------------------------------------|----------|----------|-------------|--------------|
| Revenue:                              |          |          |             |              |
| Hosted services – Business            | \$41,996 | \$—      | \$—         | \$41,996     |
| Hosted services – Consumer            | —        | 4,539    | —           | 4,539        |
| Professional services                 | 4,552    | —        | —           | 4,552        |
| Total revenue                         | 46,548   | 4,539    | —           | 51,087       |
| Cost of revenue                       | 12,483   | 678      | —           | 13,161       |
| Sales and marketing                   | 18,799   | 1,278    | —           | 20,077       |
| Amortization of purchased intangibles | 206      | —        | —           | 206          |
| Unallocated corporate expenses        | —        | —        | 19,124      | 19,124       |
| Operating income (loss)               | \$15,060 | \$2,583  | \$(19,124 ) | \$(1,481 )   |

Summarized financial information by segment for the six months ended June 30, 2015, based on the Company's internal financial reporting system utilized by the Company's chief operating decision maker, follows (amounts in thousands):

|                                       | Business  | Consumer | Corporate   | Consolidated |
|---------------------------------------|-----------|----------|-------------|--------------|
| Revenue:                              |           |          |             |              |
| Hosted services – Business            | \$100,809 | \$—      | \$—         | \$100,809    |
| Hosted services – Consumer            | —         | 7,559    | —           | 7,559        |
| Professional services                 | 10,736    | —        | —           | 10,736       |
| Total revenue                         | 111,545   | 7,559    | —           | 119,104      |
| Cost of revenue                       | 32,887    | 1,254    | —           | 34,141       |
| Sales and marketing                   | 45,531    | 3,145    | —           | 48,676       |
| Amortization of purchased intangibles | 2,490     | —        | —           | 2,490        |
| Unallocated corporate expenses        | —         | —        | 43,533      | 43,533       |
| Operating income (loss)               | \$30,637  | \$3,160  | \$(43,533 ) | \$(9,736 )   |

Summarized financial information by segment for the six months ended June 30, 2014, based on the Company's internal financial reporting system utilized by the Company's chief operating decision maker, follows (amounts in thousands):

|                                       | Business | Consumer | Corporate   | Consolidated |
|---------------------------------------|----------|----------|-------------|--------------|
| Revenue:                              |          |          |             |              |
| Hosted services – Business            | \$81,677 | \$—      | \$—         | \$81,677     |
| Hosted services – Consumer            | —        | 8,448    | —           | 8,448        |
| Professional services                 | 8,790    | —        | —           | 8,790        |
| Total revenue                         | 90,467   | 8,448    | —           | 98,915       |
| Cost of revenue                       | 23,627   | 1,269    | —           | 24,896       |
| Sales and marketing                   | 35,717   | 2,755    | —           | 38,472       |
| Amortization of purchased intangibles | 396      | —        | —           | 396          |
| Unallocated corporate expenses        | —        | —        | 37,573      | 37,573       |
| Operating income (loss)               | \$30,727 | \$4,424  | \$(37,573 ) | \$(2,422 )   |



## Geographic Information

The Company is domiciled in the United States and has international operations in the United Kingdom, Asia-Pacific, Latin America and Western Europe, particularly France and Germany. The following table presents the Company's revenues attributable to domestic and foreign operations for the periods presented (amounts in thousands):

|                               | Three Months Ended |          | Six Months Ended |          |
|-------------------------------|--------------------|----------|------------------|----------|
|                               | June 30,           |          | June 30,         |          |
|                               | 2015               | 2014     | 2015             | 2014     |
| United States                 | \$38,996           | \$33,765 | \$80,437         | \$64,865 |
| Other Americas <sup>(1)</sup> | 3,145              | 2,172    | 5,848            | 4,321    |
| Total Americas                | 42,141             | 35,937   | 86,285           | 69,186   |
| EMEA <sup>(2)</sup>           | 13,421             | 11,055   | 25,206           | 21,569   |
| APAC <sup>(3)</sup>           | 3,772              | 4,095    | 7,613            | 8,160    |
| Total revenue                 | \$59,334           | \$51,087 | \$119,104        | \$98,915 |

<sup>(1)</sup> Canada, Latin America and South America

<sup>(2)</sup> Europe, the Middle East and Africa ("EMEA")

<sup>(3)</sup> Asia-Pacific ("APAC")

The following table presents the Company's long-lived assets by geographic region for the periods presented (amounts in thousands):

|                         | June 30,<br>2015 | December 31,<br>2014 |
|-------------------------|------------------|----------------------|
| United States           | \$109,567        | \$109,006            |
| Israel                  | 17,758           | 18,982               |
| Australia               | 7,827            | 8,500                |
| Netherlands             | 9,458            | 7,686                |
| Other <sup>(1)</sup>    | 2,395            | 1,940                |
| Total long-lived assets | \$147,005        | \$146,114            |

<sup>(1)</sup> United Kingdom, Germany, Japan and Italy

No individual customer accounted for 10% or more of consolidated revenue for any of the periods presented. No individual customer accounted for 10% or more of accounts receivable as of June 30, 2015. One customer accounted for approximately 22% of accounts receivable as of December 31, 2014.

## 5. Goodwill and Intangible Assets

## Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2015 are as follows (amounts in thousands):

|                                 | Business | Consumer | Total    |
|---------------------------------|----------|----------|----------|
| Balance as of December 31, 2014 | \$72,824 | \$8,024  | \$80,848 |
| Adjustments to goodwill:        |          |          |          |
| Foreign exchange adjustment     | (490     | ) —      | (490     |
| Balance as of June 30, 2015     | \$72,334 | \$8,024  | \$80,358 |

## Intangible Assets

Intangible assets are summarized as follows (see Note 8) (amounts in thousands):

|                               | As of June 30, 2015     |                          |                     |                                      |
|-------------------------------|-------------------------|--------------------------|---------------------|--------------------------------------|
|                               | Gross Carrying Amount   | Accumulated Amortization | Net Carrying Amount | Weighted Average Amortization Period |
| Amortizing intangible assets: |                         |                          |                     |                                      |
| Technology                    | \$28,005                | \$(13,468)               | \$14,537            | 5.3 years                            |
| Customer relationships        | 16,008                  | (5,455)                  | 10,553              | 7.9 years                            |
| Trade names                   | 1,287                   | (1,074)                  | 213                 | 2.8 years                            |
| Non-compete agreements        | 1,446                   | (800)                    | 646                 | 2.3 years                            |
| Patents                       | 3,440                   | (668)                    | 2,772               | 9.7 years                            |
| Other                         | 312                     | (271)                    | 41                  | 3.0 years                            |
| Total                         | \$50,498                | \$(21,736)               | \$28,762            |                                      |
|                               | As of December 31, 2014 |                          |                     |                                      |
|                               | Gross Carrying Amount   | Accumulated Amortization | Net Carrying Amount | Weighted Average Amortization Period |
| Amortizing intangible assets: |                         |                          |                     |                                      |
| Technology                    | \$27,844                | \$(11,303)               | \$16,541            | 5.3 years                            |
| Customer relationships        | 16,008                  | (4,055)                  | 11,953              | 7.9 years                            |
| Trade names                   | 1,287                   | (817)                    | 470                 | 2.8 years                            |
| Non-compete agreements        | 1,446                   | (625)                    | 821                 | 2.3 years                            |
| Patents                       | 3,290                   | (500)                    | 2,790               | 9.9 years                            |
| Other                         | 312                     | (267)                    | 45                  | 3.0 years                            |
| Total                         | \$50,187                | \$(17,567)               | \$32,620            |                                      |

Amortization expense is calculated over the estimated useful life of the asset. Aggregate amortization expense for intangible assets was \$2.0 million and \$1.1 million for the three months ended June 30, 2015 and 2014, respectively. Aggregate amortization expense for intangible assets was \$4.2 million and \$2.1 million for the six months ended June 30, 2015 and 2014, respectively. For the three and six months ended June 30, 2015 and 2014, respectively, a portion of this amortization is included in cost of revenue. Estimated amortization expense for the next five years is as follows (amounts in thousands):

|            | Estimated Amortization Expense |
|------------|--------------------------------|
| 2015       | \$3,961                        |
| 2016       | 6,755                          |
| 2017       | 4,934                          |
| 2018       | 2,815                          |
| 2019       | 2,809                          |
| Thereafter | 7,488                          |
| Total      | \$28,762                       |

## 6. Property and Equipment

The following table presents the detail of property and equipment for the periods presented (amounts in thousands):

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Computer equipment and software                | \$63,684         | \$55,293             |
| Furniture, equipment and building improvements | 10,292           | 9,439                |
|  | 73,976           | 64,732               |
| Less: accumulated depreciation                 | (51,055)         | (45,149)             |
| Total  | \$22,921         | \$19,583             |

## 7. Accrued and Other Current Liabilities

The following table presents the detail of accrued and other current liabilities for the periods presented (amounts in thousands):

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Payroll and other employee related costs                   | \$14,073         | \$15,373             |
| Professional services and consulting and other vendor fees | 8,505            | 9,258                |
| Sales commissions  | 1,598            | 3,268                |
| Contingent earnout (see Notes 8 and 9)                     | 5,847            | 6,940                |
| Other  | 2,486            | 2,933                |
| Total  | \$32,509         | \$37,772             |

## 8. Acquisitions

## Engage Pty Ltd.

On November 9, 2012, the Company acquired all of the outstanding shares of Engage Pty Ltd. (“Engage”), an Australian provider of cloud-based customer contact solutions. The transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of Engage were included in the Company’s consolidated results of operations from the date of acquisition.

The purchase price was approximately \$10.6 million. The total acquisition costs incurred in the year ended December 31, 2012 were approximately \$0.5 million and are included in general and administrative expenses in the Company’s condensed consolidated statements of operations for the same period. The acquisition enhances the Company’s ability to offer intelligent engagement solutions to businesses in the Asia Pacific region. Of the total purchase price, \$0.8 million 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. All receivables acquired are expected to be collectible. The purchase price in excess of the fair value of the net book values of the assets acquired and liabilities assumed was allocated to intangible assets based on management’s best estimate of fair values, taking into account all relevant information available at the time of acquisition, and the excess was allocated to goodwill. The goodwill is not deductible for tax purposes. The intangible assets are being amortized over their expected period of benefit. The purchase price includes approximately \$1.7 million of potential earn-out consideration for the shareholders if certain revenue targets are achieved. The earn-out is payable in shares of LivePerson common stock and cash. The Company recorded the contingent earn-out as part of the purchase price. In accordance with ASC 480, the Company has classified this amount as a liability with the amount included in accrued expenses. At June 30, 2015, the Company assessed this earn-out and recorded a \$0.7 million fair value remeasurement adjustment, which was recorded in operating income as a decrease to general and administrative expenses and costs of revenue. As of June 30, 2015, there was no remaining liability included in accrued expenses relating to this earn-out.

## NexGraph, LLC

On March 11, 2014, the Company acquired all the outstanding shares of NexGraph, LLC (“NexGraph”), a company focused on analytic solutions, in exchange for aggregate cash consideration of \$0.5 million. Of the purchase price, \$0.1 million was allocated to Intangibles, net, of which was fully amortized as of June 30, 2015; and \$0.4 million of the purchase price was allocated to Goodwill.

## Synchronite, LLC

On June 2, 2014, the Company acquired Synchronite, LLC (“Synchronite”), a German-based start-up that provides co-browsing technology. The transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of Synchronite were included in the Company’s consolidated results of operations from the date of acquisition.

The allocation of the total purchase price of approximately \$4.1 million was based upon the estimated fair value of Synchronite's net tangible and identifiable intangible assets as of the date of acquisition. The total acquisition costs incurred were approximately \$0.4 million and are included in general and administrative expenses in the Company’s condensed consolidated statements of operations. Of the total purchase price, \$45,000 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. All receivables acquired are expected to be collectible. The purchase price includes approximately \$2.7 million of goodwill and approximately \$1.5 million of intangible assets. The goodwill is deductible for tax purposes. The intangible assets are being amortized over their expected period of benefit. The purchase price includes \$1.8 million of potential earn-out consideration for the shareholders if complete product integration is achieved. The earn-out is payable in shares of LivePerson common stock and cash. The Company recorded the contingent earn-out as part of the purchase price. In accordance with ASC 480, the Company has classified this amount as a liability and the amount is included in accrued expenses in the June 30, 2015 condensed consolidated balance sheet, due to the variable number of shares that will be issued if and when the targets are achieved. The Company has assessed the earn-out calculation at June 30, 2015, with no change from the original estimate, and will assess the earn-out calculation in future periods and any future adjustments will affect operating income.

The components of the intangible assets are as follows (amounts in thousands):

|                        | Weighted<br>Average Useful<br>Life (Months) | Amount  |
|------------------------|---|---------|
| Technology             | 120   | \$1,082 |
| Trade-name             | 48  | 62      |
| Customer relationships | 84  | 247     |
| Non-compete agreements | 36  | 60      |
|                        |   | \$1,451 |

## Contact At Once!, LLC

On November 7, 2014, the Company acquired Contact At Once!, LLC (“CAO!”), a software company with a cloud-based platform that instantly connects consumers with businesses through instant messaging, text messaging, chat, social media and video over the internet for consumer-to-business sales conversions. The transaction was accounted for under the purchase method of accounting and, accordingly, the operating results of CAO! were included in the Company’s consolidated results of operations from the date of acquisition.

The allocation of the total purchase price of approximately \$67.0 million, which includes approximately \$42.8 million in cash, approximately \$20.0 million in shares of common stock and approximately \$4.2 million of potential earn-out consideration in cash, was based upon the estimated fair value of CAO!'s net tangible and identifiable intangible assets as of the date of acquisition. The historical carrying amounts of such assets and liabilities approximated their fair values. All receivables acquired are expected to be collectible. The purchase price includes approximately \$45.1 million of goodwill and approximately \$20.4 million of intangible assets. The goodwill will be deductible for tax purposes. The intangible assets are being amortized over their expected period of benefit. The purchase price includes \$4.2 million of potential earn-out consideration for the shareholders if certain targeted financial, strategic and

integration objectives is achieved. The earn-out is payable in cash. The Company recorded the contingent earn-out as part of the purchase price. In accordance with ASC 480, the Company has classified this amount as a liability and is included in accrued expenses in the December 31, 2014 consolidated balance sheet. The Company has assessed this earn-out at June 30, 2015, with no change from the original estimate, and will assess the earn-out calculation in future periods and any future adjustments will affect operating income.

Management's allocation of the purchase price in connection with the CAO! acquisition is as follows (amounts in thousands):

|                                    |          |   |
|------------------------------------|----------|---|
| Cash                               | \$480    |   |
| Accounts receivable                | 2,694    |   |
| Other current assets               | 289      |   |
| Property and equipment             | 231      |   |
| Other assets                       | 43       |   |
| Intangible assets                  | 20,400   |   |
| Goodwill                           | 45,064   |   |
|                                    | 69,201   |   |
| Liabilities assumed                | (2,203   | ) |
| Total purchase price consideration | \$66,998 |   |

The components of the intangible assets are as follows (amounts in thousands):

|                        | Weighted<br>Average Useful<br>Life (Months) | Amount   |
|------------------------|---|----------|
| Technology             | 96  | \$8,400  |
| Trade-name             | 12  | 500      |
| Customer relationships | 120   | 10,700   |
| Non-compete agreements | 36  | 800      |
|                        |   | \$20,400 |

#### 9. Fair Value Measurements

The Company measures its cash equivalents at fair value based on an expected exit price as defined by the authoritative guidance on fair value measurements, which represents the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs reflect: quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs reflecting the Company's assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

## Financial Assets and Liabilities

The Company's assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy as of June 30, 2015 and December 31, 2014, are summarized as follows (amounts in thousands). The Company's restricted cash balance of \$5.5 million at June 30, 2015 is not held in a money market account and is not included in the following table.

|                                       | June 30, 2015 |         |         |         | December 31, 2014 |         |         |         |
|---------------------------------------|---------------|---------|---------|---------|-------------------|---------|---------|---------|
|                                       | Level 1       | Level 2 | Level 3 | Total   | Level 1           | Level 2 | Level 3 | Total   |
| Assets:                               |               |         |         |         |                   |         |         |         |
| Cash equivalents:                     |               |         |         |         |                   |         |         |         |
| Money market funds                    | \$2,840       | \$—     | \$—     | \$2,840 | \$3,987           | \$—     | \$—     | \$3,987 |
| Foreign currency derivative contracts | —             | 1,400   | —       | 1,400   | —                 | —       | —       | —       |
| Total assets                          | \$2,840       | \$1,400 | \$—     | \$4,240 | \$3,987           | \$—     | \$—     | \$3,987 |
| Liabilities:                          |               |         |         |         |                   |         |         |         |
| Contingent earn-outs                  | \$—           | \$—     | \$5,847 | \$5,847 | \$—               | \$—     | \$6,940 | \$6,940 |
| Total liabilities                     | \$—           | \$—     | \$5,847 | \$5,847 | \$—               | \$—     | \$6,940 | \$6,940 |

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions based on the best information available.

The Company's only asset that is measured at fair value on a recurring basis is money market funds, based on quoted market prices in active markets and therefore classified as level 1 within the fair value hierarchy. The Company's contingent earn-out liability and foreign currency derivative contract liability are measured at fair value on a recurring basis and are classified as level 3 and level 2, respectively, within the fair value hierarchy. On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. The Company uses an income approach and inputs that constitute level 3. During the third quarter of each year, the Company evaluates goodwill for impairment at the reporting unit level. The Company uses a combination of discounted cash flows and other qualitative factors in accordance with ASU No. 2011-08 to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This measurement is classified based on level 3 input.

There was no contingent earn-out in connection with the acquisition of Engage as of June 30, 2015. The contingent earn-out in connection with the acquisition of Engage was \$0.9 million as of December 31, 2014 and was recorded in accrued expenses in the condensed consolidated balance sheets. This earn-out is based on the potential earn-out consideration if certain revenue targets are achieved. During the three months ended June 30, 2015, the contingent-earnout decreased by \$0.7 million in connection with the Engage acquisition which was remeasured to fair value. The contingent earn-out balance was increased by \$1.8 million in June 2014 in connection with the acquisition of Synchronite and \$4.2 million in November 2014 in connection with the acquisition of CAO!. The contingent earn-out amounts are recorded in accrued expense on the condensed consolidated balance sheets as they are payable in 2015. The contingent earn-out relating to Synchronite is based on the fulfillment of a complete product integration and a minimum number of "Co-Browse" interactions per month. The contingent earn-out relating to CAO! is based on achieving certain target financial, strategic and integration objectives and milestones.

The changes in fair value of the Level 3 liabilities are as follows (amounts in thousands):

|                                   | Contingent Earn-Out |                   |
|-----------------------------------|---------------------|-------------------|
|                                   | June 30, 2015       | December 31, 2014 |
| Balance, Beginning of Period      | \$6,940             | \$1,660           |
| Synchronite addition (see Note 8) | —                   | 1,810             |
| CAO! addition (see Note 8)        | —                   | 4,220             |
| Cash payments                     | (433                | ) (750            |
| Changes in fair value             | (660                | ) —               |
| Balance, End of Period            | \$5,847             | \$6,940           |

Derivative Financial Instruments

The Company is exposed to foreign exchange risks that in part are managed by using derivative financial instruments. Beginning January 2015, the Company entered into foreign currency forward contracts related to risks associated with foreign operations. The Company does not use derivatives for trading purposes and at June 30, 2015 has no derivatives that are designated as fair value hedges. Derivatives are recorded at their estimated fair values based upon Level 2 inputs. Derivatives designated and effective as cash flow hedges are reported as a component of other comprehensive income and reclassified to earnings in the same periods in which the hedged transactions impact earnings. Gains and losses related to derivatives not meeting the requirements of hedge accounting and the portion of derivatives related to hedge ineffectiveness are recognized in current earnings.

In accordance with the foreign currency forward contracts, the Company was required to pledge cash as collateral security to be maintained at the bank. The collateral shall remain in control of the lender, and these funds can be used to satisfy the outstanding obligation. Accordingly, the Company had cash at the bank of approximately \$5.5 million at June 30, 2015 and is recorded as cash held as collateral in current assets.

The following summarizes certain information regarding the Company's outstanding foreign currency derivative contracts related primarily to intercompany receivables and payables for the periods presented (in thousands):

|  | As of June 30, 2015 | As of December 31, 2014 |
|--|---------------------|-------------------------|
| Notional amount of foreign currency derivative contracts | \$35,372            | \$—                     |
| Fair value of foreign currency derivatives contracts     | \$1,400             | \$—                     |

The fair value of the Company's derivative instruments are summarized below (in thousands):

|  | Balance Sheet Location                    | Fair Value of Derivative Instruments |                         |
|--|---|--------------------------------------|-------------------------|
|  |   | As of June 30, 2015                  | As of December 31, 2014 |
| Derivative Assets                                  |   |                                      |                         |
| Derivatives not designated as hedging instruments: |   |                                      |                         |
| Foreign currency derivatives contracts             | Prepaid expenses and other current assets | \$1,400                              | \$—                     |

The following summarizes certain information regarding the Company's derivatives that are not designated or are not effective as hedges (in thousands):

|  | Location     | Gain (losses) on Derivative Instruments Recognized in Income Statement |      |                           |      |
|--|--------------|--|------|---------------------------|------|
|  |              | Three Months Ended June 30,  |      | Six Months Ended June 30, |      |
|  |              | 2015   | 2014 | 2015                      | 2014 |
| Foreign currency derivatives contracts | Other income | \$237  | \$—  | \$174                     | \$—  |

10. Commitments and Contingencies

Contractual Obligations



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

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for the three and six months ended June 30, 2015 was approximately \$2.4 million and \$4.9 million, respectively. Rental expense for operating leases for the three and six months ended June 30, 2014 was approximately \$2.4 million and \$4.6 million, respectively.

#### Employee Benefit Plans

The Company has a 401(k) defined contribution plan covering all eligible employees. The Company provides for employer matching contributions equal to 50% of employee contributions, up to the lesser of 5% of eligible compensation or \$6,000. Matching contributions are deposited into the employee's 401(k) account and are subject to 5 year graded vesting. Salaries and related expenses include \$0.4 million and \$0.8 million of employer matching contributions for the three and six months ended June 30, 2015, respectively. Salaries and related expenses include \$0.3 million and \$0.6 million of employer matching contributions for the three and six months ended June 30, 2014, respectively.

#### 11. Stockholders' Equity

##### Common Stock

As of June 30, 2015, there were 100,000,000 shares of common stock authorized, and 57,143,697 shares issued and outstanding. As of December 31, 2014, there were 100,000,000 shares of common stock authorized, and 56,701,331 shares issued and outstanding. The par value for common shares is \$0.001.

##### Preferred Stock

As of June 30, 2015 and December 31, 2014, there were 5,000,000 shares of preferred stock authorized, and zero shares issued and outstanding. The par value for preferred shares is \$0.001.

##### Stock Repurchase Program

On December 10, 2012, the Company's Board of Directors approved a stock repurchase program through June 30, 2014. Under the stock repurchase program, the Company is authorized to repurchase shares of its common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by the Board of Directors depending upon prevailing market conditions and other corporate considerations. On March 13, 2014, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from \$30.0 million to \$40.0 million. On July 23, 2014, the Company's Board of Directors increased the aggregate purchase price of the stock repurchase program from \$40.0 million to \$50.0 million. On March 5, 2015, the Company's Board of Directors extended the expiration date of the program out to December 31, 2016. There were 224,172 shares repurchased under this program during 2015, of which 81,360 shares were recorded in treasury stock at par on the condensed consolidated balance sheets as of June 30, 2015. As of June 30, 2015, approximately \$7.8 million remained available for purchase under the program.

##### Stock-Based Compensation

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

The following table summarizes stock-based compensation expense related to employee stock options under ASC 718-10 included in Company's statements of operations for the periods presented (amounts in thousands):

|   | Three Months Ended |         | Six Months Ended |         |
|---|--------------------|---------|------------------|---------|
|   | June 30,<br>2015   | 2014    | June 30,<br>2015 | 2014    |
| Cost of revenue   | \$476              | \$484   | \$804            | \$844   |
| Sales and marketing expense                                   | 937                | 923     | 1,532            | 1,737   |
| Product development expense                                   | 953                | 931     | 1,892            | 1,611   |
| General and administrative expense                            | 746                | 869     | 1,678            | 1,712   |
| Total stock-based compensation included in costs and expenses | \$3,112            | \$3,207 | \$5,906          | \$5,904 |



The per share weighted average fair value of stock options granted during the three and six months ended June 30, 2015 was \$4.20 and \$4.54, respectively. The per share weighted average fair value of stock options granted during the three and six months ended June 30, 2014 was \$4.76 and \$5.06, 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 |               | Six Months Ended |               |
|--------------------------|--------------------|---------------|------------------|---------------|
|                          | June 30,           |               | June 30,         |               |
|                          | 2015               | 2014          | 2015             | 2014          |
| Dividend yield           | 0.0%               | 0.0%          | 0.0%             | 0.0%          |
| Risk-free interest rate  | 1.4%               | 1.6% - 1.7%   | 1.3% - 1.4%      | 1.5% - 1.7%   |
| Expected life (in years) | 5                  | 5             | 5                | 5             |
| Historical volatility    | 49.4%              | 52.6% - 53.2% | 49.4% - 49.7%    | 52.6% - 53.7% |

A description of the methods used in the significant assumptions used to estimate the fair value of stock-based compensation awards follows:

Dividend yield – The Company uses 0% as it has never issued dividends and does not anticipate issuing dividends in the near term.

Risk-free interest rate – The Company uses the market yield on U.S. Treasury securities at five years with constant maturity, representing the current expected life of stock options in years.

Expected life – The Company uses historical data to estimate the expected life of a stock option.

Historical volatility – The Company uses a trailing five year from grant date to determine volatility.

#### Stock Option 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 2000 Stock Incentive Plan (the “2000 Plan”) succeeded the 1998 Plan. Under the 2000 Plan, the options which had been outstanding under the 1998 Plan were incorporated in the 2000 Plan increasing the number of shares available for issuance under the plan by approximately 4,150,000, thereby reserving for issuance 10,000,000 shares of common stock in the aggregate.

The Company established the 2009 Stock Incentive Plan (as amended and restated, the “2009 Plan”) as a successor to the 2000 Plan. Under the 2009 Plan, the options which had been outstanding under the 2000 Plan were incorporated into the 2009 Plan and the Company increased the number of shares available for issuance under the plan by 6,000,000. The Company amended the 2009 stock incentive plan (the “Amended 2009 Plan”) effective June 7, 2012.

The Amended 2009 Plan increased the number of shares authorized for issuance under the plan by an additional 4,250,000, thereby reserving for issuance 23,817,744 shares of common stock in the aggregate. Options to acquire common stock granted thereunder have 10-year terms. As of June 30, 2015, approximately 13,060,000 shares of common stock were reserved for issuance under the 2009 Plan (taking into account all option exercises through June 30, 2015).

#### Employee Stock Purchase Plan

In June 2010, the Company’s stockholders approved the 2010 Employee Stock Purchase Plan with 1,000,000 shares of common stock initially reserved for issuance. As of June 30, 2015, approximately 470,000 shares of common stock were reserved for issuance under the Employee Stock Purchase Plan (taking into account all share purchases through June 30, 2015).

## Stock Option Activity

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

|  | Stock Option Activity |                                       | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (in<br>years) | Aggregate<br>Intrinsic Value<br>(in thousands) |
|--|-----------------------|---------------------------------------|---|--|
|  | Options               | Weighted<br>Average<br>Exercise Price |   |  |
| Balance outstanding at December 31, 2014             | 10,769,149            | \$ 10.95                              |   |  |
| Granted  | 738,250               | 10.27                                 |   |  |
| Exercised  | (478,663 )            | 4.31                                  |   |  |
| Cancelled or expired                                 | (926,578 )            | 12.32                                 |   |  |
| Balance outstanding at June 30, 2015                 | 10,102,158            | \$ 11.83                              | 7.04  | \$7,388  |
| Options vested and expected to vest at June 30, 2015 | 8,831,900             | \$ 11.09                              | 6.79  | \$7,302  |
| Options exercisable at June 30, 2015                 | 5,025,493             | \$ 10.61                              | 5.69  | \$6,953  |

The total fair value of stock options exercised during the six months ended June 30, 2015 was approximately \$1.3 million. As of June 30, 2015, there was approximately \$21.9 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of approximately 2.5 years.

A summary of the status of the Company's nonvested shares as of December 31, 2014, and changes during the six months ended June 30, 2015 is as follows:

|                                       | Options    | Weighted<br>Average Grant-<br>Date Fair Value |
|---------------------------------------|------------|---|
| Nonvested Shares at December 31, 2014 | 6,032,315  | \$ 5.66                                       |
| Granted                               | 738,250    | 4.54  |
| Vested                                | (767,322 ) | 2.85  |
| Cancelled or expired                  | (926,578 ) | 6.04  |
| Nonvested Shares at June 30, 2015     | 5,076,665  | \$ 5.54                                       |

The total intrinsic value of nonvested options at June 30, 2015 was approximately \$0.4 million.

## Restricted Stock Unit Activity

A summary of the Company's restricted stock units ("RSUs") activity and weighted average exercise prices follows:

|   | Number of<br>Shares | Weighted<br>Average<br>Grant Date Fair<br>Value (Per Share) | Aggregate Fair<br>Value (in<br>thousands) |
|---|---------------------|---|---|
| Balance outstanding at December 31, 2014    | —                   | \$—   | \$—                                       |
| Granted                                     | 1,256,500           | —   | —   |
| Exercised                                   | —                   | —   | —   |
| Forfeited                                   | —                   | —   | —   |
| Non-vested and outstanding at June 30, 2015 | 1,256,500           | \$2.08  | \$12,326                                  |
| Expected to vest at June 30, 2015           | 876,364             | \$2.05  | \$8,597                                   |

RSUs granted to employees generally vest annually over a four-year period. As of June 30, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested RSUs was approximately \$12.0 million and the weighted-average remaining vesting period was 3.7 years.

In the three months ended June 30, 2015, we issued restricted stock units to certain employees and performance-based restricted stock units to certain executives. Restricted stock units will be eligible to vest based on the employee's continued employment through the vesting date. The performance-based restricted stock units will be eligible to vest based on our attainment of the 2015 financial performance goal as well as each executive's continued employment

through the vesting date. In order to

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earn the performance-based restricted stock units, the predetermined goal must be met. Shares earned will vest in March 2016 contingent on the continuous employment of each executive. We recognize stock-based compensation expense associated with these awards over the vesting period, after assessing the probability of achieving the 2015 financial performance goal.

## 12. Restructuring Costs

The Company's restructuring costs relate to the termination and severance costs associated with a large customer contract, as well as re-prioritizing and reallocating resources to focus on areas showing high growth potential. The expense associated with this restructuring was approximately \$3.0 million during the three and six months ended June 30, 2015 and is classified in the condensed consolidated statements of operations as restructuring costs. The restructuring liability was approximately \$1.7 million as of June 30, 2015 and is classified as accrued expenses and other current liabilities on the condensed consolidated balance sheets. The following table presents the detail of expenses and liability for the Company's restructuring charges for the periods presented (amounts in thousands):

|                                      | Expense incurred<br>during the Six Months<br>Ended June 30, 2015 | Liability as of June 30,<br>2015 |
|--------------------------------------|--|----------------------------------|
| Contract termination costs           | \$ 1,745   | \$ 644                           |
| Severance and other associated costs | 1,243  | 1,072                            |
| Total restructuring costs            | \$ 2,988   | \$ 1,716                         |

## 13. Legal Matters

On June 22, 2015, [24]7 Customer, Inc. filed suit against the Company in the Northern District of California alleging patent infringement. The Company believes the claims are entirely without merit and intend to defend them vigorously. The Company previously filed an intellectual property suit against [24]7 Customer, Inc. in the Southern District of New York on March 6, 2014 seeking damages on the grounds that [24]7 reverse engineered and misappropriated the Company's technology to develop competing products and misused the Company's business information. Discovery in the New York case is in process.

The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where the Company assesses the likelihood of loss as probable.

From time to time, the Company is involved in or subject to legal, administrative and regulatory proceedings, claims, demands and investigations arising in the ordinary course of business, including direct claims brought by or against the Company with respect to intellectual property, contracts, employment and other matters, as well as claims brought against the Company's customers for whom the Company has a contractual indemnification obligation. The Company accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In addition, in the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450. The accruals or estimates, if any, resulting from the foregoing analysis, are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, the Company will, as applicable, adjust the accrual in the period the determination is made, disclose an estimate of the additional loss or range of loss, indicate that the estimate is immaterial with respect to its financial statements as a whole or, if the amount of such adjustment cannot be reasonably estimated, disclose that an estimate cannot be made.

From time to time, third parties assert claims against the Company regarding intellectual property rights, privacy issues and other matters arising out of the ordinary course of business. Although the Company cannot be certain of the outcome of any litigation or the disposition of any claims, nor the amount of damages and exposure, if any, that the Company could incur, the Company currently believes that the final disposition of all existing matters will not have a material adverse effect on our business, results of operations, financial condition or cash flows. In addition, in the

ordinary course of our business, the Company is also subject to periodic threats of lawsuits, investigations and claims. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

Our discussion and analysis of our financial condition and results of operations are based upon our 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates and assumptions relate to estimates of the carrying amount of goodwill, intangibles, stock based-compensation, valuation allowances for deferred income taxes, accounts receivable, the expected term of a customer relationship, accruals and other factors. We evaluate these estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions, and any differences could be material.

### Overview

LivePerson was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced initially in November 1998. We provide online engagement solutions offering a cloud-based platform which enables businesses to proactively connect with consumers through chat, voice and content delivery, across multiple channels and screens, including websites, social media, tablets and mobile devices. We are organized into two operating segments: Business and Consumer. The Business segment facilitates real-time online interactions — chat, voice and content delivery, across multiple channels and screens for global corporations of all sizes. The Consumer segment facilitates online transactions between independent service providers (“Experts”) and individual consumers (“Users”) seeking information and knowledge for a fee via real-time chat.

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

**Expanding Business with Existing Customers and Adding New Customers.** We are expanding our sales capacity by adding enterprise and midmarket sales agents. We have also expanded our efforts to retain existing self-service customers through increased interaction with them during the early stages of their usage of our services.

**Introducing New Products and Capabilities.** We are investing in product marketing, research and development and executive personnel to support our expanding efforts to build and launch new products and capabilities to support existing customer deployments, and to further penetrate our total addressable market. These investments are initially focused in the areas of online marketing and mobile consumer engagement enhanced data and reporting and chat transcript text analysis. Over time, we expect to develop and launch additional capabilities which leverage our existing market position as a leader in proactive, intelligence-driven online engagement.

**Expanding our International Presence.** We continue to increase our investment in sales and support personnel in the United Kingdom, Asia-Pacific, Latin America and Western Europe, particularly France and Germany. We are also working with sales and support partners as we expand our investment in the Asia-Pacific region. We continue to improve the multi-language and translation capabilities within our hosted solutions to further support international expansion.

### Key Metrics

Financial overview of the three months ended June 30, 2015 compared to the three months ended June 30, 2014:

Total revenue increased 16% to \$59.3 million from \$51.1 million.

Revenue from our Business segment increased 19% to \$55.5 million from \$46.5 million.

Gross profit margin decreased to 70% from 74%.

Cost and expenses increased 27% to \$67.0 million from \$52.6 million.

Net loss increased to \$5.4 million from net loss of \$1.2 million.

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Revenue per enterprise and mid-market customer averaged \$183,000 over the trailing twelve months ended June 30, 2015, a 5% sequential increase as compared to the \$174,000 calculated for the period ended March 31, 2015. These figures are pro forma to exclude contributions from one large customer contract that ended.

Customer renewal rate for enterprise and mid-market customers was 88% over the trailing twelve months ended June 30, 2015, as compared to 89% over the trailing twelve months ended March 31, 2015.

#### Adjusted EBITDA and Adjusted Net Income

To provide investors with additional information regarding our financial results, we have disclosed adjusted EBITDA and adjusted net income which are non-GAAP financial measures. The tables below present a reconciliation of adjusted EBITDA and adjusted net income to net loss, the most directly comparable GAAP financial measures.

We have included adjusted EBITDA and adjusted net income in this Quarterly Report on Form 10-Q because these are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA and adjusted net income can provide a useful measure for period-to-period comparisons of our core business. Additionally, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the payment of bonuses to our executive officers. Accordingly, we believe that adjusted EBITDA and adjusted net income provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;

adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and

other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. The following table presents a reconciliation of adjusted EBITDA for each of the periods indicated (amounts in thousands):

|                                       | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|---------------------------------------|-----------------------------|--------------|---------------------------|--------------|
|                                       | 2015                        | 2014         | 2015                      | 2014         |
| Reconciliation of Adjusted EBITDA     |                             |              |                           |              |
| GAAP net loss                         | \$ (5,354)                  | ) \$ (1,212) | ) \$ (7,412)              | ) \$ (2,006) |
| Amortization of purchased intangibles | 2,017                       | 1,075        | 4,169                     | 2,133        |
| Stock-based compensation              | 3,112                       | 3,207        | 5,906                     | 5,904        |
| Depreciation                          | 3,082                       | 2,233        | 5,660                     | 4,215        |
| Restructuring costs                   | 2,988                       | —            | 2,988                     | —            |
| Benefit from income taxes             | (2,098)                     | ) (224)      | ) (2,326)                 | ) (454)      |
| Acquisition costs                     | —                           | 361          | —                         | 361          |
| Other (income) expense                | (229)                       | ) (45)       | ) 2                       | 38           |
| Adjusted EBITDA                       | \$ 3,518                    | \$ 5,395     | \$ 8,987                  | \$ 10,191    |

Our use of adjusted net income has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

although amortization are non-cash charges, the assets being amortized may have to be replaced in the future, and adjusted net income does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

adjusted net income does not consider the potentially dilutive impact of equity-based compensation;

other companies, including companies in our industry, may calculate adjusted net income differently, which reduces its usefulness as a comparative measure.



Because of these limitations, you should consider adjusted net income alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. The following table presents a reconciliation of adjusted net income for each of the periods indicated (amounts in thousands):

|  | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|--|-----------------------------|--------------|---------------------------|--------------|
|  | 2015                        | 2014         | 2015                      | 2014         |
| Reconciliation of Adjusted Net Income              |                             |              |                           |              |
| GAAP net loss                                      | \$ (5,354)                  | ) \$ (1,212) | ) \$ (7,412)              | ) \$ (2,006) |
| Amortization of purchased intangibles              | 2,017                       | 1,075        | 4,169                     | 2,133        |
| Stock-based compensation                           | 3,112                       | 3,207        | 5,906                     | 5,904        |
| Restructuring costs                                | 2,988                       | —            | 2,988                     | —            |
| Acquisition costs                                  | —                           | 361          | —                         | 361          |
| Income tax effect of non-GAAP items <sup>(1)</sup> | (1,855)                     | ) (537)      | ) (2,985)                 | ) (971)      |
| Adjusted net income                                | \$ 908                      | \$ 2,894     | \$ 2,666                  | \$ 5,421     |

<sup>(1)</sup> The Company's income tax effect does not include discrete items.

#### Critical Accounting Policies and Estimates

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

##### Revenue Recognition

The majority of our revenue is generated from monthly service revenues and related professional services from the sale of the LivePerson services. Because we provide our application as a service, we follow the provisions of ASC 605-10-S99, "Revenue Recognition" and ASC 605-25, "Revenue Recognition with Multiple-Element Arrangements." We charge a monthly fee, which varies by type of service, the level of customer usage and website traffic, and in some cases, the number of orders placed via our online engagement solutions.

For certain of our larger customers, we may provide call center labor through an arrangement with one or more of several qualified vendors. For most of these customers, we pass the fee we incur with the labor provider and our fee for the hosted services through to our customers in the form of a fixed fee for each order placed via our online engagement solutions. For these Pay for Performance ("PPF") arrangements, in accordance with ASC 605-45, "Principal Agent Considerations," we record revenue for transactions in which we act as an agent on a net basis, and revenue for transactions in which we act as a principal on a gross basis.

We also sell certain of the LivePerson services directly via Internet download. These services are marketed as LiveEngage for small to medium-sized businesses, 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 LiveEngage 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, in some cases, are terminable or may terminate upon 30 to 90 days' notice without penalty. When professional service fees add value to the customer on a standalone basis, we recognize professional service fees upon completion and customer acceptance. We establish a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. If a professional services arrangement does not qualify for separate accounting, we recognize the fees, and the related labor costs, ratably over the contracted period.

For revenue from our Consumer segment generated from online transactions between Experts and Users, we recognize revenue net of Expert fees in accordance with ASC 605-45, "Principal Agent Considerations," due primarily to the fact that the Expert is the primary obligor. Additionally, we perform as an agent without any risk of loss for collection, and are not involved in selecting the Expert or establishing the Expert's fee. We collect a fee from the consumer and retain a portion of the fee, and then remit the balance to the Expert. Revenue from these transactions is recognized when

there is persuasive evidence of an arrangement, no significant Company obligations remain, collection of the resulting receivable is probable and the amount of fees to be paid is fixed or determinable.

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### Stock-Based Compensation

We follow ASC 718-10, “Stock Compensation,” which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. ASC 718-10 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.

As of June 30, 2015, there was approximately \$21.9 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted average period of approximately 2.5 years. As of June 30, 2015, there was approximately \$12.0 million of total unrecognized compensation cost related to nonvested restricted stock units. That cost is expected to be recognized over a weighted average period of approximately 3.7 years.

### Accounts Receivable

Our customers are located primarily in the United States. We perform ongoing credit evaluations of our customers’ financial condition (except for customers who purchase the LivePerson services by credit card via Internet download) and have established an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information that we believe to be reasonable, although they may change in the future. If there is a deterioration of a customer’s credit worthiness or actual write-offs are higher than our historical experience, our estimates of recoverability for these receivables could be adversely affected. Although our large number of customers limits our concentration of credit risk we do have several large customers. If we experience a significant write-off from one of these large customers, it could have a material adverse impact on our condensed consolidated financial statements. No single customer accounted for or exceeded 10% of our total revenue in the six months ended June 30, 2015 and 2014. No individual customer accounted for 10% or more of accounts receivable as of June 30, 2015. One customer accounted for approximately 22% of accounts receivable as of December 31, 2014. We increased our allowance for doubtful accounts by \$0.6 million in the three months ended June 30, 2015.

A large portion of receivables are due from larger corporate customers that typically have longer payment cycles.

### Goodwill

In accordance with ASC 350, “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. In September 2011, the FASB issued ASU No. 2011-08, Intangibles — Goodwill and Other (Topic 350). ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. If it is determined that the fair value of a reporting unit is more likely than not to be less than its carrying value (including unrecognized intangible assets) then it is necessary to perform the second step of the goodwill impairment test. 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. We perform internal valuation analysis 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.

We evaluate for goodwill impairment annually at September 30<sup>th</sup>. At the end of the third quarter of 2014, we determined that it was not more-likely that the fair value of the reporting units are less than their carrying amount. Accordingly, we did not perform the two-step goodwill impairment test.

### Impairment of Long-Lived Assets

In accordance with ASC 360-10, "Accounting for the Impairment or Disposal of Long-lived Assets," long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company does not have any long-lived assets, including intangible assets, which it considered to be impaired.

#### Legal Contingencies

We are subject to legal proceedings and litigation arising in the ordinary course of business. Periodically, we evaluate the status of each legal matter and assess our potential financial exposure. If the potential loss from any legal proceeding or litigation



is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required to determine the probability of a loss and whether the amount of the loss is reasonably estimable. The outcome of any proceeding is not determinable in advance. As a result, the assessment of a potential liability and the amount of accruals recorded are based only on the information available at the time. As additional information becomes available, we reassess the potential liability related to the legal proceeding or litigation, and may revise our estimates. Any revisions could have a material effect on our results of operations. See Note 13, Legal Matters, of the Notes to the Consolidated Financial Statements additional information on our legal proceedings and litigation.

#### Recently Issued Accounting Standards

On February 18, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-02, Consolidation: Amendments to the Consolidation Analysis (“ASU 2015-02”), which affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The standard amends the consolidation requirements in ASC 810. ASU 2015-02 is effective for fiscal periods beginning after December 15, 2015 for public companies, and early adoption is permitted. We do not expect to early adopt ASU 2015-02, which will be effective for our fiscal year ending December 31, 2016. We do not believe the standard will have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes most existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We will adopt this guidance at the beginning of its first quarter of fiscal year 2017. Adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements or disclosures.

#### Revenue

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

Revenue from our Business segment accounted for 93% and 94% of total revenue for the three and six months ended June 30, 2015, respectively. Revenue attributable to our monthly hosted Business services accounted for 90% of total Business revenue for the three and six months ended June 30, 2015. Revenue from our Business segment accounted for 91% of total revenue for the three and six months ended June 30, 2014. Revenue attributable to our monthly hosted Business services accounted for 90% of total Business revenue for the three and six months ended June 30, 2014. Our service agreements typically have twelve month terms and, in some cases, are terminable or may terminate upon 30 to 90 days’ notice without penalty. Given the time required to schedule training for our customers’ operators and our customers’ resource constraints, we have historically experienced a lag between signing a customer contract and recognizing revenue from that customer. Although this lag typically ranges from 30 to 90 days, it may take more time between contract signing and recognizing revenue in certain situations.

Revenue from our Consumer segment is generated from online transactions between Experts and Users and is recognized net of Expert fees and accounted for approximately 7% and 6% of total revenue for the three and six

months ended June 30, 2015, respectively. Revenue generated from online transactions between Experts and Users and is recognized net of Expert fees and accounted for approximately 9% of total revenue for the three and six months ended June 30, 2014.

We also have entered into contractual arrangements that complement our direct sales force and online sales efforts. These are primarily with 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.

#### Costs and Expenses

Our cost of revenue consists of:

- compensation costs relating to employees who provide customer support and implementation services to our customers;

outside labor provider costs;  
 compensation costs relating to our network support staff;  
 depreciation of certain hardware and software;  
 allocated occupancy costs and related overhead;  
 the cost of supporting our infrastructure, including expenses related to server leases, infrastructure support costs and Internet connectivity;  
 the credit card fees and related payment processing costs associated with consumer and self-service customers; and  
 amortization of certain intangibles.

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

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

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.

During the six months ended June 30, 2015, we increased our allowance for doubtful accounts by approximately \$0.7 million to approximately \$2.0 million. During 2014, we increased our allowance for doubtful accounts by \$0.1 million to approximately \$1.3 million, principally due to an increase in the proportion of receivables due as a result of an increase in sales. A large proportion of receivables are due from larger corporate customers that typically have longer payment cycles. 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 are as follows:

|                                  | Three Months Ended June 30, |         | Six Months Ended June 30, |         |
|----------------------------------|-----------------------------|---------|---------------------------|---------|
|                                  | 2015                        | 2014    | 2015                      | 2014    |
|                                  | (in thousands)              |         | (in thousands)            |         |
| Stock-based compensation expense | \$3,112                     | \$3,207 | \$5,906                   | \$5,904 |

#### Results of Operations

The Company is organized into two operating segments: Business and Consumer. The Business segment facilitates real-time online interactions — chat, voice and content delivery, across multiple channels and screens for global corporations of all sizes. The Consumer segment facilitates online transactions between Experts and Users seeking information and knowledge for a fee via real-time chat.

#### Comparison of the Three and Six Months Ended June 30, 2015 and 2014

##### Revenue

|                     | Three Months Ended June 30, |          |          | Six Months Ended June 30, |          |          |
|---------------------|-----------------------------|----------|----------|---------------------------|----------|----------|
|                     | 2015                        | 2014     | % Change | 2015                      | 2014     | % Change |
|                     | (in thousands)              |          |          | (in thousands)            |          |          |
| Revenue by Segment: |                             |          |          |                           |          |          |
| Business            | \$55,472                    | \$46,548 | 19 %     | \$111,545                 | \$90,467 | 23 %     |
| Consumer            | 3,862                       | 4,539    | (15)%    | 7,559                     | 8,448    | (11)%    |
| Total               | \$59,334                    | \$51,087 | 16 %     | \$119,104                 | \$98,915 | 20 %     |

Business revenue increased by 19% to \$55.5 million in the three months ended June 30, 2015, from \$46.5 million in the comparable period in 2014. The increase in revenue from new customers was approximately \$9.9 million; and revenue from professional services increased by approximately \$0.6 million. The increase in revenue was partially offset by a large customer contract that ended.

Business revenue increased by 23% to \$111.5 million in the six months ended June 30, 2015, from \$90.5 million in the comparable period in 2014. The increase in revenue from new customers was approximately \$18.6 million; and revenue from professional services increased by approximately \$1.8 million. The increase in revenue was also attributable to an increase in revenue from existing customers who increased their use of our services in the amount of approximately \$2.1 million, net of cancellations. The increase in revenue was partially offset by a large customer contract that ended.

Consumer revenue decreased by 15% and 11% to \$3.9 million and \$7.6 million in the three months and six months ended June 30, 2015, respectively, from \$4.5 million and \$8.4 million in the comparable periods in 2014. The decrease was driven by a decrease in the average price charged per minute partially offset by an increase in the fees we charge experts.

#### Cost of Revenue - Business

Cost of revenue consists of compensation costs relating to employees who provide customer service to our customers, compensation costs relating to our network support staff, outside labor provider costs, the cost of supporting our server and network infrastructure, and allocated occupancy costs and related overhead.

|                             | Three Months Ended June 30, |          |             | Six Months Ended June 30, |          |             |
|-----------------------------|-----------------------------|----------|-------------|---------------------------|----------|-------------|
|                             | 2015                        | 2014     | %<br>Change | 2015                      | 2014     | %<br>Change |
|                             | (\$ in thousands)           |          |             | (\$ in thousands)         |          |             |
| Cost of revenue - business  | \$17,271                    | \$12,483 | 38 %        | \$32,887                  | \$23,627 | 39 %        |
| Percentage of total revenue | 29 %                        | 24 %     |             | 28 %                      | 24 %     |             |
| Headcount (at period end):  | 299                         | (1) 200  | 50 %        | 299                       | (1) 200  | 50 %        |

(1) Includes 76 employees as a result of the acquisition of CAO!

Cost of revenue increased by 38% to \$17.3 million in the three months ended June 30, 2015, from \$12.5 million in the comparable period in 2014. This increase in expense was primarily attributable to total compensation and related costs for additional and existing customer service, network operations personnel and external consultants in the amount of approximately \$1.6 million, an increase in outside labor provider fees of approximately \$1.9 million, and an increase in primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$1.0 million as a result of increased revenue. The increase in the cost of revenue was due to the investment in enhancing our business continuity capabilities at our hosting facilities. Additionally, data collection and storage costs have increased in support of expanded scope and quality of the analytical reporting to our customers.

Cost of revenue increased by 39% to \$32.9 million in the six months ended June 30, 2015, from \$23.6 million in the comparable period in 2014. This increase in expense was primarily attributable to total compensation and related costs for additional and existing customer service, network operations personnel and external consultants in the amount of approximately \$3.8 million, an increase in outside labor provider fees of approximately \$3.7 million, and an increase in primary and backup server facilities and allocated overhead related to costs of supporting our server and network infrastructure of approximately \$2.0 million as a result of increased revenue. The increase in the cost of revenue was due to the investment in enhancing our business continuity capabilities at our hosting facilities. Additionally, data collection and storage costs have increased in support of expanded scope and quality of the analytical reporting to our customers.

Cost of Revenue - Consumer

Cost of revenue consists of compensation costs relating to employees who provide customer service to Experts and Users, compensation costs relating to our network support staff, the cost of supporting our server and network infrastructure, credit card and transaction processing fees and related costs, and allocated occupancy costs and related overhead.

|                             | Three Months Ended June 30, |       |          | Six Months Ended June 30, |         |          |
|-----------------------------|-----------------------------|-------|----------|---------------------------|---------|----------|
|                             | 2015                        | 2014  | % Change | 2015                      | 2014    | % Change |
|                             | (\$ in thousands)           |       |          | (\$ in thousands)         |         |          |
| Cost of revenue - consumer  | \$616                       | \$678 | (9)%     | \$1,254                   | \$1,269 | (1)%     |
| Percentage of total revenue | 1                           | % 1   | %        | 1                         | % 1     | %        |
| Headcount (at period end)   | 15                          | 17    | (12)%    | 15                        | 17      | (12)%    |

Cost of revenue decreased by 9% to \$0.6 million in the three months ended June 30, 2015, from \$0.7 million in the comparable period in 2014. The decrease in expense is due to a decrease in compensation costs relating to our network support staff of approximately \$0.1 million.

Cost of revenue remained flat at \$1.3 million in the six months ended June 30, 2015 compared to the same period in 2014.

Sales and Marketing - Business

Our sales and marketing expenses consist of compensation and related expenses for sales and marketing personnel, as well as advertising, public relations, trade show exhibit expenses and allocated occupancy costs and related overhead.

|                                | Three Months Ended June 30, |                    |          | Six Months Ended June 30, |                    |          |
|--------------------------------|-----------------------------|--------------------|----------|---------------------------|--------------------|----------|
|                                | 2015                        | 2014               | % Change | 2015                      | 2014               | % Change |
|                                | (\$ in thousands)           |                    |          | (\$ in thousands)         |                    |          |
| Sales and marketing - business | \$22,617                    | \$18,799           | 20%      | \$45,531                  | \$35,717           | 27%      |
| Percentage of total revenue    | 38                          | % 37               | %        | 38                        | % 36               | %        |
| Headcount (at period end):     | 354                         | <sup>(1)</sup> 275 | 29%      | 354                       | <sup>(1)</sup> 275 | 29%      |

<sup>(1)</sup> Includes 66 employees as a result of the acquisition of CAO!

Sales and marketing expenses increased by 20% to \$22.6 million in the three months ended June 30, 2015, from \$18.8 million in the comparable period in 2014. The increase was primarily due to compensation and related costs for additional and existing sales and marketing personnel of approximately \$2.6 million directly related to expanded headcount, and advertising, public relations and trade show exhibit expenses of approximately \$0.5 million.

Additionally, we continue to invest in our marketing and sales capabilities, as well as invest in our global sales team, global expansion and LiveEngage 2.0 product expansion.

Sales and marketing expenses increased by 27% to \$45.5 million in the six months ended June 30, 2015, from \$35.7 million in the comparable period in 2014. The increase was primarily due to compensation and related costs for additional and existing sales and marketing personnel of approximately \$7.1 million directly related to expanded headcount, and advertising, public relations and trade show exhibit expenses of approximately \$0.7 million.

Additionally, we continue to invest in our marketing and sales capabilities, as well as invest in our global sales team, global expansion and LiveEngage 2.0 product expansion.

Sales and Marketing - Consumer

Our sales and marketing expenses consist of compensation and related expenses for marketing personnel, as well as online promotion, public relations and allocated occupancy costs and related overhead.

|                                | Three Months Ended June 30, |         |          | Six Months Ended June 30, |         |          |
|--------------------------------|-----------------------------|---------|----------|---------------------------|---------|----------|
|                                | 2015                        | 2014    | % Change | 2015                      | 2014    | % Change |
|                                | (\$ in thousands)           |         |          | (\$ in thousands)         |         |          |
| Sales and marketing - consumer | \$1,765                     | \$1,278 | 38%      | \$3,145                   | \$2,755 | 14%      |
| Percentage of total revenue    | 3                           | % 3     | %        | 3                         | % 3     | %        |

Headcount (at period end):            9                            5                            80                            %                            9                            5                            80                            %

Sales and marketing expenses increased by 38% and 14% to \$1.8 million and \$3.1 million in the three and six months ended June 30, 2015, respectively, from \$1.3 million and \$2.8 million in the comparable periods in 2014. This increase is primarily attributable to an increase in advertising and online expenses of approximately \$0.4 million and \$0.2 million, respectively.

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## General and Administrative

Our general and administrative expenses consist of compensation and related expenses for executive, accounting, legal, human resources and administrative personnel, professional fees and other general corporate expenses.

|                             | Three Months Ended June 30, |         |          | Six Months Ended June 30, |          |          |  |  |
|-----------------------------|-----------------------------|---------|----------|---------------------------|----------|----------|--|--|
|                             | 2015                        | 2014    | % Change | 2015                      | 2014     | % Change |  |  |
|                             | (\$ in thousands)           |         |          | (\$ in thousands)         |          |          |  |  |
| General and administrative  | \$10,471                    | \$9,788 | 7 %      | \$20,636                  | \$19,286 | 7 %      |  |  |
| Percentage of total revenue | 18 %                        | 19 %    |          | 17 %                      | 19 %     |          |  |  |
| Headcount (at period end):  | 122                         | (1) 97  | 26 %     | 122                       | (1) 97   | 26 %     |  |  |

(1) Includes 10 employees as a result of the acquisition of CAO!

General and administrative expenses increased by 7% to \$10.5 million and \$20.6 million in the three and six months ended June 30, 2015, from \$9.8 million and \$19.3 million in the comparable periods in 2014. The increase was primarily due to compensation and related expenses of approximately \$1.1 million and \$1.8 million, respectively.

## Product Development

Our product development expenses consist of compensation and related expenses for product development personnel as well as allocated occupancy costs and related overhead and outsourced labor and expenses for testing new versions of our software.

|                             | Three Months Ended June 30, |         |          | Six Months Ended June 30, |          |          |  |  |
|-----------------------------|-----------------------------|---------|----------|---------------------------|----------|----------|--|--|
|                             | 2015                        | 2014    | % Change | 2015                      | 2014     | % Change |  |  |
|                             | (\$ in thousands)           |         |          | (\$ in thousands)         |          |          |  |  |
| Product development         | \$10,109                    | \$9,336 | 8 %      | \$19,909                  | \$18,287 | 9 %      |  |  |
| Percentage of total revenue | 17 %                        | 18 %    |          | 17 %                      | 18 %     |          |  |  |
| Headcount (at period end):  | 253                         | (1) 214 | 18 %     | 253                       | (1) 214  | 18 %     |  |  |

(1) Includes 15 employees as a result of the acquisition of CAO!

Product development costs increased by 8% to \$10.1 million in the three months ended June 30, 2015, from \$9.3 million in the comparable period in 2014. This increase relates to an increase in compensation and associated costs for additional and existing product development personnel of approximately \$0.5 million to expand our product offerings and an increase in outsource labor of approximately \$0.1 million. We continue to increase our investment in new product development efforts to expand future product offerings. We are also investing in partner programs that enable third-parties to develop value-added software applications for our existing and future customers.

Product development costs increased by 9% to \$19.9 million in the six months ended June 30, 2015, from \$18.3 million in the comparable period in 2014. This increase relates to an increase in compensation and associated costs for additional and existing product development personnel of approximately \$1.3 million to expand our product offerings and an increase in outsource labor of approximately \$0.1 million. We continue to increase our investment in new product development efforts to expand future product offerings. We are also investing in partner programs that enable third-parties to develop value-added software applications for our existing and future customers.

## Restructuring Costs

Restructuring costs consists of termination costs associated with a large customer contract that ended, as well as re-prioritizing and reallocating resources to focus on areas showing high growth potential.

|                              | Three Months Ended June 30, |      |          | Six Months Ended June 30, |      |          |  |  |
|------------------------------|-----------------------------|------|----------|---------------------------|------|----------|--|--|
|                              | 2015                        | 2014 | % Change | 2015                      | 2014 | % Change |  |  |
|                              | (\$ in thousands)           |      |          | (\$ in thousands)         |      |          |  |  |
| Restructuring costs          | \$2,988                     | \$—  | 100 %    | \$2,988                   | \$—  | 100 %    |  |  |
| Percentage of total revenues | 5 %                         | — %  |          | 3 %                       | — %  |          |  |  |

We incurred \$3.0 million in restructuring costs in the three and six months ended June 30, 2015. Restructuring costs were primarily due to approximately \$1.7 million of termination costs associated with a large customer contract that

ended and approximately \$1.2 million of severance and other associated costs.

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## Amortization of Purchased Intangibles

|                                       | Three Months Ended June 30, |       |          | Six Months Ended June 30, |       |          |
|---------------------------------------|-----------------------------|-------|----------|---------------------------|-------|----------|
|                                       | 2015                        | 2014  | % Change | 2015                      | 2014  | % Change |
|                                       | (\$ in thousands)           |       |          | (\$ in thousands)         |       |          |
| Amortization of purchased intangibles | \$1,178                     | \$206 | 472 %    | \$2,490                   | \$396 | 529 %    |
| Percentage of total revenues          | 2 %                         | — %   |          | 2 %                       | — %   |          |

Amortization expense for purchased intangibles increased by 472% and 529% to \$1.2 million and \$2.5 million in the three and six months ended June 30, 2015, respectively, from \$0.2 million and \$0.4 million in the comparable periods in 2014. The increase is primarily attributable to our 2014 acquisitions of CAO!, Synchronite, NexGraph, and our investments in technology licenses. Additional amortization expense in the amount of \$0.8 million and \$0.9 million is included in cost of revenue for the three months ended June 30, 2015 and 2014, respectively. Additional amortization expense in the amount of \$1.7 million is included in cost of revenue for the six months ended June 30, 2015 and 2014.

## Other Income (Expense)

Other income (expense) consists of interest income on cash and cash equivalents, investment income and financial (expense) income which is a result of currency rate fluctuations associated with exchange rate movement of the U.S. dollar against the New Israeli Shekel, Pound Sterling, Euro, Australian Dollar and Japanese Yen.

|                        | Three Months Ended June 30, |      |          | Six Months Ended June 30, |         |          |
|------------------------|-----------------------------|------|----------|---------------------------|---------|----------|
|                        | 2015                        | 2014 | % Change | 2015                      | 2014    | % Change |
|                        | (\$ in thousands)           |      |          | (\$ in thousands)         |         |          |
| Other income (expense) | \$229                       | \$45 | 409 %    | \$(2 )                    | \$(38 ) | (95 )%   |

The increase in other income in the three months ended June 30, 2015 from the comparable period 2014 is attributable to an increase in financial income of approximately \$0.2 million. Interest income remained flat in the three months ended June 30, 2015 from the comparable period in 2014.

Other expense including financial expense and interest income remained flat in the six months ended June 30, 2015 from the comparable period 2014.

## Benefit From Income Taxes

|                           | Three Months Ended June 30, |          |          | Six Months Ended June 30, |          |          |
|---------------------------|-----------------------------|----------|----------|---------------------------|----------|----------|
|                           | 2015                        | 2014     | % Change | 2015                      | 2014     | % Change |
|                           | (\$ in thousands)           |          |          | (\$ in thousands)         |          |          |
| Benefit from income taxes | \$(2,098 )                  | \$(224 ) | 837 %    | \$(2,326 )                | \$(454 ) | 412 %    |

We recognized a tax benefit from income taxes of \$2.1 million and \$2.3 million for the three and six months ended June 30, 2015, respectively, an increase from the tax benefit from income taxes of \$0.2 million and \$0.5 million in the comparable periods in 2014. Our effective tax rate was 28% and 24% for the three and six months ended June 30, 2015, respectively, as compared to 16% and 18% in the comparable periods in 2014. Our consolidated effective tax rate is impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate.

## Net Loss

We had a net loss of \$5.4 million and \$7.4 million for the three and six months ended June 30, 2015, respectively, and a net loss of \$1.2 million and \$2.0 million for the three and six months ended June 30, 2014, respectively. Revenue increased by approximately \$8.2 million and \$20.2 million, respectively, while costs and expenses increased by approximately \$14.4 million and \$27.5 million, respectively, contributing to an increase in net loss of approximately \$4.1 million and \$5.4 million for the three and six months ended June 30, 2015, respectively.

## Liquidity and Capital Resources

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2015                         | 2014       |
|   | (in thousands)               |            |
| Consolidated Statements of Cash Flows Data:           |                              |            |
| Cash flows provided by (used in) operating activities | \$330                        | \$(3,146 ) |
| Cash flows used in investing activities               | (14,056 )                    | (9,948 )   |
| Cash flows provided by (used in) financing activities | 1,328                        | (8,241 )   |

As of June 30, 2015, we had approximately \$37.0 million in cash and cash equivalents, a decrease of approximately \$12.3 million from December 31, 2014. The decrease is primarily attributable to net cash used in investing activities relating to purchases of fixed assets related to the build-out of our co-location facility, restricted cash used for collateral pledge associated with foreign currency forward contracts and cash used in financing activities to repurchase our common stock. This is partially offset by proceeds from the issuance of common stock in connection with the exercise of stock options by employees and cash provided by operating activities. We invest our cash in short-term money market funds.

Net cash provided by operating activities was \$0.3 million for the six months ended June 30, 2015 and consisted primarily of net loss, non-cash expenses related to ASC 718-10, amortization of purchased intangibles and depreciation, increases in accounts receivable, prepaid expenses, accounts payable and decreases in accrued expenses. Net cash used in operating activities was \$3.1 million for the six months ended June 30, 2014 and consisted primarily of a net loss, non-cash expenses related to ASC 718-10, amortization of purchased intangibles and depreciation, and an increase prepaid expenses, accounts receivable and decreases in accounts payable and accrued expense.

Net cash used in investing activities was \$14.1 million in the six months ended June 30, 2015 and was due primarily to the purchase of fixed assets for our co-location facilities and restricted cash associated with foreign currency forward contracts. Net cash used in investing activities was \$9.9 million in the six months ended June 30, 2014 and was due primarily to the purchase of fixed assets for our co-location facilities and our investments in technology assets, and our acquisitions of Synchronite and NexGraph.

Net cash provided by financing activities was \$1.3 million in the six months ended June 30, 2015 and consisted primarily of the issuance of common stock and excess tax benefit for exercise of employee stock options, offset by the repurchase of our common stock. Net cash used in financing activities was \$8.2 million in the six months ended June 30, 2014 and consisted primarily of the repurchase of our common stock offset by the proceeds from the issuance of common stock in connection with the exercise of stock options by employees.

We have incurred significant expenses to develop our technology and services, to hire employees in our customer service, sales, marketing and administration departments, and for the amortization of purchased 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 \$0.1 million in the quarterly period ended March 31, 2004. We also incurred a net loss and negative cash flow from operations in the quarterly periods ended March 31, 2013, March 31, 2014, June 30, 2014 and March 31, 2015. We incurred a net loss in the quarterly periods ended June 30, 2013, September 30, 2013, December 31, 2013, as well as in the quarterly periods ended September 30, 2014, December 31, 2014 and June 30, 2015. As of June 30, 2015, we had an accumulated deficit of approximately \$100.0 million.

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 twelve (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 or acquire 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 and six months ended June 30, 2015, was approximately \$2.4 million and \$4.9 million, respectively, and approximately \$2.4 million and \$4.6 million for the three and six months ended June 30, 2014, respectively. As of June 30, 2015, our principal commitments were approximately \$23.9 million under various operating leases, of which approximately \$4.9 million is due in 2015. We currently expect that our principal commitments for the year ending December 31, 2015 will not exceed \$9.0 million in the aggregate.

Our contractual obligations at June 30, 2015 are summarized as follows:

| Contractual Obligations | Payments due by period<br>(in thousands) |                     |           |           |                      |
|-------------------------|--|---------------------|-----------|-----------|----------------------|
|                         | Total                                    | Less than 1<br>year | 1-3 years | 3-5 years | More than 5<br>years |
| Operating leases        | \$23,925                                 | \$8,255             | \$9,984   | \$5,686   | \$—                  |
| Total                   | \$23,925                                 | \$8,255             | \$9,984   | \$5,686   | \$—                  |

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Foreign Currency Exchange Risks

As a result of the expanded scope of our Israeli operations, our currency rate fluctuation risk associated with the exchange rate movement of the U.S. dollar against the New Israeli Shekel (“NIS”) has increased. During the three and six months ended June 30, 2015, the U.S. dollar appreciated by approximately 11% and 12%, respectively, as compared to the NIS. During the three and six months ended June 30, 2015, expenses generated by our Israeli operations totaled approximately \$15.0 million and \$28.5 million, respectively. During 2015, we hedged this foreign currency risk exposure. We actively monitor the movement of the U.S. dollar against the NIS, Pound Sterling, Euro, AUS dollar and Japanese Yen and have considered the use of financial instruments, including but not limited to derivative financial instruments, which could mitigate such risk. If we determine that our risk of exposure materially exceeds the potential cost of derivative financial instruments, we may continue to enter in to these types of investments. The functional currency of our wholly-owned Israeli subsidiaries, LivePerson Ltd. (formerly HumanClick Ltd.) and Kasamba Ltd., is the U.S. dollar; the functional currency of our operations in the United Kingdom is the Pound Sterling; the functional currency of our operations in the Netherlands, Germany, Italy and France is the Euro; the functional currency of our operations in Australia is the Australian Dollar; and the functional currency of our operations in Japan is the Japanese Yen.

#### 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. During the six months ended June 30, 2015, we increased our allowance for doubtful accounts by \$0.7 million. During 2014, we increased our allowance for doubtful accounts from \$1.2 million to approximately \$1.3 million, principally due to an increase in sales. A larger proportion of receivables are due from larger corporate customers that typically have longer payment cycles. 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.

#### 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.

#### Inflation Risk

We do not believe that inflation has had a material effect on our business, financial conditions or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of June 30, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2015 to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed,

summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2015 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations of the Effectiveness of Internal Control

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

## Part II. Other Information

### Item 1. Legal Proceedings

On June 22, 2015, [24]7 Customer, Inc. filed suit against us in the Northern District of California alleging patent infringement. We believe the claims are entirely without merit and intend to defend them vigorously. We previously filed an intellectual property suit against [24]7 Customer, Inc. in the Southern District of New York on March 6, 2014 seeking damages on the grounds that [24]7 reverse engineered and misappropriated our technology to develop competing products and misused our business information. Discovery in the New York case is in process.

We routinely assess all of our litigation and threatened litigation as to the probability of ultimately incurring a liability, and record our best estimate of the ultimate loss in situations where we assess the likelihood of loss as probable.

From time to time, we are involved in or subject to legal, administrative and regulatory proceedings, claims, demands and investigations arising in the ordinary course of business, including direct claims brought by or against us with respect to intellectual property, contracts, employment and other matters, as well as claims brought against our customers for whom we have a contractual indemnification obligation. We accrue for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In addition, in the event we determine that a loss is not probable, but is reasonably possible, and it becomes possible to develop what we believe to be a reasonable range of possible loss, then we will include disclosures related to such matter as appropriate and in compliance with ASC 450. The accruals or estimates, if any, resulting from the foregoing analysis, are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, we will, as applicable, adjust the accrual in the period the determination is made, disclose an estimate of the additional loss or range of loss, indicate that the estimate is immaterial with respect to our financial statements as a whole or, if the amount of such adjustment cannot be reasonably estimated, disclose that an estimate cannot be made.

From time to time, third parties assert claims against us regarding intellectual property rights, privacy issues and other matters arising out of the ordinary course of business. Although we cannot be certain of the outcome of any litigation or the disposition of any claims, nor the amount of damages and exposure, if any, that we could incur, we currently believe that the final disposition of all existing matters will not have a material adverse effect on our business, results of operations, financial condition or cash flows. In addition, in the ordinary course of our business, we are also subject to periodic threats of lawsuits, investigations and claims. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors

Risks that could have a material and adverse impact on our business, results of operations and financial condition include the following: potential fluctuations in our quarterly revenue and operating results; competition in the markets for online sales, marketing and customer service solutions, and online consumer services; our ability to retain existing clients and attract new clients; risks related to new regulatory or other legal requirements that could materially impact our business; volatility of the value of certain currencies in relation to the U.S. dollar, particularly the currency of

regions where we have operations; additional regulatory requirements, tax liabilities, currency exchange rate fluctuations and other risks as we expand internationally and/or as we expand into direct-to-consumer services; impairments to goodwill that result in significant charges to earnings; responding to rapid technological change and changing client preferences; the adverse effect that the global economic downturn may have on our business and results of operations; our ability to retain key personnel, attract new personnel and to manage staff attrition; our ability to expand our operations internationally; risks related to the ability to successfully integrate past or potential future acquisitions; failures or security breaches in our services, those of our third party providers, or in the websites of our customers;

risks related to the regulation or possible misappropriation of personal information belonging to our customers' Internet users; dependence upon technology systems and third-party content that are beyond our control; privacy concerns relating to the Internet that could result in new legislation or negative public perception; legal liability and/or negative publicity for the services provided to consumers via our technology platforms; risks related to protecting our intellectual property rights or potential infringement of the intellectual property rights of third parties; risks related to technological or other defects distributing our services; increased allowances for doubtful accounts as a result of an increasing amount of receivables due from customers with greater credit risk; delays in our implementation cycles; risks associated with the recent volatility in the capital markets; our ability to secure additional financing to execute our business strategy; risks associated with our current or any future stock repurchase programs, including whether such programs will enhance long-term stockholder value, and whether such stock repurchases could increase the volatility of the price of our common stock and diminish our cash reserves; our ability to license necessary third party software for use in our products and services, and our ability to successfully integrate third party software; changes in accounting principles generally accepted in the United States; our ability to maintain our reputation; risks related to our complex products; our recognition of revenue from subscriptions; our lengthy sales cycles; risks related to our operations in Israel, and the civil and political unrest in that region; natural catastrophic events and interruption to our business by man-made problems; the high volatility of our stock price; and risks related to our common stock being traded on more than one securities exchange. 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 12, 2015 (the "Form 10-K").

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

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Unregistered Sales of Equity Securities

None.

### Purchase of Equity Securities by the Issuer

A summary of the Company's repurchase activity for the three months ended June 30, 2015 appears below:

| Period               | Total Number of Shares Purchased <sup>(1)</sup><br><sub>(2)</sub> | Average Price Paid per Share <sup>(1)</sup> <sub>(2)</sub> | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup> <sub>(2)</sub> | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> <sub>(2)</sub> <sub>(3)</sub> |
|----------------------|---|--|--|---|
| 4/1/2015 – 4/30/2015 | —   | \$—  | —  | \$8,246,866   |
| 5/1/2015 – 5/31/2015 | —   | —  | —  | 8,246,866   |
| 6/1/2015 – 6/30/2015 | 48,000  | 9.91   | 48,000   | 7,771,186   |
| Total                | 48,000  | \$9.91   | 48,000   | \$7,771,186   |

On December 10, 2012, the Company announced that its Board of Directors approved a share repurchase program through June 30, 2014. Under the stock repurchase program, the Company was authorized to repurchase shares of (1) the Company's common stock, in the open market or privately negotiated transactions, at times and prices considered appropriate by the Board of Directors depending upon prevailing market conditions and other corporate considerations.

(2) As of June 30, 2014, approximately \$1.1 million remained available for purchases under the program as in effect at that time. On July 23, 2014, the Company's Board of Directors extended the expiration date of the program out to December 31, 2014 and also increased the aggregate purchase price of the stock repurchase program from \$40.0 million to \$50.0 million. On March 5, 2015, the Company's Board of Directors extended the expiration date of the program out to December 31, 2016. As of June 30, 2015, approximately \$7.8 million remained available for purchases under the program.

(3)



Transaction fees related to the share purchases are deducted from the total remaining allowable expenditure amount.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

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Item 5. Other Information

None.

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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
- 101.INS† XBRL Instance Document
- 101.SCH† XBRL Taxonomy Extension Schema Document
- 101.CAL† XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF† XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB† XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE† XBRL Taxonomy Extension Presentation Linkbase Document

\*\* These certifications are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing we make under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

† In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed as a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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: August 7, 2015

By: /s/ ROBERT P. LOCASCIO

Name: Robert P. LoCascio

Title: Chief Executive Officer (principal executive officer)

Date: August 7, 2015

By: /s/ DANIEL R. MURPHY

Name: Daniel R. Murphy

Title: Chief Financial Officer (principal financial and accounting officer)

EXHIBIT INDEX  
EXHIBIT

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