

LIVEPERSON INC
Form 10-K
March 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended December 31, 2013

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 of Incorporation)

475 Tenth Avenue, 5th Floor,

New York, New York 10018

(Address of Principal Executive Offices) (Zip Code)

(212) 609-4200

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, par value \$0.001 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Edgar Filing: LIVEPERSON INC - Form 10-K

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$446,033,101 (computed by reference to the last reported sale price on The Nasdaq Global Select Market on that date). The registrant does not have any non-voting common stock outstanding.

On February 28, 2014, 54,720,689 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders, to be filed not later than April 30, 2014, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

LIVEPERSON, INC.
 2013 ANNUAL REPORT ON FORM 10-K
 TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	1
Item 1A. Risk Factors	9
Item 1B. Unresolved Staff Comments	<u>23</u>
Item 2. Properties	<u>23</u>
Item 3. Legal Proceedings	<u>24</u>
Item 4. Mine Safety Disclosures	<u>24</u>
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>25</u>
Item 6. Selected Consolidated Financial Data	<u>27</u>
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>40</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>41</u>
Item 8. Consolidated Financial Statements and Supplementary Data	<u>42</u>
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	<u>67</u>
Item 9A. Controls and Procedures	<u>67</u>
Item 9B. Other Information	<u>69</u>
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	<u>69</u>
Executive Compensation	<u>69</u>

Item 11.		
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>69</u>
Item 13.	Certain Relationships and Related Transactions, and Director Independence	<u>70</u>
Item 14.	Principal Accountant Fees and Services	<u>70</u>
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	<u>70</u>

CAUTIONARY STATEMENT CONCERNING 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. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON OUR CURRENT EXPECTATIONS, WHICH MAY NOT PROVE TO BE ACCURATE. MANY OF THESE STATEMENTS ARE FOUND IN THE “BUSINESS” AND “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” SECTIONS OF THIS FORM 10-K. WHEN USED IN THIS FORM 10-K, THE WORDS “ESTIMATES,” “EXPECTS,” “ANTICIPATES,” “PROJECTS,” “PLANS,” “INTENDS,” “BELIEVES” AND VARIATIONS SUCH WORDS OR SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL FORWARD-LOOKING STATEMENTS, INCLUDING, WITHOUT LIMITATION, OUR EXAMINATION OF HISTORICAL OPERATING TRENDS, ARE BASED UPON OUR CURRENT EXPECTATIONS AND VARIOUS ASSUMPTIONS. OUR EXPECTATIONS, BELIEFS AND PROJECTIONS ARE EXPRESSED IN GOOD FAITH, AND WE BELIEVE THERE IS A REASONABLE BASIS FOR THEM, BUT WE CANNOT ASSURE YOU THAT OUR EXPECTATIONS, BELIEFS AND PROJECTIONS WILL BE REALIZED. ANY SUCH FORWARD-LOOKING STATEMENTS ARE MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. IT IS ROUTINE FOR OUR INTERNAL PROJECTIONS AND EXPECTATIONS TO CHANGE AS THE YEAR OR EACH QUARTER IN THE YEAR PROGRESS, AND THEREFORE IT SHOULD BE CLEARLY UNDERSTOOD THAT THE INTERNAL PROJECTIONS AND BELIEFS UPON WHICH WE BASE OUR EXPECTATIONS MAY CHANGE PRIOR TO THE END OF EACH QUARTER OR THE YEAR. ALTHOUGH THESE EXPECTATIONS MAY CHANGE, WE ARE UNDER NO OBLIGATION TO INFORM YOU IF THEY DO. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN THE PROJECTIONS OR FORWARD-LOOKING STATEMENTS. IMPORTANT FACTORS THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS WE MAKE IN THIS FORM 10-K ARE SET FORTH IN THIS FORM 10-K, INCLUDING THE FACTORS DESCRIBED IN THE SECTION ENTITLED “ITEM 1A — RISK FACTORS.” IF ANY OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR IF ANY OF OUR UNDERLYING ASSUMPTIONS ARE INCORRECT, OUR ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS THAT WE EXPRESS IN OR IMPLY BY ANY OF OUR FORWARD-LOOKING STATEMENTS. WE DO NOT UNDERTAKE ANY OBLIGATION TO REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT FUTURE EVENTS OR CIRCUMSTANCES.

PART I

Item 1. Business

Overview

LivePerson, Inc. (“LivePerson”, the “Company”, “we” or “our”) is a leading provider of digital 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. Our engagements are driven by intelligence 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. LivePerson’s products, coupled with our domain knowledge and industry expertise, have been proven to maximize the effectiveness of the online engagement channel by increasing sales, as well as consumer satisfaction and loyalty ratings for our customers, while also enabling them to reduce consumer service costs.

LivePerson monitors and analyzes a valuable set of online consumer behavioral data on behalf of our customers. Spanning the breadth of an online visitor session starting from an initial keyword search, through actions on our customer’s website, and even into a shopping cart and an executed sale, this data enables us to develop unique insights into consumer behavior during specific transactions and within a customer’s user base. Based on our internal measures, on average during 2013, we monitored approximately 2.2 billion visitor sessions per month across our customers’ websites. Currently this session data is primarily used to proactively engage consumers in order to increase online conversion rates and average order values, and we continue to invest in products that can leverage the value of this data to provide new and innovative solutions for our customers in the future.

More than 8,500 companies, including Cisco, Hewlett-Packard, IBM, Microsoft, Verizon, Sky, Walt Disney, PNC and Orbitz, employ our technology to keep pace with rising consumer expectations for service and relevance through the online channel. LivePerson has unique insight into consumer behavior, which we offer our customers through our intelligent engagement products and our consulting services.

Bridging the gap between visitor traffic and successful business outcomes, our business solutions deliver measurable return on investment by enabling our customers to:

- increase conversion rates and reduce abandonment by intelligently engaging website visitors;
- redirect spending from driving traffic to spending on visitor conversions;
- accelerate the sales cycle, drive repeat business and increase average order values;
- increase consumer satisfaction and improve the overall digital experience, drive retention and loyalty while reducing consumer service costs;
- refine and improve performance by understanding which initiatives deliver the highest rate of return; and
- lower operating costs in the call center by deflecting costly phone and email interactions and improving agent efficiency.

As a “cloud computing” or software-as-a-service (SaaS) provider, LivePerson provides solutions on a hosted basis. This model offers significant benefits over premise-based software, including lower up-front costs, faster implementation, lower total cost of ownership, scalability, cost predictability and simplified upgrades. Organizations that adopt multi-tenant architecture that is fully hosted and maintained by LivePerson eliminate the majority of the time, server infrastructure costs and IT resources required to implement, maintain and support traditional on-premise software.

Our consumer services offering is 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). Users seek assistance and advice in various categories including personal counseling and coaching, computers and programming, education and tutoring, spirituality and religion, and other topics.

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 Atlanta, Amsterdam, London, Melbourne, San Francisco, Santa Monica, Tokyo and Tel Aviv.

Market Opportunity

While many sectors of the global economy are challenged to maintain historical growth rates, worldwide e-commerce continues to grow steadily, and the U.S. is no different. According to Forrester Research, “online retail in 2013 will reach \$262 billion a rise of 13% over 2012’s \$231 billion in online sales and representing 8% of total retail pie. Looking forward, we expect eCommerce to grow at a compound annual growth rate of 9% between 2013 and 2017.”

The rise of online video and social media has stimulated Internet advertising spending, which is projected to exceed \$105 billion in 2014, according to J.P. Morgan. Furthermore, according to the most recent Forrester Research report, of online adults that use customer service, 43% of U.S. consumers used chat for customer service, which increased from 30% that used chat for customer service in 2009. Chat adoption has increased to roughly one in three seniors and has risen to more than half of online consumers ages 18 to 32. At 63%, chat has the highest satisfaction rate among all online customer service channels in the Forrester survey.

According to the latest eConsultancy report, for every \$92 spent by retailers to attract a visitor to their website, approximately \$1 is spent on efforts to convert each visitor. We believe that conversion rates can be improved through optimized on-site engagement, and that this represents an opportunity for our engagement solutions, both on-site and in mobile channels.

Mobile commerce is growing rapidly, and proving to be a critical channel for retailers to engage their customers. According to a 2013 Forrester survey, retailers that participated said that, on average, they experienced a 129% lift in year-over-year sales from smartphones and a 178% lift from tablets. In addition, Forrester noted that retailers reported "2013 online sales growth was 29% higher than in 2012 and that most of their key metrics, such as site conversion rates, had improved in the same time frame. Mobile continues to grow, comprising a greater percent of overall web sales, and as a result is the top investment initiative planned for the coming year."

We believe that the positive trends in e-commerce described above, along with the diversifying channels of consumer engagement worldwide, offer LivePerson opportunities to expand. LivePerson continues to deliver increased value to customers through its core product while also seeking to expand its product set as well as the availability and integration of its core product through different channels, such as mobile and social. By seeking to offer our solutions through different channels of engagement, we are improving the convenience and accessibility of our solutions, responding to the reality of today's online market.

We also believe that demographic shifts favor LivePerson's current and planned offerings. We are seeing the younger generation of consumers adopt and use multiple technologies for online communications such as email, social networking and text messaging, and create and share user-generated content. Take the example of SnapChat with over 400 million messages exchanged each day, this is a strong indicator of how younger consumers prefer to communicate. Another example is Line, a two year old messaging application that lets people exchange information and play games with their friends. It already has 230 million registered users - a milestone that Facebook did not reach until it was five years old, which may in turn accelerate the demand for LivePerson's online, real-time customer engagement solutions. Not only does this shift in behavior around messaging/chat technologies demonstrate a strong appetite for this type of communication, but according to Goldman Sachs, by 2018, we'll be seeing roughly as much mobile commerce (\$626 billion) as we saw in e-commerce last year. LivePerson is uniquely positioned to work brands and help capitalize on this shift in behavior, and optimize their mobile platforms to deliver a robust customer engagement offering, across multiple platforms.

Strategy

The key elements of LivePerson's business solutions strategy include:

Strengthening Our Position in Both Existing and New Markets and Growing Our Recurring Revenue Base.

LivePerson plans to continue to develop its market position by increasing its customer base, and expanding within its existing installed base. We will continue to focus primarily on key target markets: financial services, retail, telecommunications, technology and travel/hospitality within both our enterprise and midmarket sectors, as well as the small business (SMB) sector. Healthcare, insurance and energy utilities are new target industries and natural extensions of our primary target markets. As the online community is increasingly exposed to the benefits and functionality of our solutions, we intend to capitalize on our growing base of existing customers by collaborating with them to optimize our added value and effectiveness. Continuing to grow our customer base will enable us to strengthen our recurring revenue stream.

Leveraging Our Platform Across Multiple Applications and Partners. In developing our chat product over the last 15 years, we have created highly reliable and secure data gathering and analytic capabilities that are coupled with a sophisticated rules-based segmentation engine. In 2011, we packaged these technologies together into LiveEngage, a real-time data and intelligence platform powering our full suite of applications, adding voice and content engagement

solutions to our market-leading chat product. By leveraging these existing assets we provide our customers with the same capabilities across all engagement channels. In addition, we have opened up access to our platform and our products with application programming interfaces (APIs) that allow third parties to develop on top of our platform. Customers, eco-system partners, and value added resellers can utilize these APIs to build our capabilities into their own applications and to enhance our applications with their services.

Expanding the Engagement Tools and Capabilities We Provide to Our Customers. We have created, and will continue to create, new proprietary applications and also provide third-party tools and capabilities through our partner eco-system. Today, our customers intelligently engage with approximately two percent of their website visitors via chat. As part of our strategy, we are striving to provide our customers with the ability to intelligently engage a greater proportion of their website visitors in new ways, such as with the delivery of personalized content and the use of voice and video. In addition to developing our own

applications, we continue to cultivate a partner eco-system capable of offering additional applications and services to our customers. These include partners that augment the data used in our rules engine, provide complementary services, such as translation and virtual agents, and partners that expand our reach to social and mobile channels. At the end of 2013, we had approximately 100 partners in our eco-system and we continue to see growing adoption of these third-party applications by our customer base.

Maintaining Market Leadership in Technology and Security Expertise. As described above, we are devoting significant resources to creating new products and enabling technologies designed to accelerate innovation and delivery of new products and technologies to our customer base. We evaluate emerging technologies and industry standards and continually update our technology in order to retain our leadership position in each market we serve. We monitor legal and technological developments in the area of information security and confidentiality to ensure our policies and procedures meet or exceed the demands of the world's largest and most demanding corporations. We believe that these efforts will allow us to effectively anticipate changing customer and consumer requirements in our rapidly evolving industry.

Expanding our International Presence. In 2013, we continued our investment in direct sales and services personnel to expand our customer base in the United Kingdom and Western Europe, including expansion within several of the largest financial services and telecommunications companies in this region. We also saw positive growth in the Asia Pacific region, notably in Australia, building on momentum from our acquisition of Australian reseller partner Engage Pty Ltd. in late 2012. In the fourth quarter of 2013, LivePerson also established operations in Japan, with the formation of LivePerson Japan Kabushiki Kaisha, and announced strategic partnerships with Information Services International-Dentsu, Ltd. (ISID), Vixia, and Dentsu Razorfish, group subsidiaries of Dentsu Inc., Japan's largest advertising agency. We continue to evaluate partnership opportunities and sales and marketing strategies to support further expansion into the Asia-Pacific region.

Continuing to Build Brand Recognition. As a pioneer of real-time, intelligent engagement, LivePerson enjoys strong brand recognition and credibility. We strategically target decision makers and influencers within key vertical markets, leveraging customer successes to generate increased awareness and demand for online engagement tools. In addition, we continue to develop relationships with the media, industry analysts and relevant business associations to reinforce our position and leadership within the industry. Our brand name is also visible to both business users and consumers. When a consumer engages in a text-based chat on a customer's website, our brand name is usually displayed on the LivePerson dialogue window. We believe that this high-visibility placement will continue to create brand awareness for our solutions.

Increasing the Value of Our Service to Our Customers. We regularly add both new products and services, and new features and functionality to our existing services to further enhance value to our customers. Because we directly manage the server infrastructure, we can make new features available to our customers immediately upon release, without customer or end-user installation of software or hardware. We continue to enhance our reporting, analysis and administrative tools as part of our overall portfolio of services, as well as our ability to capture, analyze and report on the substantial amount of online activity data we collect on behalf of our customers to further our customers' online strategies. Our customers may use these capabilities to increase productivity, manage call center staffing, develop one-to-one marketing tactics and pinpoint consumer engagement opportunities. Through these and other innovations, we intend to reinforce our value proposition to customers, which we believe will result in additional revenue from new and existing customers over time.

Evaluating Strategic Alliances and Acquisitions When Appropriate. We have successfully integrated several acquisitions over the past decade. In addition to our acquisition of Engage referenced above, most recently we acquired mobile engagement start-up LookIO, Inc. ("LookIO") and the technology and intellectual property assets of Israel-based start-up, Amadesa, Ltd. ("Amadesa"). While we have in the past, and may from time to time in the future, engage in discussions regarding acquisitions or strategic alliances or to acquire other companies that can accelerate our growth or broaden our product offerings, we currently have no binding commitments with respect to any future acquisitions or strategic alliances.

Products and Services

LivePerson's hosted platforms support and manage intelligent, real-time online interactions for businesses. Our business-to-business services are all managed from a single agent desktop. By supplying a complete, unified consumer history, our solutions enable businesses to deliver a relevant, timely, personalized, and seamless consumer experience. In addition to product offerings, LivePerson provides professional services and value-added business consulting to support complete deployment and optimization of our enterprise solutions.

LiveEngage. LiveEngage, LivePerson's hosted engagement platform delivers actionable insights, empowering businesses to get the most out of their existing digital platforms by intelligently engaging consumers based on a real-time understanding of consumer needs. By seamlessly integrating chat, voice, messaging, and video to create a multi-channel, multimedia engagement platform, LiveEngage combines sophisticated technology with robust business intelligence to produce compelling, measurable results for e-commerce, marketing, and contact center executives. LiveEngage combines real time on-site and off-site behavioral data with a broad set of consumer and business data, including historical, operational, demographic and third-party data enabling proprietary analytics to target end users with compelling engagement options at any step in the conversion funnel and throughout the customer lifecycle.

LiveEngage enables customers to maximize online revenue opportunities, improve conversion rates and reduce shopping cart abandonment by proactively engaging the right visitor, using the right channel, at the right time. Our solution identifies segments of website visitors who demonstrate the highest propensity to convert, and engages them in real-time with relevant content and offers, helping to generate incremental sales. LiveEngage also reduces costs in the contact center by identifying consumers who may be struggling with their self-help experience, and proactively connecting them to a live consumer care specialist. This comprehensive solution blends a proven value-based methodology with an active rules-based engagement engine and deep domain expertise to increase first contact resolution, improve consumer satisfaction, and reduce attrition rates.

Professional Services. The mission of our Professional Services team is to help customers optimize the performance of our products in order to drive incremental value through their online sales and/or service channel(s). This talented group utilizes their deep domain expertise and years of hands-on experience to provide customers with detailed analyses and measurements of their LivePerson deployment that drive strategies and decisions on how to optimize the chat channel and broaden intelligent engagement of their consumers. Deliverables of the team include scorecards that measure and chart performance trends, analyses and recommendations for web design and process improvement, transcript reviews to discover both voice of the consumer insight and agent improvement opportunities, custom training of call center agents and management, and ongoing management of chat programs to ensure alignment with current business practices and objectives. The team's value-added methodology and approach to guiding customers towards chat channel optimization is an important component of the LivePerson offering, and gives our customers a competitive advantage in the online world.

Customers

Our business operations customer base includes Fortune 500 companies, dedicated Internet businesses, a broad range of online merchants, as well as numerous universities, libraries, government agencies and not-for-profit organizations. Our solutions benefit organizations of all sizes conducting business or communicating with consumers online. We plan to continue to focus on key target markets: financial services, retail, telecommunications, technology, and travel/hospitality industries, as well as the SMB sector, within the United States and Canada, Latin America, Europe and the Asia-Pacific region. We continue to increase our investment in sales and support personnel in the United Kingdom, Australia 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.

No single customer accounted for or exceeded 10% of our total revenue in 2013.

Sales and Marketing

Sales

We sell our business products and services by leveraging a common methodology through both direct and indirect sales channels:

Direct Sales. Our sales process focuses on how our solutions and industry expertise deliver financial and operational value that support our customers' strategic initiatives. Our sales and marketing-focused solutions are targeted at business executives whose primary responsibility is maximizing digital consumer acquisition. These executives have a vested interest in improving the overall digital experience, increasing conversion rates, increasing application completion rates and increasing average order value, as well as enhancing consumer satisfaction. The value proposition for our customer service-focused solutions appeals to professionals who hold both top and bottom line responsibility for consumer service and technical support functions within their organization, as well as enhancing consumer satisfaction. Our proactive service solution enables these organizations to provide effective consumer service by deflecting costly phone calls and emails to the more cost efficient chat channel. Our personalization solution is targeted at marketing and e-commerce professionals who are tasked with providing a personalized consumer experience to drive a multitude of business outcomes onsite. LivePerson supports any organization with a company-wide strategic initiative to improve the overall online consumer experience. For our large and more complex customers, our sales methodology often begins with research and discovery meetings that enable us to develop a deep understanding of the value drivers and key performance metrics of a prospective customer. We then present an analytical review detailing how our solutions and industry expertise can affect these value drivers and metrics. Once we validate solution capabilities and prove financial return on investment, we transition to a program management

model wherein we work hand-in-hand with the customer, providing detailed analysis, measurements and recommendations that help optimize their performance and ensure ongoing program success.

Indirect Sales. Resources within our organization are focused on developing partnerships to generate revenues via referral partnerships and indirect sales through channel partners. By maximizing market coverage via partners who provide lead referrals and complementary products and services, we believe this channel supports revenue opportunities without incurring the costs associated with traditional direct sales.

Customer Support

Our Professional Services group provides deployment support and ongoing business consulting to enterprise and midmarket customers and maintains involvement throughout the engagement lifecycle. All LivePerson customers have access to 24/7 help desk services through chat, email and phone.

Marketing

Our marketing efforts in support of our business operations are organized around the needs, trends and characteristics of our existing and prospective customer base. Our deep relationship with existing customers fosters continuous feedback and critical data analysis, thereby allowing us to develop and refine marketing programs that drive adoption across multiple customer segments. We have a global team, spread across key geographies in Western Europe, Asia-Pacific and North America that is focused on marketing our brand, products and services to executives responsible for the digital channel and consumer service operations of their organization. The global team is committed to marketing in a common voice, but is focused on delivering very localized campaigns depending on the region. Our focus is on the financial services, retail, telecommunications, technology, and travel/hospitality industries, as well as SMBs. Our integrated marketing strategy is focused on driving demand, building customer and consumer advocacy, driving adoption of our LiveEngage platform, and supporting key areas of business including small business, international and the channel. We aim to achieve this by delivering high-level thought leadership campaigns, industry event participation, personalized lead generation campaigns to reach potential and existing customers using mediums such as paid and organic search, direct email and mail, industry- and category-specific tradeshows and events, and telemarketing.

Our marketing strategy also encompasses a strategic communications approach that integrates, public relations, social media, and analyst/influencer relations. We are focused on using those channels to communicate our brand value, to those key stakeholders, to increase overall brand and technology awareness. Communications seeks to highlight key customer success stories, and promote executive thought leadership via contributed content, speaking opportunities and press interviews, to raise LivePerson's profile and reinforce our position as an industry leader.

Competition

The markets for online engagement technology and online consumer services are intensely competitive and characterized by aggressive marketing, evolving industry standards, rapid technology developments, and frequent new product introductions. LivePerson's business solutions compete directly with companies that facilitate real-time sales, email management, searchable knowledgebase applications and consumer service interaction. These markets remain fairly saturated with small companies that compete on price and features. LivePerson faces competition from online interaction solution providers, including SaaS providers such as Oracle RightNow (an Oracle company), Talisma, eGain and TouchCommerce. We believe that our long-standing relationships with customers, particularly at the enterprise level, and our online selling expertise, including knowledge of online consumer purchasing habits, sophisticated methodologies to efficiently engage online consumers and reporting capabilities that measure return on investment differentiate us from existing competitors. In addition, we believe that our security and ability to handle such high volumes of traffic without degrading the experience of our customers' visitors are significant advantages. We believe that as the scope, size and sophistication of our customers' requirements increase, our competitors' relative strengths as compared to our offerings decline. We also face potential competition from Web analytics and online engagement service providers, and other enterprise software and SaaS solutions companies such as Adobe, Oracle, Google and SAP. In addition, established technology and/or consumer-oriented companies such as Google, Microsoft, Salesforce.com and Yahoo! may leverage their existing relationships and capabilities to offer online engagement solutions that facilitate real-time assistance. The most significant challenges facing any new market entrant include the ability to design and build scalable software that can support the world's most highly-trafficked websites, and, with respect to outsourced solution providers, the ability to design, build and manage a highly secure and scalable network infrastructure.

LivePerson's consumer operations compete with companies that provide cross category advice such as About.com, Google HelpOuts and Yahoo Answers. The consumer operations also compete with niche players offering advice in specific vertical categories.

Finally, LivePerson competes with in-house online engagement solutions, as well as, to a lesser extent, traditional offline consumer service solutions, such as telephone call centers.

LivePerson believes that competition will increase as our current competitors increase the sophistication of their offerings and as new participants enter the market. Compared to LivePerson, some of our larger current and potential competitors may have:

- stronger brand recognition;
- a wider range of products and services; and
- greater financial, marketing and research and development resources.

Additionally, some competitors may enter into strategic or commercial relationships with larger, more established and better-financed companies, enabling them to:

- undertake more extensive marketing campaigns;
- adopt more aggressive pricing policies; and
- make more attractive offers to potential business customers to induce them to use their products or services.

Any change in the general market acceptance of the real-time customer engagement, sales, marketing or customer service solutions business model or in online, real-time consumer advice services may harm our competitive position. Our competitors may at any time improve their services or product offerings, or develop real-time sales, marketing, customer service and Web analytics applications or competitive consumer service offerings and solicit prospective customers within our target markets. Increased competition could result in pricing pressure, reduced operating margins and loss of market share.

Technology

Three key technological features distinguish the LivePerson services:

We support our customers through a secure, scalable server infrastructure. In North America, our primary servers are hosted in a fully-secured, top-tier, third-party server center located in the Mid-Atlantic United States, and are supported by a top-tier backup server facility located in the Western United States. In Europe, our primary servers are hosted in a fully-secured, top-tier, third-party server center located in the United Kingdom and are supported by a top-tier backup server facility located in The Netherlands. Nearly all of our larger customers outside of the United States are hosted within our UK-based hosting facility. By managing our servers directly, we maintain greater flexibility and control over the production environment allowing us to be responsive to customer needs and to continue to provide a superior level of service. Utilizing advanced network infrastructure and protocols, our network, hardware and software are designed to accommodate our customers' demand for secure, high-quality 24/7 service, including during peak times such as the holiday shopping season.

As a hosted service, we are able to add additional capacity and new features quickly and efficiently. This has enabled us to provide these benefits simultaneously to our entire customer base. In addition, it allows us to maintain a relatively short development and implementation cycle.

As a SaaS provider, we focus on the development of tightly integrated software design and network architecture. We dedicate significant resources to designing our software and network architecture based on the fundamental principles of security, reliability and scalability.

Software Design. Our software design is based on client-server architecture. As a SaaS provider, our customers either use a standard Web browser or install only the LivePerson Agent Console (Windows or Java-based) on their operators' workstations. Visitors to our customers' websites require only a standard Web browser and do not need to download software from LivePerson in order to interact with our customers' operators or to use the LivePerson services.

Our software design is also based on open standards. These standard protocols facilitate integration with our customers' legacy and third-party systems. Representative examples include:

- Java
- JSON (JavaScript Object Notation)
- REST (Representational State Transfer)
- XML (Extensible Mark-up Language)
- HTML (Hypertext Mark-up Language)
- SQL (Structured Query Language)
- HTTP (Hypertext Transfer Protocol)

Network Architecture. The software underlying our services is integrated with scalable and reliable network architecture. Our network is scalable; we do not need to add new hardware or network capacity for each new LivePerson customer. This network architecture is hosted in co-location facilities with redundant network connections, servers and other infrastructure, enabling superior availability. Our backup server infrastructure housed at separate locations provides our primary hosting facilities with effective disaster recovery capability. We maintain the highest level of compliance with standards such as SOC2 and PCI. For increased security, through a multi-layered

approach, we use advanced firewall architecture and industry-leading encryption standards and employ third-party experts to further validate our systems' security. We also enable our customers to further encrypt their sensitive data using more advanced encryption algorithms.

6

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that apply to the conduct of business on the Internet and the management of customer and consumer data such as, but not limited to, laws and regulations relating to user privacy, freedom of expression, data privacy, electronic contracts, electronic payment, content and quality of products and services, taxation, advertising, internet neutrality, information security and intellectual property rights. We post on our website our privacy policies and practices concerning the use and disclosure of user data, and we observe data security protocols and other business practices in an effort to comply with applicable laws. Expansion and interpretation of user privacy and data security laws, and their application to the Internet in the U.S. and foreign jurisdictions, is ongoing and unsettled. There is a risk that these laws may be interpreted and applied differently in any given jurisdiction in a manner that is not consistent with our current practices, which could cause us to incur substantial costs and otherwise negatively impact our business.

Various U.S. and foreign jurisdictions impose laws regarding the collection and use of data. For instance, some U.S. states have enacted legislation designed to protect consumers' privacy by prohibiting the distribution of "spyware" over the Internet. Such legislation typically focuses on restricting the proliferation of software that, when installed on an end user's computer is used to intentionally and deceptively take control of the end user's machine. We do not believe that the data monitoring methods employed by our technology constitute "spyware" or that our data monitoring methods are prohibited by applicable laws. However, federal, state and foreign laws and regulations, many of which can be enforced by government entities or private parties, are constantly evolving and can be subject to significant changes in application and interpretation. So, if, for example, the scope of the previously mentioned "spyware" legislation were changed to include Web analytics, such legislation could be deemed to apply to the technology we use and could potentially restrict our ability to conduct our business.

Domestic and foreign governments are also considering restricting the collection and use of Internet visitor data more generally. For example, some jurisdictions, including the U.S., are considering whether the collection of even anonymous data may invade the privacy of web site visitors. If laws or regulations are enacted that limit data collection or use practices related to anonymous data, we and/or our customers may be required to obtain the express consent of web visitors in order for our technology to perform certain of its basic functions that are based on the collection and use of technical data. Requirements that a website must first obtain consent from its Web visitors before using our technology could reduce the amount and value of the services we provide to customers, which might impede sales and/or cause some existing customers to discontinue using our services. We could also need to expend considerable effort and resources to develop new product features and/or procedures to comply with any such legal requirements.

Both existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products or services, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other remedies, including but not limited to fines or demands that we modify or cease existing business practices.

Businesses using our products may collect data from their web users, for example, when those web users contact them with inquiries. Federal, state and foreign government bodies and agencies, however, have adopted, and are considering adopting other, laws and regulations regarding the collection, use and disclosure of data obtained from consumers that currently affect or may affect our business customers. We use a variety of data security procedures and practices such as encryption and masking algorithms in an effort to protect information when transmitted over the Internet or stored, and encourage our customers to do the same. Changes to applicable laws and or interpretation thereof could significantly increase the economic burden to us and our customers of regulatory compliance, and could negatively impact our business. For example, the European Union and many countries within the European Union have adopted privacy directives related to the collection, use and transfer of data that are far more stringent, and impose more substantial burdens on subject businesses than current privacy standards in the United States. The U.S. Federal Trade Commission (the "FTC") has also taken action against website operators who do not comply with their stated privacy policies. All of these domestic and international legislative and regulatory initiatives have the potential to adversely affect our customers' ability to use our products.

A range of other proposed or existing laws and new interpretations of existing laws could have an impact on our business. For example: existing and proposed federal and state rules and regulations regarding cybersecurity, data breach notification and monitoring of online behavioral data such as the proposed “Do Not Track” regulations could potentially apply to some of our current or planned products and services. The FTC has also increased its enforcement actions against companies that fail to meet their privacy or data security commitments to consumers. In addition many states have adopted, and other states are expected to enact, statutes that require companies to implement data security measures and to report certain breaches of the security of personal data to affected individuals, to regulatory agencies, to law enforcement officials and to other third parties. Currently there are many proposals by state and federal lawmakers and industry in this area that address the collection, maintenance and use of personal information, Web browsing and geolocation data, and data security and breach notification procedures.

Given that this is an evolving and unsettled area of regulation, any new significant restrictions or technological requirements imposed could have a negative impact on our business;

the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for third-party content delivered through our website and products. In the U.S., laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested and could change. Certain foreign jurisdictions are also testing the liability of providers of online services for activities of their users and other third parties. While providers of online services currently are generally not held liable for activities of their third party users, changes in applicable laws imposing liability on providers of online services for activities of their users and other third parties could harm our business;

the Child Online Protection Act and the Children's Online Privacy Protection Act, respectively, restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect or use certain categories of information from children under 13. Currently, our consumer-facing site and services are intended for use by adults over 18 years of age; and

in January 2004, the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, became effective. The CAN-SPAM Act regulates the transmission and content of commercial emails and, among other things, obligates the sender of such emails to provide recipients with the ability to opt-out of receiving future emails from the sender, and establishes penalties for the transmission of email messages which are intended to deceive the recipient as to source or content. Many state legislatures also have adopted laws that impact the delivery of commercial email, and laws that regulate commercial email practices have been enacted in some of the international jurisdictions in which we do business. In addition, Internet service providers and licensors of software products have introduced a variety of systems and products to filter out certain types of commercial email, without any common protocol to determine whether the recipient desired to receive the email being blocked. As a result, it is difficult for us to determine in advance whether or not emails generated by our customers using our solutions will be permitted by spam filters to reach the intended recipients.

In addition, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, even if we don't have a local entity, employees or infrastructure. Often, foreign data security, privacy, and other laws and regulations are more restrictive than those in the U.S. The Company monitors pending legislation and regulatory initiatives to ascertain relevance, analyze impact and develop strategic direction surrounding regulatory trends and developments. We might unintentionally violate such laws; such laws or their interpretation or application may be modified; and new laws may be enacted in the future. Any such developments could subject us to legal liability exposure, and harm our business, operating results and financial condition.

Intellectual Property and Proprietary Rights

We rely on a combination of patent, copyright, trade secret, trademark and other common law in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions, to protect our proprietary technology, processes and other intellectual property. However, we believe that factors such as the technolo